IMPORTANT

If you are in any doubt about this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Strategic Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

CHINA STRATEGIC HOLDINGS LIMITED
(中策集團有限公司)

(Incorporated in Hong Kong with limited liability)

(Stock Code : 235)

(1) VERY SUBSTANTIAL ACQUISITION; (2) DEBT FINANCING TO FINANCE THE ACQUISITION; (3) PROPOSED PLACING OF CONVERTIBLE NOTES UNDER SPECIFIC MANDATE; (4) PROPOSED PLACING OF SHARES UNDER SPECIFIC MANDATE; (5) CONNECTED TRANSACTIONS; MANAGEMENT AGREEMENT; AND (6) NOTICE OF EGM

Financial Adviser and compliance adviser to the Company in respect of the Acquisition

BNP PARIBAS
CORPORATE & INVESTMENT BANKING

CN Placing Agent and Share Placing Agent

KINGSTON SECURITIES LIMITED

Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in connection with (i) the payment of the Service Fees; (ii) the grant of the Share Options; and (iii) the provision of the CSH Facility

Piper Jaffray

All capitalised terms used in this document have the meanings set out in the section headed "Definitions" of this document. A letter from the Board is set out on pages 19 to 287 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders in respect of the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement is set out on pages 288 to 289 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement is set out on pages 290 to 304 of this circular. A notice convening the EGM to be held at Mandarin Oriental Hotel Hong Kong, 1/F., Peacock-Stork Room, 5 Connaught Road, Central, Hong Kong, on Tuesday, 16 March 2010 at 10:00 a.m. is set out on pages N-1 to N-7 of this circular. A form of proxy for use in the EGM is enclosed. Whether or not Shareholders propose to attend the EGM, Shareholders are requested to complete the enclosed form of proxy in accordance with instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Standard Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should they so wish.

27 February 2010

IMPORTANT

This circular is not an offer of securities for sale or solicitation of an offer to purchase securities. The securities described herein have not been and will not be registered under the US Securities Act, and may not be offered or sold in the United States absent registration under the US Securities Act, or an applicable exemption from the registration requirements thereof. There will be no public offering of the securities described herein in the United States.

This circular is being made by the Company. Neither the Seller, Nan Shan nor any of their respective directors, supervisors, officers, employees, advisers, consultants or agents makes any representation or warranty, express or implied, as to the accuracy, reliability or completeness of the information in this circular, or shall be responsible for the accuracy, reliability or completeness of any such information and nothing in this circular is, or shall be relied upon as, a promise or representation by the Seller, Nan Shan (or any of their respective directors, supervisors, officers, employees, advisers, consultants or agents).

Forward-looking Information

Certain information contained in this circular constitutes forward-looking information. Investors and Shareholders are cautioned that forward-looking information is inherently uncertain and involve risks and uncertainties that could cause actual results, performance or achievements of the Company or Nan Shan to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information.

These forward-looking statements include, without limitation, statements relating to:

— comments regarding the completion and terms of the Acquisition;

— the proposed strategies of the Company following Acquisition Completion;

— the Placings and the use of proceeds from the Placings;

— Nan Shan's business and operating strategies and its various measures and initiatives to implement these strategies;

— the dividend policies of the Company and Nan Shan;

— Nan Shan's operations and business prospects, including development plans for its existing and new businesses, products and services;

— changes in regulatory environment, including new developments in laws, rules and regulations applicable to Nan Shan and the Company, as well as the general industry outlook for Taiwan or global insurance industry; and

— future developments in the Taiwan or global insurance industry.

The words "anticipate", "envisage", "believe", "could", "expect", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to the Company and/or Nan Shan, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the Company and/or Nan Shan's current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the ability to complete the Acquisition, the ability to satisfy the conditions of the Placings, the failure to receive regulatory approvals with respect to the Acquisition and the Placings, changes to the financial, political and regulatory positions in Taiwan and changes in Hong Kong and other relevant securities markets as well as the risk factors set forth under the sections headed "Part A — The Acquisition — 5. Risks Associated with the Acquisition" and "Part E — Information about Nan Shan — 1. Risk Factors" in the letter from the Board in this circular. There can be no assurance that future developments affecting the Company or Nan Shan will be those anticipated by the Company's management.

While the Company may elect to update the forward-looking information at any time, the Company does not undertake to update them at any particular time or in response to any particular event. Shareholders, prospective investors and others should not assume that any forward-looking information in this circular represents the estimate of the Company's management as at any date other than the date of this circular and should not place undue reliance on any forward-looking information. All forward-looking statements are qualified by reference to the cautionary statements set forth in this section.

COMPLETION RISKS

ACQUISITION COMPLETION IS SUBJECT TO SATISFACTION OF THE CONDITIONS, NOT ALL OF WHICH ARE WITHIN THE CONTROL OF THE GROUP. IN PARTICULAR, SHAREHOLDERS AND PROSPECTIVE INVESTORS SHOULD NOTE THAT, SAVE FOR THE APPROVAL FROM THE BMA AND THE NO COMMENTS NOTIFICATION FROM THE FTC, BOTH OF WHICH HAVE BEEN RECEIVED, THERE IS NO ASSURANCE THAT THE FSC AND THE ICMOEA WILL APPROVE THE TRANSACTIONS. THERE IS ALSO NO ASSURANCE THAT THE CONDITIONAL CN PLACING AGREEMENT, THE CONDITIONAL SHARE PLACING AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREUNDER WILL BE APPROVED BY THE MAJORITY OF THE SHAREHOLDERS AT THE EGM. FURTHER, THE CONDITIONAL CN PLACING AGREEMENT AND THE CONDITIONAL SHARE PLACING AGREEMENT MAY BE TERMINATED IF CERTAIN UNFORESEEN OR UNAVOIDABLE FORCE MAJEURE EVENTS OCCUR. SHOULD ANY OF THE ABOVE HAPPEN, THE ACQUISITION MAY NOT PROCEED TO COMPLETION.

FURTHER, AS SET OUT IN THE LETTER FROM THE BOARD, THE TOTAL FUNDS REQUIRED FOR THE ACQUISITION ARE APPROXIMATELY US$2.15 BILLION OF WHICH APPROXIMATELY US$640 MILLION WILL BE FINANCED BY THE DEBT FINANCING. NEGOTIATION OF THE DEBT FINANCING WITH THE LENDERS HAS COMMENCED AND THE DETAILS OF THE TERM SHEET IN RESPECT OF THE DEBT FINANCING HAVE BEEN PROVIDED BY THE LENDERS TO THE BORROWER, THE SUMMARY OF WHICH ARE FURTHER SET OUT IN THE SECTION HEADED "PART B — THE FINANCING OF THE

ACQUISITION — 5. DEBT FINANCING" IN THIS CIRCULAR. HOWEVER, AS AT THE LATEST PRACTICABLE DATE, THE FACILITY AGREEMENT HAS NOT BEEN FINALISED. THERE IS NO ASSURANCE THAT THE GROUP WILL BE ABLE TO SUCCESSFULLY OBTAIN DEBT FINANCING FROM THE LENDERS IN SUCH AMOUNT AND UPON SUCH TERMS AND CONDITIONS TO THE REASONABLE SATISFACTION OF THE BORROWER FOR THE PURPOSE OF SATISFYING THE PURCHASE PRICE. SHOULD THE BORROWER FAIL TO OBTAIN THE DEBT FINANCING OR ANY OTHER ALTERNATIVE FINANCING, THE ACQUISITION MAY NOT PROCEED TO COMPLETION.

Currency and Exchange Rates

For the purpose of illustration only, save as otherwise disclosed in this circular: (a) the amount denominated in US$ has been translated into NT$ at the exchange rate of US$1.00 for NT$32.00; and (b) the amount denominated in US$ has been translated into HK$ at the exchange rate of US$1.00 for HK$7.80. Such translations have been rounded to the nearest one (1) decimal point and should not be construed as a representation that the relevant amounts have been, could have been, or could be converted at that or any other rate or at all.

IMPORTANT NOTICE TO SHAREHOLDERS AND PROSPECTIVE INVESTORS

This circular is issued by the Company solely in connection with the Acquisition, Nan Shan, the CN Placing, the Share Placing, the use of proceeds from the Placings, the Debt Financing, the payment of the Service Fees and the sharing of expenses under the Management Agreement, the Option Deeds and the CSH Facility Agreement and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Convertible Notes and the Placing Shares pursuant to the Placings. This circular may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Convertible Notes or the Placing Shares and no action has been taken to permit the distribution of this circular in any jurisdiction other than Hong Kong. The distribution of this circular in other jurisdictions is subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

Shareholders and prospective investors should rely only on the information contained in this circular to make your investment decision and/or your voting decision at the EGM. The Company has not authorised anyone to provide Shareholders and/or prospective investors with information that is different from what is contained in this circular. Any information or representation not made in this circular must not be relied on by any Shareholder and/or prospective investor as having been authorised by the Company, the Seller, Nan Shan, the CN Placing Agent, the Share Placing Agent, the Financial Adviser, any of their respective directors or any other person or party involved in the Acquisition or the Placings.

CONTENTS

CONTENTS

In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below.

"Accountant's Report"	the accountant's report on Nan Shan dated 27 February 2010 from PricewaterhouseCoopers, including the notes thereto, as set out in Appendix II of this circular
"Acquisition"	the acquisition of 767,893,139 shares of common stock of Nan Shan (which represent approximately 97.57% of the issued and outstanding share capital of Nan Shan) by the Purchaser
"Acquisition Completion"	completion of the Acquisition in accordance with the terms of the Share Purchase Agreement
"Acquisition Completion Date"	the date on which Acquisition Completion takes place
"Actuarial Report"	an independent actuarial report on Nan Shan dated 27 February 2010 and prepared by Ernst & Young, as set out in Appendix V of this circular
"AIA"	American International Assurance Company, Limited
"AIG" or "Seller"	American International Group, Inc.
"AIG Event"	the events experienced by the AIG Group during 2008 as a result of the global financial crisis, including, among other things, financial and liquidity difficulties, downgrades by rating agencies and a significant decline in its stock price
"AIG Group"	AIG and its Subsidiaries
"AIRCO"	American International Reinsurance Company, Ltd.
"Articles of Incorporation"	the articles of incorporation of Nan Shan
"Bid"	the bid made by Primus for and on behalf of the Company and Primus Investor in respect of the Acquisition, the binding offer of which was submitted to the Seller on 28 August 2009 and the Share Purchase Agreement in relation to which entered into on 13 October 2009
"BMA"	the Bermuda Monetary Authority

"BNP Paribas" or "Financial Adviser"	BNP Paribas Capital (Asia Pacific) Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities for the purposes of the SFO, being the financial adviser and compliance adviser to the Company in respect of the Acquisition
"Board"	the board of Directors
"Business"	the business conducted by Nan Shan
"Business Day"	a day (excluding a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and on which the Hong Kong Stock Exchange is open for dealing in securities
"Bureaus"	collectively, the Banking Bureau of the FSC, the Securities and Futures Bureau of the FSC, the Insurance Bureau and the Examination Bureau of the FSC
"CAGR"	compound annual growth rate
"CBC"	the Central Bank of the ROC
"CCASS"	the Central Clearing and Settlement System established and operated by the Hong Kong Securities Clearing Company Limited
"CEPD"	the Council for Economic Planning and Development (Taiwan)
"China" or "PRC"	the People's Republic of China, but for the purpose of this circular and for geographical reference only and except where the context requires, references in this circular to "China" and the "PRC" do not include Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC
"China Strategic Undertaking"	the undertaking by the Company as described in the section headed "Part A — The Acquisition — 1. The Share Purchase Agreement — 1.12 China Strategic Undertaking" of this circular
"Chinatrust"	Chinatrust Financial Holdings Co. Ltd
"CN Placee(s)"	any professional, institutional, corporate or independent individual investor(s) procured by the CN Placing Agent to subscribe for any principal amount of the Convertible Notes pursuant to the CN Placing Agent's obligations under the Conditional CN Placing Agreement

"CN Placing"	the placing of the Convertible Notes in a maximum aggregate principal amount up to HK$7,800 million procured by the CN Placing Agent to CN Placees on the terms and subject to the conditions set out in the Conditional CN Placing Agreement
"CN Placing Agent" or "Share Placing Agent" or "Kingston"	Kingston Securities Limited, a corporation licensed to carry on type 1 (dealing in securities) regulated activities for the purposes of the SFO
"CN Placing Announcement"	the announcement dated 20 August 2009 issued by the Company in respect of the proposed issuance by the Company of the Convertible Notes
"Co-CEOs"	Co-Chief Executive Officers
"Company"	China Strategic Holdings Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Hong Kong Stock Exchange
"Conditional CN Placing Agreement"	the conditional placing agreement dated 20 August 2009 entered into between the Company and the CN Placing Agent in relation to the CN Placing, as amended, further details of which are set out in the CN Placing Announcement, the VSA Announcement and the section headed "Part B — The Financing of the Acquisition — 1. Proposed Placing of Convertible Notes" of this circular
"Conditional Share Placing Agreement"	a conditional share placing agreement dated 9 November 2009 entered into between the Company and the Share Placing Agent in relation to the Share Placing, further details of which are set out in the VSA Announcement and the section headed "Part B — The Financing of the Acquisition — 2. Proposed Placing of Shares" of this circular
"Conditions"	the conditions precedent to Acquisition Completion as set out in the Share Purchase Agreement, further details of which are set out in the VSA Announcement and the section headed "Part A — The Acquisition — 1. The Share Purchase Agreement — 1.3 Conditions Precedent" of this circular
"Connected Transactions Announcement"	an announcement issued by the Company dated 26 February 2010 in connection with the payment of the Service Fees under the Management Agreement; the entering into of the Option Deeds with each of the Optionholders; and the entering into of the CSH Facility Agreement with the Purchaser

"Consortium Letter"	a consortium letter dated 2 September 2009 entered into between the Company, PFH Holdings and Primus Investor, further details of which are set out in the Consortium Letter Announcement
"Consortium Letter Announcement"	the announcement dated 2 September 2009 issued by the Company in which the Company announced that it had entered into the Consortium Letter
"Conversion"	conversion of the Convertible Notes in accordance with their terms and conditions
"Conversion Date"	a day to be determined by the Company upon which the Convertible Notes are converted into Conversion Shares which shall be a date before the Maturity Date
"Conversion Price"	HK$0.10, subject to adjustment
"Conversion Shares"	those Shares to be issued upon the exercise of the conversion rights under the Convertible Notes, namely, a maximum of 78,000 million Shares, in aggregate, falling to be issued upon exercise of the conversion rights attached to the Convertible Notes at the initial Conversion Price in full (subject to adjustment)
"Convertible Notes"	the non-interest bearing convertible redeemable notes, to be issued by the Company to the CN Placees procured by the CN Placing Agent in a maximum aggregate principal amount up to HK$7,800 million due on the Maturity Date which are convertible into an aggregate of a maximum of 78,000 million Shares (subject to adjustment) at the Conversion Price
"CSH Facility"	a term loan facility of up to HK$5,300 million (or approximately US$680 million) to be granted by the Company to the Purchaser after the date of this circular and prior to Acquisition Completion for the purposes of satisfying the Purchaser's payment obligations under the Share Purchase Agreement and the Purchaser's other obligations in respect of the Acquisition and Nan Shan, subject to the terms and conditions therein
"CSH Facility Agreement"	the facility agreement entered into on 26 February 2010 in respect of the granting of the CSH Facility to the Purchaser
"CSH Loan"	an unsecured term loan up to an aggregate principal amount of HK$5,300 million to be drawn down from the CSH Facility

"Debt Financing"	up to the NT$ equivalent of US$700 million (not exceeding NT$24,000 million) in debt financing which the Lenders have committed to provide to the Borrower in respect of the Acquisition, further details of which are set out in the VSA Announcement and the section headed "Part B — The Financing of the Acquisition — 5. Debt Financing" of this circular
"Director(s)"	the director(s) of the Company
"Disclosure Letter"	the disclosure letter dated the date of the Share Purchase Agreement addressed to the Purchaser from the Seller
"EGM"	an extraordinary general meeting of the Company to be convened for the purpose of considering and approving the matters herein, including, among other things, (i) the Acquisition, the Share Purchase Agreement and the transactions contemplated under the Acquisition and the Share Purchase Agreement, (ii) the Conditional CN Placing Agreement, the Conditional Share Placing Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares upon exercise of the conversion rights under the Convertible Notes, and the issue of Placing Shares), (iii) the grant of the Share Options under the Option Deeds, (iv) the payment of the Service Fees under the Management Agreement, (v) the sharing of expenses under the Management Agreement, (vi) the CSH Facility Agreement and (vii) the Specific Mandate
"Employment Agreements"	the employment agreements dated 26 February 2010 entered into between each of Mr. Morse and Mr. Ng on the one part and the Purchaser on the other part in respect of the terms of employment of each of Mr. Morse and Mr. Ng in the Purchaser
"Enlarged Group"	the Group immediately after Acquisition Completion
"Equity Contribution Amount"	the amount of equity contributions from each of the Company and the Primus Investor Group to be contributed to the Purchaser on or prior to Acquisition Completion as stated in the Management Agreement
"Ernst & Young"	Ernst & Young Advisory Services Limited
"Escrow Agent"	Citibank N.A., Hong Kong branch

"Escrow Agreement"	the escrow agreement entered into between the Seller, the Purchaser and the Escrow Agent in respect of the appointment of the Escrow Agent, the establishment of the escrow account and the holding in escrow of the Escrow Amount
"Escrow Amount"	US$86 million
"Exercise Price"	the exercise price of the Share Options at HK$0.10 per Share
"Facility Agreement"	the definitive credit facility agreement to be entered into after the date of this circular but prior to Acquisition Completion between the Lenders and the Borrower in respect of the Debt Financing
"Financial Supervisory Commission" or "FSC"	the Financial Supervisory Commission, Executive Yuan, the ROC
"Financing Conditions"	the Conditions under paragraphs 1.3(b)(ii) and 1.3(b)(iii) of the section headed "Part A — The Acquisition — 1. Share Purchase Agreement — 1.3 Conditions Precedent" of this circular
"FTC"	the Fair Trade Commission, Executive Yuan, the ROC
"GDP"	gross domestic product
"Group"	the Company and its subsidiaries, and the expression "member of the Group" shall be construed accordingly
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hold Harmless Letter"	the hold harmless letter dated 28 January 2010 entered into by the Company in favour of Nan Shan pursuant to which the Company agreed, among other things, to indemnify, defend and hold harmless the Nan Shan Board, the supervisors of Nan Shan and the management of Nan Shan (including its subsidiaries, and their respective directors, supervisors officers, employees, advisers, consultants or agents) against all actions, proceedings and claims brought or threatened against them and all liability, loss, damage or expense of whatsoever nature which is caused by any use the Company may choose to make of the information regarding Nan Shan provided or authorised to be provided by the Nan Shan Board
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Companies Ordinance"	the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"ICMOEA"	the Investment Commission, Ministry of Economic Affairs, the ROC
"Increase in Authorised Share Capital"	the increase in the authorised share capital of the Company from HK$800 million to HK$20,000 million by the creation of 192,000 million additional new Shares
"Independent Board Committee"	an independent committee of the Board comprising of Ms. Ma Yin Fan, Mr. Phillip Fei and Mr. Leung Hoi Ying, all of whom are independent non-executive Directors, formed to advise the Shareholders as to the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement
"Independent Financial Adviser"	Piper Jaffray Asia Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities for the purpose of the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement
"Independent Shareholders"	all Shareholders, except when used in relation to those Share Options to be granted to Mr. Ma, in which case the term shall mean all Shareholders other than Mr. Ma and his associates
"Independent Third Party (Parties)"	independent third party (parties) not connected with the Directors, substantial Shareholders or any of the Company's subsidiaries or their respective associates
"Insurance Bureau" or "IB"	the Insurance Bureau of the FSC (Taiwan)
"Insurance Law"	the Insurance Law of the ROC
"Investment Committee" or "IC"	the Investment Committee of Nan Shan
"Latest Practicable Date"	24 February 2010, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"LCS"	LCS & Partners, the Company's Taiwan legal adviser

"Lenders"	being Taiwan Cooperative Bank and First Commercial Bank Co., Ltd, the two Taiwanese commercial banks which will provide the Debt Financing to the Borrower pursuant to the terms of the Facility Agreement
"LIA"	the Life Insurance Association of the ROC
"Liability Limitation"	US$150 million
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Long Stop Date"	12 July 2010, being the date which is nine months after the date of the Share Purchase Agreement
"Management Agreement"	the management agreement dated 12 October 2009 entered into between the Company, the Purchaser, Primus Investor, PFH Holdings, Mr. Morse and Mr. Ng pursuant to which the parties thereto agreed on, among other things, the structure of the Purchaser Board, the sharing of expenses incurred in respect of the Transactions, the payment of the Service Fees and the appointment of Mr. Morse and Mr. Ng as Co-CEOs of the Purchaser
"Material Adverse Effect"	in summary, (a) any effect, change, event or development that, individually or in the aggregate with all other effects, changes, events or developments, has a material adverse effect on the assets, liabilities, business, financial condition or results of operations of Nan Shan or the Business, taken as a whole; provided that none of the following shall constitute or be deemed to contribute to a Material Adverse Effect, and otherwise shall not be taken into account in determining whether a Material Adverse Effect has occurred or would be reasonably likely to occur: any adverse effect arising out of, resulting from or attributable to (i) (A) the ROC economy or the global economy generally or capital or financial markets generally, including changes in interest or exchange rates, (B) political conditions generally of the ROC or any other country or jurisdiction in which Nan Shan operates, (C) any hurricane, flood, tornado, earthquake or other natural disaster, or (D) changes generally affecting the industries in which Nan Shan operates, (ii) the negotiation, execution, announcement or completion of the transactions contemplated by, or the performance of obligations under, the Share Purchase Agreement or the other Transaction Documents, (iii) the identity of, or the effects of any facts or circumstances relating to, the Purchaser or any of its affiliates, (iv) changes after the date hereof in any applicable law or generally accepted accounting principles or the interpretation thereof, (v) actions expressly required to be taken pursuant to the

	Share Purchase Agreement or any of the other Transaction Documents or taken with the Purchaser's written consent, (vi) the effect of any action taken by the Purchaser or its affiliates or representatives in breach of the Share Purchase Agreement or any of the other Transaction Documents that is not cured prior to Acquisition Completion, (vii) any hostilities, acts of war, sabotage, terrorism or military actions, or any escalation or worsening of any such hostilities, acts of war, sabotage, terrorism or military actions, (viii) the value of, or any change or development in the value of any of the investment assets of Nan Shan, (ix) any failure by Nan Shan to achieve any projections or forecasts with respect to earnings, premiums written, loss or combined ratios or to achieve any other financial projections or forecasts (but not any underlying cause of such failure to meet any such projections or forecasts), (x) any matter set forth in the Disclosure Letter, (xi) any effect that is cured by the Seller prior to Acquisition Completion, or (xii) any matter relating to the employees and agents of Nan Shan; provided that any effect, change, event or development referred to in sections (a)(i), (a)(iv) and (a)(vii) may constitute a Material Adverse Effect and will be taken into account in determining whether a Material Adverse Effect has occurred if such effect, change, event or development is or would be reasonably likely to have a materially disproportionate impact on Nan Shan as compared with similarly situated life insurance companies in the ROC; and (b) any effect, change, event or development that, individually or in the aggregate with all other effects, changes, events or developments, constitutes a material impairment on or material delay in the ability of the Seller or its applicable affiliates to perform their respective material obligations under the Share Purchase Agreement or to complete the transactions contemplated in the Share Purchase Agreement
"Maturity"	the maturity of the Convertible Notes, whereupon the Company shall, unless the Convertible Notes have previously been converted, repay the outstanding principal amount of the Convertible Notes
"Maturity Date"	a date being six months from the date of issue of the Convertible Notes
"Mr. Ma"	Mr. Frederick Ma Si-Hang
"Mr. Morse"	Mr. Robert R. Morse
"Mr. Ng"	Mr. Ng Wing Fai
"Mr. Or"	Mr. Or Ching Fai

"Nan Shan"	Nan Shan Life Insurance Company, Ltd. (南山人壽保險股份有限公司), a company incorporated under the laws of Taiwan and whose principal address is at 168 Zhuang Jing Road, Xinyi District, Taipei City 11049, Taiwan
"Nan Shan Board"	the board of directors of Nan Shan
"Noteholder(s)"	holder(s) of the Convertible Notes
"NT$"	New Taiwan Dollar, the lawful currency of Taiwan
"Option Deeds"	the option deeds dated 26 February 2010 entered into between the Company and each of the Optionholders in respect of the granting of their respective Share Options and each an "Option Deed"
"Option Period"	the respective periods between the date of grant of the respective Share Options to each of the Optionholders and the date which is five years from the Acquisition Completion Date
"Option Shares"	an aggregate of 7,100 million Shares to be issued to the Optionholders when exercised in accordance with the terms and conditions set out in the Option Deeds at the Exercise Price
"Optionholders"	Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma
"PFH Holdings"	PFH Holdings Ltd., a company incorporated in the Cayman Islands with limited liability
"Placing Shares"	up to a maximum of 40,000 million new Shares to be placed through the Share Placing Agent pursuant to the Conditional Share Placing Agreement
"Placings"	the CN Placing and the Share Placing
"Previous Announcements"	the Consortium Letter Announcement, the Signing Announcement, the CN Placing Announcement, and the VSA Announcement
"PricewaterhouseCoopers"	PricewaterhouseCoopers, Certified Public Accountants, Hong Kong
"Primus"	Primus Financial Holdings Limited, a company incorporated in the Cayman Islands with limited liability
"Primus Investor"	PFH Partnership Holdings, L.P., a limited partnership whose general partner is PFH GP, L.P. of which the general partner is PFH Holdings, and is an affiliate of Primus

"Primus Investor Group"	Primus Investor together with its affiliate parallel and co-invest vehicles
"Primus Nan-Shan (Taiwan)" or "Borrower"	Primus Nan-Shan Holding (Taiwan) Company Limited
"Primus Nan-Shan (UK)"	Primus Nan-Shan Holding (UK) Company Limited
"Purchase Price"	US$2,146,588,190
"Purchaser"	Primus Nan-Shan Holding Company Ltd., a company incorporated in the Cayman Islands with limited liability, which directly owns 100% of Primus Nan-Shan (UK), which in turn directly owns 100% of Primus Nan-Shan (Taiwan)
"Purchaser Board"	the board of directors of the Purchaser
"ROC" or "Taiwan"	Republic of China
"Sale Shares"	767,893,139 shares of common stock of Nan Shan, which represent approximately 97.57% of the issued and outstanding share capital of Nan Shan
"SARS"	severe acute respiratory syndrome
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"Service Fees"	service fees of US$7.5 million payable to each of Mr. Morse and Mr. Ng on the date that is three months from the Acquisition Completion Date for services performed by each of Mr. Morse and Mr. Ng in connection with the Transactions and the preparation of the Bid
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Share Options"	such number of share options to be granted by the Company to each of the Optionholders representing the number of Shares as set out in the VSA Announcement, the Connected Transactions Announcement and the section headed "Part C — The Payment of Service Fees and the Sharing of Expenses under the Management Agreement, the Employment Agreements, the Option Deeds and the CSH Facility — 3. Proposed Granting of Share Options to the Optionholders — 3.1 The Option Deeds" of this circular when exercised in accordance with the terms and conditions set out in their respective Option Deeds

"Share Placee(s)"	any professional, institutional, corporate or individual investors procured by the Share Placing Agent to subscribe for any Placing Shares pursuant to the Share Placing Agent's obligations under the Conditional Share Placing Agreement
"Share Placing"	the placing of the Placing Shares by the Share Placing Agent on a best efforts basis in accordance with the terms and conditions of the Conditional Share Placing Agreement
"Share Placing Period"	the period commencing upon the date of the Conditional Share Placing Agreement and terminating at 5:00pm on the business day prior to the date of completion under the Conditional Share Placing Agreement, unless terminated earlier pursuant to the terms of the Conditional Share Placing Agreement
"Share Placing Price"	HK$0.10 per share
"Share Purchase Agreement"	the definitive share purchase agreement entered into between the Purchaser and the Seller and dated 13 October 2009 in respect of the Acquisition
"Signing Announcement"	the announcement dated 13 October 2009 issued by the Company pursuant to which the Company announced that it has entered into the Share Purchase Agreement
"Specific Mandate"	the authority to issue and allot such amount of Conversion Shares, Placing Shares (assuming full placement of the Placing Shares) and Option Shares equal to an amount up to HK$12,510 million divided by HK$0.10 per Share pursuant to the Shareholders' resolutions to be proposed at the EGM
"STT Tax"	the security transaction tax chargeable on the Purchase Price pursuant to the Securities Transaction Tax Act of the ROC
"Subsidiary(ies)"	with respect to any person, any corporation, general or limited partnership, joint venture, limited liability company, limited liability partnership or other person that is a legal entity, trust or estate of which (or in which) (a) the issued and outstanding shares having ordinary voting power to elect a majority of the board of directors (or a majority of another body performing similar functions) of such corporation or other person (irrespective of whether at the time any class or classes of such corporation or other person shall or might have voting power upon the occurrence of any contingency); (b) more than 50% of the interest in the capital or profits of such partnership, joint venture or limited liability company or (c) more than 50% of the beneficial interest in such trust or estate, is at the time of determination directly or indirectly owned or controlled by such person

"Taiwan Company Law"	the Company Laws of Taiwan
"Taiwan GAAP"	Taiwan Generally Accepted Accounting Principles
"Takeovers Code"	the Code on Takeovers and Mergers issued by the Securities and Futures Commission
"Tax Covenant"	the tax covenant dated 13 October 2009 between the Seller and Purchaser in respect of the tax liabilities of Nan Shan incurred prior to Acquisition Completion
"TII"	the Taiwan Insurance Institute, an independent professional research and development institute which, among other things, compiles statistics for the Taiwan insurance industry and assists the Taiwan regulatory authorities in formulating regulatory policies and measures
"Transaction(s)"	the transactions contemplated under the Transaction Documents
"Transaction Documents"	collectively, the Share Purchase Agreement, the Disclosure Letter, the Tax Covenant and the Escrow Agreement
"Uni-Dragon"	Uni-Dragon International Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly owned subsidiary of the Company and which is the direct holder of 80% of the entire issued share capital of the Purchaser
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US Dollar" or "US$"	the lawful currency of the United States of America
"US GAAP"	United States Generally Accepted Accounting Principles
"US Securities Act"	the US Securities Act of 1933 and the rules and regulations promulgated thereunder (as amended from time to time)
"VSA Announcement"	the announcement dated 10 November 2009 and issued by the Company headed "(1) Very Substantial Acquisition; (2) China Strategic Undertaking; (3) Debt Financing to Finance the Acquisition; (4) Proposed Placing of Convertible Notes under Specific Mandate; (5) Proposed Placing of Shares under Specific Mandate; (6) Connected Transactions; Management Agreement; (7) Appointment of Directors; and (8) Resumption of Trading"
"%"	per cent

In this circular:

- "Company" refers to China Strategic Holdings Limited, a company incorporated on 22 September 1972, under the Hong Kong Companies Ordinance and listed on the Hong Kong Stock Exchange on 4 December 1972 and, except where the context otherwise requires, all of its subsidiaries or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were engaged in and which were subsequently assumed by it; and

- the terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary(ies)" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

"agent"	In relation to the description of insurance business only, an individual who sells and services insurance policies
"annuity"	A contract that provides for periodic payments to an annuitant for a specified period of time, often until the annuitant's death
"bancassurance"	The distribution of insurance products through bank branches and joint ventures with banks
"brokerage"	In relation to the description of insurance business only, a firm or agent which sells insurance and annuity products on behalf of an insurance company
"cash value"	The amount of cash available to a policyholder on the surrender of or withdrawal from a life insurance policy or annuity contract
"cede"	The reinsurance of all or a portion of an insurer's risk with another insurer
"claim"	An occurrence that is the basis for submission and/or payment of a benefit under an insurance policy. Claims may be covered, limited or excluded from coverage, depending on the terms of the policy
"commission"	A payment to an agent or broker by an insurance company for services in respect of a sale or maintenance of an insurance product
"deferred acquisition cost" or "DAC"	The amount of an insurer's acquisition costs incurred as premium is written which is capitalised and recognised as an asset on the insurer's balance sheet and expensed over the term of the policy
"deposits"	Gross additions to policyholders' contract deposits for a specified period collected from investment type insurance contracts
"DPF"	Discretionary participation feature, which entitles the holder to receive as a supplement to guaranteed benefits, additional non-guaranteed benefits
"embedded value"	An actuarially determined estimate of the economic value of the life insurance operations of an insurance company based on a particular set of assumptions as to future experience, excluding any value attributable to any future new business
"endowment insurance"	Insurance policies which provide to the insured various guaranteed benefits if the insured survives specified maturity dates or periods stated in the policy, and provide to a beneficiary designated by the insured guaranteed benefits upon the death of the insured within the coverage period, in return for the periodic payment of premiums

"first year premium"	The amount of premiums either paid or falling due during the first year the insurance policies concerned are in force, including premiums in respect of policies that lapse in their first year but excluding premiums in respect of policies that withdraw within the 10-day free look period
"gross written premium"	Total premium (whether or not earned) for insurance contracts written or assumed (including deposits for investment contracts with limited or no life contingencies written) during a specific period, without deduction for premium ceded
"incurred but not reported" or "IBNR"	Reserves for estimated losses and loss adjustment expenses which have been incurred but not yet reported to the insurer or reinsurer, including future development of claims which have been reported to the insurer or reinsurer but where the established reserves may ultimately prove to be inadequate
"investment-linked products" or "ILP"	Insurance policies which insure the policyholder against one or more separate risks and at the same time give the policyholder an interest in one or more separate investment accounts
"in-force"	A policy or contract reflected in records that has not expired or been terminated as of a given date
"jumbo risk"	A risk involving exceptionally high benefits
"lapse"	An insurance policy for which the policyholder has not paid the premiums as required under the policy
"life insurance"	All insurance business operated by a life insurance company, such as life, health and accident, unless where otherwise stated or the context otherwise requires
"life insurance products"	All the products offered by a life insurance company, such as group, individual, life and retirement
"morbidity"	Incidence rates and duration of disability used in pricing and computing liabilities for disability insurance. Morbidity varies by such parameters as age, gender and duration since disability
"mortality"	Rates of death, varying by such parameters as age, gender and health, used in pricing and computing liabilities for future policyholder benefits for life and annuity products, which contain significant mortality risk
"non-participating policy"	Policies under which the policyholder receives no policyholder dividends. Non-participating policies generally feature lower premiums than participating policies

"participating policy"	Policies or annuity contracts under which the owner is eligible to share in a portion of the distributable earnings from participating products of the insurer through policyholder dividends, whether or not such dividends are currently payable
"persistency"	The percentage of insurance policies remaining in-force from year to year, as measured by premiums
"policy dividends"	Dividends periodically credited to participating policyholders
"premiums"	Payments and consideration received in respect of insurance policies issued or reinsured by an insurer
"RBC"	Risk based capital
"reinsurance"	The acceptance by one or more insurers of a portion of risk underwritten by another insurer that has directly written the coverage in return for a portion of the premium related to a policy or annuity contract. The legal rights of the insured are generally not affected by the reinsurance transaction, and the insurer issuing the insurance contract remains liable to the insured for payment of policy benefits
"reserves"	Liability established to provide for future benefits to policyholders net of liability ceded to reinsurance companies
"rider"	An insurance policy supplementary to an existing main insurance contract entered into between the policyholder and the insurer. A rider is not an independent insurance contract
"separate accounts"	Investment accounts maintained by an insurer to which funds have been allocated for certain policies under provisions of the Insurance Laws. The investments in each separate account are maintained separately from those in other separate accounts and an insurer's general account and generally are not subject to the general liabilities of the insurer. The investment results of the separate account assets generally pass through to the separate account of policyholders and contract holders, less management fees, so that an insurer bears limited or no investment risk on such assets
"solvency"	The ability of an insurance company to discharge its policyholders' benefits and claims obligations. As required by the Insurance Law, insurance companies must meet minimum solvency requirements
"statutory reserves"	Monetary amounts established by the Insurance Law that an insurer must have available to provide for future policyholder benefits and obligations

"term life insurance"	Life insurance products which provide a guaranteed benefit upon the death of the insured within a specified time period in return for the periodic payment of fixed premiums
"surrender"	The act by a policyholder to terminate the policy prior to the expiration of the policy
"underwriting"	The process of examining, accepting or rejecting insurance risks, and classifying those accepted, in order to charge an appropriate premium for each accepted risk
"universal life products"	Life insurance products in which premiums, less expense charges, are credited to a policy account from which periodic charges for life insurance are deducted and to which interest and investment income are credited. Typically, the policyholder can vary the amount and timing of premium payments and change the amount of insurance coverage
"Value-at-Risk" or "VaR"	The maximum loss likely to be suffered on a portfolio position over a holding period with a given probability
"whole life products"	Life insurance products which provide a guaranteed benefit, pre-determined by the contract, upon the death of the insured, in return for the periodic payment of a fixed premium over a pre-determined period
"withdrawal"	Surrender in part. Some life insurance products permit the insured to withdraw a portion of the cash surrender value of the contract. Future benefits are reduced accordingly

CHINA STRATEGIC HOLDINGS LIMITED
(中策集團有限公司)

(Incorporated in Hong Kong with limited liability)
(Stock Code : 235)

Executive Directors:
Mr. Or Ching Fai
(Chief Executive Officer and Vice-Chairman)
Ms. Chiu Ching Ching
Mr. Yau Wing Yiu
Mr. Hui Richard Rui
Ms. Chan Ling, Eva
Mr. Lee Sun Man
Mr. Chow Kam Wah

Non-executive Director:
Mr. Frederick Ma Si-Hang *(Chairman)*

Registered Office:
Room 3206-3210, 32nd Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Independent non-executive Directors:
Ms. Ma Yin Fan
Mr. Phillip Fei
Mr. Leung Hoi Ying

27 February 2010

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION; (2) DEBT FINANCING TO FINANCE THE ACQUISITION; (3) PROPOSED PLACING OF CONVERTIBLE NOTES UNDER SPECIFIC MANDATE; (4) PROPOSED PLACING OF SHARES UNDER SPECIFIC MANDATE; (5) CONNECTED TRANSACTIONS; MANAGEMENT AGREEMENT; AND (6) NOTICE OF EGM

INTRODUCTION

On 10 November 2009, the Company announced that the Purchaser (a subsidiary of the Company of which the Company indirectly owns 80% and PFH Holdings owns 20%) and the Seller had entered into the Share Purchase Agreement pursuant to which the Seller and the Purchaser agreed that, subject to the satisfaction of the Conditions, the key details of which are set out in the section headed "Part A — The Acquisition — 1. The Share Purchase Agreement — 1.3 Conditions Precedent" of this circular, the Seller will sell (or cause one or more of its Subsidiaries to sell) and the Purchaser will purchase 767,893,139 shares of common stock of Nan Shan, which represent approximately 97.57% of the issued and outstanding share capital of Nan Shan. The purchase price for the Sale Shares is agreed at US$2,146,588,190.

As at the Latest Practicable Date, the Seller is the indirect beneficial owner of 767,893,139 shares of common stock of Nan Shan, which represent approximately 97.57% of the issued and outstanding share capital of Nan Shan. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Seller is a third party independent of the Company and not a connected person of the Company.

The Company refers to the Previous Announcements, in which it announced that, among other things:

(a) the Purchaser and the Seller have entered into the Share Purchase Agreement pursuant to which the Seller and the Purchaser agreed that subject to the satisfaction of the Conditions, the Seller will sell (or cause one or more of its Subsidiaries to sell) and the Purchaser will purchase the Sale Shares at the Purchase Price;

(b) each of the Lenders has given a commitment letter and a term sheet to Primus to provide the Debt Financing on the terms and conditions to be set out in the Facility Agreement. The Lenders have committed to provide debt financing of up to a maximum of the NT$ equivalent of US$700 million (up to a maximum of NT$24,000 million) and each of the Lenders has agreed to underwrite 50% of such commitment (subject to certain terms and conditions);

(c) the Company and the CN Placing Agent have entered into the Conditional CN Placing Agreement, under which the Company has conditionally agreed to place, and the CN Placing Agent has agreed to, as agent for the Company, procure subscribers for the Convertible Notes in an aggregate principal amount of HK$7,800 million at a conversion price of HK$0.10 per Conversion Share;

(d) the Company and the Share Placing Agent have entered into the Conditional Share Placing Agreement pursuant to which the Company has conditionally agreed to place, and the Share Placing Agent has agreed to, as agent of the Company, procure purchasers during the Share Placing Period on a best efforts basis, for the Placing Shares at the Share Placing Price;

(e) the Conversion Shares and the Placing Shares to be allotted and issued upon Conversion and completion of the Share Placing (as the case may be) will be allotted and issued pursuant to the Specific Mandate to be sought from the Shareholders at the EGM to be convened in accordance with the Listing Rules;

(f) in anticipation of the issue of new Shares upon Conversion and the issue of the Placing Shares, the Directors propose to increase the authorised share capital of the Company from HK$800 million divided into 8,000 million Shares to HK$20,000 million divided into 200,000 million Shares by the creation of an additional HK$19,200 million divided into 192,000 million Shares;

(g) the Company, Primus Investor, PFH Holdings, the Purchaser, Mr. Morse and Mr. Ng have entered into the Management Agreement in respect of, among other things, the Equity Contribution Amounts, the composition of the Purchaser Board, the appointments of Mr. Morse and Mr. Ng as Co-CEOs of the Purchaser, the Service Fees payable by the Company to Mr. Morse and Mr. Ng for services performed by each of them in connection with the Transaction and the preparation of the Bid by the Purchaser and the sharing of expenses incurred in respect of the Transactions;

(h) the Company proposes to enter, with each of Mr. Morse and Mr. Ng respectively, the Employment Agreements in respect of the terms of appointment of Mr. Morse and Mr. Ng as Co-CEOs of the Purchaser; and

(i) the Company proposes to enter, with each of the Optionholders, the Option Deeds pursuant to which the Company will grant to the Optionholders, the Share Options.

In addition to the above matters, the Company has also granted to the Purchaser the CSH Facility for the purpose of enabling the Purchaser to satisfy its payment obligations under the Share Purchase Agreement. Details of the CSH Facility Agreement are set out in the section headed "Part C — The Payment of Service Fees and the Sharing of Expenses under the Management Agreement, the Employment Agreements, the Option Deeds and the CSH Facility — 4. The CSH Facility" of this circular.

Acquisition Completion is conditional upon the satisfaction or waiver of the Conditions, the key details of which are set out in this circular. Upon Acquisition Completion, through its 80% indirect ownership in the Purchaser, the Company will have an indirect and effective interest in approximately 78.06% of the entire issued share capital of Nan Shan.

The purposes of this circular are:

(a) to provide the Shareholders with further information regarding (i) the Acquisition, (ii) the CN Placing, (iii) the Share Placing, (iv) the Debt Financing, (v) the Specific Mandate, (vi) the Increase in Authorised Share Capital, (vii) the Management Agreement, (viii) the Employment Agreements, (ix) the Option Deeds and, (x) the CSH Facility Agreement and the transactions contemplated thereunder;

(b) to provide the Shareholders with further information regarding Nan Shan;

(c) to set out the recommendation of the Board to the Shareholders in respect of the Acquisition, the Share Purchase Agreement, the Placings, the Conditional CN Placing Agreement, the Conditional Share Placing Agreement, payment of the Service Fees and the sharing of expenses under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement;

(d) to set out the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement;

(e) to set out the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the matters set out in item (d) above;

(f) to provide the Shareholders with the financial information of the Group, Nan Shan and the pro forma financial information on the Enlarged Group; and

(g) to provide the Shareholders with a notice of the EGM at which resolutions will be proposed to approve (i) the Acquisition, (ii) the CN Placing, (iii) the Share Placing, (iv) the Specific Mandate, (v) the Increase in Authorised Share Capital, (vi) the sharing of expenses under the Management Agreement, (vii) the payment of the Service Fees under the Management Agreement, (viii) the grant of the Share Options under the Option Deeds, (ix) the CSH Facility Agreement and the transactions contemplated thereunder.

The letter from the Board in this circular is divided into nine parts. Part A provides further information on the Acquisition; Part B provides further information on the financing of the Acquisition, including details on the CN Placing, the Share Placing, the Debt Financing, the Specific Mandate and the Increase in Authorised Share Capital; Part C provides further information on the payment of the Service Fees and the sharing of expenses under the Management Agreement, the Employment Agreements, the Option Deeds and the CSH Facility Agreement; Part D provides further information on the Listing Rules implications of the Transactions; Part E provides further information about Nan Shan; Part F provides further information on the EGM; Part G sets out the recommendations of the Board; Part H sets out additional information on the Purchaser, the Seller, Primus and information on the further developments regarding Nan Shan's agents and employees since the date of the Share Purchase Agreement; and Part I sets out the financial information and management discussion and analysis of the Group. The letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 288 to 289 of this circular.

The letter from the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders is set out on pages 290 to 304 of this circular.

PART A — THE ACQUISITION

1. THE SHARE PURCHASE AGREEMENT

Date:	13 October 2009
Parties:	(1) Purchaser
	(2) Seller
Sale Shares:	Subject to the satisfaction of the Conditions, at Acquisition Completion, the Seller will sell (or cause one or more of its Subsidiaries to sell) and the Purchaser will purchase the Sale Shares

1.1 **Asset to be acquired**

The Sale Shares represent approximately 97.57% of the issued and outstanding share capital of Nan Shan. Upon Acquisition Completion, Nan Shan will become an indirectly owned subsidiary of the Company.

1.2 **Deposit and consideration; Escrow Agreement**

The Purchase Price for the Sale Shares is US$2,146,588,190 (which is inclusive of the STT Tax) and shall be satisfied in cash in the following manner:

(a) as at the date of the Share Purchase Agreement, the Primus Investor Group has deposited an amount equal to the Escrow Amount into an escrow account which is in the name of the Seller and the Purchaser and held for the benefit of the Seller and the Purchaser by the Escrow Agent in accordance with the Escrow Agreement; and

(b) at Acquisition Completion, the Purchaser and the Seller shall jointly instruct the Escrow Agent to pay to the Seller the Escrow Amount, and the Purchaser shall pay the balance of the Purchase Price (which is inclusive of the STT Tax) to the Seller.

In connection with the deposit of the Escrow Amount by the Primus Investor Group, the Escrow Agreement was entered into by the Seller, the Purchaser and the Escrow Agent pursuant to which each of the Seller and the Purchaser appointed the Escrow Agent for the purpose of establishing the escrow account to hold the Escrow Amount in escrow for the benefit of the Seller and the Purchaser. The Escrow Amount was deposited into the escrow account by the Primus Investor Group on 13 October 2009.

The arrangement in paragraph 1.2(b) above has since been modified in order for Primus Nan-Shan (Taiwan) to comply with the capital verification requirements under Taiwan laws and regulations. Please refer to the section headed "Part A — The Acquisition — 1. Share Purchase Agreement — 1.13 Flow of Funds for the Payment of the Purchase Price" of this circular for further details.

The Purchase Price was arrived at after arm's length negotiation between the Company, Primus Investor, the Purchaser and the Seller. In considering the Purchase Price, the Board took into account various factors, including, Nan Shan's well-recognised brand name, extensive customer base, sophisticated product offerings and highly regarded management team. On this basis, the Board concluded that Nan Shan has attractive future growth prospects, and thus represents a unique opportunity for the Company to diversify its business. The Board therefore considers that the Purchase Price is fair and reasonable, and the Transaction is in the interest of the Company and the Shareholders taken as a whole.

As at the date of this circular and as a result of the CSH Facility, the Purchase Price is anticipated to be financed as follows:

(a) US$800 million (or approximately HK$6,240 million) will be financed by the net proceeds from the CN Placing as disclosed in the CN Placing Announcement. Such amount will be charged as shareholders' equity injected into the Purchaser by the Company for the purchase of the Sale Shares;

(b) US$200 million (or approximately HK$1,560 million) will be financed by the Primus Investor Group in cash. Such amount will be charged as shareholders' equity injected into the Purchaser by the Primus Investor Group for the purchase of the Sale Shares;

(c) approximately US$640 million (or approximately HK$4,992 million) will be financed using a portion of the Debt Financing, which will be granted by the Lenders to the Borrower after the date of this circular but prior to Acquisition Completion, the details of which are set out in the section headed "Part B — The Financing of the Acquisition — 5. Debt Financing" of this circular; and

(d) the remaining balance of the Purchase Price, being approximately US$510 million (or approximately HK$3,978 million) will be financed by the CSH Facility, the details of which are set out in the section headed "Part C — The Payment of Service Fees and the Sharing of Expenses under the Management Agreement, the Employment Agreements, the Option Deeds and the CSH Facility — 4. The CSH Facility" of this circular. Of this US$510 million, approximately US$174 million (or approximately HK$1,357.2 million) will be satisfied by the net proceeds from the CN Placing as disclosed in the CN Placing Announcement and approximately US$336 million (or approximately HK$2,620.8 million) will be satisfied by the net proceeds from the Share Placing as disclosed in the VSA Announcement. The CSH Facility will be charged in the accounts of the Purchaser as a shareholders' loan by the Company to the Purchaser for the purchase of the Sale Shares.

The following sets out the portion of equity and debt financing provided by the respective parties for the satisfaction of the Purchase Price:

	Equity	Debt
Company	US$800 million	US$1,022 million[1]
Primus Investor Group	US$200 million	US$128 million[2]
Sub-total	US$1 billion	US$1.15 billion
TOTAL	**US$2.15 BILLION**	

Notes:

1. On the basis that the Company is liable for 80% of the Debt Financing (being US$512 million) as the 80% shareholder of the Purchaser and contributes 100% of the aggregate of the sums lent under the CSH Facility for the satisfaction of the Purchase Price, being US$510 million.

2. On the basis that the Primus Investor Group is liable for 20% of the Debt Financing as the 20% shareholder of the Purchaser, being US$128 million.

Originally and as set out in the VSA Announcement, it was anticipated that the Purchase Price would be financed as to approximately US$1,205 million by the Company and approximately US$301 million by the Primus Investor Group in the form of shareholders' equity, with the remainder being financed by the Debt Financing. The Directors consider that it is in the best interest of the Company and the Shareholders as a whole to provide the CSH Facility to the Purchaser.

Completion of the Placings (assuming all Placing Shares are placed), will together, raise net proceeds of approximately HK$11,560 million (or equivalent to approximately US$1,482 million) of which approximately HK$9,422.4 million (or equivalent to approximately US$1,208 million) will be used to fund the Company's obligation to pay its proportion of the Purchase Price. The remainder of approximately HK$2,137.6 million (or equivalent to approximately US$274 million) is anticipated to be deposited into commercial bank accounts at a current interest rate of approximately 0.4% per annum.

The opportunity costs of the Primus Investor Group is expected to be higher than the interest income which the Company expects to generate from the remainder of the net proceeds.

Accordingly, after further discussion among the Directors, they are of the view that cooperation between the Company and the Primus Investor Group is strategic and critical to the Company's future diversification of its business, income and asset base. In particular, given the expertise of the Primus Investor Group and the Company's vision to acquire and grow an Asia-based financial services platform, the Directors believe that it would be in the best interest of the Company and the Shareholders to maintain a long-term cooperative relationship with the Primus Investor Group. As such, the Directors believe that it would be in the best interest of the Company to provide a shareholders' loan to the Purchaser to fund a portion of the Purchase Price (and thereby reducing the amount of equity which the Primus Investor Group will need to contribute). The equity contribution structure for the Acquisition and the shareholding structure of the Purchaser were agreed in the Management Agreement and determined having regard to factors such as the facilitation of the Bid process (including the negotiation process of the Share Purchase Agreement with the Seller) and expectations of the Taiwan regulatory authorities in respect of the approval of the Acquisition. The Directors are therefore of the view that any changes to the shareholding structure of the Purchaser may have a negative impact on the success of Acquisition Completion.

1.3 **Conditions precedent**

(a) The respective obligations of the Seller and the Purchaser to complete the Transactions are subject to the fulfilment or waiver, at or prior to Acquisition Completion of, *inter alia*, each of the following Conditions, the details of which are summarised below:

(i) there being no law or governmental order or pending proceedings by any governmental authority in the United States or the ROC that prohibits or makes illegal the sale of the Sale Shares or the execution, delivery or performance of a transitional services agreement (if any) or the Tax Covenant; and

(ii) approvals required by the FSC, the ICMOEA, the FTC and the BMA having been received.

(b) The obligations of the Purchaser to complete the Transactions shall be subject to the key Conditions, the details of which are summarised below:

(i) as at the date of the Share Purchase Agreement, no Material Adverse Effect having occurred since 1 December 2008;

(ii) the Purchaser having obtained the proceeds of the Debt Financing or, in the event any portion of the Debt Financing becomes unavailable, the Purchaser shall have obtained any such portion from alternative sources;

(iii) the conditions (a) through (d) set forth within the CN Placing Announcement having been satisfied, and the Conditional CN Placing Agreement entered into in connection therewith not having been terminated;

(iv) the approvals required from all regulators listed in paragraph 1.3(a) above not being subject to conditions or restrictions that are materially burdensome to the Purchaser or Nan Shan; and

(v) since the date of the Share Purchase Agreement, a Material Adverse Effect shall not have occurred.

The Company has been notified that approval from the BMA has been obtained and that the FTC has no further comments on the Purchaser's application for approval of the Acquisition.

1.4 **Acquisition Completion**

Acquisition Completion shall take place on the Acquisition Completion Date, whereupon the Purchaser will be the beneficial owner of the Sale Shares and Nan Shan will be an indirectly-owned subsidiary of the Company.

It is envisaged that the Sale Shares will be held in the name of Primus Nan-Shan (Taiwan) following Acquisition Completion and through its 80% indirect ownership in the Purchaser, the Company will have an indirect and effective interest in approximately 78.06% of the entire issued share capital of Nan Shan.

1.5 **Termination**

Termination Events

The Share Purchase Agreement may be terminated prior to Acquisition Completion:

(a) by the mutual written consent of the Seller and the Purchaser;

(b) by either the Seller or the Purchaser if Acquisition Completion has not occurred on or before the Long Stop Date, provided that this right to terminate the Share Purchase Agreement shall not be available to any party whose failure to take any action required to fulfil any of such party's obligations under the Share Purchase Agreement has caused or resulted in the failure of Acquisition Completion to occur prior to the Long Stop Date;

(c) by the Seller or the Purchaser in the event of the issuance of a final, non-appealable governmental order prohibiting the completion of the sale of the Sale Shares;

(d) by the Purchaser (but only so long as the Purchaser is not in material breach of its obligations under the Share Purchase Agreement) if there has been a material breach by the Seller of any warranty given by the Seller in the Share Purchase Agreement, covenant or undertaking not susceptible to cure such that one or more of the Conditions to which the Purchaser is subject are not capable of being fulfilled as at the Long Stop Date; or

(e) by the Seller (but only so long as the Seller is not in material breach of its obligations under the Share Purchase Agreement) if there has been a material breach by the Purchaser of any warranty given by the Purchaser in the Share Purchase Agreement, covenant or undertaking of the Purchaser not susceptible to cure such that one or more of the Conditions to which the Seller is subject are not capable of being fulfilled as at the Long Stop Date.

Reverse Termination Fee

A reverse termination fee in the amount equal to the Escrow Amount will be payable to the Seller if the Share Purchase Agreement is terminated on the basis that the Acquisition Completion fails to take place prior to the Long Stop Date and at the time of such termination, the Purchaser fails either to obtain the Debt Financing or the Company has not, for any reason, contributed (or caused to be contributed) its portion of cash equity to the Purchaser (or caused such portion to be received by the Seller) for the satisfaction of the Purchaser's payment obligations under the Share Purchase Agreement in accordance with the China Strategic Undertaking detailed in the section headed "Part A — The Acquisition — 1. The Share Purchase Agreement — 1.12 China Strategic Undertaking" of this circular and all the Conditions (other than the Financing Conditions) which the Purchaser is subject to have been satisfied.

Under the Escrow Agreement, if and when such reverse termination fee becomes payable, the Escrow Amount (which is equivalent to the reverse termination fee and which has been deposited into the escrow account by the Primus Investor Group) will be released to the Seller pursuant to the sole instruction of the Seller. In such circumstances, there is no arrangement between the Company and the Primus Investor Group for the reverse termination fee to be shared between them. However, the Company and members of the Primus Investor Group have agreed on 9 November 2009 that the Primus Investor Group shall bear the full amount of the reverse termination fee if and when it becomes payable.

Liability Limitation

If Acquisition Completion does not occur, in no event shall the Purchaser and Primus Investor, on the one hand, or the Seller, on the other hand, be subject to liability in excess of the Liability Limitation (such Liability Limitation shall be inclusive of the amount of the reverse termination fee in the case of the Purchaser and Primus Investor) for all losses or damages of any kind arising from or in connection with breaches by the Purchaser or the Seller, as the case may be, of any of the representations, warranties, covenants and agreements in the Share Purchase Agreement or otherwise in connection with the Share Purchase Agreement or the Transactions if Acquisition Completion does not occur.

1.6 **No public distribution of the Sale Shares**

The Purchaser has warranted to the Seller as at the date of the Share Purchase Agreement until the expiration date of the applicable statute of limitations that the Sale Shares are being acquired by the Purchaser for its own account and without a view to the public distribution or sale of the Sale Shares or any interest in them in a public distribution.

1.7 The Nan Shan brand; employees and agents of Nan Shan

It is the intention of the Purchaser to maintain the Nan Shan brand. The Purchaser has agreed, as set out in the Share Purchase Agreement, to maintain substantially comparable employment terms and conditions to the existing terms and conditions, and no less favourable base and incentive compensation rates and opportunities and benefits packages (including retirement and death benefits, but, for the avoidance of doubt, excluding equity incentives) for Nan Shan's employees and shall not make any adverse changes to Nan Shan's existing agency contract and compensation structure for a minimum of two years following Acquisition Completion. The Purchaser has also agreed with the Seller that employees of Nan Shan shall be entitled to participate in benefits plans comparable to Nan Shan's existing benefits plans and be entitled to holiday entitlements and sick pay as was applicable prior to Acquisition Completion. Effective as at Acquisition Completion, the Purchaser has agreed to assume obligation and liability for, among other things, bonuses, severance payments and/or benefits, workers' compensation and other incentive and benefits plans for employees and former employees payable to them prior to Acquisition Completion. Nevertheless, the amount of the assumed obligation and liability cannot be ascertained as at the Latest Practicable Date.

It is the intention of the parties that the current core Nan Shan management team will remain in place following Acquisition Completion.

Please also refer to the section headed "Part H — Additional Information — 4. Developments Regarding Nan Shan's Agents and Employees Since the Date of the Share Purchase Agreement" of this circular for further details.

1.8 Transitional services

As at the Latest Practicable Date, the Company has been informed by Nan Shan that the process of separating the interdependencies between Nan Shan and AIG is targeted to be completed prior to Acquisition Completion. Accordingly, no transitional services will be required from AIG following Acquisition Completion and no transitional services agreement will be entered into between AIG, the Purchaser and Nan Shan. For further information on the process of separating the interdependencies between Nan Shan and AIG, please refer to the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.18 The AIG-Nan Shan Separation Process" of this circular.

1.9 Governing law and dispute resolution

The Share Purchase Agreement is governed by English law and any dispute, controversy or claim arising out of or in connection with, or relating to, the Share Purchase Agreement or the Transactions shall be finally settled exclusively by arbitration in accordance with the Rules of Arbitration of the International Chamber of Commerce.

1.10 **Other Transaction Documents**

In addition to the Share Purchase Agreement, the Disclosure Letter and the Escrow Agreement, in connection with the Acquisition, the Purchaser also entered into the Tax Covenant pursuant to which the Seller agrees to reimburse the Purchaser for, among other things and subject to certain enumerated exceptions and other qualifications, approximately 97.57% of any tax liabilities of Nan Shan for which provision or reserve was not made on the financial statements for the year ended 30 November 2008, any tax liabilities of Nan Shan arising outside the ordinary course of business between 30 November 2008 and the Acquisition Completion and any out-of-pocket legal and accounting expenses associated with any such tax liabilities.

1.11 **Disclosure Letter**

The Disclosure Letter was delivered to the Purchaser by the Seller on the date of the Share Purchase Agreement. All information contained in the Disclosure Letter will be treated as qualifying the warranties given by the Seller in the Share Purchase Agreement, which are given as at the date of the Share Purchase Agreement (with the exception of certain warranties relating to, among others, the Seller, the title to the Sale Shares and the incorporation, qualification and authority of Nan Shan, which are given as at the date of the Share Purchase Agreement and as at the Acquisition Completion Date), to the extent that the information fairly discloses the fact, matter, event or circumstances concerned. Among other matters disclosed in the Disclosure Letter, the contents of the Transaction Documents and all transactions referred to therein and all matters contained or referred to in the contents of the data room established by the Seller (which forms part of the disclosure bundle) are deemed disclosed to the Purchaser.

1.12 **China Strategic Undertaking**

In connection with the Acquisition and the payment obligations of the Purchaser under the Share Purchase Agreement, the Company has separately irrevocably agreed to the Seller that it shall, on or prior to the Acquisition Completion Date and subject to the fulfilment of all the Conditions set forth in the Share Purchase Agreement and the conditions precedent set forth in the Conditional CN Placing Agreement, direct the CN Placing Agent to pay an amount equivalent to HK$7,600 million (or its equivalent in any other currency) to the Seller (or any other persons as directed by the Seller) for the purpose of satisfying part of the Purchaser's obligation to make payment of the Purchase Price.

1.13 **Flow of Funds for the Payment of the Purchase Price**

Upon Acquisition Completion, it is envisaged that the Sale Shares will be held by Primus Nan-Shan (Taiwan). In order to obtain the ICMOEA approval for the Acquisition, Primus Nan-Shan (Taiwan) must be able to show that it has sufficient capital in its bank account to pay the Purchase Price. To facilitate this capital verification process, when all the Conditions have been fulfilled or waived and the Share Purchase Agreement proceeds to Acquisition Completion (and accordingly, the

Conditional CN Placing Agreement and Conditional Share Placing Agreement also proceed to completion), the following steps are expected to take place to ensure compliance by Primus Nan-Shan (Taiwan) of the relevant Taiwan laws and regulations in relation to the payment of the Purchase Price:

- the CN Placing and the Share Placing will complete and the Company will issue the Convertible Note certificates and the Share certificates to the CN Placees and Share Placees, respectively. The CN Placing Agent and the Share Placing Agent will, in accordance with instructions from the Company (who is in turn subject to the Seller's instructions as stated under the China Strategic Undertaking) direct all of the net proceeds raised from the CN Placing and approximately US$336 million of the net proceeds raised from the Share Placing (together, an aggregate amount of approximately US$1,310 million) to Primus Nan-Shan (Taiwan)'s bank account in Taiwan;

- on the Business Day which is seven Business Days prior to the Acquisition Completion Date, the Escrow Amount will be released and transferred into a custodian account to be held in Citibank Taiwan Limited as custodian on behalf of Primus Nan-Shan (Taiwan) and the Seller;

- on the Business Day prior to the Acquisition Completion Date, the proceeds drawn-down from the Debt Financing will be transferred into Primus Nan-Shan (Taiwan)'s bank account in Taiwan; and

- on the Acquisition Completion Date, the Escrow Amount, the proceeds from the Debt Financing, the net proceeds from the CN Placing and approximately US$336 million of the net proceeds from the Share Placing will be transferred to the Seller's bank account to satisfy the payment of the Purchase Price.

2. STRATEGIC RATIONALE FOR THE ACQUISITION

The Company has been looking for opportunities to diversify its income and asset base with a view to enhancing Shareholders' value. Nan Shan is a well-established insurance company in Taiwan and as such, the Company is of the view that the Acquisition represents a unique opportunity for the Company to diversify its business.

The Acquisition also represents an opportunity for the Company to partner with Primus, a privately owned Hong Kong-based holding company which focuses on the acquisition, integration and the establishment of financial services companies. Primus and its affiliates have operations within the Asia-Pacific region and given its expertise in investing in Asian financial institutions, the Company believes that its cooperation with Primus would significantly benefit the Company in the diversification of its business, income and asset base.

Taking into account the benefits of the Transactions, the Board is of the view that the terms of the Share Purchase Agreement are fair and reasonable and on normal commercial terms, and the Transactions are in the interests of the Company and the Shareholders as a whole.

3. FINANCIAL EFFECTS OF THE ACQUISITION

Upon Acquisition Completion, Nan Shan will become an indirect subsidiary of the Company and the financial information of Nan Shan will be consolidated into the consolidated financial statements of the Company.

For the avoidance of doubt, the unaudited pro forma financial information of the Enlarged Group in Appendix III of this circular does not give effect to events in relation to the Company subsequent to 30 June 2009.

As referred to in the interim report of the Group for the six months ended 30 June 2009, the unaudited consolidated net assets of the Group as at 30 June 2009 amounted to approximately HK$406.9 million, comprising total assets of approximately HK$1,055.8 million and total liabilities of approximately HK$648.9 million, and the total comprehensive income for the six-months ended 30 June 2009, attributable to owners of the Company was approximately HK$51.0 million. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III of this circular (assuming, among others, CN Placing is completed in full and 26,472,730,000 Shares are issued pursuant to the Share Placing to raise an amount that is sufficient to make up the Purchase Price) and a gross amount of approximately HK$10,447 million is raised), the unaudited pro forma net assets of the Enlarged Group would amount to approximately HK$5,041.6 million, comprising unaudited pro forma total assets of approximately HK$485,670.8 million and unaudited pro forma total liabilities of approximately HK$480,629.2 million, and the unaudited pro forma loss of the Enlarged Group attributable to equity holders of the Company would be approximately HK$10,351.6 million for the year ended 31 December 2008. The unaudited pro forma bank balances and cash of the Enlarged Group amounted to approximately HK$40,396.3 million as at 30 June 2009.

The professional fees and other costs of the Acquisition were approximately US$26 million.

As stated in the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III of this circular (assuming, among others, the CN Placing is completed in full and 26,472,730,000 Shares are issued pursuant to the Share Placing to raise an amount that is sufficient to make up the Purchase Price) and a gross amount of approximately HK$10,447 million is raised), the Enlarged Group has an unaudited consolidated pro forma bank balance and cash of approximately HK$40,396.3 million as at 30 June 2009. The unaudited pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2009 is prepared based on (i) the unaudited consolidated balance sheet of the Group as at 30 June 2009, as extracted from the interim report of the Company for the six-month period then ended; and (ii) the audited balance sheet of Nan Shan as at 31 August 2009 as extracted from the Accountant's Report, after incorporating the unaudited pro forma adjustments described in the accompanying notes, as if the Acquisition and the Placings had been completed on 30 June 2009. Please refer to the section headed "Part B — The Financing of the Acquisition — 3. Reasons for the CN Placing and the Share Placing and Use of Proceeds from the Placings" of this circular for anticipated use of the proceeds from the Placings.

As set out in the unaudited pro forma consolidated income statement of the Enlarged Group, adjustment of approximately HK$4,127.1 million was made for the amortisation of the value of the business acquired ("**VOBA**") by the Company. Shareholders and prospective investors should note that such amortisation of the VOBA will be made by the Company on an on-going basis following Acquisition Completion and may continue to have material financial impact on the Enlarged Group's consolidated financial statements following Acquisition Completion.

4. PROSPECTS OF THE ENLARGED GROUP

Prior to the Acquisition, the Group is principally engaged in the manufacturing and trading of battery products and related accessories and investments in securities. The Group has always actively sought investment opportunities which it considers to be beneficial to the Company with a view to enhance its Shareholders' value. The Board was aware of the limitation of growth and development in the Company's existing businesses and accordingly, when it was approached by Primus which was seeking interest from potential partners to participate in the Acquisition, the Board took serious consideration of the opportunities and potential which such investment may bring to the Group.

It is the current intention that the Enlarged Group will continue to seek to invest in other financial services institutions in the greater China region, with an initial focus on Taiwan. In its vision to acquire and grow an Asia-based financial services platform, the Group has also entered into a memorandum of understanding with Chinatrust on 17 November 2009 pursuant to which the Company and Chinatrust agreed that, conditionally upon Acquisition Completion, the Company and Chinatrust will enter into relevant transaction documentation and it is the intention of the Company and Chinatrust that such documentation will set out the terms and conditions for:

- the subscription by the Company of 1,172.1 million shares of common stock in Chinatrust (representing approximately 9.95% of the entire issued share capital of Chinatrust after the issuance) for an issue price of NT$17.74 per share, which represents a discount of approximately 12.83% to the market price of Chinatrust shares as at 17 November 2009 (such subscription shares to be issued by way of a private placement) (the "**Proposed Subscription**"); and

- the sale by the Company or the procuring of the sale by the Company and the purchase by Chinatrust of the number of shares of common stock in Nan Shan representing 30% of the entire issued and outstanding share capital of Nan Shan at a purchase price of approximately US$660.01 million (the "**Proposed Disposal**"); and

- the future intention within three years from the signing of the memorandum of understanding to enter into negotiations between the parties to increase the Company's shareholding in Chinatrust and to increase Chinatrust's shareholding in Nan Shan (the "**Future Plans**"), in each case, to the extent agreeable by the parties and permissible by law.

Upon completion of the Acquisition, the Proposed Subscription, the Proposed Disposal and the Future Plans, the Company's vision is to establish a strong and competitive Asia-based financial services platform upon which to further develop (either by further acquisition or internal development) the Group's presence in the financial services market in Asia.

Nevertheless, as the Proposed Subscription, the Proposed Disposal and the Future Plans remain subject to further negotiations and subsequent approvals (including regulatory approvals) and as at the date of this circular, may or may not materialise, the financial impact of these potential transactions are not reflected in the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III of this circular.

The Enlarged Group will also seek to generate value for Shareholders by maintaining and further strengthening and developing Nan Shan's competitive position in the Taiwan insurance market.

5. RISKS ASSOCIATED WITH THE ACQUISITION

5.1 **Investments in new business and country risks**

Prior to the Acquisition, the Group has been principally engaged in the manufacturing and trading of battery products and related accessories and investments in securities. It does not have previous experience in operating an insurance company, in managing companies of the size of Nan Shan or in operating in Taiwan. The total assets of the Enlarged Group will be significantly greater than the total assets of the Group as at 30 June 2009. Accordingly, there is limited historical information available upon which Shareholders and prospective investors can base their evaluation of the Group's business and prospects.

Nan Shan will be the Group's first insurance business and Shareholders and prospective investors should consider the Group's business and prospects in light of the risks and uncertainties that the Group will face as a company operating a new business in a new region. The Group may encounter risks and uncertainties frequently experienced by such companies, including but not limited to those relating to:

- the Group's ability to maintain effective control of its operating costs and expenses;
- the Group's ability to develop and maintain Nan Shan's internal personnel, systems and procedures to ensure compliance with the extensive regulatory requirements applicable to the insurance industry in Taiwan;
- the Group's ability to raise further capital that might be required to meet Nan Shan's regulatory capital adequacy or solvency margin requirements over the life of both in-force insurance contracts and/or new insurance contracts;
- the Group's ability to respond to changes in a new regulatory environment; and
- the Group's ability to implement and monitor its and Nan Shan's internal controls system.

If the Group is unable to address these risks, its financial condition and operating results may be materially and adversely affected. The Group has not previously operated in Taiwan. Any change in the political and economic conditions in Taiwan may adversely affect the Company. Consequently, the Company is not in a position to assure the timing and amount of any return or benefits that may be received from Nan Shan.

5.2 **Prior to Acquisition Completion, Nan Shan is a subsidiary of AIG and has, to a limited extent, leveraged on AIG and its affiliates on certain key aspects of its operations. The change of Nan Shan's controlling shareholder to the Company and the separation from AIG and its affiliates after Acquisition Completion may give rise to risks and uncertainties for Nan Shan's operations and business if the Company and/or Nan Shan fail to effectively control the costs and expenses of replacement providers or if replacement providers fail to match the level and standard of service that AIG and its affiliates had provided in the past or if the Company and Nan Shan fail to fully adopt or effectively implement new investment and risk management policies and procedures.**

Prior to Acquisition Completion, Nan Shan had, to a limited extent, leveraged on AIG and its affiliates to provide certain services which are integral to Nan Shan's operations and business. The key services which Nan Shan had previously leveraged on AIG include portions of its information technology platform, AIG's global risk management policies and part of its foreign bond investment management services. For example, many of Nan Shan's business policies and procedures have in the past been governed by AIG's global policies. As at the Latest Practicable Date, the process of separating the interdependencies between AIG and Nan Shan is close to completion (and is targeted to be completed prior to Acquisition Completion) and Nan Shan will engage third parties (which may include developing business relationships with AIG in the future on an arm's length basis) and recruit new talent to replace AIG and its affiliates as providers of such services, as well as establish its own policies and procedures for its investment and risk management functions. However, the Company cannot assure Shareholders and prospective investors that such replacement providers can provide an equivalent level and standard of service as compared to that provided by AIG and its affiliates in the past or that Nan Shan can fully adopt, implement effectively or continue developing appropriate investment and risk management policies and procedure. Further, the Company cannot assure Shareholders and prospective investors that it or Nan Shan can effectively control the costs and expenses of the replacement providers. The combination of these factors may mean that there remain uncertainties as to how the replacement of service providers for Nan Shan and Nan Shan's newly established investment and risk management policies and procedures may impact on Nan Shan's operations and business following Acquisition Completion. See the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.18 The AIG — Nan Shan Separation Process" of this circular for further information.

5.3 **Company's ability to pay dividends and meet other obligations**

Following Acquisition Completion, Nan Shan will represent the key asset of the Company and the Company will conduct substantially all its operations and businesses through Nan Shan. Following Acquisition Completion, most of the Company's assets will be held by, and substantially all its earnings and cash flows will be attributable to, Nan Shan. The Company therefore will depend on dividends and other distributions and payments from Nan Shan for its cash flow following Acquisition Completion. The Company's ability to pay dividends, if any, is largely dependent on the flow of funds it receives from Nan Shan. The Company cannot assure Shareholders and prospective investors that Nan Shan will be able to make distributions and payments to the Company in an amount sufficient, or at all, to meet the Company's cash and reserve requirements and enable the Company to pay any dividends.

The payment of dividends and other distributions and payments by Nan Shan to the Company may depend on, among other things, business considerations, ratings considerations, regulatory restrictions and other applicable laws, rules and regulations. Dividend distribution may also depend on the approval by the ICMOEA upon Nan Shan's application for foreign investment. Nan Shan may also apply to the ICMOEA on an annual basis to issue dividends to the Purchaser, which can in turn issue dividends to the Company in accordance with applicable laws of the relevant jurisdictions. Moreover, under the terms of the Debt Financing to finance the Acquisition, a proceeds account shall be established in which, among other things, all cash dividends and any form of distribution paid by Nan Shan in connection with its shares shall be deposited. These restrictions could significantly reduce the amount of distributions, if any, the Company receives from Nan Shan, which would restrict the Company's ability to fund its operations, generate income and pay dividends. The Company cannot assure Shareholders and prospective investors that Nan Shan will generate sufficient earnings and cash flow to pay dividends or otherwise distribute sufficient funds to enable it to meet its obligations or pay dividends. Restrictions on the ability of Nan Shan to pay dividends and make other distributions and payments to the Company could have an adverse effect on the Company's ability to pay dividends and expenses and future ability to service debt, if any.

5.4 **Potential restrictions on raising funds**

Under the terms of the Debt Financing to finance the Acquisition, the Sale Shares will be pledged to the Lenders, including the entitlement certificates evidencing the right to receive the Sale Shares. The pledging of the Sale Shares may result in substantial impediments on the ability of the Company and Nan Shan to, among other things, raise new funds or obtain further financing in the future. Moreover, in the instance of a default, the Borrower may be compelled to surrender the Sale Shares to the Lenders altogether. The Company cannot assure Shareholders and prospective investors that a default will not occur in the future. As a result, the Company's business and operations, and in turn its cash flows and financial condition, may be adversely affected.

5.5 **The CN Placees and Share Placees are not subject to any lock up**

Shareholders and prospective investors are also reminded that there are no lock-up provisions in the terms and conditions of the Convertible Notes and the Share Placing Agreement. Accordingly, there may be a near-term impact on the market price of the Shares upon completion of the CN Placing and the Share Placing. Not only will there be a significant dilution of the shareholding of existing Shareholders, the lack of any lock-up period for the Convertible Notes and the Placing Shares will mean that no prediction can be made as to the effect, if any, that future sale of Shares, or the availability of Shares for future sale, will have on the market price of the Shares prevailing from time to time. Sales of substantial amounts of the Shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of Shares.

6. DIRECTORS OF THE ENLARGED GROUP AFTER ACQUISITION COMPLETION

6.1 Directors, supervisors and senior management of the Enlarged Group after Acquisition Completion

(a) ***The Company***

Name	Age	Position
Executive Directors		
Mr. Or Ching Fai	60	Chief executive officer, co-vice chairman and executive Director
Ms. Chiu Ching Ching	59	Executive Director
Mr. Yau Wing Yiu	43	Executive Director
Mr. Hui Richard Rui	41	Executive Director
Ms. Chan Ling, Eva	44	Executive Director
Mr. Lee Sun Man	58	Executive Director
Mr. Chow Kam Wah	47	Executive Director
Mr. Robert Morse	54	Co-vice chairman and executive Director
Non-executive Director		
Mr. Frederick Ma Si-Hang	58	Chairman and non-executive Director
Independent non-executive Directors		
Ms. Ma Yin Fan	46	Independent non-executive Director
Mr. Phillip Fei	54	Independent non-executive Director
Mr. Leung Hoi Ting	59	Independent non-executive Director

(b) ***The Purchaser***

Name	Age	Position
Directors		
Mr. Or Ching Fai	60	director of the Purchaser
Mr. Hui Richard Rui	41	director of the Purchaser
Mr. Chow Kam Wah	47	director of the Purchaser
Mr. Yau Wing Yiu	43	director of the Purchaser
Mr. Robert Morse	54	director, chairman and Co-CEO of the Purchaser
Mr. Ng Wing Fai	42	director, vice chairman, and Co-CEO of the Purchaser
Mr. Frederick Ma Si-Hang	58	Non-executive director of the Purchaser

(c) ***Primus Nan Shan (UK)***

Name	Age	Position
Directors		
Mr. Or Ching Fai	60	director of Primus Nan Shan (UK)
Mr. Hui Richard Rui	41	director of Primus Nan Shan (UK)
Mr. Chow Kam Wah	47	director of Primus Nan Shan (UK)
Mr. Yau Wing Yiu	43	director of Primus Nan Shan (UK)
Mr. Robert Morse	54	director of Primus Nan Shan (UK)
Mr. Ng Wing Fai	42	director of Primus Nan Shan (UK)

(d) ***Primus Nan-Shan (Taiwan)***

Name	Age	Position
Directors		
Mr. Or Ching Fai	60	director of Primus Nan-Shan (Taiwan)
Mr. Chow Kam Wah	47	director of Primus Nan-Shan (Taiwan)
Mr. Yau Wing Yiu	43	director of Primus Nan-Shan (Taiwan)
Mr. Robert Morse	54	director of Primus Nan-Shan (Taiwan)
Mr. Ng Wing Fai	42	director of Primus Nan-Shan (Taiwan)
Supervisor		
Mr. Hui Richard Rui	41	supervisor of Primus Nan-Shan (Taiwan)

(e) ***Nan Shan***

Name	Age	Position
Director		
Mr. Frank Y.L. Chan	64	Managing director, president and director of Nan Shan

Please also refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.6 Information on the Directors and Supervisors of Nan Shan — General" of this circular for information on the additional directors to be nominated to the Nan Shan Board immediately prior to Acquisition Completion.

Supervisors

As at the Latest Practicable Date, the supervisors to be nominated to the supervisory board of Nan Shan have not been identified and their nominations will require the approval of the Taiwan regulatory authorities. Please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.6 Information on the Directors and Supervisors of Nan Shan — General" of this circular for the supervisors to be nominated to the supervisory board of Nan Shan immediately prior to Acquisition Completion.

6.2 **Information on the Directors of the Company**

General

Save as disclosed in this section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular, none of the Directors has any other directorships in listed companies.

Directors

Executive Directors

Mr. OR Ching Fai (柯清輝), aged 60, was appointed as an executive Director, chief executive officer and vice chairman of the Company in November 2009. He graduated from The University of Hong Kong with a Bachelor's degree in economics and psychology. Mr. Or is a Justice of the Peace and has rich experiences in the insurance, banking and financial services industries. He was the general manager and a director of The Hongkong and Shanghai Banking Corporation Limited. He was also the chairman of HSBC Insurance Limited, the chief executive and vice-chairman of Hang Seng Bank Limited and also the chairman of Hang Seng Insurance Company Limited and Hang Seng Bank (China) Limited. Mr. Or was the chairman of the Hong Kong Association of Banks; the vice president and a Council Member of the Hong Kong Institute of Bankers; the chairman of Executive and Campaign Committee of the Community Chest of Hong Kong. Mr. Or is currently a Vice Patron of the Board of the Community Chest of Hong Kong. Mr. Or was awarded a Silver Bauhinia Star from the Hong Kong Special Administrative Region and Honorary University Fellowships from The University of Hong Kong in 2009. Mr. Or has been chairman of the Financial Services Advisory Committee and a member of the Services Promotion Programme Committee of the Hong Kong Trade Development Council. He has been a member of the Risk Management Committee of Hong Kong Exchanges and Clearing Limited, and a member of the Aviation Development Advisory Committee. He is the deputy chairman of the Council of City University of Hong Kong and was a council member of The University of Hong Kong; an adviser of the Employers' Federation of Hong Kong, a member of the 5th East Asian Games Planning Committee and a director of 2009 East Asian Games (Hong Kong) Limited. Mr. Or was a director of Cathay Pacific Airways Limited and Hutchison Whampoa Limited and is currently an independent non-executive director of Esprit Holdings Limited and a vice chairman and an independent non-executive director of G-Resources Group Ltd., the shares of which are all listed on the main board of the Hong Kong Stock Exchange.

Ms. CHIU Ching Ching (趙晶晶), aged 59, is an executive Director. She was appointed as a Director in September 2007 and was the Company's chairperson from 26 November 2007 to November 2009. She has over 10 years of experience in senior management positions of several multinational corporations. She has over 15 years of experience in the trading business and business development.

Mr. YAU Wing Yiu (邱永耀), aged 43, is an executive Director. He was appointed as Director on 10 December 2009. Mr. Yau holds a Master Degree of Business Administration in Finance from The Hong Kong University of Science and Technology, Graduate School of Business and a BA (Hons) in Business Studies from The City University of Hong Kong. Mr. Yau was a partner and the chief financial officer of AID Partners Capital Limited, which is a private equity investment fund. Mr. Yau also worked for various listed companies in Hong Kong and overseas and a number of international investment banks. He has extensive experience in financial management, corporate finance and investment. He is an associate member of American Institute of Certified Public Accountant and an associate member of Hong Kong Institute of Certified Public Accountant.

Mr. HUI Richard Rui (許銳暉), aged 41, was appointed as a Director in September 2008. He graduated from University of Technology, Sydney of Australia with a bachelor degree in mechanical engineering. He has over 10 years of experience in management positions of companies in Australia, Hong Kong and the PRC. Mr. Hui is currently an executive director of G-Resources Group Ltd., formerly known as Smart Rich Energy Finance (Holdings) Ltd., and China Sci-Tech Holdings Limited, the shares of both of which are listed on the Hong Kong Stock Exchange. Mr. Hui was an executive director of China Ocean Shipbuilding Industry Group Limited, formerly known as Wonson International Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange. Save as aforesaid, Mr. Hui did not hold any directorship in other listed public companies in the past three years.

Ms. CHAN Ling, Eva (陳玲), aged 44, was appointed as a Director in July 2002. Ms. Chan has over 20 years of experience in auditing, accounting and finance in both international accounting firms and listed companies. She is a member of the Institute of Chartered Accountants in Australia, a fellow member of the Association of Chartered Certified Accountants and also a practicing member of the Hong Kong Institute of Certified Public Accountants. Ms. Chan is the managing director of Wing On Travel (Holdings) Limited and an independent non-executive director of Trasy Gold Ex Limited, both companies' shares are listed on the Hong Kong Stock Exchange. She is also the deputy chairman of China Enterprises Limited (which shares are trading on the over-the-counter securities markets in the United States) and a director of MRI Holdings Limited whose shares are listed on the Australian Securities Exchange. Ms. Chan has been an independent non-executive director of China Ocean Shipbuilding Industry Group Limited, formerly known as Wonson International Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange.

Mr. LEE Sun Man (李新民), aged 58, was appointed as a Director in September 2007. He graduated from the Law Department of Shenzhen University. Mr. Lee is currently an executive director Fulbond Holdings Limited, a company listed on Hong Kong Stock Exchange. He has more than 15 years of experience in management in general trading in the PRC and property related business.

Mr. CHOW Kam Wah (周錦華), aged 47, was appointed as Director in July 2007. He obtained a Master degree in Accountancy from The Hong Kong Polytechnic University. He has over 15 years of experience in the management of finance and accounting and is a member of the CPA Australia.

Mr. MORSE Robert, aged 54, is the managing director, chairman and Co-CEO of Primus. Upon Acquisition Completion, Mr. Morse will be appointed as executive Director and Co-vice chairman of the Company. From 2004 to 2008, Mr. Morse served as chief executive officer of Citigroup's Asia Institutional Clients Group and was one of Citigroup's most senior executives globally. Prior to this, Mr. Morse served as the head of global investment banking for Citigroup, based in New York. He had also held a variety of increasingly senior positions since he joined Salomon Brothers in 1985. Mr. Morse is a 1977 graduate of Yale College, Phi Beta Kappa and magna cum laude, and a 1981 graduate of the Harvard Graduate School of Business Administration and the Harvard Law School.

Mr. Morse will, subject to Acquisition Completion and if required, the approval by Independent Shareholders at general meeting and/or the approval of the Hong Kong Stock Exchange, receive the Service Fees. The term of Mr. Morse's appointment as Co-CEO of the Purchaser is for five years commencing from Acquisition Completion. The appointment of Mr. Morse as a director of the Purchaser has no fixed term.

As at the Latest Practicable Date, Mr. Morse does not have, and is not deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO). The Company has entered into an Option Deed with Mr. Morse pursuant to which, subject to Acquisition Completion and, if required, the approval by Independent Shareholders at general meeting and/or the approval of the Hong Kong Stock Exchange, the Company will grant to Mr. Morse such number of share options representing 3,200 million Shares in the Company when exercised. Please see the section headed "Part C — The Payment of the Service Fees and the Sharing of Expenses under the Management Agreement, the Employment Agreements, the Option Deeds and the CSH Facility — 3. Proposed Granting of Share Options to the Optionholders" of this circular for further information.

Mr. Morse does not have any relationship with any existing Directors, senior management of the Company, substantial Shareholders or the controlling Shareholders (as defined in the Listing Rules). Save as disclosed above and in this section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular, Mr. Morse does not hold any other position in the Company or any subsidiaries of the Company nor any other directorship in listed public companies in the last three years.

There is no information relating to Mr. Morse that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules. Save as disclosed above, there is no other matter in relation to the appointment of Mr. Morse that needs to be brought to the attention of the Shareholders.

Non-executive Director

Mr. Frederick MA Si-Hang (馬時亨), aged 58, was appointed as non-executive Director and chairman of the Company in November 2009. He graduated from the University of Hong Kong with a Bachelor's degree in Arts (Honours) in 1973, majoring in economics and history. Mr. Ma was the Secretary for Financial Services and the Treasury of the Government of the Hong Kong Special Administrative Region between 2002 and 2007, among many of his responsibilities, one of which is to oversee the insurance industry in Hong Kong as the chairman of the Insurance Advisory Committee of Hong Kong. Mr. Ma was the Secretary for Commerce and Economic Development of the Government of the Hong Kong Special Administrative Region for 2007 and 2008. Mr. Ma has rich experience in the financial services industry; he was the Head of Institutional Banking and Second Vice-President of Chase Manhattan Bank at its Hong Kong Branch Office and Canadian Branch Office respectively. Mr. Ma was also the managing director of RBC Dominion Securities in its London Office and Asia-Pacific Chief Executive of JP Morgan Private Bank. Mr. Ma was an executive director and the group chief financial officer of Pacific Century CyberWorks Limited (now known as PCCW Limited) and was the deputy chairman and managing director of Kumagai Gumi (HK) Limited (now known as HKC (Holdings) Limited) and was also a non-executive director of MTR Corporation

Limited, the shares of which are all listed on the main board of the Hong Kong Stock Exchange. Mr. Ma is an Honorary Professor of the School of Economics and Finance at the University of Hong Kong. Mr. Ma was awarded a Gold Bauhinia Star from the Hong Kong Special Administrative Region in 2009.

Independent non-executive Directors

Ms. MA Yin Fan (馬燕芬), aged 46, was appointed as an independent non-executive Director in September 2007. She obtained a Bachelor Degree with honours in Accountancy at Middlesex University in the United Kingdom. She was also awarded the Master of Business Administration and Masters Degree in Professional Accounting at Heriot-Watt University in the United Kingdom and Hong Kong Polytechnic University respectively. She is a CPA (Practising) in Hong Kong and has been working in the auditing, accounting and taxation areas for more than 20 years. She is the principal of Messrs. Ma Yin Fan & Company CPAs. Ms. Ma is a Fellow member of Hong Kong Institute of Certified Public Accountants, Taxation Institute of Hong Kong, Association of Chartered Certified Accountants, Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators. She is also a member of the Institute of Chartered Accountants in England and Wales. Ms. Ma is a member of Audit Committee and Remuneration Committee of the Company. Ms. Ma is currently an independent non-executive director of G-Resources Group Ltd., formerly known as Smart Rich Energy Finance (Holdings) Ltd, and Fulbond Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange.

Mr. Phillip FEI (淩鋒), aged 54, was appointed as an independent non-executive Director in September 2007. He was the Professor of The International Economic Department of University of International Relations, the PRC. He was also the 5th and 6th term director of Beijing Chinese Overseas Friendship Association and the 2nd term director of China Overseas Friendship Association. He has over 10 years of experience in the international trading business and economic research. Mr. Fei is a member of Audit Committee and Remuneration Committee of the Company.

Mr. LEUNG Hoi Ying (梁凱鷹), aged 59, was appointed as an independent non-executive Director in September 2007. He graduated from Guangdong Foreign Trade School in the PRC. He has over 15 years of experience in the trading business and business development. Mr. Leung is a member of Audit Committee and Remuneration Committee of the Company. Mr. Leung is currently an independent non-executive director of G-Resources Group Ltd., formerly known as Smart Rich Energy Finance (Holdings) Ltd, and Fulbond Holdings Limited, the shares of which are listed on the Hong Kong Stock Exchange.

6.3 **Information on the directors of the Purchaser**

Mr. Frederick Ma Si-Hang — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. OR Ching Fai — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. HUI Richard Rui — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. CHOW Kam Wah — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. YAU Wing Yiu — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. Robert MORSE — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. NG Wing Fai, aged 42, was appointed as a director of the Purchaser on 6 October 2009. Mr. Ng is also a managing director and Co-CEO of Primus. Prior to this, Mr. Ng was managing director, senior executive vice president and head of corporate strategy of Fubon Financial Holding Co., Ltd., one of the largest financial services conglomerates in Taiwan. Mr. Ng joined Fubon Financial Holding Co., Ltd. in 2000 and was the founding member of its operating and management committee. Prior to this, Mr. Ng was a managing director and head of the financial institutions group in the investment banking department of Salomon Smith Barney in Asia. Mr. Ng was also a management consultant at Booz Allen & Hamilton, specialising in financial services in the United States and Asia. Mr. Ng is a director of EON Capital Berhad, a company listed on Bursa Malaysia, the Kuala Lumpur stock exchange. Mr. Ng holds a masters of business administration from Harvard Business School and a masters of arts from the University of Cambridge where he was awarded, among other awards, the Jardine Scholarship.

Mr. Ng will, subject to Acquisition Completion and if required, the approval by Independent Shareholders at general meeting and/or the approval of the Hong Kong Stock Exchange, receive the Service Fees. The term of Mr. Ng's appointment as Co-CEO of the Purchaser is for five years commencing from Acquisition Completion. The appointment of Mr. Ng as a director of the Purchaser has no fixed term and will be in accordance with the articles of the Purchaser.

As at the Latest Practicable Date, Mr. Ng does not have, and is not deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO). The Company has entered into an Option Deed with Mr. Ng pursuant to which, subject to Acquisition Completion and, if required, the approval by Independent Shareholders at general meeting and/or the approval of the Hong Kong Stock Exchange, the Company will grant to Mr. Ng such number of share options representing 3,200 million Shares in the Company when exercised. Please see the section headed "Part C — The Payment of the Service Fees and the Sharing of Expenses under the Management Agreement, the Employment Agreements, the Option Deeds and the CSH Facility — 3. Proposed Granting of Share Options to the Optionholders" of this circular for further information.

Mr. Ng does not have any relationship with any existing Directors, senior management of the Company, substantial Shareholders or the controlling Shareholders (as defined in the Listing Rules).

Save as disclosed above and in this section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular, Mr. Ng does not hold any other position in the Company or any subsidiaries of the Company nor any other directorship in listed public companies in the last three years.

There is no information relating to Mr. Ng that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules. Save as disclosed above, there is no other matter in relation to the appointment of Mr. Ng that needs to be brought to the attention of the Shareholders.

6.4 **Information on the Directors of Primus Nan-Shan (UK)**

Mr. OR Ching Fai — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. HUI Richard Rui — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. CHOW Kam Wah — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. Robert MORSE — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. NG Wing Fai — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.3 Information on the Directors of the Purchaser" of this circular for further information.

Mr. YAU Wing Yiu — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

6.5 **Information on the directors and supervisor of Primus Nan-Shan (Taiwan)**

Directors

Mr. OR Ching Fai — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. CHOW Kam Wah — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. Robert MORSE — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. YAU Wing Yiu — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

Mr. NG Wing Fai — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.3 Information on the Directors of the Purchaser" of this circular for further information.

Supervisors

Mr. HUI Richard Rui — please refer to the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.2 Information on the Directors of the Company" of this circular for further information.

6.6 **Information on the directors and supervisors of Nan Shan**

General

Upon Acquisition Completion, pursuant to the Share Purchase Agreement, the Seller shall deliver or cause to be delivered to the Purchaser written resignations of each director and supervisor of Nan Shan, in each case, who is a representative designated by the Seller.

It is the intention of the Purchaser that following Acquisition Completion, the Nan Shan Board will consist of no less than nine members of which six members will be executive directors and three members will be non-executive directors independent of either the Company or Primus. It is the intention of the Purchaser that Mr. Frank Y.L. Chan will be retained on the Nan Shan Board. It is also the intention of the Purchaser that at least seven directors of Nan Shan (including Mr. Frank Y.L. Chan) are representatives designated by the Company (with three directors being nominated as independent non-executives of Nan Shan) and two directors of Nan Shan are representatives designated by the Primus Investor Group. Following Acquisition Completion, it is the intention of the Purchaser that the supervisory board of Nan Shan will consist of no less than three supervisors with at least two supervisors being designated by the Company and one supervisor being designated by the Primus Investor Group. The number of directors to be appointed to the Nan Shan Board and the identities of the new directors to be designated to the Nan Shan Board by the Company and the Primus Investor Group will be submitted to the FSC for approval prior to Acquisition Completion. The Company will, as and when such directors and supervisors are nominated to the Nan Shan Board and the supervisory board of Nan Shan, make appropriate announcements to inform the public of such developments.

Directors of Nan Shan

Mr. Frank Y.L. CHAN (陳潤霖), aged 64, has been the managing director and president of Nan Shan since May 2003. He has also been senior vice president, Life Insurance of AIG since 2002. Mr. Chan has over 40 years of experience in the insurance industry and was heavily involved with growing, developing and overseeing the life insurance operations of AIG in various parts of Southeast Asia, including Hong Kong, Singapore and Malaysia. Mr. Chan joined AIA in 1969 and has served AIA and its subsidiaries and affiliates for approximately 34 years. Mr. Chan held the positions of, among others, chief actuary, director, executive vice president, chief operating officer, and/or president in AIA.

Supervisors of Nan Shan

Please refer to this section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.6 Information on the Directors and Supervisors of Nan Shan — General" of this circular for information on the supervisory board of Nan Shan following Acquisition Completion.

PART B — THE FINANCING OF THE ACQUISITION

1. PROPOSED PLACING OF CONVERTIBLE NOTES

1.1 General

The Acquisition

The purpose of the CN Placing and issue of the Convertible Notes is to allow the Company to raise funds for the satisfaction of part of the Purchaser's payment obligations under the Share Purchase Agreement.

1.2 The Conditional CN Placing Agreement

Date

20 August 2009

Parties

(1) The Company; and

(2) The CN Placing Agent.

CN Placing Agent

The Company has agreed to issue, and the CN Placing Agent has agreed to, as agent of the Company, procure subscribers for the Convertible Notes or, failing which, to subscribe as principal the Convertible Notes in a principal amount of HK$7,800 million.

The CN Placing Agent will receive a placing commission equal to 2% of the aggregate principal amount of the Convertible Notes subscribed or procured to be subscribed by the CN Placing Agent. The placing commission was agreed after arm's length negotiations between the Company and the CN Placing Agent.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the CN Placing Agent and its respective ultimate beneficial owner(s) are independent of and not connected with the Company and its subsidiaries and their connected persons.

The CN Placees

The CN Placing Agent has confirmed to the Company that: (i) the Convertible Notes will be placed to not less than six CN Placees who are independent professional, institutional, corporate or individual investors independent of the CN Placing Agent; and (ii) it is expected that the CN Placees and their ultimate beneficial owners will not be connected persons of, and are third parties independent from, the Company, the Directors, the chief executive or substantial Shareholders of the Company or any of its subsidiaries or any of their respective associates. As at the Latest Practicable Date, the Directors are unable to determine whether any such investors will become a substantial Shareholder of the Company as a result of completion of the CN Placing and full Conversion of the Convertible Notes.

The CN Placing Agent has confirmed to the Company that the subscribers for the Convertible Notes are not PRC nationals.

Conditions

The placing of the Convertible Notes is conditional upon, among other things, the satisfaction of the following conditions on or before the Long Stop Date (or such other date as may be agreed between the Company and the CN Placing Agent):

(a) the grant of approval by shareholders of the Company for the Increase in the Authorised Share Capital;

(b) the Hong Kong Stock Exchange granting or agreeing to grant listing of and permission to deal in the Conversion Shares in respect of the CN Placing (subject to conditions to which neither the CN Placing Agent nor the Company may reasonably object);

(c) the grant of approval by the Shareholders for the Conditional CN Placing Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares) at the EGM;

(d) the grant of approval by the Shareholders for the Share Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition) at the EGM; and

(e) the Share Purchase Agreement having been entered into by the Company (or by a member of the Group) and the Seller, and not having been terminated prior to the satisfaction or waiver of all the Conditions, either by mutual agreement between the parties to the Share Purchase Agreement or automatically in the case the Conditions are not satisfied or waived on or before the Long Stop Date.

Neither the Company nor the CN Placing Agent may waive any of the conditions precedent set out above. If any of these conditions are not fulfilled on or before the Long Stop Date, the Conditional CN Placing Agreement shall terminate and the parties thereto shall be released and discharged from their respective obligations and none of the parties to it shall have any claim against the other for any costs or losses (save for any prior breaches of the Conditional CN Placing Agreement). The CN Placing Agent shall provide to the Company all information concerning itself and the CN Placees as the Hong Kong Stock Exchange may reasonably require.

The long stop date stated in the Conditional CN Placing Agreement is 30 June 2010. The CN Placing Agent and the Company have agreed to amend the Conditional CN Placing Agreement to state that the long stop date for satisfying the conditions precedent of the Conditional CN Placing Agreement shall be 12 July 2010 to mirror the Long Stop Date.

Completion

Obligations of the Company

Completion of the issue of the Convertible Notes will take place on or before the seventh Business Day following the conditions set out in Conditional CN Placing Agreement being fulfilled (or on such other date as the Company and the CN Placing Agent shall agree). Upon completion of the Conditional CN Placing Agreement, the Company is obliged to deliver (or procure the delivery of) to the CN Placing Agent (i) the Convertible Note certificates substantially in the form set out in the Conditional CN Placing Agreement issued in favour of each of the CN Placees in respect of the relevant principal amount of Convertible Notes subscribed for by each CN Placee; and (ii) instructions in writing addressed to the CN Placing Agent directing the CN Placing Agent to pay the proceeds from the CN Placing to a person as directed by the Company for the purpose of satisfying the payment obligations under the Share Purchase Agreement.

Obligations of the CN Placing Agent

Simultaneously, against compliance by the Company with its obligations described above, the CN Placing Agent (or its nominees or agents) shall, in respect of the subscribed Convertible Notes procured by it (or subscribed by it, as principal, if any) make or procure the making of payment to the person(s) as directed by the Company for the purpose of satisfying the payment obligations under the Share Purchase Agreement by way of bank transfer in cleared funds of the aggregate principal amount of the subscribed Convertible Notes less all fees and expenses payable to the CN Placing Agent.

Termination

The CN Placing Agent may terminate the Conditional CN Placing Agreement without liability to the Company if in the reasonable opinion of the CN Placing Agent, the success of the CN Placing or the business or financial prospects of the Group would or might be adversely affected by:

(a) any material breach of any of the representations and warranties set out in the Conditional CN Placing Agreement; or

(b) any suspension in the trading of the Shares on the Hong Kong Stock Exchange for more than ten consecutive trading days save (i) for the purposes of clearing of this circular and the ancillary agreements thereto, (ii) in relation to, in connection with or resulting from the Company's participation in the Acquisition and the related ancillary agreements and documents; or

(c) any of the following events:

- the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the CN Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

- the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date hereof) of a political, military, financial, economic, monetary, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which would, in the reasonable opinion of the CN Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudices the success of the CN Placing or otherwise makes it inexpedient or inadvisable for the Company or the CN Placing Agent to proceed with the CN Placing; or

- any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities) which would materially and adversely affect the success of the placing of the Convertible Notes (such success being the placing of the Convertible Notes to potential investor(s)) or otherwise in the reasonable opinion of the CN Placing Agent makes it inexpedient or inadvisable or inappropriate for the Company or the CN Placing Agent to proceed with the placing of the Convertible Notes.

1.3 **Principal terms of the Convertible Notes**

The principal terms of the Convertible Notes were determined after arm's length negotiations between the Company and the CN Placing Agent and are summarised below:

Issuer

The Company

Principal Amount

An aggregate principal amount of HK$7,800 million which are convertible into an aggregate of up to 78,000 million Shares.

Interest

The Convertible Notes shall not bear any interest other than default interest.

Maturity

Six months from the date of issue of the Convertible Notes.

Conversion

Compulsory Conversion

The whole of the outstanding principal amount of a Convertible Note shall be automatically converted into ordinary shares in the issued share capital of the Company at the Conversion Price on the Conversion Date. The number of Conversion Shares to be converted into on Conversion will be determined by dividing the outstanding principal amount of the relevant Convertible Note by the Conversion Price (rounded down to the nearest whole number).

If the Convertible Notes are converted in full at the initial Conversion Price, the Company will issue an aggregate of 78,000 million new Shares, representing approximately 2,108.57% of the existing issued share capital of the Company and approximately 95.47% of the issued share capital of the Company enlarged by the issue of the Conversion Shares (assuming none of the Placing Shares are placed).

Conversion Prerequisites

No Conversion shall take place unless prior written confirmation has been given by the Noteholder to the Company that all the Shares (including the Conversion Shares issued or to be issued) held by the Noteholder, its associates and persons acting in concert (as defined under the Takeovers Code) on the Conversion Date will not:

(i) result in an obligation on the part of the Noteholder and parties acting in concert with it, to make a mandatory offer in accordance with Rule 26 of the Takeovers Code; or

(ii) exceed 15% of the entire issued share capital of the Company as enlarged by the Conversion Shares upon Conversion.

In addition, no Conversion shall take place if the Company is of the opinion that the public float requirements under the Listing Rules cannot be complied with immediately upon Conversion.

Conversion Date

The Conversion Date shall be determined by the Company, which shall be a date before the Maturity Date. Upon the Company determining the Conversion Date, it will notify the Noteholder in writing advising the Noteholder of the Conversion Date.

Conversion Price

The initial Conversion Price is HK$0.10 per Share, subject to adjustment on events such as share consolidation, share sub-division and capital distribution, which represents:

(i) a discount of approximately 65.52% to the closing price of approximately HK$0.29 per Share quoted on the Hong Kong Stock Exchange on 19 August 2009, being the last full day of trading on the Hong Kong Stock Exchange before the release of the CN Placing Announcement;

(ii) a discount of approximately 69.70% to the average closing price of approximately HK$0.33 per Share as quoted on the Hong Kong Stock Exchange for the last five consecutive trading days up to and including 19 August 2009, being the last full day of trading on the Hong Kong Stock Exchange before the release of the CN Placing Announcement; and

(ii) a discount of approximately 69.70% to the average closing price of approximately HK$0.33 per Share as quoted on the Hong Kong Stock Exchange for the last ten consecutive trading days up to and including 19 August 2009, being the last full day of trading on the Hong Kong Stock Exchange before the release of the CN Placing Announcement.

On the assumption that all Convertible Notes are fully converted (assuming none of the Placing Shares are placed), the net Conversion Price per Conversion Share shall be approximately HK$0.097 after deducting the commission and expenses arising from the CN Placing. The aggregate net proceeds raised upon the completion of the CN Placing will be approximately HK$7,600 million (or equivalent to approximately US$974 million).

Conversion Shares

The Conversion Shares will rank *pari passu* in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.

Redemption

The Convertible Notes may be redeemed in amounts of HK$5 million or integral multiples thereof at the option of the Company on any Business Day prior to the Maturity Date by giving prior written notice to a Noteholder in the prescribed form.

Status of the Convertible Notes

The Convertible Notes constitute a direct, general, unsubordinated, unconditional and unsecured obligation of the Company and rank *pari passu* and rateably without preference (with the exception of obligations in respect of taxes and certain other mandatory provisions of applicable law exceptions) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.

No application will be made for the listing of the Convertible Notes on any stock or securities exchange. Application will be made to the Listing Committee of the Hong Kong Stock Exchange for the listing of and permission to deal in the Shares which fall to be issued upon Conversion.

Transferability

The Convertible Notes may be assigned or transferred in the amount of, or integral multiples of, HK$5 million subject to compliance with all the conditions of the Convertible Notes.

No assignment or transfer may be made by the Noteholder unless: (a) the Noteholder provides a written notification to the Company at least 14 Business Days prior to each proposed assignment or transfer; (b) the Noteholder undertakes to give a written notification to the Company in the prescribed form at least 14 Business Days prior to each proposed assignment or transfer informing the Company whether the proposed assignee or transferee is a connected person of the Company; and (c) the proposed assignee or transferee, in the case that it/he/she is not a connected person, provides to the Company a written confirmation that it/he/she is not a connected person of the Company.

In the event a Noteholder proposes to assign or transfer the Convertible Notes to a connected person of the Company or if such proposed assignee or transferee fails to confirm to the Company that it/he/she is not a connected person of the Company, the Company will not permit such assignment or transfer to take place and will not register the proposed assignee or transferee as a Noteholder.

Voting

The Noteholder will not be entitled to attend or vote at any meetings of the Company by reason only of it being the Noteholder.

Events of default

All Convertible Notes will contain events of default provisions which provide that on the occurrence of certain events of default specified in the Convertible Notes, each of the Noteholders shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Note.

2. PROPOSED PLACING OF SHARES

2.1 General

On 9 November 2009, the Company and the Share Placing Agent entered into the Conditional Share Placing Agreement pursuant to which the Company agrees to conditionally place, and the Share Placing Agent agrees to, as agent of the Company, procure purchasers during the Share Placing Period on a best efforts basis, for the Placing Shares at the Share Placing Price. The Placing Shares will be allotted and issued pursuant to the Specific Mandate. The Share Placing price shall be HK$0.10, and the net Share Placing Price per Placing Share shall be approximately HK$0.099 after deducting the commission and expenses arising from the Share Placing. The aggregate net proceeds raised upon the completion of the Share Placing will be approximately HK$3,960 million.

On the assumption that all Placing Shares are fully placed, the gross proceeds from the Share Placing will be approximately HK$4,000 million and the net proceeds from the Share Placing will be approximately HK$3,960 million (or equivalent to approximately US$507 million).

The Directors became aware that the purchase price for the Sale Shares would likely be increased from the price stated in the Bid during the week prior to the signing of the Share Purchase Agreement. The Directors began discussions internally to consider how such increase in the purchase price would be met and considered whether such price would be funded by the Primus Investor Group or by the Company. The Directors considered if the increase in the purchase price were to be funded by the Company, whether further funds should be raised through equity financing or any other method (for example, further debt financing). Consequently, following the signing of the Share Purchase Agreement, the Directors contacted the Share Placing Agent and considered with it the feasibility and the material terms of the Share Placing. As at 14 October 2009, being the date on which the material terms of the Conditional Share Placing Agreement (including the size of the Share Placing and the Share Placing Price) were determined, the market price of the Shares was HK$0.37, being the market price of the last trading day of the Shares prior to their suspension on 13 October 2009.

2.2 **Conditional Share Placing Agreement**

Date

9 November 2009

Parties

(1) The Company; and

(2) The Share Placing Agent.

Share Placing Agent

The Company agrees to conditionally place, and the Share Placing Agent agrees to, as agent of the Company, procure purchasers during the Share Placing Period, on a best efforts basis, for the Placing Shares at the Share Placing Price. The Share Placing Agent will receive a placing commission of 1.0% of the aggregate amount equal to the Share Placing Price multiplied by the number of the Placing Shares successfully placed by the Share Placing Agent. The Conditional Share Placing Agreement was arrived at after arm's length negotiations between the Company and the Share Placing Agent. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Share Placing Agent and their ultimate beneficial owners are not connected with the Company and its connected persons.

The Share Placees

The Share Placing Agent has confirmed to the Company that it will use its best efforts to place the Placing Shares to not less than six Share Placees who are independent professional, institutional, corporate or individual investors. The Company expects that the Share Placees and their ultimate beneficial owners will not be connected persons of, and are third parties independent from, the Company, the Directors, the chief executive and substantial shareholders of the Company and any of its subsidiaries and any of their respective associates. As at the Latest Practicable Date, the Directors are unable to determine whether any such Share Placee will become a substantial Shareholder of the Company as a result of completion of the Share Placing.

Conditions

The placing of the Placing Shares is conditional upon, among other things, the satisfaction of the following conditions on or before the Long Stop Date (or such other date as may be agreed between the Company and the Share Placing Agent):

(a) the grant of approval by the Shareholders for the Increase in the Authorised Share Capital;

(b) the Hong Kong Stock Exchange granting or agreeing to grant listing of and permission to deal in the Conversion Shares in respect of the CN Placing (subject to conditions to which neither the CN Placing Agent nor the Company may reasonably object);

(c) the Hong Kong Stock Exchange granting or agreeing to grant listing of and permission to deal in the Placing Shares (subject to a condition that the Share Purchase Agreement has not been terminated prior to the satisfaction or waiver of all the conditions precedent contained therein);

(d) the grant of approval by the Shareholders of the Conditional CN Placing Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares upon exercise of the compulsory conversion right by the Company under the Convertible Notes) at the EGM;

(e) the grant of approval by the Shareholders of the Conditional Share Placing Agreement and the transactions contemplated thereunder (including but not limited to the issue of the relevant Placing Shares) at the EGM;

(f) the grant of approval by the Shareholders of the Share Purchase Agreement and the transactions contemplated thereunder (including but not limited to the Acquisition) at the EGM;

(g) the Conditional CN Placing Agreement not having been terminated prior to the satisfaction of all the conditions precedent contained therein, either by mutual agreement between the parties to the Conditional CN Placing Agreement or automatically in the case the conditions precedent contained therein are not satisfied on or before the Long Stop Date; and

(h) the Share Purchase Agreement not having been terminated prior to the satisfaction or waiver of all the Conditions, either by mutual agreement between the parties to the Share Purchase Agreement or automatically in the case the Conditions are not satisfied or waived on or before the Long Stop Date.

Neither the Company nor the Share Placing Agent may waive any of the conditions precedent set out above. If any of these conditions are not fulfilled on or before the Long Stop Date, the Conditional Share Placing Agreement shall terminate and the parties thereto shall be released and discharged from their respective obligations and none of the parties thereto shall have any claim against the other for any costs or losses (save for any prior breaches of the Conditional Share Placing Agreement). The Share Placing Agent shall provide to the Company and the Hong Kong Stock Exchange all information concerning itself and the Share Placees as the Hong Kong Stock Exchange may reasonably require.

Completion

Obligations of the Company

Completion of the issue of the Placing Shares will take place on or before the seventh business day following the conditions set out in the Conditional Share Placing Agreement being fulfilled (or on such other date as the Company and the Share Placing Agent shall agree). Upon completion of the Conditional Share Placing Agreement, the Company is obliged to deliver (or procure the delivery of) to the Share Placing Agent: (i) the Share certificates to be issued in favour of each of the Share Placees in respect of the relevant number of Shares subscribed for by each Share Placee; and (ii) instructions in writing addressed to the Share Placing Agent directing the Share Placing Agent to pay a US$ amount up to approximately US$336 million raised from the Share Placing to a person as directed by the Company for the purpose of satisfying the payment obligations of the Purchaser under the Share Purchase Agreement.

Each Share Placee has acknowledged and agreed to the Company that the Company will not issue any Placing Shares to it if the Company is of the opinion that less than 25% of the enlarged issued share capital of the Company (assuming full conversion of the Convertible Notes at the time of completion of the Share Placing and the issue of the Placing Shares (up to the amount of Placing Shares placed)) will be held by Share Placees who are not connected persons and will not issue any Shares to a Share Placee who will become connected persons of the Company if the Convertible Notes are converted in full at the time of completion of the Share Placing and the Placing Shares are issued.

Obligations of the Share Placing Agent

Simultaneously, against compliance by the Company with its obligations described above, the Share Placing Agent (or its nominees or agents) shall, in respect of the subscribed Placing Shares procured by them, make or procure the making of payment to the person(s) as directed by the Company by way of bank transfer in cleared funds in US$ an amount required for the purpose of satisfying the payment obligations of the Purchaser under the Share Purchase Agreement or for other purposes as mentioned in the CN Placing Announcement. The Share Placing Agent shall pay any remaining proceeds raised from the Share Placing to the Company's account (to be notified to the Share Placing Agent on a day no less than two business days prior to the completion of the Conditional Share Placing Agreement) less all fees and expenses payable to the Share Placing Agent immediately following Acquisition Completion.

Termination

The Share Placing Agent may terminate the Conditional Share Placing Agreement without liability to the Company if any of the following events occurs:

(a) any breach of any of the representations, warranties and undertakings set out in the Conditional Share Placing Agreement or any material breach of, or material failure to perform, any of the other obligations of the Company under the Conditional Share Placing Agreement which are required to be performed at or before the completion under the Conditional Share Placing Agreement; or

(b) any suspension in the trading of the Shares on the Hong Kong Stock Exchange for more than ten consecutive trading days save for the purposes of clearing of this circular relating to the matters stated in this circular or any ancillary agreements thereto; or

(c) any of the following events:

(i) the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the sole opinion of the Share Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date hereof) of a political, military, financial, economic, monetary, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or other event or series of events beyond reasonable control of the Share Placing Agent (including but not limited to acts of government, strikes, labour disputes, fire, explosion, flooding, civil commotion, economic sanctions, epidemic, pandemic, terrorism and acts of God), or affecting local securities market or the occurrence of any combination of circumstances which would, in the sole opinion of the Share Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudices the success of the Share Placing or otherwise makes it inexpedient or inadvisable for the Company or the Share Placing Agent to proceed with the Share Placing; or

(iii) any change in market conditions or combination of circumstances in Hong Kong or New York (including without limitation suspension or material restriction on trading in securities) which, in the sole opinion of the Share Placing Agent, would materially and adversely affect the success of the placing of the Placing Shares (such success being the placing of the Placing Shares to potential investor(s)) or otherwise in the sole opinion of the Share Placing Agent makes it inexpedient or inadvisable or inappropriate for the Company or the Share Placing Agent to proceed with the placing of the Placing Shares,

then and in any such case, the Share Placing Agent may immediately terminate the Conditional Share Placing Agreement without liability to the Company by giving notice in writing to the Company.

Listing

Application will be made to the Hong Kong Stock Exchange to grant the listing of, and permission to deal in, the relevant Placing Shares.

3. REASONS FOR THE CN PLACING AND THE SHARE PLACING AND USE OF PROCEEDS FROM THE PLACINGS

Equity injection into the Purchaser for payment of a portion of the Purchase Price

On the basis that the Company is the 80% beneficial owner of the Purchaser, the Company shall be liable for 80% of the Purchase Price, being approximately US$1,720 million. The Company will be obliged, under the Management Agreement, to contribute the Equity Contribution Amount for the purpose of satisfying a portion of the Purchase Price.

Raising funds for the CSH Facility for payment of a portion of the Purchase Price

In aggregate, approximately US$510 million of the Purchase Price will be financed by the CSH Facility.

Use of net proceeds raised from the CN Placing and the Share Placing

The sole purpose of the CN Placing and the Share Placing is to raise sufficient funds to enable the Purchaser to make payment of the Purchase Price.

It is envisaged that US$800 million from the net proceeds of the CN Placing will be used to fund the Equity Contribution Amount.

The remaining US$174 million of the net proceeds raised from the CN Placing will be provided to the Purchaser as part of the shareholders' loan which forms the CSH Facility for the satisfaction of the Purchase Price. Assuming the Placing Shares are placed in full, the net proceeds from the Share Placing will amount to approximately HK$3,960 million (or approximately US$507 million), of which US$336 million will be provided to the Purchaser as part of the shareholders' loan which forms the CSH Facility for the satisfaction of the Purchase Price.

The remainder of the net proceeds from the Share Placing, being approximately US$171 million will be used to meet potential working capital needs relating to the Acquisition and to Nan Shan which may be required following Acquisition, including without limitation:

(a) the payment of professional costs and expenses incurred by the Purchaser (on a pro rata basis in accordance with the Company and the Primus Investor Group's shareholding in the Purchaser) in respect of the Transactions by the Company and the Primus Investor Group, including the preparation of the Bid, the negotiation of the Transaction Documents, to satisfy all the Conditions and Acquisition Completion;

(b) the satisfaction of the liabilities and obligations incurred by Nan Shan in respect of compensation payments and retention bonuses to be paid to some of Nan Shan's agents and employees following Acquisition Completion (for further information, please refer to the section headed "Part H — Additional Information — 4. Developments Regarding Nan Shan's Agents and Employees Since the Date of the Share Purchase Agreement" of this circular); and

(c) reservation of any remainder of such proceeds for working capital purposes for Nan Shan or other commitments of Nan Shan following Acquisition Completion, including for example, the further capitalisation of Nan Shan.

It is also envisaged that the proceeds from the Share Placing may also be used to refinance debt financings of the Group, with a view to improve the Group's capital adequacy and gearing ratios.

Benefits of the CN Placing and Share Placing

Prior to the signing of the Conditional CN Placing Agreement and the issue of the CN Placing Announcement, the Board has considered raising funds by a variety of methods, including a placing of Shares. Due to the concerns that the Company may become a cash company within the requirement of Rule 14.82 of the Listing Rules and the inability for issued Shares to be redeemed, the Board, after consultation with the Hong Kong Stock Exchange, came to the view that by conducting the CN Placing under the terms and conditions of the Conditional CN Placing Agreement, particularly as completion of the CN Placing is subject to the Share Purchase Agreement having been entered into and not having been terminated prior to the satisfaction or waiver of all the Conditions, either by mutual agreement between the parties to the Share Purchase Agreement or automatically in the case the Conditions are not satisfied or waived on or before the Long Stop Date, the Company will not become a cash company within the requirement of Rule 14.82 of the Listing Rules as all the proceeds raised from the CN Placing will be used to acquire the Sale Shares and to fulfil the payment obligations under the Share Purchase Agreement. Accordingly, the Board concluded that the CN Placing represents a more desirable method.

As mentioned previously, in the week prior to the signing of the Share Purchase Agreement, the Directors became aware that the purchase price for the Sale Shares would increase from the price stated in the Bid. Accordingly, it was necessary for the Board to consider how such increase in the purchase price of the Sale Shares would be met. The Board had considered raising funds by debt financing from an independent third party but the Board believes that not only will this weaken the Company's capital adequacy and gearing ratios (and may not be beneficial to the Company in the long run), the terms of an independent third party loan are expected to be unattractive to the Company compared to raising funds through the Share Placing under the terms and conditions of the Conditional Share Placing Agreement. In view of the terms and conditions of the Share Placing, particularly as completion of the Share Placing is subject to the Conditional CN Placing Agreement not having been terminated prior to the satisfaction or waiver of the conditions precedent contained therein, either by mutual agreement between the parties to the Conditional CN Placing Agreement or automatically in the case the conditions precedent contained therein are not satisfied on or before the Long Stop Date, the Board came to the view that the Company will not become a cash company within the requirement of Rule 14.82 of the Listing Rules as a result of the Share Placing as the Conditional Share Placing will only proceed to completion if the Conditional CN Placing Agreement also advances to completion.

Although the full Conversion of the Convertible Notes and the placing of the Placing Shares in full will result in a massive dilution of shareholding of the existing Shareholders, the Board considers that the CN Placing and the Share Placing are fair and reasonable to the Shareholders and the Company as a whole on the basis that the CN Placing and the Share Placing represent an opportunity to raise capital for the Company to enable the Company to participate in the Acquisition without resulting in the Company becoming a cash company or weakening the Company's capital adequacy and gearing ratios if the funds are raised through debt financing.

4. THE CONVERSION PRICE AND THE SHARE PLACING PRICE AND POTENTIAL DILUTION EFFECT OF THE CN PLACING AND SHARE PLACING

The initial Conversion Price of HK$0.10 per Share (subject to adjustment on events such as share consolidation, share sub-division and capital distribution) represents:

(a) a discount of approximately 65.52% to the closing price of HK$0.29 per Share quoted on the Hong Kong Stock Exchange on 19 August 2009, being the last full day of trading on the Hong Kong Stock Exchange before the release of the CN Placing Announcement;

(b) a discount of approximately 69.70% to the average closing price of HK$0.33 per Share as quoted on the Hong Kong Stock Exchange for the last five consecutive trading days up to and including 19 August 2009; and

(c) a discount of approximately 69.70% to the average closing price of HK$0.33 per Share as quoted on the Hong Kong Stock Exchange for the last ten consecutive trading days up to and including 19 August 2009.

The Share Placing Price represents:

(a) a discount of approximately 72.97% to the closing price of HK$0.37 per Share as quoted on the Hong Kong Stock Exchange on 12 October 2009 being the last trading day before the publication of the VSA Announcement;

(b) a discount of approximately 70.59% to the average closing price of the Shares of HK$0.34 per Share quoted on the Hong Kong Stock Exchange for the last five trading days up to and including 12 October 2009; and

(c) a discount of approximately 68.75% to the average closing price of HK$0.32 per Share as quoted on the Hong Kong Stock Exchange for the last ten consecutive trading days up to and including 12 October 2009.

On the assumption that all Convertible Notes are fully converted and all the Placing Shares are fully placed, the aggregate number of Shares to be issued under the CN Placing and the Share Placing is approximately 31.90 times the existing issued share capital of the Company.

The Conversion Price has been negotiated and arrived at on an arm's length basis between the Company and the CN Placing Agent. In determining the Conversion Price, the Company and the CN Placing Agent took into account the relatively large size of the CN Placing and the significant dilution effect on the shareholding of Shareholders following full Conversion and came to the view that such a deep discount would be necessary to attract the interest of CN Placees. The Share Placing Price has been negotiated and arrived at on an arm's length basis between the Company and the Share Placing Agent. In determining the Share Placing Price, the Company and the Share Placing Agent took into account the relatively large size of the Share Placing, the even larger size of the CN Placing and the significant dilution effect on the shareholding of Shareholders following the issue of the Placing Shares (assuming all the Placing Shares are fully placed) and full Conversion and came to the view that such a deep discount would be necessary to attract the interest of Share Placees.

Shareholders are also reminded that there are no lock-up provisions in the terms and conditions of the Convertible Notes and the Conditional Share Placing Agreement. Notwithstanding the significant dilution effect on the shareholding of existing Shareholders and the possible impact on the market price of the Shares upon Acquisition Completion, in considering whether or not to include any lock-up provisions in the CN Placing and the Share Placing, the Company, the CN Placing Agent and the Share Placing Agent took into account not only the relatively large size of the CN Placing and the Share Placing but also the fact that Conversion will be compulsory and will take place on a date to be determined by the Company on or before their maturity. Given that the CN Placing is fully underwritten, the CN Placing Agent and the Company came to the view that it is vital to the success of the CN Placing that the Convertible Notes are not subject to any lock-up provisions. Similarly, although the Placing Shares will be placed on a best efforts basis, given that a portion of the Purchase Price will be funded by the proceeds from the Share Placing, the Company and the Share Placing Agent came to the view that it is important to the success of the Share Placing that the Placing Shares are not subject to any lock-up provisions. Please also refer to the section headed "Part A — The Acquisition — 5. Risk Associated with the Acquisition — 5.5 The CN Placees and Share Placees are not subject to any lock up" of this circular for further details.

Notwithstanding the significant dilution effect on the shareholding of existing Shareholders, the Directors, including the independent non-executive Directors, are of the opinion that the Conversion Price and the Share Placing Price are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole as the proceeds from the CN Placing and the Share Placing will be used to fund the Purchase Price and will also be used to fund the management and development of Nan Shan, which will become a key asset of the Company following Acquisition Completion. As such, the proceeds raised from the CN Placing and the Share Placing are to be used entirely to enhance long-term value to the Shareholders. Although it is envisaged that there may be a near-term impact on the market price of the Shares upon completion of the CN Placing and the Share Placing given the significant dilution of the shareholding of existing Shareholders and the lack of any lock-up period for the Convertible Notes and the Placing Shares, the Directors remain of the view that the long-term value to each Shareholder will be enhanced by the Acquisition and the continuing development of Nan Shan. In addition, Shareholders are afforded the opportunity at the EGM to consider whether or not the CN Placing and the Share Placing are in their best interests and to vote accordingly.

5. DEBT FINANCING

Lenders remain in discussion with the Borrower on the terms and conditions of the Facility Agreement. The negotiation of the Facility Agreement remains ongoing and has not been finalised. As and when the terms of the Facility Agreement are finalised, the Company will make appropriate disclosures to further inform the market.

Principal terms of the Debt Financing as set out in the term sheet are set out below:

Sponsor	:	Primus
Co-Investors	:	Company and other parties to be identified by Primus
Borrower	:	Primus Nan-Shan (Taiwan)
Facility	:	Secured Term Loan Facility - 35% of the Purchase Price and up to a maximum of the NT$ equivalent of US$700 million (not exceeding NT$24,000 million) (the "**Facility**").
Underwriters and Coordinating Arrangers	:	The Lenders
Facility Agent	:	Taiwan Cooperative Bank
Security Agent	:	First Commercial Bank Co., Ltd.
Lenders	:	The Lenders and other financial institutions assembled by the Lenders with the consent of Primus
Final Maturity Date	:	The date falling seven years after the date of the drawdown under the Facility

Availability Period	:	The Facility shall be available in one lump-sum for 9 months from the date of the related facility agreement
Interest Rate	:	The aggregate of the Base Rate and the applicable Margin. Interest shall be payable, based on a 90-day interest period on the last day of each relevant interest period
Base Rate	:	The fixing rate determined with reference to the rate quoted on the Telerate screen page 6165 for the 90-day interest period, or such other reference rate as agreed, if the former is not available
Margin	:	4.0% p.a.
Default Rate	:	1.0% p.a. payable on the overdue amount in addition to the applicable Base Rate and Margin if any event of default occurs and continues
Drawdown	:	Subject to the fulfilment of conditions precedent and giving of at least seven business days or the reasonable shorter time acceptable to Facility Agent prior written notice for the one lump-sum. Once the drawdown notice is issued, it shall be irrevocable
Security	:	To the extent legally possible, satisfactory security arrangements will include at least pledges over the Sale Shares and all existing and future issued share capital of the Borrower and Nan Shan
Conditions Precedent	:	The Facility shall be subject to, among others, the following conditions precedent: (i) delivery of the Facility Agreement and related documents duly executed by the Borrower and the Lenders; (ii) delivery of duly certified copies of all required approvals, including relevant regulatory approvals, for Acquisition Completion; (iii) delivery of evidence of the ability of the Borrower to make the equity/capital injection before the relevant drawdown dates and that together with the Facility, the Borrower is able to fully finance the purchase of the relevant Sale Shares; (iv) delivery of executed pledges over the Sale Shares and/or delivery of all necessary documentation such that the Lenders can obtain effective pledges over the Sale Shares;

(v) satisfaction or waiver of the conditions precedent of the Seller in the Share Purchase Agreement of the obligation of the Purchaser (other than payment of the Purchase Price);

(vi) no Material Adverse Effect shall have occurred and be continuing as determined by the Borrower in its sole discretion;

(vii) establishment of a proceeds and an interest reserve account with the Facility Agent;

(viii) subject to the Seller's consent, assignment of agreed upon rights, benefits and interests in the Share Purchase Agreement.

Accounts : The Borrower shall open and maintain the following accounts with the Facility Agent:

(i) Proceeds Account: The following shall be deposited into the proceeds account: (i) all cash dividends; (ii) any form of distribution paid by Nan Shan in connection with the Sale Shares; and (iii) any proceeds from the sale of the Sale Shares. For the avoidance of doubt, the Borrower may, without any restriction, use the funds maintained in this proceeds account at its discretion, until and unless an event of default shall have occurred and be continuing, in which case any withdrawal by the Borrower from the proceeds account shall be subject to the consent of the Facility Agent.

(ii) Interest Reserve Account: 18 months' pre-fund interest calculated at the prevailing rate of interest under the Facility as of the Drawdown date shall be deposited by the Borrower into the interest reserve account on or prior to the date of drawdown of the Facility for the purpose of making the first 18 months' interest payments. After the first 15 months the Borrower shall maintain at all times a minimum balance of six months interest calculated at the prevailing rate of interest under the Facility on the date 15 months after the date of drawdown of the Facility and on every interest payment date thereafter.

Events of Default	:	Events of default applicable to the Borrower (subject to customary exceptions, cure periods and materiality thresholds as applicable) as follows: (i) non-payment of principal, interest or other amounts when due; (ii) breach of undertakings that has a material adverse effect; (iii) failure of Nan Shan to maintain relevant operating license; (iv) representations or warranties being untrue in any material respect; (v) breach of the financial covenants in the Facility Agreement that has a material adverse effect; (vi) insolvency, bankruptcy or any initiation by the Borrower of such proceedings by the Borrower and/or Nan Shan; (vii) enforcement of liens of the Borrower and/or Nan Shan that has a material adverse effect; (viii) moratorium; (ix) illegality that has a material adverse effect; (x) Material adverse change of the Borrower and/or Nan Shan; (xi) The actual usage of funds by the Borrower is inconsistent with the provisions on use of such funds in the Facility Agreement; (xii) The Borrower or Nan Shan files for suspension of business with a competent authority and the period for any suspension of business exceeds ninety days; (xiii) Any notes which may be issued by the Borrower or Nan Shan being rejected for clearance; (xiv) Any non-payment or event of default by the Borrower under loan facilities in excess of US$10,000,000 (including but not limited to other direct or cross default resulting from debts), excluding the Facility, which results in the acceleration of maturity of the Facility.
Jurisdiction	:	Taipei District Court of the Republic of China
Governing Law	:	Laws of Taiwan

6. EFFECT ON SHAREHOLDING STRUCTURE

6.1 **Effect on shareholding structure**

Assuming completion of the Share Placing in full, full exercise of existing share options of the Company and the Share Options granted under the Specific Mandate to the Optionholders and full conversion of the Convertible Notes at the Conversion Price of HK$0.10, the shareholding of the existing Shareholders (excluding Mr. Ma) will be decreased from approximately 99.92% to approximately 2.87%.

The existing shareholding structure of the Company and the effect on the shareholding structure of the Company upon completion of the CN Placing, the Share Placing in full and the grant of the Share Options is set out below.

Assuming (i) completion of the Share Placing in full, (ii) completion of the Share Placing in full and full exercise of existing share option and the Share Options granted under Specific Mandate to the Optionholders and (iii) the completion of the Share Placing in full, full exercise of existing share option and the Share Options granted under Specific Mandate to the Optionholders and full conversion of the Convertible Notes in the principal amount of HK$7,800 million at the Conversion Price of HK$0.10 per Share

			(i)		(ii)		(iii)	
	Existing shareholding as at the date of this circular		**Assuming completion of the Share Placing in full**		**Assuming completion of the Share Placing in full and full exercise of existing share option and the Share Options granted to Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma under Specific Mandate**		**Assuming completion of the Share Placing in full, full exercise of existing share option and the Share Options granted under Specific Mandate to Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma and full conversion of the Convertible Notes at the conversion price of HK$0.10**	
	No. of Shares	*% (approx)*	*No. of Shares*	*% (approx)*	*No. of Shares*	*% (approx)*	*No. of Shares*	*% (approx)*
Director								
Chan Ling, Eva					4,400,000	0.01	4,400,000	0.01
Mr. Or					600,000,000	1.18	600,000,000	0.47
Mr. Ma	3,000,000	0.08	3,000,000	0.01	103,000,000	0.20	103,000,000	0.08
Mr. Ng					3,200,000,000	6.30	3,200,000,000	2.48
Mr. Morse					3,200,000,000	6.30	3,200,000,000	2.48
Other participants					20,400,000	0.04	20,400,000	0.02
Public Shareholding								
1. Public Shareholders	3,696,183,927	99.92	3,696,183,927	8.46	3,696,183,927	7.27	3,696,183,927	2.87
2. Share Placees			40,000,000,000	91.53	40,000,000,000	78.7	40,000,000,000	31.05
3. CN Placees							78,000,000,000	60.54
Total	3,699,183,927	100.00	43,699,183,927	100.00	50,823,983,927	100.00	128,823,983,927	100.00

7. FUND RAISING IN THE 12 MONTHS IMMEDIATELY PRECEDING THE DATE OF THIS CIRCULAR

Other than the proposed placing of Convertible Notes under the Conditional CN Placing Agreement and the proposed placing of the Placing Shares under the Conditional Share Placing Agreement, the Company has not undertaken any fund raising exercises in the 12 months immediately preceding the date of this circular.

8. PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$800 million divided into 8,000 million Shares. In anticipation of the issue of new Shares upon Conversion and the issue of the Placing Shares, the Directors propose to increase the authorised share capital of the Company from HK$800 million divided into 8,000 million Shares to HK$20,000 million divided into 200,000 million Shares by creation of an additional HK$19,200 million divided into 192,000 million Shares.

The increase in the authorised share capital of the Company is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

PART C — THE PAYMENT OF SERVICE FEES AND THE SHARING OF EXPENSES UNDER THE MANAGEMENT AGREEMENT, THE EMPLOYMENT AGREEMENTS, THE OPTION DEEDS AND THE CSH FACILITY

1. THE MANAGEMENT AGREEMENT

Pursuant to the Consortium Letter Announcement and the Signing Announcement, the Company announced that it had entered into the Consortium Letter and that in anticipation of the Acquisition, on 8 October 2009, PFH Holdings, on behalf of Primus Investor, transferred 80 shares in the Purchaser, representing 80% of the entire issued share capital of the Purchaser, to a wholly-owned subsidiary of the Company. On 12 October 2009, the Management Agreement was entered into between the Company, Primus Investor, PFH Holdings, the Purchaser, Mr. Morse and Mr. Ng. Pursuant to the Management Agreement, the parties thereto agreed as follows:

1.1 **Equity contribution**

In order that the Purchaser shall be able to pay the Purchase Price upon Acquisition Completion, the Company and the Primus Investor Group agreed to make equity contributions to the Purchaser, on or prior to Acquisition Completion, in the proportion of 80% by the Company and 20% by Primus Investor totaling 100% of the amount to be invested in the Purchaser. Payment by a party of its Equity Contribution Amount shall be made directly to the Purchaser in the case of the Primus Investor Group and may be made directly to the Seller in the case of the Company. The obligation by a party to make payment of its Equity Contribution Amount shall be subject to the fulfilment of all the Conditions and, in the case of the Company, shall, in addition, be subject to the fulfilment of all the conditions precedent set forth in the Conditional CN Placing Agreement.

1.2 **Composition of the Purchaser Board**

The Company and the Primus Investor Group agreed that the Purchaser Board shall at all times consist of seven persons, five to be nominated by the Company and two to be nominated by the Primus Investor Group. As at the Latest Practicable Date, the nominees of the Company are Mr. Or Ching-Fai, Mr. Hui Richard Rui, Mr. Chow Kam Wah, Mr. Yau Wing Yiu and Mr. Frederick Ma Si-Hang and they have all, except for Mr. Frederick Ma Si-Hang, been appointed to the Purchaser Board. Mr. Fredrick Ma Si-Hang will be appointed to the Purchaser Board as non-executive director as soon as practicable. The nominees of the Primus Investor Group are Mr. Morse and Mr. Ng who have also been appointed to the Purchaser Board. The parties to the Management Agreement also agreed that any decision to be taken by the Purchaser Board will require the majority approval of its directors, provided that a quorum for a meeting of the Purchaser Board must include at least three director nominees of the Company and one director nominee of the Primus Investor Group, or in the case where following due notification of a Purchaser Board meeting, a quorum fails to convene for at least two occasions in respect of the same meeting, the party who failed to direct its nominees to attend such meeting acknowledges and agrees that the non-defaulting party shall have the right to convene such meeting with a quorum comprising of no less than two of the non-defaulting party's director nominees.

The removal of the directors of the Purchaser, or any one of them, shall only be effected by either resolution of the Purchaser Board or by an ordinary resolution of the shareholders' meeting of the Purchaser duly convened in accordance with its memorandum and articles of association. New directors replacing a removed director must be nominated by that party who originally had nominated that outgoing director. No removed director shall be eligible for re-election as a new director of the Purchaser Board.

1.3 **Appointment of Mr. Morse and Mr. Ng as Co-CEOs of the Purchaser**

The Purchaser Board has appointed with effect as at 13 October 2009 (i) Mr. Morse as its chairman and Mr. Ng as its vice-chairman and (ii) Mr. Morse and Mr. Ng as Co-CEOs of the Purchaser subject to the entering of the Employment Agreements, for a term of five years from the date of Acquisition Completion. The appointments of Mr. Morse and Mr. Ng as directors of the Purchaser have no fixed term.

1.4 **Sharing of expenses**

The Company, on the one part, and the Primus Investor Group, on the other part, shall, subject to the approval of the Independent Shareholders at general meeting (if required), be responsible (and be reimbursed as appropriate) for their respective pro rata portion (in accordance with their respective shareholding in the Purchaser) of all out-of-pocket expenses and fees incurred by the Primus Investor Group and the Company in connection with the Transactions, including all professional and legal fees and expenses, which are payable prior to or at Acquisition Completion.

As at the Latest Practicable Date, the Primus Investor Group had incurred estimated total expenses of approximately US$16.0 million in relation to the Transactions. Accordingly, approximately US$12.8 million of such expenses will be reimbursed to the Primus Investor Group by the Company on the basis of its 80% ownership in the Purchaser. As at the Latest Practicable Date, the Company had incurred estimated total expense of approximately US$10.0 million in relation to the Transactions. Accordingly, approximately US$2.0 million of such expenses will be reimbursed to the Company by the Primus Investor Group on the basis of its 20% ownership in the Purchaser. Such estimated expenses include fees for financial advisory services, legal advice, strategy consultant advice, accountants' advice, public relations consultancy work, and the establishment of the Purchaser, Primus Nan-Shan (UK) and Primus Nan-Shan (Taiwan).

1.5 **Payment of Service Fees**

As stated in the VSA Announcement and Connected Transactions Announcement, for services performed by each of Mr. Morse and Mr. Ng in connection with the Transactions and the preparation of the Bid, the Company has also agreed in the Management Agreement that, subject to Acquisition Completion and, if required, the approval by Independent Shareholders at general meeting and/or the approval of the Hong Kong Stock Exchange, it will pay the Service Fees to Mr. Morse and Mr. Ng in equal shares and that the Company will enter into Employment Agreements with each of Mr. Morse and Mr. Ng in respect of the terms and conditions of their employment with the Group.

2. THE EMPLOYMENT AGREEMENTS

On 26 February 2010, the Purchaser entered into two Employment Agreements with Mr. Morse and Mr. Ng, respectively, pursuant to which Mr. Morse and Mr. Ng will serve as Co-CEOs of the Purchaser for a term of five years commencing from the date on which the conditions set out below have been fulfilled ("**Commencement Date**"), subject to renewal by mutual agreement between Mr. Morse or Mr. Ng (as the case may be) and the Purchaser and in compliance with the Listing Rules. The appointments of Mr. Morse and Mr. Ng as directors of the Purchaser have no fixed term.

The payment of the Service Fees under the Management Agreement and the appointments of Mr. Morse and Mr. Ng as Co-CEOs of the Purchaser are subject to the following conditions:

- Acquisition Completion; and
- approval by Independent Shareholders of the Company at general meeting (if required).

In the event the above conditions are not satisfied on or before the Long Stop Date or such later date as may be agreed between the Purchaser and each of Mr. Morse and Mr. Ng, the Employment Agreements shall lapse and become null and void with immediate effect and each of them shall resign as Co-CEOs of the Purchaser with immediate effect.

Each of Mr. Morse and Mr. Ng shall receive, during the continuance of their appointments as Co-CEOs of the Purchaser, a monthly salary of HK$1.00. No other service fee, remuneration, compensation or whatsoever shall be payable to either Mr. Morse or Mr. Ng for their respective services as Co-CEO of the Purchaser for the period from 13 October 2009 to the Commencement Date.

3. PROPOSED GRANTING OF SHARE OPTIONS TO THE OPTIONHOLDERS

3.1 The Option Deeds

As stated in the VSA Announcement, concurrently with and subject to Acquisition Completion and, if required, approval by Independent Shareholders at general meeting and/or the approval of the Hong Kong Stock Exchange, the Company will enter into Option Deeds with each of Mr. Morse and Mr. Ng. Separately, the Company will also enter into Option Deeds with each of Mr. Or and Mr. Ma upon Acquisition Completion.

The Board has announced in the Connected Transactions Announcement that on 26 February 2010, the Company entered into, with each of the Optionholders, their respective Option Deeds which are subject to the conditions prescribed under paragraph (c) below. The key terms of each of the Option Deeds are as follows:

(a) ***Number of Share Options to be granted***

The Company agreed to grant to each of the Optionholders the following number of Share Options exercisable at the Exercise Price:

Director	Share options
Mr. Morse	Such number of Share Options representing 3,200 million Shares in the Company when exercised
Mr. Ng	Such number of Share Options representing 3,200 million Shares in the Company when exercised
Mr. Or	Such number of Share Options representing 600 million Shares in the Company when exercised
Mr. Ma	Such number of Share Options representing 100 million Shares in the Company when exercised

(b) ***Consideration***

The consideration payable by each of the Optionholders for the grant of the Share Options is HK$1.00.

(c) ***Conditions***

The grant of the Share Options in each Option Deed is conditional on:

- the approval by the Hong Kong Stock Exchange of the grant of the Share Options, if required;
- the approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Option Shares upon the exercise of the Share Options;

- the approval by the Independent Shareholders of the grant of the Share Options, together with the issue of the Option Shares upon exercise of the Share Options pursuant to the Option Deeds, if required;
- Acquisition Completion; and
- such grant of the Share Options not resulting in the aggregate shareholdings of the Optionholders in the Company (assuming full exercise of the Share Options) exceeding 10% of the Company's entired issued share capital at the time of grant.

Each of the Option Deeds shall automatically terminate and be of no effect and neither party shall have any claim against the other in the event that the above conditions are not fulfilled by the Long Stop Date, or such later date as the Company and each of the Optionholders may agree.

The Share Options to be granted pursuant to the Option Deeds will be granted in accordance with the requirements under Chapter 15 of the Listing Rules.

(d) ***Vesting***

The Share Options will vest and become exercisable in the following manner:

Timing of the vesting of the Share Options	**Amount of Share Options to be vested and exercised by each of Mr. Morse and Mr. Ng**	**Amount of Share Options to be vested and exercised by Mr. Or**	**Amount of Share Options to be vested and exercised by Mr. Ma**
On the date which is **one** month after the grant of their respective Share Options	Such number of Share Options representing 640,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 120,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 20,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period
On a date which is **12** months after the grant of their respective Share Options	Such number of Share Options representing 640,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 120,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 20,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period

Timing of the vesting of the Share Options	Amount of Share Options to be vested and exercised by each of Mr. Morse and Mr. Ng	Amount of Share Options to be vested and exercised by Mr. Or	Amount of Share Options to be vested and exercised by Mr. Ma
On a date which is **24** months after the grant of their respective Share Options	Such number of Share Options representing 640,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 120,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 20,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period
On a date which is **36** months after the grant of their respective Share Options	Such number of Share Options representing 640,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 120,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 20,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period
On a date which is **48** months after the grant of their respective Share Options	Such number of share options representing 640,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 120,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period	Such number of Share Options representing 20,000,000 shares in the Company which shall be exercisable for a period from the date such Share Options are vested until the expiry of the Option Period

Notwithstanding the above vesting schedule, the Share Options held by each of the Optionholders shall fully and automatically vest and become exercisable immediately upon the occurrence of any of the following events:

(i) an initial public offering of the Purchaser or Nan Shan on any stock exchange or in any place;

(ii) the death or permanent disability of Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be) during the term of their respective employment with the Purchaser (in the case of Mr. Morse and Mr. Ng) and directorship in the Company (in the case of Mr. Or and Mr. Ma);

(iii) the termination without cause of Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma's (as the case may be) employment with the Purchaser (in the case of Mr. Morse and Mr. Ng) and directorship in the Company (in the case of Mr. Or and Mr. Ma); or

(iv) resignation by Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be) for good reasons,

provided that in relation to the events set out in (ii), (iii) and (iv) above, Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be) no longer holds any management role (including as a chairman, vice-chairman, chief executive officers or a Co-CEO) or any directorship of the Purchaser or the Company (as the case may be).

(e) ***Exercise Period***

Upon vesting as described above, the Share Options may be exercised for the remaining period prior to the expiry of the five years from the date of Acquisition Completion.

(f) ***Exercise of the Share Options***

Subject to the above conditions, the Share Options may be exercised during the Exercise Period by serving a Share Option exercise notice to the Company together with the Exercise Price payable.

(g) ***The Exercise Price***

The Exercise Price is HK$0.10. The Exercise Price was arrived at after arm's length negotiations between the Company and each of the Optionholders. The Exercise Price was determined after consideration of a number of factors, including the appropriate reward to be awarded to the Optionholders to incentivise them to join the Group and maintain their performance in the Group for five years following Acquisition Completion, the potential enhancement in Shareholders' value and benefits to Shareholders of their continued employment or appointments upon Acquisition Completion given the expertise and experience each of them have in the financial services sector. The Board also took into consideration the Conversion Price, the Share Placing Price and the need to attract valuable personnel to the Group for the management and development of Nan Shan in determining the Exercise Price.

In view of the factors stated above, the Directors are of the view that the grant of the Share Options to the Optionholders at the Exercise Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

(h) ***Option Shares***

The Option Shares, when issued and allotted, shall rank *pari passu* in all respects among themselves and with all other Shares in issue on the date of the issue and allotment of the Option Shares and will accordingly entitle each of the Optionholders to participate in full in all dividends or other distributions paid or made on the Shares on or after the relevant day on which the Share Options are duly exercised other than any dividend or other distribution previously declared, or recommended or resolved to be paid or made if the record date thereof shall be before the relevant exercise date and notice of the amount and record date for which shall have been given to the Hong Kong Stock Exchange prior to the relevant exercise date. The Option Shares will be issued under the Specific Mandate.

(i) ***Completion***

Subject to fulfilment of the conditions as detailed above and the vesting and exercise of the Share Options by any of the Optionholders within the Exercise Period, completion shall take place at the principal office of the Company in Hong Kong (or such other place as agreed between the Company and Mr. Morse, Mr. Ng, Mr. Or and/or Mr. Ma, as the case may be) on the date specified for completion in the exercise notice when the Company will:

- duly allot and issue the Option Shares to Mr. Morse, Mr. Ng, Mr. Or and/or Mr. Ma, as the case may be;
- deliver the share certificates in respect of the Option Shares to Mr. Morse, Mr. Ng, Mr. Or and/or Mr. Ma, as the case may be; and
- register Mr. Morse, Mr. Ng, Mr. Or and/or Mr. Ma, as the case may be, as a member of the Company in respect of the Option Shares.

(j) ***Lapse of Share Options***

A Share Option shall lapse automatically (to the extent not already vested, or if vested but not exercised) on the earlier of:

- the expiry of the Option Period; or
- the date on which:
  - — Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be) resigns or terminates his employment with the Purchaser other than for good reason (in the case of Mr. Morse and Mr. Ng) and resigns or terminates his directorship with the Company other than for good reason (in the case of Mr. Or and Mr. Ma); or
  - — The Purchaser or the Company (as the case may be) terminates the employment or appointment of Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be) for cause.

(k) ***Rights to participate in distributions and/or offers of further securities***

None of the Optionholders has any rights under their respective Option Deeds to participate in any distributions and/or offers of further securities made by the Company.

(l) ***Transfer or transmission of the Share Options***

The benefit of the Option Deeds (including but not limited to the Share Options) shall not be assignable in whole or in part.

(m) ***Winding up of the Company***

If an effective resolution is passed during the Option Period for the voluntary winding-up of the Company, then:

- if such winding-up be for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be) as holder of the Share Options shall be a party or in conjunction with which a proposal is made to Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be), the terms of such scheme of arrangement or proposal (as the case may be) shall be binding on each of them if the scheme of arrangement or proposal is approved by the requisite majority of the relevant securities holders of the Company in accordance with any applicable laws, rules and/or regulations; and

- in any other case, Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be) shall be entitled at any time within six weeks after the passing of such resolution for the voluntary winding-up of the Company by service of an exercise notice, together with payment of the exercise price, to elect to be treated as if it had immediately prior to the commencement of such winding-up exercised the Share Options to the extent specified in the exercise notice and had on such date been the holder of Shares to which he would have become entitled pursuant to such exercise and the Company and the liquidator of the Company shall give effect to such election accordingly. The Company shall give notice to Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be) of the passing of any such resolution within seven days after the passing thereof and such notice shall contain a reminder to Mr. Morse, Mr. Ng, Mr. Or or Mr. Ma (as the case may be) with respect to its rights under this paragraph.

Subject to the foregoing, if the Company is voluntarily wound up, the Share Options, in so far as not exercised, shall lapse.

In the case of a non-voluntary winding-up of the Company, the Share Options, in so far as not exercised, shall lapse on an order having been made by the court for winding-up of the Company.

(n) ***Reorganisation of Capital Structure***

If and whenever the Shares by reason of any consolidation or sub-division become of a different nominal amount whilst any Share Option is able to be vested or remains exercisable, (i) the Exercise Price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount and (ii) the number of Option Shares (subject to the Share Options so far as unexercised) in force immediately prior thereto shall be adjusted by multiplying it by the former nominal amount and dividing the result by the revised nominal amount provided that no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value. Each such adjustment shall be effective from the close of business in Hong Kong on the day immediately preceding the date on which the consolidation or sub-division becomes effective.

Save as provided above, there are no other adjustments which can be made to the Exercise Price or the number of Option Shares in the event of alteration in the capital structure of the Company.

3.2 Reasons for entering into the Option Deeds

The Company will seek Shareholders' approval for the Acquisition. The Board is of the view that it is important to ensure (a) the success of the completion of the Acquisition and (b) the continuing management and development of Nan Shan following Acquisition Completion that the Optionholders join the Group's management team. In respect of the Acquisition, Mr. Morse and Mr. Ng have been closely involved in the negotiations with the Seller and in conjunction with Mr. Or, they have developed strong communication with Nan Shan's management team which the Board believes are vital to the transition process and also the continuing development and management of Nan Shan following Acquisition Completion. The Board also expects Mr. Morse, Mr. Ng and Mr. Or to play a key role in obtaining the relevant regulatory approvals in Taiwan and in communicating with the Taiwanese regulators in this regard. Accordingly, the Board is of the view that the Share Options to be granted to each of the Optionholders appropriately incentivise and reward each of them in the performance of their roles in the Company, Nan Shan and the Purchaser. The Board also notes that the vesting schedule of the Share Options is linked directly with Acquisition Completion and the employment or appointments of each of the Optionholders (as the case may be) with the Group for the next five years following Acquisition Completion. Accordingly, the Board is of the view that the Share Options appropriately align the interest of Shareholders with the performance of each of the Optionholders in the Company, Nan Shan and the Purchaser.

The Directors (including independent non-executive Directors) are of the view that the terms of the Option Deeds, which were arrived at after arm's length negotiations between the Company and each of the Optionholders, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. THE CSH FACILITY

Reference is made to the Connected Transactions Announcement and to the section headed "Part B — The Financing of the Acquisition — 3. Reasons for the CN Placing and the Share Placing and Use of Proceeds from the Placings" of this circular. A shareholders' loan in the form of the CSH Facility is proposed to be provided by the Company to the Purchaser to enable the Purchaser to make payment of a portion of the Purchase Price. The CSH Facility will be subject to Independent Shareholders' approval.

As at the Latest Practicable Date, the Purchaser is a non-wholly owned subsidiary of the Company and is 20% beneficially-held by PFH Holdings. As at the Latest Practicable Date, PFH Holdings is beneficially-held as to more than 50% by Mr. Morse and Mr. Ng in aggregate. Both Mr. Morse and Mr. Ng are connected persons of the Company by virtue of being directors of the Purchaser (and in the case of Mr. Morse, by becoming a Director upon Acquisition Completion). Accordingly, the Purchaser will constitute a connected person of the Company by virtue of Rule 14A.11(5) of the Listing Rules as it is a non-wholly owned subsidiary of the Company whose connected persons are together entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Purchaser. As such, the provision of a shareholders' loan by the Company to the Purchaser in the form of the CSH Facility will constitute a connected transaction for the purpose of Rule 14A.13(2) of the Listing Rules. Given the size of the CSH Facility exceeds each of the de minimis ratios under Rule 14A.31(2) of the Listing Rules, the CSH Facility will therefore be subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.17 of the Listing Rules.

The principal terms of the CSH Facility are as follows:

Date:	26 February 2010
Lender:	Company
Borrower:	Purchaser
Nature and Facility Limit:	An unsecured term loan facility in an aggregate principal amount of up to HK$5,300 million.
Final Maturity Date:	A date falling upon the expiry of three years from the date of the CSH Facility Agreement (the "**Final Maturity Date**").
Renewal:	The CSH Facility shall automatically be renewable for a further term of three years upon its maturity subject to compliance with the relevant provisions of the Listing Rules.
Conditions Precedent:	The obligation of the Company to make the CSH Facility available to the Purchaser (upon and subject to the terms and conditions set out therein) are conditional upon the following: (a) the Company having received and found satisfactory all relevant loan documentation unless waived by the Company, whether in whole or in part; and (b) the Company having obtained Independent Shareholders' approval on the CSH Facility in compliance with the Listing Rules (if applicable); and (c) due and proper completion of (i) the placing of the Convertible Notes in full and (ii) the placing of the Placing Shares. The Company may at its absolute discretion waive conditions (a) and (c) above, in whole or in part.
Repayment:	*Voluntary Repayment* (a) The Purchaser may on any business day before the Final Maturity Date repay in whole or in part the aggregate amount of the drawings on the CSH Facility due and owing to the Company constituting the CSH Loan by giving at least 7 business day's (being a day (excluding Saturday) on which banks in Hong Kong are generally open for business for the purpose of the CSH Facility) prior written notice (unless waived by the Company). (b) Any amount repaid shall not be re-borrowed.

	Mandatory Repayment
	The total amount of the CSH Loan outstanding and all other sums payable under the CSH Facility shall be fully repaid on the Final Maturity Date.
Interest:	No interest is payable in respect of the CSH Facility.
Termination of Facility:	Notwithstanding any other provision in the CSH Facility Agreement or any other document, the CSH Facility shall be subject to the Company's review from time to time and decision to renew. The Company nevertheless reserves the right to terminate the CSH Facility at any time by notice to the Purchaser in writing and after any such termination the CSH Facility shall immediately cease to be available for any further transactions thereunder. Furthermore and notwithstanding any other provision of this letter or any other document, upon the Company terminating the CSH Facility or advising the Purchaser in writing that the CSH Facility will not be renewed, all amounts then outstanding under the CSH Facility and any other sums for which the Purchaser is actually or contingently liable under the CSH Facility shall be immediately due and payable without further notice from the Company.
Indemnities:	The Purchaser shall indemnify the Company against all losses, liabilities, damages, costs and expenses incurred by it in the execution and performance of any of the terms and conditions of the CSH Facility Agreement and against all action, proceedings, claims, demands, costs, charges, losses, liabilities and expenses which may be incurred, sustained or arise in respect of the non-performance or non-observance of any of the undertakings and agreements on the part of the Purchaser contained in the CSH Facility or in respect of any breach of the representations and warranties given by the Purchaser in the CSH Facility Agreement.

PART D — LISTING RULES IMPLICATIONS

1. VERY SUBSTANTIAL ACQUISITION

The Acquisition will constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and will accordingly be subject to the approval of Shareholders at EGM under Rule 14.49 of the Listing Rules. As the Management Agreement envisages the making of equity contributions to the Purchaser by the Company to enable the Purchaser to satisfy its obligation to pay the Purchase Price, the payment of the Service Fees and the sharing of expenses incurred in respect of the Transactions, in view of the requirements under Rule 14.15 and following aggregation of the Purchase Price, the Service Fees and the expenses incurred in respect of the Transaction and payable by the Company, the Directors are of the view that in addition to the Acquisition, the payment of the Service Fees and the sharing of the expenses incurred in respect of the Transactions (on a pro rata basis in accordance with the Company and the Primus Investor Group's shareholding in the Purchaser) will also constitute very substantial acquisitions for the Company under Chapter 14 of the Listing Rules and will accordingly be subject to approval of Shareholders at EGM under Rule 14.49 of the Listing Rules.

2. SPECIFIC MANDATE

2.1 The CN Placing and the Share Placing

As mentioned in the CN Placing Announcement and under the sections headed "Part B — The Financing of the Acquisition — 1. Proposed Placing of Convertible Notes" and "Part B — The Financing of the Acquisition — 2. Proposed Placing of Shares" of this circular:

(a) the Company will place the Convertible Notes to raise funds for the satisfaction by the Purchaser of its payment obligations under the Share Purchase Agreement;

(b) the Company will place the Placing Shares to raise funds to meet the Purchase Price and other commitments relating to the Acquisition and to Nan Shan which may be required following Acquisition Completion;

(c) the Conversion Shares and the Placing Shares (as the case may be) will be allotted and issued pursuant to a specific mandate to be sought from the Shareholders at the EGM to be convened in accordance with the Listing Rules; and

(d) full Conversion and the issue of the Placing Shares (assuming that the Placing Shares are fully placed) will result in the issue of 118,000 million new Shares which will result in a significant dilution of the shareholding of the existing Shareholders.

No cash company effect of the Conditional CN Placing Agreement and the Conditional Share Placing Agreement

The Company will not as a result of the completion of the Conditional CN Placing Agreement and the Conditional Share Placing become a cash company pursuant to Rule 14.82 of the Listing Rules as completion of these agreements are subject to the Share Purchase Agreement not having been terminated prior to the satisfaction or waiver of all the Conditions, either by mutual agreement between the parties to the Share Purchase Agreement or automatically in the case the Conditions are not satisfied or waived on or before the Long Stop Date. Accordingly, no proceeds from the Convertible Notes or the Placing Shares will be raised unless and until the Share Purchase Agreement advances to Acquisition Completion. The proceeds raised from the Convertible Notes and a large portion of the proceeds raised from the Placing Shares will therefore be used directly for the Purchaser's satisfaction of the payment obligations under the Share Purchase Agreement. The remainder of the proceeds raised from the Share Placing will also be used for working capital purposes in connection with the Acquisition which may be required following Acquisition Completion, including satisfying the liabilities and obligations incurred by Nan Shan in respect of compensation payments, retention bonuses, performance bonuses and service awards to be paid to Nan Shan's employees and agents following Acquisition Completion. If the Share Purchase Agreement is terminated prior to the satisfaction or waiver of all the Conditions, the Convertible Notes and the Placing Shares will not be issued. Accordingly, at no time prior to the Share Purchase Agreement advancing to Acquisition Completion will the Company have assets which consist wholly or substantially of cash.

Sufficiency of public float

The Company intends to maintain the listing status of the Shares on the Hong Kong Stock Exchange and the 25% minimum public float requirement upon Conversion of the Convertible Notes, issue of the Conversion Shares and the issue of the Placing Shares.

For the purpose of determining the public float of the Company, the Hong Kong Stock Exchange will not regard any connected person of the Company as a member of "the public" or shares held by a connected person as being "in public hands". In addition the Hong Kong Stock Exchange will not recognise as a member of "the public":

(a) any person whose acquisition of securities has been financed directly or indirectly by a connected person;

(b) any person who is accustomed to take instructions from a connected person in relation to the acquisition, disposal, voting or other disposition of securities of the issuer registered in his name or otherwise held by him.

Accordingly, the CN Placing Agent has undertaken in the Conditional CN Placing Agreement that upon Completion, it shall ensure that at least 25% of the enlarged issued share capital of the Company (assuming full Conversion at the time of completion of the Conditional CN Placing Agreement) will be held by Placees who are not connected persons of the Company and who will not become connected persons of the Company if such Convertible Notes are converted in full at the time of completion of the Conditional CN Placing Agreement. In addition, pursuant to the terms and conditions of the Convertible Notes, no Conversion shall take place if the Company is of the opinion that the public float requirements under the Listing Rules cannot be complied with immediately upon Conversion.

Further, under the Conditional Share Placing Agreement, the following measures will be adopted by the Company:

(a) the Company will not issue any Placing Shares to any Share Placee unless prior written confirmation has been given by that Share Placee to the Company or the Share Placing Agent that on completion of the Conditional Share Placing Agreement, all the Shares (including the Placing Shares issued or to be issued) held by the Share Placee (or to be held by the Share Placee on completion of the Conditional Share Placing Agreement, taking into account any Shares which such Share Placee will hold if any Convertible Note it is a holder of is converted in full at the time of completion of the Conditional Share Placing Agreement), its associates and persons acting in concert (as defined under the Takeovers Code) with such Share Placee on the date the Placing Shares are issued will not:

(i) result in an obligation on the part of the Share Placee and parties acting in concert with it, to make a mandatory offer in accordance with Rule 26 of the Takeovers Code; or

(ii) exceed 15% of the entire issued share capital of the Company,

in each case, calculated based on the entire issued share capital of the Company as enlarged by the Conversion Shares upon Conversion and the issue of the Placing Shares (up to the amount of Placing Shares placed);

(b) the Company will not issue any Placing Shares to any Share Placee unless prior written confirmation has been given by that Share Placee to the Company or the Share Placing Agent that on completion of the Conditional Share Placing Agreement, such Share Placee is a third party independent from the Company and its associates (including the directors, chief executive or substantial shareholders of the Company or its Subsidiaries or any of their respective associates). In determining whether it is a third party independent from the Company and its associates, such Share Placee shall:

(i) take into account any Shares which it will hold, on completion of the Conditional Share Placing Agreement, if any Convertible Note it is a holder of is converted in full at the time of completion of the Conditional Share Placing Agreement; and

(ii) assume that on completion of the Conditional Share Placing Agreement, the entire issued share capital of the Company is enlarged by the Conversion Shares upon Conversion and the issue of the Placing Shares (up to the amount of Placing Shares placed);

(c) the Company will ensure that the Share Placees shall be third parties independent from the Company and its associates (including the directors, chief executive or substantial shareholders of the Company or its Subsidiaries or any of their respective associates) by requesting that the Share Placing Agent requires the Share Placees to whom it intends to place Placing Shares execute a letter confirming the above;

(d) the Company will not issue any Placing Shares to a Share Placee if it is of the opinion that less than 25% of the enlarged issued share capital of the Company (assuming full conversion of the Convertible Notes at the time of completion of the Conditional Share Placing Agreement and the issue of the Placing Shares (up to the amount of Placing Shares placed)) will be held by Share Placees who are not connected persons of the Company and will not issue any Shares to a Share Placee who will become a connected person of the Company if the Convertible Notes are converted in full at the time of completion of the Conditional Share Placing Agreement and the Placing Shares are issued; and

(e) the Company will not issue any Placing Shares to a Share Placee unless prior written confirmation has been given by that Share Placee to the Company or the Share Placing Agent that it is not a PRC national and it does not have, receive or use any capital or funds from the PRC and is not directly or indirectly controlled or influenced by PRC nationals, institutions or entities.

2.2 **The proposed grant of the Share Options**

As mentioned above in the section headed "Part C — The Payment of the Service Fees and the Sharing of Expenses under the Management Agreement, the Employment Agreements, the Option Deeds and the CSH Facility — 3. Proposed Granting of Share Options to the Optionholders" of this circular, upon Acquisition Completion, such number of Share Options representing up to an aggregate of 7,100 million Shares will be granted to the Optionholders.

2.3 **Specific mandate to issue new Shares**

Upon Conversion, a total of up to 78,000 million new Shares are required to be issued by the Company. Upon completion of the Share Placing (and assuming that the Placing Shares are fully placed), a total of up to 40,000 million new Shares are required to be issued by the Company.

Upon the full vesting and exercise of all the Share Options, a total of 7,100 million new Shares are required to be issued by the Company.

In this regard, an EGM will be held to consider and, if thought fit, approve, among other things, the grant of the Specific Mandate to allot and issue up to (1) 78,000 million new Shares equal to HK$7,800 million divided by HK$0.10 per Share in connection with the CN Placing and upon full Conversion, (2) 40,000 million new Shares equal to HK$4,000 million divided by HK$0.10 per Share in connection with the Share Placing and (3) 7,100 million new Shares equal to HK$710 million divided by HK$0.10 per Share upon the full vesting and exercise of the Share Options. The EGM will also consider, and if thought fit, authorise the Board to determine and deal with at its discretion and with full authority, matters relating thereto (including, but not limited to, the specific timing of the issue, final number of new Shares to be issued, offering mechanism, pricing mechanism, issue price, target subscribers and the number and proportion of Shares to be issued to each subscriber). Should there be any material changes to the terms of the Conditional CN Placing Agreement, the Conditional Share Placing Agreement or the Option Deeds resulting in material changes to the terms of the Specific Mandate, the Company will seek Shareholders' approval to such changes as appropriate.

The Specific Mandate in respect of the Conversion Shares and the Placing Shares, if granted, is conditional upon the satisfaction of the conditions to completion in the Conditional CN Placing Agreement and the Conditional Share Placing Agreement and will lapse on 12 July 2010. The Specific Mandate in respect of the Option Shares, if granted, is conditional upon the full vesting and exercise of the Share Options and will lapse at the end of the Exercise Period or on the Long Stop Date if the conditions under the Option Deeds were not fulfilled.

The Specific Mandate, if granted, will be utilised by the Board in accordance with the Conditional CN Placing Agreement, the Conditional Share Placing Agreement and the Option Deeds. Application will be made to the Hong Kong Stock Exchange for listing of, and permission to deal in, all the Conversion Shares, the Placing Shares, and the Option Shares.

3. CONNECTED TRANSACTIONS

3.1 The Payment of the Service Fees under the Management Agreement, the Option Deeds and the CSH Facility

The payment of the Service Fees, the grant of the Share Options by the Company to Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma pursuant to the Option Deeds and the CSH Facility, will constitute connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules which will require approval of the Independent Shareholders. In addition, the grant of the Share Options to the Optionholders pursuant to the Option Deeds must comply with the requirements under Chapter 15 of the Listing Rules. Accordingly, the terms of the Option Deeds and the grant of the Share Options must be approved by the Hong Kong Stock Exchange and by Independent Shareholders in a general meeting, subject to the requirements under Chapter 15 of the Listing Rules. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no member of the Primus Investor Group and neither PFH Holdings, Mr. Morse, Mr. Ng nor Mr. Or is a Shareholder. As Mr. Ma is deemed to be interested in 3,000,000 shares in the Company by virtue of being the settlor and a beneficiary of a discretionary trust for the purpose of Part XV of the SFO and, given that his interest in the Option Deed to which he is a party would be materially different from the other Shareholders, Mr. Ma will abstain from voting (and will instruct the trustee of such discretionary trust to abstain from voting) at the EGM in respect of the resolution to approve the Acquisition, the Option Deed to which he is a party and the Specific Mandate to issue those Option Shares to be granted to him.

Notwithstanding that the Purchaser will constitute a connected person of the Company by virtue of Rule 14A.11(5) of the Listing Rules, after further discussions among the Directors, on the basis of the following, the Directors are of the view that the sharing of expenses under the Management Agreement is not a connected transaction based on the following:

- the expenses incurred in respect of the Transactions are to be shared on a pro rata basis in accordance with the Company and the Primus Investor Group's shareholding in the Purchaser; and
- the arrangements involve cross-reimbursements of the respective party's expenses incurred on a cost basis.

PART E — INFORMATION ABOUT NAN SHAN

1. RISK FACTORS

1.1 Risks relating to Nan Shan's Business

Nan Shan is exposed to interest rate risk and any changes in interest rates may affect Nan Shan's profitability. Furthermore, like other Taiwanese life insurance companies, Nan Shan experiences a negative spread on its legacy portfolio of high-guaranteed interest rate products.

Nan Shan's profitability, investment returns and results of operations are highly sensitive to interest rate fluctuations. The Taiwan financial market is currently experiencing a relatively low interest rate period. While an increase in interest rate in the future may result in an increased investment yield which will in turn increase the returns on newly acquired assets in the investment portfolio and to some extent also reduce the negative spread on its old portfolios. An increase in interest rate may also result in an increase in surrenders of insurance policies if policyholders consider that the perceived returns of other investment products, taking into account applicable surrender penalties, are higher than their existing policies. The increase in surrenders of insurance policies may lead to an increase in cash payments which may in turn result in Nan Shan having to sell invested assets at a time when the prices of such assets are adversely affected by the increase in market interest rates. This will potentially cause Nan Shan to suffer realised investment losses.

If interest rates decline, this may result in reduced investment returns on Nan Shan's newly acquired assets and will adversely affect Nan Shan's profitability. During periods of declining interest rates, Nan Shan's investment yields may also decline if its maturity investment portfolio is replaced by investments bearing lower interest rates. This will potentially have an adverse effect on Nan Shan's profitability.

In line with other insurers in the Taiwan insurance market, Nan Shan has, in the past, sold long-term insurance products with (and therefore has liabilities for) guaranteed premium rates, which were set to give a guaranteed sum assured on the insured's death and a guaranteed surrender value upon early surrender based on prevailing interest rates at the time of policy issue. Nan Shan is exposed to the risk of "negative spread", being the difference between the guaranteed interest rate and the rate of return that Nan Shan is able to earn on its investments intended to support such insurance obligations. To the extent that some of these insurance policies have a prevailing interest rate which, in the case of a declining interest rate environment, may be higher than the rates of return on Nan Shan's investment assets, Nan Shan's results of operations, profitability and financial conditions may continue to be adversely affected.

A majority of Nan Shan's in-force policies are long-term insurance contracts which were sold in the past at guaranteed premium rates. As these policies age, there will continue to be an increase in accretion of interest as portfolio size grows which will in turn increase insurance liabilities and will affect Nan Shan's future profitability if the underlying assets cannot be invested at comparable rates. Further, as of January 2010 the Taiwan financial market is still experiencing a low interest rate environment and resulted in reduced investment returns on Nan Shan's newly acquired assets and continued to expose Nan Shan to the risk of "negative spread". Further, the disposal by Nan Shan of its Taiwan government bonds during April to July 2009 is also likely to reduce Nan Shan's growth in investment income in the coming year.

A perceived or actual downgrade in Nan Shan's financial strength as a result of its change in controlling shareholders could give rise to a reduction in confidence in Nan Shan's operations and products, which may negatively affect Nan Shan's business, financial conditions and results of operations.

As with all insurance companies, Nan Shan's business operations depend upon, among others, public confidence in its financial strength. Although credit ratings are perceived as indicators of a company's financial strength, insurance companies in Taiwan are not required to be rated by credit rating agencies. Nan Shan was not subject to any credit ratings until five years ago and was rated A+ (twn) with negative outlook as of May 2009.

Following Acquisition Completion, Nan Shan will no longer have the support of AIG as its controlling shareholder. The Company does not have any previous experience in operating an insurance company and may encounter difficulties in raising new funds or obtaining further financing in the future. As a result of these factors, the Company and Nan Shan may face challenges in reassuring the Taiwan public of Nan Shan's financial strength and maintaining confidence in Nan Shan's operations and products. Such challenges may have an adverse impact on Nan Shan's business, financial conditions, results of operation and prospects. For further information relating to the risks involved in the Company's investment in Nan Shan and potential restrictions on the Company's ability to raise funds, please see the sections headed "Part A — The Acquisition — 5. Risks Associated with the Acquisition — 5.1 Investments in New Business and Country Risks" and "Part A — The Acquisition — 5. Risks Associated with the Acquisition — 5.4 Potential Restrictions on Raising Funds" of this circular.

Nan Shan is currently subject to several disputes relating to liabilities to its agents. Potential liability to Nan Shan's agents may be incurred if certain of its agents were to be treated as its permanent employees with comparable pension benefits.

In addition to its employees, Nan Shan currently contracts with over 37,000 agents as independent contractors to conduct its insurance business. Since the enactment of the Taiwan Labour Pension Act 2005, which, together with the Labour Standard Law of 1998, provides for benefits applicable to employees and not to independent contractors, an unidentified number of Nan Shan's agents have claimed that they should be accorded employee status. If Nan Shan is compelled to accord its agents employee status, Nan Shan may be obliged to:

- contribute to the pension plans to each of its agents;
- pay labour insurance and national health insurance premiums in respect of its agents; and
- afford such persons protection under the Labour Standard Law.

Nan Shan has been subject to a number of legal disputes relating to this issue, none of which have been concluded with a definitive decision on the status of Nan Shan's agents. Please refer to the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.20 Legal and Regulatory Proceedings" of this circular for further information on the on-going disputes between Nan Shan and its agents. If the Taiwan administrative courts decide to accord Nan Shan's agents with employee status, Nan Shan will be required to make provisions for pension liability and insurance benefits in addition to those of its employees, which is expected to significantly increase its liability provisions. Such additional provisions for pension and insurance benefit liabilities may materially and adversely affect Nan Shan's profitability and its financial conditions.

Nan Shan's growth depends on its ability to attract and retain agents.

A substantial portion of Nan Shan's business is conducted through its agents. Nan Shan has the second largest agent force in the life insurance market in Taiwan and provides regular and comprehensive training programs to its agent force, including training in relation to product knowledge, sales and marketing skills, customer service, compliance and other advanced training programs in line with agent's career path and segmented training to enhance agency competency. If Nan Shan is unable to retain and build on its agent force, Nan Shan's business could be materially and adversely affected. As the insurance and investment market continues to expand in Taiwan, Nan Shan expects that competition for such agents will increase in the future. Competition for agents from other insurance companies and financial institutions may force Nan Shan to increase its compensation for its agents or further enhance its training programs, which would increase operating costs and reduce Nan Shan's profitability. Although Nan Shan has not had difficulties in attracting and retaining agents recently and does not anticipate having such difficulties in the future, it cannot guarantee that this will continue to be the case. If Nan Shan is unable to attract and retain its agents in the future, this may have an adverse impact on the business, operations and profitability of Nan Shan.

If Nan Shan is unable to develop other distribution channels for its products, its growth may be affected.

Bancassurance and brokerage are two of the fastest growing distribution channels in Taiwan. Nan Shan does not have exclusive arrangements with any of the banks and brokers through which it sells insurance and annuity products, and therefore the distribution and sale of Nan Shan's products may be materially and adversely affected if these banks or brokers choose to favour Nan Shan's competitors' products over those of Nan Shan. If Nan Shan is unable to continue to develop alternative distribution channels, its growth may be restricted and its result of operations may be materially and adversely affected.

Nan Shan's performance will be subject to exposure to financial markets.

The financial markets in which Nan Shan operates are affected by many national and international factors that are beyond its control. Although a substantial part of Nan Shan's operations and investments are in the Taiwan market, up to 35% (which was lowered temporarily from 40% by the IB as a result of the 2008 global financial crisis and the AIG Event) of Nan Shan's investment portfolio may be invested in overseas markets. Any of the following factors, among others, may cause a substantial decline in the financial markets in which Nan Shan has investments:

- legal and regulatory changes;
- economic and political conditions;
- global levels of liquidity and risk aversion;
- concerns about natural disasters, terrorism and war;
- the level and volatility of equity, debt, property and commodity markets;
- the level and volatility of interest rates, inflation and foreign currency exchange rates; or
- changes in investors' confidence levels.

Financial markets have in the past been adversely affected by various combinations of the above factors and will likely continue to be affected by some or all of these factors in the future. These exposures could have a material adverse effect on Nan Shan's business, growth, financial condition and results of operations.

Nan Shan was significantly affected by the global financial crisis in 2008 which resulted in, among other things, substantial declines in the global and domestic stock markets and the fluctuations in the foreign exchange rates. Nan Shan suffered as a result of exposures to factors such as, among other things, volatile foreign exchange rates and declining interest rates, both of which affected its financial conditions and led to a decrease in its RBC ratio. As a result, Nan Shan received two capital injections from AIG in 2008 in order to strengthen its solvency capital and enhance its RBC ratio. In addition, Nan Shan adjusted its asset allocation policy to reflect the market situation at that time by selling domestic equities and significantly increasing foreign exchange hedges.

The limited availability of long-term fixed income securities in the Taiwan market may affect Nan Shan's ability to match closely the duration of its assets and liabilities.

Similar to other insurance companies, Nan Shan seeks to manage interest rate risk through managing, as far as possible, the average duration of its investment assets and the insurance policy liabilities which they support. The matching of the duration of Nan Shan's assets to its related liabilities reduces its exposure to changes in interest rates because the effect of the changes will largely be offset against each other. However, a key characteristic of the Taiwan government bonds market is the consistent shortage in supply of long-term Taiwan government bonds. For example, as at 31 October 2009, according to GreTai Securities Market (證券櫃檯買賣中心), Taiwan government bonds have maturities of up to 30 years but such longer-maturity Taiwan government bonds were in very short supply. As a result of the limited availability of long duration investment assets in the Taiwan fixed-income market, the duration of Nan Shan's assets is generally shorter than that of its liabilities, and in particular the liabilities of its insurance operations. If Nan Shan is unable to match more closely the duration of its assets and liabilities, it will continue to be exposed to interest rate risk, which may materially and adversely affect its results of operations and financial conditions.

Nan Shan may incur significant losses, including foreign exchange and translation losses, from its investment portfolio, which may result in a decrease in its investment income and could have a material adverse effect on its financial conditions and results of operations.

Nan Shan's overall profitability is highly dependent on its investment returns and on the performance of its investment portfolio which may be adversely affected from time to time by specific conditions affecting its investments and, more generally, by market fluctuations as well as general economic, market and political conditions. In particular, Nan Shan's ability to profit from its insurance products depends partly on the returns from investments supporting its obligations under these products, and the value of specific investments may fluctuate substantially. As up to 35% (which was lowered temporarily from 40% by the IB as a result of the 2008 financial crisis and the AIG Event) of Nan Shan's investment portfolio may be invested in overseas markets (please see the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.14 Asset Management and Investment Portfolio" of this circular for further information), Nan Shan's investment income had, in the past, and will continue to be, highly sensitive to the volatilities in the foreign exchange market. In the past and particularly during the 2008 global financial crisis, significant foreign exchange losses were suffered when the global foreign exchange markets experienced significant volatilities. In addition, the Company understands from Nan Shan management that during the last quarter of 2009 and the two months in December 2009 and January 2010, the US$, the Euro and the British Pound, the Australian dollar and the Canadian dollar were very volatile against the NT$. The Company expects that such volatilities in the foreign exchange market during the last quarter of the 2009 financial year and in December 2009 and January 2010 may have a negative impact on Nan Shan's investment returns for its full financial year results ended 30 November 2009 and during the two-month period ended 31 January 2010, which may in turn, have an adverse impact on Nan Shan's profitability during this period. Please refer to the section headed "Part E — Information on Nan Shan — 8. Financial Information and Management Discussion and Analysis — 8.6 Results of Operations — Events Since 31 August 2009" of this circular for further information on the impact of volatilities in the foreign exchange market during the last quarter of the 2009 financial year and in December 2009 and January 2010.

Notwithstanding Nan Shan's hedging investments such as cross-currency swaps, foreign exchange swaps and foreign exchange options, Nan Shan may not be able to effectively hedge its foreign investments to reduce foreign currency volatility or do so at a hedging cost consistent with that experienced in the past. For example, during the 2008 global financial crisis, Nan Shan engaged in proxy hedges which did not prove effective when historical cross-currency correlation diverged. Although the counterparties of these derivative products are large and well-established financial institutions, any changes to the financial conditions of these counterparties may have an adverse impact on Nan Shan's investments. In addition, fluctuations in the exchange rate used to convert NT$

amounts into HK$ for financial reporting purposes may impact on the Company's reported financial position and results of operations from year to year following Acquisition Completion. As a result, the Company's and Nan Shan's profitability, results of operations and financial condition may be adversely affected.

Differences in future actual claims and persistency results from the assumptions used in establishing reserves for Nan Shan's insurance products may materially and adversely affect Nan Shan's earnings.

Nan Shan's earnings are significantly dependent on the extent to which its actual claims results are consistent with the assumptions used in establishing the liabilities in its financial statements for its obligations for future policy benefits and claims. Nan Shan makes assumptions on mortality, morbidity and persistency in relation to its claims and policies. To the extent that trends in actual claim results deviate from, and are less favourable than, the underlying assumptions used in establishing these liabilities and these trends are expected to continue in the future, Nan Shan may not be able to determine precisely the amounts which will ultimately be required to settle these liabilities or when these payments will need to be made.

Nan Shan evaluates its reserve liabilities based on updated experiences and future outlook in mortality, morbidity and persistency assumptions at each balance sheet date. Estimating reserve liabilities is a complex and subjective process involving numerous assumptions, most of which are subjective. Due to the nature of the underlying risks and uncertainty inherent in the estimation of reserve liabilities, Nan Shan cannot accurately determine the ultimate timing and amount of claims that will be paid to settle these liabilities. Actual experience, such as mortality, morbidity and persistency may be different from the assumptions used when the reserve liabilities were originally established. In addition, Nan Shan may not be able to accurately estimate reserve liabilities, especially with newer products. Nan Shan evaluates its reserve liabilities periodically based on changes in assumptions, estimates and actual policy and claims experience. If the reserve liabilities initially established prove insufficient, Nan Shan will be required to increase its reserves which may have a material and adverse impact on its profitability and results of operation. Current best estimates of future cash flows of insurance contracts are used to determine any deficiencies for insurance reserve liabilities on book. Any deficiency will be charged to the income statement as a loss. In liability adequacy testing for insurance contracts, the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Significant enough deterioration in estimates is immediately charged to the income statement as a loss to make the liabilities reserve adequate. Accordingly, Nan Shan's profitability may be significantly and adversely affected if the assumptions underlying its liability adequacy tests significantly deviate from original assumptions.

Nan Shan may need additional capital in the future, but it may not be able to obtain such capital on acceptable terms, or at all.

Nan Shan may require additional capital in the future in order to grow, remain competitive, enter new businesses, expand its base of operations, meet regulatory capital adequacy or solvency margin requirements as well as maintaining its financial strength. Nan Shan's ability to obtain additional capital in the future is subject to a variety of uncertainties, including but not limited to:

- Nan Shan's future financial conditions, results of operations and cash flows;

- the Company's ability to raise further financing whether through equity financing or debt financing and its willingness to inject further capital into Nan Shan;

- the Company and Nan Shan's ability to obtain necessary regulatory approvals for further financing on a timely basis;

- general market conditions; and

- economic, political and other conditions in Taiwan, Hong Kong and other relevant markets.

Although Nan Shan currently possesses a RBC ratio which is above the regulatory requirement, the Company cannot assure Shareholders that Nan Shan will be able to obtain additional capital in a timely manner or on acceptable terms, or at all, to maintain the RBC ratio above the regulatory requirement, especially in extreme conditions such as the recent 2008 financial crisis when Nan Shan's RBC ratio fell below the regulatory requirement. Moreover, Nan Shan has in 2008 relied on capital injections from AIG and its affiliates. Following Acquisition Completion, however, AIG and its affiliates will no longer be in any position to inject further capital into Nan Shan. Nan Shan may rely on the Company for additional capital, but this will ultimately be a decision of the Company and the Company cannot assure Shareholders that it is able and willing to inject further capital into Nan Shan in the future.

Nan Shan's risk management and internal reporting systems, policies and procedures may lead to an exposure to unidentified or unanticipated risks, which could materially and adversely affect its businesses or result in losses.

Nan Shan's internal reporting systems, policies and procedures to identify, monitor and manage risks may not be fully adequate or effective in mitigating its risk exposures in all market environments or against all types of risks, including those which are unidentified and unanticipated. Many of Nan Shan's methods of managing risk exposures are based on its historical market behaviour or statistics and may not reliably predict future exposures, as they may not necessarily share similar characteristics to past risk exposures. Other risk management methods are dependent on the evaluation of publicly available information regarding markets, customers or other matters, which may not always be accurate, complete, current or properly evaluated. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and an appropriate internal control system. These policies, procedures and internal controls may not be fully effective in all circumstances, and a failure or the ineffectiveness of these systems could adversely affect Nan Shan's business, financial condition and results of operations.

As the insurance market in Taiwan continues to develop, Nan Shan may offer a broader and more diverse range of insurance and investment products in the future. Potential changes in the insurance market and regulatory restraints will require Nan Shan to continue to enhance its risk management capabilities which will be increasingly important to its results of operations and financial condition. If Nan Shan fails to adapt its risk management policies and procedures to its changing business, its business, results of operations and financial condition could be adversely affected.

Part of Nan Shan's risk management policy and reporting systems, such as VaR analysis reports and credit limit and control policies, have previously been provided by AIG and its affiliates. Following Acquisition Completion, Nan Shan will be required to adopt its own risk management policy and reporting systems or contract with third parties for provision of these services. The Company cannot assure Shareholders that Nan Shan's adoption of its own risk management policy and reporting systems or contracting with third parties for these services would be as effective as those provided by AIG and its affiliates prior to Acquisition Completion. Accordingly, Nan Shan's business, operations and financial condition may be adversely affected if Nan Shan's adoption of the new risk management policies and procedures is ineffective. Please see the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.18 The AIG — Nan Shan Separation Process" of this circular for further information.

Any significant failure in Nan Shan's information technology systems, including its management information systems, could have a material adverse effect on its business and profitability.

Nan Shan's business is highly dependent on the ability of its information technology systems to efficiently process a large number of transactions across diverse markets and products. In the past, Nan Shan has leveraged on AIG's information technology platform including its networking interface and telecommunications services. Transaction processes have become increasingly complex with an increasing volume of transactions. The proper functioning of Nan Shan's financial control, accounting, customer database, customer service and other data processing systems, together with the communication systems between its various branch offices and its main information technology centres, is vital to its business and ability to compete effectively. Although Nan Shan has entered into new contracts with third party providers for the provision of its networking and communications services which Nan Shan believes are widely known to be best-in-class in the industry, the Company cannot assure Shareholders that the provision of such services to Nan Shan by a new service provider would not encounter any difficulties or that transition to a new service provider would be smooth and would not be materially disrupted in the event of a partial or complete failure of any of the primary information technology or communications systems, which could be caused by, among other things, software bugs, computer virus attacks, conversion errors due to system upgrading, natural disasters or failures of public infrastructure. Please see the sections headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.18 The AIG — Nan Shan Separation Process" and "Part A — The Acquisition — 5. Risks associated with the Acquisition — 5.2 Prior to Acquisition Completion, Nan Shan is a subsidiary of AIG and has, to a limited extent, leveraged on AIG and its affiliates on certain key aspects of its operations. The change of Nan Shan's controlling shareholder to the Company and the separation from AIG and its affiliates after Acquisition Completion may give rise to risks and uncertainties for Nan Shan's operations and business if the Company and/or Nan Shan fail to effectively control the costs and expenses of replacement providers or if replacement providers fail to match the level and standard of service that AIG and its affiliates provided in the past or if the Company and Nan Shan fail to fully adopt or effectively implement new investment and risk management policies and procedure" of this circular for further information. Nan Shan's failure to address these problems could result in its inability to perform, or delays in performing, business operations, loss of data or failure to comply with regulatory requirements, which could damage Nan Shan's reputation and materially and adversely affect its future prospects and profitability.

Nan Shan's business is dependent on its ability to attract and retain senior management, professional staff and other key personnel, and the loss of their services could adversely affect Nan Shan's business and results of operations.

The success of Nan Shan's business is largely dependent on its ability to attract and retain its senior management team, professional staff and other key personnel who have in-depth knowledge and understanding of the life insurance market in Taiwan. As the insurance and investment businesses continue to expand in Taiwan, Nan Shan expects that competition for such key personnel will increase in the future. Nan Shan competes with other life insurance companies and financial institutions to attract and retain such key personnel, and although Nan Shan may strategically increase its compensation to source new talent, other life insurance companies and financial institutions may offer comparatively better compensation arrangements. Although Nan Shan's staff turnover has to date been low and it has not had difficulty in attracting and retaining qualified key personnel in the past and to its knowledge no member of its senior management has plans to leave Nan Shan in the near future, Nan Shan cannot guarantee that this will continue to be the case in the future. If Nan Shan is unable to continue to attract and retain key personnel, or if it loses the services of such key personnel and cannot adequately and timely replace them, Nan Shan's reputation, profitability, growth and operations could be materially and adversely affected.

Misconduct by Nan Shan's employees and agents is difficult to detect and deter and could harm Nan Shan's business, financial conditions and results of operations.

Like other life insurance companies, Nan Shan is subject to misconduct committed by its employees or agents. Employee and agent misconduct could harm Nan Shan's business, financial condition and results of operations, and could result in violations of law by Nan Shan, regulatory sanctions, litigation or serious reputational or financial harm. Misconduct could include:

- engaging in misrepresentation or fraudulent activities when marketing or selling insurance policies or annuity contracts to customers;
- concealing unauthorised or unsuccessful activities, resulting in unknown and unmanaged risks or losses;
- improperly using or disclosing confidential information;
- engaging in unauthorised or excessive transactions to the detriment of customers; or
- otherwise not complying with laws or Nan Shan's control policies or procedures.

Nan Shan has in place various employee and agent compliance measures including a stringent selection process for potential employee and agent candidates, requirement for employees and agents to sign a code of conduct upon joining the company and employee and agent compliance training and annual examinations, but Nan Shan cannot always deter employee and agent misconduct, and the precautions it takes to prevent and detect these activities may not be effective in all circumstances. In cases of agent misconduct, Nan Shan may be required to bear the responsibility and liability of its agents, although related formal legal proceedings have not been frequent in the past. The Company cannot assure Shareholders that Nan Shan may be able to detect or prevent misconduct of its employees and agents or that employee and agent misconduct will not lead to a material adverse effect on its business, results of operations or financial conditions.

Future periodic or special examinations by Taiwan regulatory authorities may result in fines, other penalties or actions that could materially and adversely affect Nan Shan's business, financial conditions, results of operations and reputation.

Nan Shan is subject to periodic and special examinations by Taiwanese regulatory authorities. As a result, Nan Shan may be subject to fines or penalties resulting from violations of regulations. For example, the Insurance Law and FSC regulations have strict limitations on the use of funds by Taiwan insurance companies. Nan Shan may have in the past used its funds in a manner that is inconsistent with, or impermissible under, the applicable limitations set forth under the Insurance Law and FSC regulations. While Nan Shan has not been subject to any material administrative sanctions, fines or other penalties for such use of its funds, the Company cannot assure Shareholders that the relevant regulatory authorities would not take action against Nan Shan in the future. Although the Company believes that any administrative sanctions, fines or penalties Nan Shan may be subject to will not have a material adverse effect on Nan Shan's business, financial condition, results of operations or reputation, the Company cannot assure Shareholders that future examinations by Taiwanese regulatory authorities would not result in administrative sanctions, fines, other penalties or actions that could materially and adversely affect Nan Shan's business, financial condition, results of operations and reputation. Please see the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.20 Legal and Regulatory Proceedings" of this circular for further information.

Nan Shan may become exposed to litigation in addition to ongoing litigation involving its insurance operations.

Nan Shan operates in the insurance industry which involves complex legal and regulatory requirements such that many aspects of its business involve substantial risks of liability. Incidents of litigation have been increasing within the insurance industry in Taiwan and any litigation brought against Nan Shan in the future could have a material adverse effect on its reputation, business, growth prospects, net inflows from assets under management, fee income, results of operations and/or financial condition. Nan Shan could also potentially face liability for claims of negligence and violation of insurance laws.

Nan Shan is also involved in legal disputes in connection with its agents' claim for compensation in respect of investment losses incurred on their provident funds sustained in 2008. Nan Shan is also involved in litigations concerning its insurance operations, which primarily consist of insurance claim disputes and agency fraud disputes, on an ongoing basis. While Nan Shan cannot predict the outcome of any pending or future litigation, examination or investigation, Nan Shan believes that, save for the disputes disclosed in the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.20 Legal and Regulatory Proceedings" of this circular, the current ongoing disputes are not material, and any ongoing disputes or any pending legal matter will not have a material adverse effect on its business, financial condition or results of operations. However, given the inherent unpredictability of litigation, it is possible that an adverse outcome could have a material adverse effect on Nan Shan's operating results or cash flows. Please see the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.20 Legal and Regulatory Proceedings" of this circular for further information.

Nan Shan has insurance coverage for fraud but this may not be adequate to cover fraud claims brought against it. Moreover, there is no assurance that Nan Shan will be able to continue to maintain its insurance coverage in the future. Further, following Acquisition Completion, Nan Shan will cease to be insured by AIG's or its respective affiliates' blanket insurance policies, AIG's directors and officers insurance, or by any self-insured programs in place. If Nan Shan is unable to replace this coverage with another insurer, Nan Shan may be exposed to claims which could have an adverse impact on its business, growth prospects, reputation and operations.

1.2 **Risks relating to the Taiwan insurance industry**

Nan Shan's businesses are extensively regulated and changes in laws and regulations may reduce its profitability and limit its growth.

The Taiwan insurance industry is highly regulated and Nan Shan is subject to Insurance Law and related rules and regulations. Nan Shan's life insurance business and resulting asset management activities are extensively regulated by the FSC, which is given wide discretion in the administration of these laws, rules and regulations as well as the authority to impose regulatory sanctions. Taiwan's insurance regulatory regime is undergoing rapid development and a convergent movement towards international standards. The FSC may in the future be granted greater regulatory oversight over the Taiwan insurance industry, partly to give policyholders greater protection. Some of these changes may result in additional costs or restrictions on Nan Shan's activities, and the terms and premium rates of Nan Shan's insurance products may be subject to more stringent regulations. Changes in these regulations may affect, among other things, Nan Shan's profitability on the products it sells and also its solvency and capital adequacy requirements.

Failure to comply with any of the laws, rules and regulations which Nan Shan is subject to could result in fines, restrictions on business expansion or, in extreme cases, revocation of business licence, which could materially and adversely affect Nan Shan. As some of the laws, rules and regulations that Nan Shan is subject to are relatively new, there is uncertainty regarding their interpretation and application. In addition, the laws, rules and regulations under which Nan Shan is regulated may change from time to time. The Company cannot assure Shareholders that any reforms to the relevant laws and regulations will not have a material adverse effect on Nan Shan's business, results of operations or financial condition. The Company also cannot assure Shareholders that future legislative or regulatory changes, including deregulation, would not have a material adverse effect on Nan Shan's business, results of operations and financial conditions.

Nan Shan may be affected by adverse changes in tax law, tax treaties and in the practice of tax authorities.

Changes in taxation legislation, tax treaties and the practice of tax authorities can affect investment behaviour which can have the effect of making specific kinds of investment products either more or less attractive to existing or potential policyholders. The corporate income tax rate in Taiwan will decrease from 25% to 20% starting from 2010, but the Company cannot predict the impact of any future increases in the corporate income tax rate or changes to tax legislation, tax treaties and the practice of tax authorities on Nan Shan's business or on the attractiveness of its investment products. Amendments to existing tax legislation (in particular if there is a withdrawal of any available tax relief or an increase in tax rates) and tax treaties or the introduction of new rules and new tax treaties or changes in the practice of tax authorities may affect the investment decisions of either existing or potential policyholders. Changes from time to time in the interpretation of existing tax laws, amendments to existing tax rates, the introduction of new tax legislations and tax treaties, a change in the interpretation of tax legislation, any change in the practice of enforcement of such legislation or any particular change in the tax treatment of Nan Shan could have a material adverse effect on Nan Shan's business, growth prospects, net inflows, fee income, results of operations and/or financial condition.

Increasing competition in the Taiwan insurance industry may harm Nan Shan's business and prospects if it is unable to compete effectively.

Nan Shan faces competition in all areas of its business. Competition in the insurance industry is based on numerous factors, including, among others, premiums charged, terms and conditions of coverage, services provided, financial ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the insurance company. Although Nan Shan's main competitors are large life insurance companies in Taiwan, Nan Shan's competitors may also include other domestic and foreign-invested life insurance companies, mutual fund companies and other financial services providers. These companies may have greater financial, management and other resources than Nan Shan, and may have more extensive experience. Moreover, these companies may be able to offer a broader range of products and services, as well as establish their reserves more adequately, than Nan Shan. The increased competitive pressures and other factors may materially and adversely affect Nan Shan's business and prospects, as well as have a material adverse effect on its financial condition and results of operations by, among other things:

- reducing Nan Shan's market share;
- decreasing Nan Shan's margins and spreads;
- reducing the growth of Nan Shan's customer base;
- increasing Nan Shan's policy acquisition costs;
- increasing Nan Shan's operating expenses, such as sales and marketing expenses; and
- increasing turnover of management and sales personnel.

Nan Shan may be subject to fines or warnings from the FSC due to a failure to make required filings before the launch of its insurance products, or an order to discontinue insurance products in the case where such products are not subsequently approved.

Insurance products in Taiwan are generally approved to be sold pursuant to two procedures: (a) "Examine-and-Approve" which generally involves the selling of an insurance product that has been pre-approved by the FSC; or (b) "Use-and-File" which generally involves the selling of an insurance product on a post-approval basis. Where Nan Shan subjects a product to the "Examine-and-Approve" procedure, it may fail to obtain the relevant approvals if it fails to comply with the relevant requirements thereunder and even if it has obtained such approval, may be subject to fines and warnings if Nan Shan fails to comply with the relevant conditions imposed by the FSC on such product during its sale. Where Nan Shan sells a product pursuant to the "Use-and-File" procedure, it may be subject to fines or ordered to discontinue the sale of the product if the FSC comes to the view that such product must receive prior approval before it is launched for sale. Although such action from the FSC is infrequent, the Company cannot assure Shareholders that Nan Shan will not be subject to similar suspension or even fines in the future. If Nan Shan is either fined or is required to suspend the sale of any of its products for failure to comply with the relevant product approval requirements in the future, Nan Shan's reputation, operations and business may be adversely affected.

1.3 **Risks relating to Taiwan**

Taiwan's economic, political and social conditions, as well as government policies, could affect Nan Shan's business.

Substantially all of Nan Shan's businesses, assets and operations are located in Taiwan. Accordingly, Nan Shan's business development, results of operations and prospects are subject, to a significant degree, to economic, political and social development in Taiwan.

The Taiwan insurance industry is generally an open market and is regulated by, among others, the Taiwan government, the FSC, the IB, the FTC, the CBC and the courts of Taiwan. These regulatory bodies may implement various measures to, among other things, encourage economic growth or reallocate resources. Any such measures may benefit the overall economy of Taiwan but may have a negative effect on Nan Shan. The Taiwan government may implement macroeconomic policies, including fiscal and monetary policies, but certain policies, such as changes in interest rate polices, tax regulations or policies and regulations affecting the securities markets and asset management industry, may adversely affect Nan Shan's business development, results of operations and prospects.

Catastrophes and other force majeure events, which are unpredictable by nature, could materially reduce Nan Shan's earnings and cash flow and may cause damage to the Taiwan's economy, financial markets and business activities.

Nan Shan could in the future experience catastrophic losses that may have an adverse impact on claims as well as the business, results of operations and financial condition of its insurance business. Although Nan Shan has proactively adopted measures to manage catastrophic risk in relation to its insurance business such as establishing reserves according to regulatory standards and carrying catastrophe reinsurance, the Company cannot assure Shareholders that such reserves will be adequate or that such reinsurance is sufficient to protect Nan Shan adequately against losses, and is unable to reliably predict and measure the frequency and severity of catastrophes. As a result, catastrophes may increase Nan Shan's risk which may have an adverse impact on Nan Shan's results of operations.

Further, catastrophes can be caused by various events, including terrorist attacks, earthquakes, hurricanes, typhoons, floods, fires and epidemics, such as SARS or H1N1 influenza A and they can generally have an adverse impact on Nan Shan's operations, and hence, its financial conditions. For example, in early 2003, certain Asian countries and regions, including Taiwan, encountered an outbreak of SARS which had a significant negative impact on the economy of the Asia-Pacific region while it was in full force. Moreover, certain countries and regions, including Taiwan, have encountered incidents of avian flu over the past six years and, more recently in 2009, the outbreak of H1N1 influenza A. Further, Taiwan is under the threat of floods, typhoons and earthquakes, all of which could disrupt Nan Shan's business and operation. Nan Shan's business, operating results and financial condition may be adversely affected in a material respect if such epidemics and natural disasters occur.

An economic slowdown in Taiwan, such as the one experienced following the recent global financial crisis, may reduce the demand for Nan Shan's products and services and have a material adverse effect on its results of operations, financial condition and profitability.

Nan Shan conducts most of its business and generates most of its revenues in Taiwan. As a result, economic developments in Taiwan have a significant effect on Nan Shan's results of operations and financial condition, as well as its future prospects. The global financial crisis in 2008, which has continued into 2009, has resulted in a slowdown in the economic growth of Taiwan, which may be exacerbated in the future. Factors such as consumer, corporate and government spending, business investment, volatility and strength of the capital markets and inflation, all affect the business and economic environment and ultimately, may affect the profitability and result in a decreased rate of growth of Nan Shan. In addition, any future occurrence of natural disasters, outbreak of contagious diseases or social unrest may cause a decrease in the level of economic activities and adversely affect the economic growth in Taiwan, or elsewhere in the world.

An economic downturn could result in higher unemployment and lower family income, corporate earnings, business investment and consumer spending, which may in turn adversely affect Nan Shan's insurance products and services and profitability. In addition, Nan Shan may experience a rise in claims or surrenders of policies. Moreover, Nan Shan's policyholders may choose to defer payment of insurance premiums or cease to make payments of insurance premiums altogether. If the Taiwan economy slows or continues to slow down, Nan Shan's results of operations and financial conditions would be materially and adversely affected.

Changes to the political status and international relations of Taiwan may affect Nan Shan's business, operations and financial conditions.

Nan Shan is incorporated in Taiwan. Taiwan has a unique international political status given that Taiwan and the Chinese mainland have been separately governed since 1949. Differences in the interpretation of the status of Taiwan between Taiwan and the PRC have given rise to continuous political debates which in turn have, from time to time, affected the political status of Taiwan. Although significant economic and cultural relations between Taiwan and the PRC have been established during recent years, the PRC has refused to renounce the possibility that it may in the future forcefully gain control of Taiwan. Changes in the relations between Taiwan and the PRC may have an adverse effect on Taiwan's economy. The Company cannot assure Shareholders that present tensions will not be exacerbated, which could have an adverse impact on Taiwan's economy and in turn Nan Shan's business, operations and financial condition.

It may be difficult to enforce effective judgments against the Company in connection with disputes brought in courts outside of Taiwan.

Following Acquisition Completion, a substantial portion of the Company's assets will be located in Taiwan. Accordingly, it may be difficult for potential investors and Shareholders to enforce effective judgments against the Company in respect of litigation brought in courts outside of Taiwan. Further, Taiwan does not have any treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts with the United States, the United Kingdom or most other western countries or Japan, although Taiwan courts have at times recognised judgments of foreign countries where such foreign country has also recognised judgments of Taiwan courts. However, the recognition and enforcement in Taiwan of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

In addition, a party seeking to enforce a foreign judgment in Taiwan, except under limited circumstances, may be required to obtain foreign exchange approval from the CBC for the remittance out of Taiwan of any amounts recovered in respect of such judgment denominated in a currency other than NT$. Please refer to the section headed "Part E — Information about Nan Shan — 10. Statutory and General Information on Nan Shan — 10.6 Summary of Taiwanese Company Law" of this circular for further information.

1.4 **Risks relating to this circular**

AS AT THE DATE OF THIS CIRCULAR, NAN SHAN IS NOT A SUBSIDIARY OF THE COMPANY AND ACCORDINGLY, THERE ARE LIMITATIONS AS TO THE EXTENT AND QUALITY OF THE INFORMATION CONTAINED IN THIS CIRCULAR.

AS ACQUISITION COMPLETION HAS NOT TAKEN PLACE AS AT THE DATE OF THIS CIRCULAR AND ACCORDINGLY, NAN SHAN IS NOT, AS AT THE DATE OF THIS CIRCULAR,

A SUBSIDIARY OF THE COMPANY, THERE ARE LIMITATIONS AS TO WHETHER THIS CIRCULAR CONTAINS ALL INFORMATION IN RELATION TO NAN SHAN THAT ANY INDIVIDUAL INVESTOR OR SHAREHOLDER MAY DEEM APPROPRIATE PRIOR TO MAKING AN INVESTMENT DECISION IN RELATION TO THE COMPANY OR THAT SUCH INFORMATION IS CAPABLE OF INDEPENDENT VERIFICATION. IN PARTICULAR, SHAREHOLDERS AND POTENTIAL INVESTORS SHOULD NOTE THAT THIS CIRCULAR IS BEING MADE BY THE COMPANY AND NOT BY NAN SHAN OR THE SELLER. ACCORDINGLY, NEITHER THE SELLER, NAN SHAN NOR ANY OF THEIR RESPECTIVE DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES OR AFFILIATES IS MAKING ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, RELIABILITY OR COMPLETENESS OF THE INFORMATION IN THIS CIRCULAR AND NO DIRECTOR, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES OR AFFILIATE OF NAN SHAN OR THE SELLER AS AT THE DATE OF THIS CIRCULAR ACCEPTS ANY RESPONSIBILITY FOR THE ACCURACY, RELIABILITY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS CIRCULAR. AS SUCH, NOTHING IN THIS CIRCULAR IS, OR SHALL BE RELIED UPON AS, A PROMISE, REPRESENTATION OR WARRANTY BY THE SELLER, NAN SHAN, THEIR RESPECTIVE DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES OR ANY OF THEIR AFFILIATES. FURTHER, THE INFORMATION CONTAINED IN THIS CIRCULAR RELATING TO NAN SHAN (IN PARTICULAR, THE INFORMATION CONTAINED IN THE SECTION HEADED "PART E — INFORMATION ABOUT NAN SHAN") HAS BEEN PROVIDED BY NAN SHAN. WHILST THE DIRECTORS HAVE NO REASONS TO DOUBT THE ACCURACY OF THE INFORMATION PROVIDED OR AUTHORISED TO BE PROVIDED FOR INCLUSION IN THE CIRCULAR, NO SHAREHOLDER OR INVESTOR CAN HOLD THE SELLER, NAN SHAN, ANY OF THEIR RESPECTIVE DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, EMPLOYEES OR AFFILIATES RESPONSIBLE FOR THE INACCURACY OF THE INFORMATION PROVIDED BY NAN SHAN FOR INCLUSION IN THE CIRCULAR.

Certain facts, forecasts and statistics in this circular relating to the Taiwan insurance industry and the Taiwan economy are derived from various governmental and semi-governmental official publications as well as other third party sources which may not be accurate, reliable, complete or up to date

Some of the facts, forecasts and statistics in this circular relating to Taiwan, Taiwan's economy, the Taiwan insurance industry and other related sectors in Taiwan are derived from various governmental and semi-governmental official publications as well as other third party sources. The Company cannot guarantee the quality and reliability of these sources. While the Company has exercised reasonable care in compiling and reproducing these facts, forecasts and statistics, they have not been independently verified by the Company or by Nan Shan. Therefore, the Company makes no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside these jurisdictions and may not be complete or up to date.

Possible inadequate or ineffective collection methods or discrepancies between different publications and market practice and other problems may result in the statistics in this circular being inaccurate, or may not be comparable to statistics produced for other economies, and thus should not be unduly relied upon. In all cases, investors and Shareholders should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

Investors and Shareholders should read the entire circular carefully and the Company strongly cautions investors and Shareholders not to place any reliance on any information contained in press articles or other media relating to the Company, the Directors, the Primus Investor Group, Nan Shan, AIG and/or the Placings.

Prior to the publication of this circular, there has been press and media coverage regarding the Company, the Directors, the Primus Investor Group, Nan Shan, AIG and the Placings, which included certain financial information, financial projections, and other information about the Company, its Directors, the Primus Investor Group, Nan Shan and the Placings. Other than information which has been disclosed by the Company on the Hong Kong Stock Exchange website, neither the Company, the Directors, the Primus Investor Group, Nan Shan nor AIG authorised the disclosure of any such information in the press or media, and such information was not sourced from the Company, its Directors, the Primus Investor Group, AIG or Nan Shan. Neither the Company, its Directors, the Primus Investor Group, Nan Shan nor AIG accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information.

In particular, reference is made to a press article appearing in Hong Kong Economic Journal on 12 February 2010 (the "**Press Article**"). According to the Press Article and Nan Shan's unaudited Taiwan GAAP accounts, Nan Shan's net profit for the last year was around NT$10.5 billion. The Company would like to remind Shareholders and prospective investors that information relating to Nan Shan's net profits for the financial year ended 30 November 2009 has not been publicly released and remains unaudited and that the information stated in such press articles is financial information calculated in accordance with Taiwan GAAP, rather than HKFRS. The net profit for the nine months ended 31 August 2009 set out in the Accountants' Report is calculated in accordance with HKFRS and is approximately NT$18,281 million. The net profit during the same period calculated in accordance with Taiwan GAAP is NT$13,375 million. The primary reasons for the difference in these net profit figures are due to differences in the accounting for, among other things, the adjustment and treatment of insurance contracts and investment contracts, accrual of surtax on undistributed earnings, regulatory tax rate change and impairment of available-for-sale equity investments. This is indicative that Shareholders should read Nan Shan's financial information prepared in Taiwan GAAP which may be published elsewhere other than in this circular with care and note that there could be material differences when compared with its financial information prepared in HKFRS. Accordingly, the Company cannot assure Shareholders and prospective investors that Nan Shan's final publicly released and audited net profit figure for the financial year ended 30 November 2009 will be similar or close to the figure stated in the Press Article.

Neither the Company, the Directors, the Primus Investor Group, AIG nor Nan Shan makes any representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this circular or in announcements issued by the Company on the Hong Kong Stock Exchange website is inconsistent or conflicts with the information contained in this circular, the Company and its Directors disclaim it. Accordingly, investors and Shareholders should not rely on any such information. In making investment decisions and voting decisions at the EGM, investors and Shareholders should rely only on the financial, operational and other information included in this circular.

The embedded value of Nan Shan that the Company presents in this circular is calculated based on a number of assumptions and may vary significantly if those assumptions are changed.

The embedded value of Nan Shan as described in the Actuarial Report is calculated based on, among other things, a number of assumptions, and these values should not be relied on as a measure of Nan Shan's actual value and performance. The embedded value of Nan Shan is an actuarially determined estimate of the economic value (excluding any value attributed to future new business) of Nan Shan. Ernst & Young has performed an independent review of the calculation of these values. The Actuarial Report is set forth in Appendix V of this circular. In calculating these values, numerous assumptions, some of which are beyond the control of Nan Shan, are made, including industry performance, general business and economic conditions, investment return, reserving standards, life expectancy and other matters. Actual future experience may vary materially from those assumed in the calculation.

In addition, the calculation of embedded value does not extend to insurance policies underwritten after the date covered by the Actuarial Report, and the calculations of embedded value are dependent upon the relevant assumptions, most of which are subjective. Consequently, these values are difficult to reliably predict. Moreover, since Nan Shan's actual market value is determined by investors based on a variety of available information, these values should not be construed as a direct reflection of Nan Shan's actual market value and performance. The inclusion of these values in this circular should not be regarded as a representation by the Company, Ernst & Young or any other person of Nan Shan's future profitability. Shareholders and prospective investors should take special care in evaluating and not place undue reliance on these values. Accordingly, Shareholders and prospective investors should only consider these values after carefully evaluating all of the risks described in this circular, including the risks described in this section and throughout this circular, as well as reviewing in its entirety, the Actuarial Report. Moreover, although the Company will, as and if required by the regulatory authority, provide embedded value reports in the future in its annual reports, it does not intend to update or otherwise revise these embedded values, whether as a result of new information, future events or otherwise.

The Accountant's Report gives a picture of the historical financial information of Nan Shan (on a standalone basis) for the three years ended 30 November 2008 and the nine months ended 31 August 2008 and 31 August 2009. The unaudited pro forma financial information of the Enlarged Group has been prepared for illustrative purpose only and represents only a hypothetical view of the financial position, results of operation and cash flows of the Group had the Acquisition been completed as at 30 June 2009 or 1 January 2008, where applicable.

Notwithstanding that Nan Shan's total assets are significantly larger than that of the Group's, as the Accountant's Report only states Nan Shan's historical financial information for the three years ended 30 November 2008 and the nine months ended 31 August 2008 and 31 August 2009 and the unaudited pro forma financial information of the Enlarged Group has been prepared for illustrative purpose only and represents only a hypothetical view of the financial position, results of operation and cash flows of the Group had the Acquisition been completed as at 30 June 2009 or 1 January 2008, neither set of financial information provides a true picture of the Enlarged Group's consolidated financial position and as such, there is no assurance that the performance of the Enlarged Group upon Acquisition Completion will be similar to or in line with those historical figures as reported in the

Accountant's Report or the unaudited pro forma financial information of the Enlarged Group. Accordingly, Shareholders are advised to read the Accountant's Report and the unaudited pro forma financial information of the Enlarged Group in conjunction with all other financial information included elsewhere in the circular and are also advised not to place undue reliance on either the Accountant's Report and the unaudited pro forma financial information of the Enlarged Group in ascertaining a complete picture of the Enlarged Group's consolidated financial position following Acquisition Completion. Please also refer to the section headed "Part A — The Acquisition — 3. Financial Effects of the Acquisition" of this circular for further information.

2. CORPORATE INFORMATION OF THE ENLARGED GROUP

2.1 The Company

Registered Office	Rm 3206-3210, 32/F China Resources Building 26 Harbour Road Wanchai, Hong Kong
Place of Business in Hong Kong	Rm 3206-3210, 32/F China Resources Building 26 Harbour Road Wanchai, Hong Kong
Company Secretary	Chow Kim Hang, practising solicitor as defined under the Legal Practitioners Ordinance
Auditors	Deloitte Touche Tohmatsu *Certified Public Accountants*
Share Registrar	Tricor Standard Limited 26/F, Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
Principal Bankers	Bank of China (Hong Kong) Limited Hang Seng Bank Limited
Financial Adviser and compliance adviser to the Company in respect of Acquisition	BNP Paribas Capital (Asia Pacific) Limited 59/F-63/F, Two International Finance Centre 8 Finance Street Central Hong Kong

2.2 Nan Shan

Registered Office and Headquarters	No. 168, Zhuang Jing Road Xingyi District Taipei City 11049, Taiwan

Place of Business in Hong Kong	Not applicable
Company Secretary	Ms. M.F. Chen
Principal Bankers	Citibank Taiwan Ltd. (花旗(台灣)銀行) Taiwan Cooperative Bank (合作金庫商業銀行) Chunghwa Post Co., Ltd. (中華郵政股份有限公司) The Hongkong and Shanghai Banking Corp. Ltd. (香港上海匯豐銀行) Far Eastern International Bank (遠東國際商業銀行) Bank of Taiwan (台灣銀行)

3. OVERVIEW OF THE TAIWANESE LIFE INSURANCE INDUSTRY

Certain information and statistics set out in this section have been extracted from various official government or semi-government publications and other third party sources. No independent verification has been carried out on the information and statistics contained in such publications. None of the Company, Nan Shan, the CN Placing Agent, the Share Placing Agent, the Financial Adviser, their respective directors and advisers nor any other party involved in the Acquisition and the Placings makes any representation as to the accuracy of such information and statistics, which may not be consistent with each other or with other information.

3.1 History and development of the Taiwan life insurance market

The insurance market in Taiwan is broadly divided into (i) the life insurance sector, which includes life insurance (mortality protection) products, the accident and health insurance products, and investment-oriented products which include annuity and investment-linked products, and (ii) the non-life insurance sector, which includes property and casualty insurance products.

Historically, life and non-life insurance were offered by two government-run companies, Taiwan Life Insurance Co., Ltd (台灣人壽) and the Central Trust of China (中央信託局), in the form of group insurance services to government employees, the armed forces, students and labourers, with special coverage for workers in high-risk occupations such as mining. The insurance business in Taiwan remained small until the 1980s, when public awareness of the need for insurance grew along with the development of the Taiwan economy, resulting in substantial wealth creation and accumulation, and as Taiwan began to deal with the growing aging population. In 1987, foreign life insurance companies began entering the insurance market in Taiwan and introduced concepts such as different premium rates for male and female applicants, and "cooling-off" periods within which customers could cancel their policies without attracting penalties.

Responding to the increasing market demand for insurance, the Ministry of Finance fully liberalised the insurance market in Taiwan in 1993 by removing the restrictions on new applications for insurance licences. As a result, the number of life insurance companies in Taiwan increased significantly over the years, from nine in 1978 to 33 in 1998, according to the *Taiwan Statistical Data Book (2009)* published by the CEPD. As at 31 August 2009, the number of life insurance companies operating in Taiwan was 29, of which 22 were domestic companies and seven were foreign branch companies.

3.2 **The Taiwan life insurance industry**

Overview and economic environment

Taiwan was the seventh largest economy in Asia in 2008, with a GDP of approximately US$391 billion, according to the Statistical Appendix of the *Sigma Report (No.3/2009)*, published by Swiss Reinsurance Company in May 2009 and updated in December 2009. In 2008, the services sector accounted for approximately 73.2% of GDP, of which approximately 10.0% was attributable to financial services and insurance, according to the *Economic Profile (2008)* published by the Government Information Office of the ROC on its website. The manufacturing sector accounted for approximately 21.8% of GDP, while agriculture and other sectors accounted for approximately 5% of GDP. Further, the average annual growth rate of real GDP for the period from 2004 to 2008 was approximately 3.7%.

The following table sets forth GDP and GDP per capita in Taiwan from 1999 to 2008:

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
GDP (NT$ billion)	9,640.9	10,032	9,862.2	10,293.3	10,519.6	11,065.5	11,454.7	11,917.6	12,635.8	12,340.9
GDP per capita (NT$ in '000)	438.4	459.2	444.5	463.5	474.1	501.8	516.5	536.4	563.3	552.2

Source: *Taiwan Statistical Yearbook (2009)* and *National Statistics* published by the Directorate-General of Budget, Accounting and Statistics of the ROC.

According to the *Economic Profile (2008)*, Taiwan is also recognised by leading world economic agencies as a region for long-term potential growth and technological development. For instance, Taiwan was ranked fifth out of the 50 countries surveyed in April 2009 by Business Environment Risk Intelligence in terms of investment climate.

The Taiwan insurance market is the third largest in Asia (excluding Japan) in terms of total premiums, and the 13th largest in the world, based on the Statistical Appendix of the *Sigma Report (No.3/2009)*. The total premiums written for direct business, which are direct insurance premiums including commissions and other charges prior to cession to a reinsurance company, by registered insurers in Taiwan in 2008 amounted to approximately US$64.3 billion, of which approximately US$52.7 billion, or approximately 82.1%, was from life insurance business (excluding health insurance) and approximately US$11.5 billion, or approximately 17.9%, was from non-life insurance business (including health insurance). The Taiwan insurance market is a relatively well-established market with good growth prospects. According to the Statistical Appendix of the *Sigma Report (No. 3/2009)*, Taiwan has the highest insurance penetration in the world. The ratio of its total insurance premium to GDP in 2008 amounted to approximately 16.4%, of which approximately 13.5% was attributable to life insurance business (excluding health insurance) and approximately 2.9% was attributable to non-life insurance business (including health insurance). The insurance density in Taiwan, in terms of insurance premium per capita, is also the third highest in Asia (excluding Japan). The total insurance premium per capita in Taiwan in 2008 amounted to approximately US$2,787.7, of which approximately US$2,288.1 was from life insurance business (excluding health insurance) and approximately US$499.6 was from non-life insurance business (including health insurance).

The following table sets forth certain economic and insurance premium data for Taiwan, the United States and selected countries and regions in Asia and Europe in 2008:

	Economic Indicator		Life Insurance		
Market	**GDP**	**GDP growth**	**Premiums**	**Insurance penetration**	**Insurance density**
	US$ billion	*%*	*US$ billion*		*US$*
Taiwan	391	0.3	52.8	13.5	2,288.1
United States	14,441	0.5	578.5	4.0	1,901.6
China	4,323	9.1	95.8	2.2	71.7
Japan	4,954	0.3	380.1	7.7	2,985.7
Germany	3,666	1.3	110.1	3.0	1,332.8
United Kingdom	2,683	0.6	286.1	10.7	4,659.2
France	2,865	0.3	182.9	6.3	2,834.2
South Korea	840	2.4	60.6	7.2	1,247.6
India	1,159	0.3	48.3	4.2	40.9
Switzerland	500	1.8	27.1	5.4	3,523.3
Hong Kong	215	2.6	20.8	9.7	2,978.7
Singapore	182	1.2	10.1	5.6	2,193.1

Source: Statistical Appendix of the *Sigma Report (No.3/2009).*

Growth of the Taiwan insurance market

The Taiwan insurance market has maintained steady growth over the years and reached a value of approximately NT$2,006.6 billion in 2009. Based on the statistics published by the LIA and the TII, total life insurance premiums written for the period from 2005 to 2009 have increased at CAGR of approximately 8.93%.

The following table sets forth the insurance premiums received by life insurance companies in Taiwan and the related growth rates from 1999 to 2009:

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
						(In billions of NT$)					
Total premiums	558.1	626.3	728.9	889.3	1,132.7	1,308.5	1,457.8	1,563.7	1,875.1	1,918.8	2,006.6
Growth rate	14.1%	12.3%	16.4%	22.0%	27.4%	15.5%	11.4%	7.3%	19.9%	2.3%	4.6%

Source: *The Life Insurance Industry in Taiwan (2008)* and *Statistics on the Life Insurance Industry (2009)* published by the LIA and *Key Statistics of Life Insurance Business* published by the TII.

Moreover, Taiwan's ageing population, the death benefit sum assured protection gap and the traditionally high saving rates in Taiwan suggest potential for further growth in the Taiwan insurance market. Based on a correlation between past market growth and growth of base drivers, such as house prices, GDP and long-term interest rates, the Taiwan insurance market is forecast by *Insurance in Taiwan: Industry Profile (November 2008)* published by Datamonitor to reach a value of total premium of US$88.1 billion by 2012, representing a CAGR of 8.2% from the 2008 level of US$64.3 billion.

The CEPD has estimated that the portion of the total population in Taiwan aged 65 and older will increase from 10.4% in 2008 to 14.7% by 2018 and to over 20% by 2026. Although each elderly person was supported by seven active working people in 2008, the CEPD forecasts this to fall to 3.2 by 2026. This is likely to place a heavy social and financial burden on the working population in Taiwan and increase the importance of retirement planning and private solutions for pension, disability, critical illness, health and long-term care.

The following table sets forth the savings rates of the Taiwanese people from 1999 to 2008:

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
					(In NT$)					
Average savings per household	233,770	228,723	210,779	203,300	215,290	198,600	193,497	200,068	207,780	208,274
Average savings per household as a proportion of average disposable income per household	26.3%	25.7%	24.3%	23.2%	24.4%	22.3%	21.6%	21.9%	22.5%	22.8%

Source: *Statistical Yearbook of the Republic of China* and *National Statistic*s.

Competitive Landscape

As at 31 August 2009, there were 29 life insurance companies in Taiwan. However, the Taiwan life insurance market is fairly concentrated, with a handful of major insurance companies dominating the market. According to *Premium Receipts of Life Insurance Companies (2008)* published by the TII, the top five insurance companies in Taiwan accounted for approximately 60% of the total premiums in the life insurance industry in 2008.

The following table sets forth the total premiums of the top five life insurance companies in Taiwan for 2008:

	Total premiums	Total premium market share
	(NT$ in billions)	
Cathay Life Insurance Co., Ltd	439.1	22.9%
Nan Shan	219.0	11.4%
Shin Kong Life Insurance Co., Ltd	201.9	10.5%
Fubon Life Assurance Co., Ltd(1)	149.7	7.8%
Chunghwa Post Co., Ltd	140.1	7.3%
Others	769.0	40.1%
Total	1,918.8	100%

Source: Premium Receipts of Life Insurance Companies (2008).

Note (1): On 20 October 2008, Fubon Life Assurance Co., Ltd announced the acquisition of ING Life Insurance Co. Ltd from ING Group for a total consideration of US$600 million (approximately NT$19.2 billion). The transaction closed on 11 February 2009. The integrated operation was renamed Fubon Life Insurance Co., Ltd.

3.3 Industry trends

The Company believes that the future development of the Taiwan life insurance industry will be characterised by the following trends:

Strong growth potential due to demographic trends and increase in demand for wealth management

Taiwan's population has been ageing at a relatively fast rate since the 1980s, which is likely to lead to greater demand for the protection and savings products offered by life insurance companies, particularly as the public becomes increasingly aware of the need for retirement planning and wealth management. Further, there is currently a significant death benefit sum assured protection gap in Taiwan, which is one of the key indicators that a population is under insured. Moreover, the Company believes that the traditionally high savings rates of Taiwanese consumers relative to other countries is an indication that there remains room to encourage Taiwanese consumers to seek annuity and investment products with protection and saving-features being offered by life insurance companies.

In order to capture these market opportunities, insurance companies in Taiwan have become increasingly sophisticated in their product offerings over the years. Many of them have shifted their product development and marketing strategies to more demand-oriented approaches, with products tailored to different needs of their customer base, such as customers belonging to different age groups or different life stages.

Shift in product mix

The traditional life policies sold by insurance companies generally guarantee premiums to the policyholders, which were able to meet the protection and saving needs of many Taiwanese consumers. The low interest rates that have persisted since the early 2000s, however, have forced insurance companies to re-price products, making premium rates relatively higher than previous products. Although Taiwan regulators had required compulsory dividends to be written for life policies in the past, in 2003, to be consistent with international practice, regulators started allowing insurance companies to write non-participating and true participating products. Since 2004, insurance companies are no longer allowed to write compulsory dividend products.

In 2001, interest sensitive deferred annuities and ILPs were introduced in Taiwan which have continued to gain market share. However, traditional life insurance products have regained ground in recent times due to the global financial crisis in 2008 which led customers to becoming more conservative and favour products with guaranteed returns as well as the new regulations in 2007 affecting ILPs. As a result of customers becoming more conservative and favouring products with guaranteed returns, and as evidenced by statistics published by the LIA, traditional life insurance premiums grew approximately 94% in terms of first year premium in 2008 when compared to 2007, and the premium share of traditional products also grew to approximately 19.0% in 2008 from approximately 11.1% in 2007. In contrast, ILPs' first year premium share declined from approximately 61.8% in 2007 to approximately 35.0% in 2008. In 2009, first year premiums received by life insurance companies for traditional products grew by 36%, while first year premiums received for ILPs declined by 43.7%.

Diversification of distribution channels

Insurance companies in Taiwan have traditionally relied primarily on the use of agents as the principal means of distributing life insurance products. In recent years, however, the distribution channels used by insurance companies have become more diverse. In particular, bancassurance has become increasingly important since July 2001 when the Act of Financial Holding Company was passed, allowing banks to sell insurance products. According to statistics published by the LIA, traditional tied agents of life insurers contributed to approximately 48.18% of the total first year premium in 2008, while bancassurance accounted for approximately 47.84%, and brokers and other channels contributed 3.98%. In 2009, traditional tied agents of life insurers contributed to approximately 33.85% of the total first year premiums, while bancassurance accounted for approximately 63.15% and other channels contributed to 2.99%. In terms of the sale of different types of products, the total premiums generated by traditional tied agents and bancassurance were similar in both the life insurance and ILP markets. However, bancassurance was the main sales channel for interest sensitive annuities and other substitutes for deposit products while traditional tied agents were the main channel for the distribution of traditional health and accident insurance products.

Gradual recovery from financial crisis

Since 2008, the Taiwan life insurance industry has been affected by the 2008 global financial crisis accompanied by substantial declines in the global and domestic stock markets, among other things. Although the total premiums of the Taiwan life insurance industry continued to enjoy a small growth of 2.3% and 4.6% in 2008 and 2009, respectively, according to statistics published by the LIA, the investment performance of many life insurance companies in Taiwan suffered due to exposures to structured investment products.

With the gradual recovery of the economy, it is expected that Taiwan life insurance companies will also recover and be able to resume growth in premiums and to generate increased values for their investment portfolios. In addition, it is anticipated that the adverse effects of the global financial crisis will also lead to a growing public awareness of risk and insurance, and cause the regulators and many insurance companies to optimise product offerings, re-focus on risk protection and risk management, as well as embrace sustainable, value-enhancing growth. It is also expected that the 2008 global financial crisis will encourage Taiwan insurance companies to further strengthen their capital base. These factors, together with the favourable demographic trends and increasing demand for wealth management, suggest that the Taiwan life insurance industry remains well-positioned to benefit from substantial growth potentials over the long-term.

4. INSURANCE REGULATIONS IN TAIWAN

4.1 Overview

The life insurance industry is a highly regulated industry in Taiwan. The central law governing the regulation of insurance companies is the Insurance Law and the regulations promulgated thereunder. The Insurance Law regulates general principles of the terms and conditions of insurance contracts and the administration of insurance companies. However, a large number of additional laws and regulations also impact the regulation and governance of insurance companies. Formerly, the ROC Ministry of Finance, Department of Insurance was the competent authority regulating the insurance industry. As at 1 July 2004, the IB of the FSC, has been granted the authority and responsibility for regulating the insurance industries and supervising the insurance sector.

4.2 Regulatory authorities

(a) The Insurance Bureau of the Financial Supervisory Commission

On 1 July 2004, the FSC was formed as a central regulator to supervise and make policies for Taiwan's financial sector. The FSC determines financial policy, drafts laws and rules with regard to the financial industry, conducts financial examinations and supervises financial institutions, and is comprised of four bureaus: the Banking Bureau of the FSC, the Securities and Futures Bureau of the FSC, the IB and the Examination Bureau of the FSC. While the FSC issues regulations relating to financial services, the Bureaus are responsible for administering the regulations relating to separate financial services sectors. The IB now has primary responsibility for regulation of the insurance industry. Its aims are to improve the quality of supervision, maintain market discipline and enhance the liberalisation of the insurance sector in line with international standards. The IB may take the following actions in exercising their regulatory functions in relation to each particular corporation:

- prescribe corrective measures or issue an improvement order;

- partially suspend a corporation's operations or dissolve a corporation;
- order the dismissal of managerial officers or employees from a corporation;
- order the removal of directors or supervisors of a corporation, or prohibit a corporation from carrying out its activities; and
- take any other necessary actions.

(b) **The Life Insurance Association of the Republic of China**

In addition to the IB, the LIA is a self regulatory body, which encourages communication and collaboration among members for the overall advancement of the life insurance industry in Taiwan. The objectives of the LIA also include supporting legislative authorities in implementing policies, protecting consumer rights and the public interest, and encouraging economic development and growth in Taiwan.

The Taipei Life Insurance Association was originally established on 16 May 1964. After undergoing internal reorganisation, it officially changed its name to LIA on 10 September 1998. Its main purpose and mandate include:

- to investigate, research, propagate, collect and analyse statistical data of the industry;
- to mediate any disagreements between its members and conflicts between employees and employers of the industry;
- to maintain the legal rights of its members;
- to deal with and report to competent authorities regarding the violations by its members; and
- to establish and register basic information about its members and their representatives.

4.3 **Regulation of Insurance Companies**

(a) **Establishment of Insurance Companies**

An insurance company is generally required to be either a company limited by shares or a cooperative. A business enterprise which is not an insurance company is not allowed to engage in the insurance business or any business similar to providing insurance. Prior to commencing operations, an insurance company must have obtained the approval of the competent authority, completed registration of its business, posted a bond, and obtained its business licence. The Insurance Law stipulates that, unless otherwise stipulated by law or approved by the FSC, all insurance companies must be public companies.

Minimum capital requirements

The competent authorities are responsible for establishing the criteria for the establishment of an insurance company. An insurance company must have a minimum paid-in capital of NT$2 billion. Twenty percent of this amount must be paid into a special account established for this purpose at the time the incorporators apply for permission to establish an insurance company and the full amount must be paid within two months after approval is obtained.

Within three months after the capital has been paid in full, an application must be filed with the ROC Ministry of Economic Affairs to register the establishment of a company. Within three months after registration, the company must pay the relevant fees and file an application for a business licence with various supporting documents.

Guarantee Bond

An insurance company is required to post a bond with the government in an amount equal to 15% of its paid-in capital (with respect to a company limited by shares) or paid-in fund (with respect to a cooperative). The bond shall be posted in cash. However, upon approval of the competent authority, government bonds or notes may be posted instead. The bond posted is not to be returned until suspension of business has been declared and liquidation has been completed pursuant to applicable laws.

Insurance Stabilisation Fund

In order to preserve the basic interests of the insured and to maintain financial stability, both life and non-life insurance companies are required by the Insurance Law to establish separate stabilisation funds as incorporated foundations. Pursuant to the regulations and ruling promulgated under the Insurance Law, a ratio of 1/l000th of the gross premium income is stipulated as the minimum contribution to the stabilisation fund for both life and non-life insurance companies, and such amount is paid without recourse. The insurance stabilisation fund is used to finance insurance companies experiencing business difficulties or their successors, indemnify the successor, pay for the claims of policyholders or be used for the purpose of the protection of the insured as approved by the competent authority. The insurance stabilisation fund will be deposited at financial institutions or invested in government bonds, treasury bills, financial debentures, negotiable certificates of deposits, bank acceptances, and bank-guaranteed commercial paper, or used for other purposes approved by the competent authority.

(b) **Scope of Business Activities**

Under the Insurance Law, "insurance of the person" is defined as including life insurance, health insurance, personal accident insurance, and annuities. Insurance other than "insurance of the person", that is, non-life insurance, includes fire insurance, marine insurance, land and air insurance, liability insurance, bonding insurance, and any other approved types of insurance. Non-life insurance tends to be renewed by policyholders on an annual basis, whereas "insurance of the person" policies tend to be established for longer periods.

The distinction between non-life insurance and "insurance of the person" as defined in the Insurance Law is crucial. Under the Insurance Law, an insurance company engaged in the non-life insurance business may not engage in the business of "insurance of the person", and vice versa. An insurance company may not engage in the two categories of insurance businesses concurrently, and it may not engage in any business other than the insurance business.

However, governmental authorities have recently eased the statutory distinction. In 2001, with approval from the competent authority, non-life insurance companies may provide personal accident insurance, although the contracts they use tend to be renewed on an annual basis rather than the relatively long-term contracts provided by the life insurance industry. In addition, by obtaining approval from the FSC, non-life insurance companies have been able to provide health insurance since July 2007.

After meeting certain qualifications and obtaining the approval of the competent authority, life insurance companies may act as the trustee of an insurance trust for the payment of insurance benefits upon occurrence of death or disability. However, the beneficiary of the trust agreement may only be the insured himself or a person who is a minor, is legally insane, or has some other infirmity.

On 9 July 2001, the Insurance Law provided that an insurance company may engage in an investment-linked insurance business, and from 18 July 2007, the Insurance Law also allows an insurance company to engage in pension annuity insurance business, both of which require setting up a separate account to record the value of the assets in which it invests. In addition, an insurance company may engage in discretionary investment business in relation to investment-linked products insurance premiums received and managed under a separate account in accordance with the ROC Securities Investment Trust and Consulting Act.

(c) **Risk-Based Capital Adequacy Requirements**

To ensure that an insurance company has sufficient assets to meet its future liabilities, capital adequacy is closely monitored by the regulators. As mentioned above, to establish an insurance company in Taiwan, the minimum capital required is NT$2 billion.

RBC is a method used by regulators to measure the minimum amount of capital that an insurance company needs to support its overall business operations. The RBC model is used to set capital requirements considering the size and degree of risk taken by the insurer.

There are four major categories of risks to be measured to arrive at an amount of overall risk-based required capital, in which risk factors are applied against various assets, liabilities and other key business metrics to determine required capital for each of the risk component.

Risk Item
C_0: Asset Risk - Related Party
C_1: Asset Risk - Non Related Party
C_{1o}: Asset Risk - Other Than Stock Inv.
C_{1s}: Asset Risk - Non Related Party Stock Inv.
C_2: Insurance Risk
C_3: Interest Rate Risk
C_4: Other Risk
Required Capital (RC)
Total Adjusted Capital (TAC)
RBC ratio (= TAC / RC)

The current RBC framework required under the Insurance Law formally took effect on 9 July 2003.

An insurance company's RBC ratio shall be calculated according to the following formula:

RBC ratio = (Total adjusted capital / Required Capital) $\times$ 100%

"**Total Adjusted Capital**" means the total capital of an insurance company as recognised by the competent authority, and includes:

1. Owners' equity recognised; and

2. Other adjustment items prescribed by the competent authority.

   Positive adjustments include:

   (1) any special volatility reserves;

   (2) any catastrophe risk reserves starting from 2008; and

   (3) certain issuances in liability-type preferred stock and/or bonds with capital characteristics to be added into Total Adjusted Capital as stated in the regulatory rulings starting 15 November 2008.

   Negative adjustments include:

   (1) certain non-admitted assets as stated in the regulatory rulings;

   (2) 20% of unrealised capital gains on the investments of equity securities for the period from 2003 to 2007 but 80% of unrealised capital gains or losses on the investments of equity securities for periods of 2008 and 2009;

(3) investments in insurance-related enterprises;

(4) investments in bonds with capital characteristics issued by parties engaging in insurance-related enterprises that simultaneously invests in the bondholder; and

(5) investments in liability-type preferred stock of unrelated parties engaging in insurance-related enterprises that simultaneously invests in the equity holder.

The calculation of Total Adjusted Capital is based on the net stakeholders' equity after various technical adjustments including non-admitted assets.

"**Required Capital**" means such capital as is calculated on the basis of the risks that an insurance company may incur from its actual business operations. The risks include:

1. for a life insurance company:

   (1) asset risks;

   (2) insurance risks;

   (3) interest rate risks; and

   (4) other risks.

2. for a non-life insurance company:

   (1) asset risks;

   (2) credit risks;

   (3) underwriting risks;

   (4) asset-liability matching risks; and

   (5) other risks.

The formula of Required Capital is illustrated below. The k-factor which applies for year-end RBC ratio submission by Taiwan insurance companies is 0.46, 048, and 0.50 for the years 2009, 2010 and 2011 and going forward.

$$K \text{ x } \left(C_0 + C_4 + \sqrt{(\mathrm{C}_{1\mathrm{o}} + \mathrm{C}_3)^2 + \mathrm{C}_{1\mathrm{S}}^2 + \mathrm{C}_2^2}\,\right)$$

The statutory minimum RBC ratio is currently set at 200%. If the RBC ratio of an insurance company is lower than 200%, the insurance company shall not buy back its shares and distribute the net profit of the year for which the RBC ratio report is filed. The FSC may take additional actions depending on the circumstances:

If the RBC ratio of an insurance company is between 150% and 200%: The FSC may take any or all of the following measures:

1. Order the insurance company and its responsible person to increase the capital or put forward other financial business improvement proposals within a specified period of time, but if the insurance company fails to submit a capital increase or financial business improvement proposals or fails to implement the proposals submitted, the FSC may take such supervision measures set forth below;

2. Order the insurance company to cease selling insurance products or restrict it from launching new insurance products;

3. Restrict how funds are used or take other necessary measures; or

4. Restrict the remuneration, bonus, share subscription warrants, or other payments of similar properties to the responsible person of the insurance company.

If the RBC ratio of the insurance company is lower than 150%: In addition to the measures set forth above, the FSC may take any or all of the following measures:

1. Dismiss the directors and/or supervisors of the insurance company, and inform the authorities in charge of company registration to cancel the registration of such directors and/or supervisors;

2. Suspend the directors and/or supervisors from exercising their duties within a certain period;

3. Require the insurance company to obtain prior approval by the competent authority itself for acquisition or disposal of any assets;

4. Order the insurance company to dispose of specified assets;

5. Restrict or forbid the insurance company to extend loans to or conduct other transactions with the interested parties;

6. Order the insurance company to lower its responsible persons' remuneration which shall not exceed the average remuneration paid to the said responsible person in the 12 months before the RBC ratio of the insurance company fell below 150%;

7. Order or restrict establishment of dissolution, within the specified period, of a branch or department; or

8. Assign personnel to supervise the insurance company or take other necessary measures.

In late November 2008, the FSC announced several measures of capital relief to mitigate Taiwan insurers' capital pressure, which have ceased on 31 December 2009. The three most important changes providing relief were:

- inclusion of amounts set aside for the special catastrophe reserves in the Total Adjusted Capital
- recognition of only 20% of unrealised equity gains/losses in the Total Adjusted Capital
- for insurance companies that invest in either bonds with capital characteristics or debt-type preferred shares prior to the end of year 2009, the invested amount may be counted as part of Total Adjusted Capital without deduction.

These reliefs have since ceased following the FSC's announcement on 6 February 2010. Details of the recent regulatory development are set out in the section headed "4.5 Recent Regulatory Developments" below.

In determining whether an insurance company's assets satisfy a particular risk criteria to comprise the RBC ratio and other RBC calculations, Taiwan insurance companies follow the guidelines set out in the guidebook (人身保險業資本適足性報告相關填報表格填報手冊) issued by the TII.

An insurance company is required to file a RBC ratio report to the competent authority as follows:

- within four months after the end of each fiscal year, the insurance company is required to file a RBC ratio report audited by a certified public accountant and with a computation sheet and relevant information set forth therein.
- within two months after the end of each half of each fiscal year, the insurance company is required to file a RBC ratio report reviewed by a certified public accountant and with a computation sheet and relevant information.

In addition, the FSC also has the right to require reports and supporting information at any time as the FSC deems necessary.

(d) **Requirements for Reserves**

Please see the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.12 Reserves" of this circular.

Statutory reserves that Nan Shan is required to set aside are determined pursuant to the Insurance Law and other relevant regulations in Taiwan. Under the ROC Regulations Governing Appointed Actuaries of Insurance Companies, the appointed actuary shall ascertain that the reserves accrued by the insurance company are not less than the respective minimum amounts specified in the relevant regulations and provide reasonable assurance that such reserves will be sufficient to pay the future benefits payable under the policies issued by the insurance company. Should there be any insufficiency in the reserves, the appointed actuary shall propose to the insurance company some measures for improvement.

(e) **Product Approval Process**

Under the Insurance Law, with respect to the policy provisions, premiums, and other relevant materials for a given type of insurance policy, the competent authority shall prescribe regulations governing the following matters, taking into account the state of development of that type of insurance:

- procedures to be carried out before a policy is marketed;
- product review; and
- actions to be taken when the content of a policy is incorrect, false, or in violation of the law.

The ROC Regulations Governing Pre-Sale Procedures for Insurance Products was implemented in August 2006 and last amended on 30 December 2008. Under the amended Regulation, the two following approaches were adopted:

- the Examine-and-Approve Rule — Products are subject to prior approval or rejection by the authority within 90 business days after submission to the authority; or
- the Use-and-File Rule — Policies can be underwritten, followed by subsequent notification to the competent authority within 15 business days after sale of such policies.

As for life insurance products, prior approval is required before commencing sale for annuity products launched in accordance with the ROC Labour Pension Act or investment-linked insurance products for which it is required to set aside reserves against guaranteed benefits, or new types of insurance products. The amended Regulation adopted a negative list approach and narrowed the scope of products subject to the Examine-and-Approve Rule.

However, in order to safeguard consumer interests, the FSC requires the insurance companies subject to the new product approval process to meet the following requirements:

- Insurance companies must strengthen internal control system mechanisms for insurance products. For example, before an insurance product is put on the market, the insurance company shall convene meetings of its product management panel to review the following:

  1. Disclosure of product information;

  2. Verification of actuarial data and making such data available on a computerised database;

3. Risk management mechanisms and arrangements of reinsurance;

4. Setting up and testing of information systems;

5. The printing of such documents as policy clauses, application forms, rate charts and brochures; and

6. Educational training.

- Insurance companies must modify their products as necessary to ensure legal compliance. For example, after an insurance product has been put on the market, an insurance company shall convene meetings of its insurance product management panel periodically to review the following and make necessary adjustments:

  1. Its compliance with applicable laws and regulations;

  2. Its consumer protection measures;

  3. Its business strategies regarding the insurance product and the potential impacts of the product on its current or future solvency; and

  4. The appropriateness of the product's asset-liability allocation.

- Disclosure of information to consumers must be tightened; and

- The self-regulatory function of qualified signatories must be strengthened. The amended regulations expressly categorise insurance product qualified signatories and the scope of their responsibilities. In the field of non-life insurance, qualified signatories may be underwriters, claims adjusters, legal affairs personnel, or actuaries. In the field of life insurance, qualified signatories may be underwriters, claims adjusters, legal affairs personnel, actuaries, insurance conservation personnel, or investment personnel. If an insurance company or qualified signatory fails to fully discharge its obligations and the matter is subsequently discovered during product review or a random inspection, the violator will be liable to a range of administrative sanctions. The FSC could, for example, assess violation points against insurance product qualified signatories, place restrictions on the qualified signatory, order the insurance company to stop selling a product, refuse to review product submissions, or prohibit the insurance company from launching any new products for a specified period of time.

The amended regulations establish a system of incentives for well-run insurance companies, and make modifications to the current system of differential regulatory treatment. If an insurance company that is compliant with certain conditions applies to the competent authority for recognition of its compliance and the authority grants such recognition, the insurance company will then be allowed to launch new types of insurance products under use-and-file rules despite the fact that such products would normally be subject to the prior approval regime.

(f) **Restrictions on the Use of Insurance Funds**

Pursuant to the Insurance Law, insurance companies in Taiwan are restricted to using their investment funds subject to the following criteria:

- Deposits: The amount deposited in one financial institution shall not exceed 10% of the insurance company's investment funds.

- Government Bonds and Treasury Bills: The Insurance Law does not specify any restrictions on the amounts that may be placed in these investments.

- Marketable Securities: The aggregate investments in financial debentures, negotiable certificates of deposit, bank acceptances, and bank-guaranteed commercial paper cannot exceed 35% of the insurance company's investment funds. The aggregate investments in stocks and corporate bonds of public companies cannot exceed 35% of the insurance company's investment funds. Aggregate stock investments in one public company shall not exceed 5% of the insurance company's investment funds and 10% of paid-in capital of the issuing company. The aggregate investments in the secured corporate bonds of a public company or the corporate bonds of a company having the required ratings shall not exceed 5% of the insurance company's investments funds and 10% of paid-in capital of the issuing company. Aggregate mutual fund investments in one fund shall not exceed 10% of the insurance company's investment funds and 10% of each mutual fund. The aggregate investments in securitisation products and other securities approved by the competent authority cannot exceed 10% of the insurance company's investment funds. Moreover, to prevent insurance companies from utilising funds essentially from the public for private purpose, for example, controlling other public companies, there are restrictions on insurance companies, their representatives, designees or related parties or directors, supervisors or employees of their related parties from acting as directors, supervisors, or managers of an invested public company.

- Non-listed stocks and privately-placed stocks issued by a public company: investment in non-listed stocks or privately-placed stocks issued by a public company is subject to the requirements and restrictions stipulated by the competent authority. The investment in non-listed stocks shall be taken into account when calculating the aforementioned aggregate investment amount. In addition, the aggregate investment in privately-placed stocks cannot exceed 5% of the insurance company's investment funds and the aggregate amount of the stocks in any company shall not exceed 10% of its paid-in capital.

- Real Estate: no more than 30% of the insurance company's investment funds can be invested in real estate that may be used immediately and for investment purposes. In the case of real estate purchased for self-use, the total amount invested in such real estate by the insurance enterprise may not exceed the total amount of its owner's equity.

- Lending: for loans guaranteed by banks or other credit guarantee institutions recognised by the competent authority, secured by personal property or real estate or secured by qualified marketable securities, the amount of a loan to each borrower shall not exceed 5% of the insurance company's investment funds. Total loans shall not exceed 35% of the insurance company's investment funds. The total amount of (i) the insurance company's investments in the stocks or corporate bonds of a company, and (ii) the loans extended by the insurance company secured by the stocks or corporate bonds of the same company cannot exceed 10% of the insurance company's investment funds and 10% of the paid-in capital of the issuing company.

- Special Projects & Public/Social Welfare Enterprise Investments: Approvals from competent authorities are required.

- Foreign Investment: Please refer to the description headed "Foreign Investments" below.

- Insurance-related enterprises: Only insurance companies with owner's equity exceeding the minimum capital or the minimum fund may invest in insurance related enterprises with the approval of the competent authority. The aggregate investments cannot exceed the owner's equity of the insurance company. In addition, if there is a control-subordinate relationship between the insurance company and the entity invested in, the aggregate investments cannot exceed 40% of the owner's equity of the insurance company.

- Derivative Products: the investments by an insurance company in derivative products are subject to the requirements and restrictions stipulated by the competent authority. An insurance company may engage in derivative product transactions for hedging purposes after obtaining the competent authority's approval. An insurance company meeting certain qualifications may engage in derivative product transactions for the purpose of increasing its investment benefits after obtaining the competent authority's approval.

- Any other use approved by the competent authorities.

- Transactions with related parties other than loan transactions: Prior to entering into transactions between the insurance company and its related parties other than loan transactions, such transaction must, save for certain exceptions, be approved by three-fourths of the members of the board present at a meeting attended by two-thirds of the board members. The total transaction amount with a single related party may not exceed 10% of owners' equity of the insurance company. The total transaction amount with all related parties may not exceed 60% of owners' equity of the insurance company.

Foreign Investments

The foreign investment limit of insurance companies prescribed in the amendment to the Insurance Law on 18 July 2007, has been raised from 35% to 45%. However, as a result of the 2008 financial crisis and the AIG Event, the IB has currently restricted Nan Shan's foreign investment limit to 35%. In addition, since 2004, insurance companies have been allowed to invest in foreign corporate bonds with a "BBB+" rating or above, which was relaxed from the

"A" rating or above or an equivalent rating from Moody's Investors Service, Standard & Poor's, or other credit rating agencies approved by the competent authority. In 2007, under the amended Insurance Law and the amendment to related administrative regulations promulgated subsequently, insurance companies which meet certain qualifications were allowed to invest in foreign real estate. The types of foreign securities (e.g., derivatives, securitisation products, and funds) in which insurance companies may invest also expanded greatly.

(g) **Regulations of Foreign Currency Denominated Insurance Business**

In 2007, regulators permitted underwriting of life and annuity insurance policies in United States dollar denominations by life insurance companies meeting certain qualifications and may extend this to other foreign currency denominations and other types of traditional life insurance.

More specifically, life insurance companies with RBC ratio more than 200% which have not been fined for more than NT$3,000,000 in the most recent year and meet other qualifications may apply to the FSC to offer foreign-currency-denominated traditional policies. Approval from the CBC to operate this new business also is required. Pursuant to the Regulations Governing Foreign Exchange Business of Insurance Enterprises implemented on 23 April 2007, an insurance company may apply to engage in the following foreign exchange operations:

- personal insurance with collections and payments in foreign currency;
- investment-type annuity insurance with collections and payments in foreign currency which, at the completion of the annuity accumulation period, is converted to general passbook annuity insurance with the annuity paid in NT$;
- foreign-currency loans secured by the aforementioned foreign currency personal insurance policies;
- wealth management that involves the foreign exchange business; and
- other foreign exchange businesses approved by the CBC.

(h) **Reinsurance Requirements**

The FSC, on 1 February 2008, acting upon authorisation granted under the Insurance Law, issued the "Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms" in order to strengthen supervision over insurance companies in reinsurance and other risk spreading mechanisms. These regulations include, among others, provisions for the following:

- establish principles for reinsurance operations and contract contents;
- require insurance companies to adopt a reinsurance risk management plan;

- prohibit life and non-life insurance companies in principle from reinsuring each other's business;

- establish criteria of selecting reinsurers;

- specify the premium structure that reinsurance arrangements must satisfy; and

- establish compliance matters relating to insurance enterprises engaging in other types of risk spreading mechanisms.

(i) **Regulation of Participating Products**

Under the Insurance Law, an insurance company may enter into an insurance contract that includes participation in policy dividends. The basis and method of calculating the policy dividends is required to be expressly disclosed in the insurance contract. Pursuant to the ROC Regulations Governing Information to be Disclosed Regarding Participating Life Insurance Policies and Non-Participating Life Insurance Policies, the main points are as follows:

- Information to be disclosed in product literature:

  1. The wording "This insurance policy is a participating policy" (or "non-participating policy") must appear on all sales literature given to applicants, on the cover page of the insurance policy, and in the policy conditions.

  2. On a participating policy, the statement "dividends on this policy do not form part of the benefits guaranteed under this policy, and the insurance company does not guarantee the amount of any dividends payable" must also be displayed in the same manner.

  3. On a non-participating policy, the statement "This is not a participating policy; it does not participate in the distribution of profits, and no dividends are payable" must also be displayed in the same manner.

- Matters for attention regarding product sales:

  1. Sales literature for participating policies and non-participating policies are not permitted to merely stress projected dividend rates, and are required not to mislead applicants by comparing rates of return on the policy with those of other financial products.

  2. Sales literature for a participating policy is required to clearly state the conditions for and method of dividend payments. Guaranteed and non-guaranteed payments are required to be separately expressed.

  3. All statements, graphs and tables used to present policy dividend examples are required to be expressed fairly and reasonably and must not deliberately mislead applicants.

4. Policy dividend examples must be based on possible dividend amounts payable at each anniversary of the policy, estimated by an actuary using reasonable actuarial assumptions and formulae, and examples based on other assumptions must also be shown to test the sensitivity of the bonus amounts to interest rate variations.

5. An additional section must be provided on the policy application form containing the following wording, which must be signed and dated by the applicant: "I understand that policy dividends are not guaranteed, and may vary upward or downward. I confirm that the salesperson has informed me of the above situation."

6. An additional section must be provided on related report forms for sales staff containing the following wording, which must be signed and dated by the salesperson: "I confirm that I have informed the applicant that policy dividends are not guaranteed, and may vary upward or downward. I have made no assurances to the applicant."

If sales literature given to applicants presents policies that issue dividends, these must be produced by the insurance company or used with the insurance company's consent. Insurance business solicitors (including insurance brokers, agents, and sales agent) may not use an insurance company's sales literature without its authorisation. If for two consecutive years, a participating insurance policy has failed to generate the cumulative dividend amounts projected using the above-mentioned reasonable actuarial assumptions, the insurance company must explain the reasons, and measures undertaken to improve the situation, to the regulatory authority. If the insurance company alters the above-mentioned possible dividend amounts projected using reasonable actuarial assumptions, it must also explain the reasons for such alterations to applicants in writing.

(j) **Regulation on Actuaries**

Under the Insurance Law, in order to ensure sound operation of the insurance business, an insurance company is required to employ actuaries and appoint one of them as an appointed actuary, responsible for reviewing premium rate settings, certifying various reserves, and handling other matters specified by the competent authority. The ROC Regulations Governing Appointed Actuaries of Insurance Companies has been promulgated by the competent authority to govern qualification requirements, items to be certified, education and training, penalties, and other compliance matters.

Appointment of the appointed actuary is required to be subject to the consent of the board of directors and is required to be filed with the competent authority. The appointed actuary shall, in accordance with the principles of impartiality and fairness, provide various certified reports to the board of directors, as well as to the competent authority. Where a report that he or she has certified has any misrepresentation, concealment, omission, or incorrect information, the competent authority may, according to the severity of the circumstances, issue a warning, suspend the actuary from providing certification for a period of up to one year, or revoke the actuary's appointment.

(k) **Regulation of Investment-Linked Products**

In order to protect interests of the insurance applicant or beneficiary, when entering into an investment-linked insurance contract, the insurance company shall follow the ROC Regulations Governing Investment of Investment-linked Insurance and other related statutory regulations to state relevant clauses in the contract. The insurance company is required to fully disclose relevant information when selling investment-linked insurance products, and explain certain items including: (1) various expenses; (2) investment objects and their possible risks; (3) related warnings; and (4) other items as regulated by competent authorities to the insurance applicant with the notification of important information which shall be signed by the insurance applicant when entering into a contract.

In order to ensure that life insurance companies take full advantage of their expertise in long-term asset management and provide their customers with stable investment returns, and in order also to coordinate with a decision to allow insurance companies to apply to conduct discretionary investment business, the FSC on 24 April 2008, amended ROC Regulations Governing Investment-linked Insurance Investments. Under the amended Regulations: (1) an insurance company intending to invest discretionary assets in securities is required to first apply to concurrently conduct a discretionary investment business; (2) disclose provisions governing the scope of instruments in which discretionary investment assets may be invested, the required credit ratings of instruments that may be invested in, and prohibited activities; and (3) there are eligibility requirements that insurance companies must meet if they intend to exercise discretionary control over the investments made in connection with the investment-linked insurance that they sell.

The FSC, on 7 July 2008, issued the "Directions for the Sale of Investment-linked Insurance Products," which set out the following key points: (1) qualification requirements for solicitors; (2) the liability to be borne by insurance companies; (3) a requirement for insurance companies to consider product suitability when selling investment-linked insurance products to customers; (4) a requirement for insurance companies to establish appropriate internal controls and risk management systems; and (5) a requirement that insurance companies require the counterparties via which they trade to abide by the provisions of these Directions as well as the self-regulatory rules of the LIA.

4.4 **Regulation of insurance intermediaries**

Under the Insurance Law, an insurance agent is a person who, on the basis of a contract of agency or a letter of authorisation, collects remuneration from an insurance company and acts as a business agent on behalf of the insurance company. An insurance broker is a person who, on the basis of the interests of the insured, negotiates an insurance contract or provides related services and collects a commission or remuneration. An insurance solicitor is a person who solicits insurance business on behalf of an insurance company, an insurance broker company, or an insurance agent company.

Neither an insurance agent nor an insurance broker may engage business until he or she has registered with the competent authority, either posted bond or obtained liability insurance, and obtained a practice licence. The insurance agents, brokers or other individuals or juristic persons, may not engage in insurance business on behalf of, or refer insurance business to, insurance companies that have not been approved by the competent authority. An insurance agent or broker shall have a fixed place of business and set up special ledgers to record his or her business income and expenditures.

Regulations to establish an insurance agent company

Under the "the Regulations Governing the Administration of Insurance Agents", the qualifications and conditions of an insurance agent company are as follows:

- Employ at least one person possessing the qualification of an insurance agent to serve as a signatory;
- Shall have minimum paid-in capital of NT$3 million, which must be paid in cash;
- Upon obtaining approvals from the FSC, it shall either post bonds or purchase professional liability insurance policy in order to apply for issuance of practice licence. If the company chooses to post bonds, the bonds being posted shall equal an amount no less than 15 percent of its total paid-in capital and no less than NT$600,000. The above guarantee bond can be posted by cash, government bonds or treasury bonds. If the company chooses to purchase professional liability insurance, the insured amount for each peril is no less than 15% of the paid-in capital and no less than NT$1 million.
- To establish the Taiwan branch of a foreign insurance agent company, the foreign insurance agent company must show sound operational performance and a secure financial capacity during the three years prior to application to establish the Taiwan branch. Additionally, it must have a designated representative in the ROC that is recognised as being qualified to engage in the insurance agent business in his/her home country or has obtained a practice licence of the same type in the ROC.

Regulations to establish an insurance broker company

Under the distinction between non-life insurance and insurance of the person as defined in the Insurance Law, the insurance broker in Taiwan could also be divided into "life insurance broker" and "non-life insurance broker". A life insurance broker may only be permitted to sell insurance products of a life insurance company. However, an insurance broker company may apply for a life insurance broker practice licence as well as non-life insurance broker practice licence at the same time to sell insurance products of both life and non-life insurance company, provided however, that the amount of bonds required to be posted shall be higher. Under the "the Regulations Governing the Administration of Insurance Brokers", the qualifications and conditions of an insurance broker company are as follows:

- Employ at least one person possessing the qualification of an insurance broker to serve as a signatory;
- Shall have minimum paid-in capital of NT$3 million (NT$6 million if also engaged in the re-insurance business), which must be paid in cash;

- Upon obtaining approvals from the FSC and the company registration, it shall either post bonds or purchase professional liability insurance policy in order to apply for issuance of practice licence. If the company chooses to post bonds, the bonds being posted shall equal to the amount of 15% of its total paid-in capital, provided, the amount posted may not be less than NT$600,000. However, if the company concurrently applies to obtain practice licences for brokering of insurance of the life insurance and the non-life insurance, it shall separately post bonds in accordance with the preceding two sentences. The above guarantee bond can be posted by cash, government bonds or treasury bonds. If the company chooses to purchase professional liability insurance, the policy period may not be interrupted, and for a corporate organisation, the amount shall be 30% of paid-in capital, but not less than NT$2 million; and

- To establish the Taiwan branch of a foreign insurance broker company, the foreign insurance broker company must show sound operational performance and a secure financial capacity during the three years prior to its application to establish the Taiwan branch. Additionally, it must have a designated representative in the ROC that is recognised as being qualified to engage in the brokering business in his/her home country or has obtained a practice licence of the same type in the ROC.

Regulations of Insurance Solicitors

Under the Regulations Governing the Administration of Insurance Solicitors, an insurance solicitor may not solicit insurance for the employing company (which means an insurance company, an insurance agent company, or an insurance broker company) unless he or she has been registered and obtained a registration certificate in accordance with the Regulations. Once registered, an insurance solicitor shall solicit insurance exclusively for the employing company. With the consent of the employing company, and after obtaining relevant qualifications, an insurance solicitor of an insurance company or insurance agent company may be registered with another insurance company or insurance agent company not engaged in the same type of insurance business, and an insurance solicitor of an insurance broker company may register with another insurance broker company not engaged in the same type of insurance business, serving concurrently as a solicitor for both non-life insurance and life insurance.

The promotional materials, advertising, introductions, product brochures and policy recommendations used by an insurance solicitor in soliciting insurance shall indicate the name of the employing company and the name of insurance company if the employing company is an agent or a broker. An insurance solicitor shall not solicit insurance under any other name or in any other manner. The contents of the promotional materials, advertising, introductions, product brochures and policy recommendations shall conform to the policy provisions, premium rates, application forms, and any other such documents as reported by the insurance companies to the competent authority and approved by the competent authority, and as agreed for use by the employing company. The contents of the aforementioned documents shall also comply with the requirements for information disclosure prescribed by the competent authority. An insurance solicitor of an insurance agent company or insurance broker company shall use only promotional materials, advertising, introductions, product brochures and policy recommendations provided or approved by the insurance company they work with.

To improve the quality of insurance solicitors and to strengthen the related marketing principles, the FSC recently made partial amendments on "Regulations Governing the Administration of Insurance Solicitors". This regulation does the following: to raise diploma restrictions for those to join in "Qualification Exam for Insurance Solicitors"; lift restriction on limits governing the said qualification exam shall be enrolled by certain registration institutes, and deregulate restrictions of exam-participating qualifications for those in possession of resident certificate and those spouses from China with long-term resident certificate; stipulate rules stating that solicitors formerly punished for registration revocation should join in the said exam (including special exam); to clarify further responsibility and to improve soliciting principles, the FSC also promulgates "compulsory sign-in" rule in the proposal each insurance solicitor responsible for, and amends violation items governing soliciting behaviours which ought to be by regulated and punished the insurance companies.

4.5 **Recent Regulatory Developments**

On 27 November 2008, in response to the global financial crisis, and in order to ensure that the insurance industry's RBC system serves its proper function by enhancing the stability of the domestic insurance market, the FSC made temporary measures to amend the RBC system, some of which ceased on 31 December 2009. Key revisions which were announced on 6 February 2010 included the following:

- for insurance companies that invest in or issue either bonds with capital characteristics or debt-type preferred shares, the FSC temporarily adjusted limits on the amount of capital thus raised that may be counted as part of total adjusted capital. On 9 December 2008, the FSC issued the Directions for Insurance Enterprises Issuing Bonds with Capital Characteristics (the "**Directions**"). Under the Insurance Law and the Directions, insurance companies that meet the relevant requirements and have received approval from the competent authority to obtain loans from outside parties are allowed to issue bonds with capital characteristics. The Directions are designed to help insurance companies strengthen their financial structure. The FSC announced new standards with effect from 1 January 2010 which imposed caps on the amount new issuance of bonds with capital characteristics may form part of the Total Adjusted Capital calculation.

- amounts set aside by life insurance companies to their catastrophe risk reserves will be counted as part of total adjusted capital. The FSC has officially announced that it will permanently restore the special catastrophe reserves as part of Total Adjusted Capital on 6 February 2010.

- under the FSC's temporary measures, insurance companies were allowed to include up to 20% of unrealised gains or losses on equity investments as part of Total Adjusted Capital. However, these measures ceased on 31 December 2009.

On 6 February 2010, the FSC stipulated that the RBC formula be restored to its previous formula prior to the temporary measures which were put in place in 2008. In addition, the FSC also stipulated that the special catastrophe reserve would be permanently retained as part of the Total Adjusted Capital caluation in the RBC ratio. Further, the FSC also required that the cap amount of new issuance of bonds with capital characteristics which can be calculated as part of the Total Adjusted Capital be capped in the calculation of the RBC ratio with such capped amount for the Calculation of the 2010 RBC ratio being announced in January 2010 . The inclusion of special catastrophe reserve would potentially result in an increase in Nan Shan's RBC ratio. The restoration of recognising 80% unrealised capital gain or 100% unrealised capital loss on equity investments in the total adjusted capital will also place significant "volatility" into the RBC calculation. Accordingly, any future stock market volatility will have an immediate and full-scale impact on the RBC ratio.

Notwithstanding the removal of the temporary measures, Nan Shan has continued to be in compliance with the RBC ratio as at the Latest Practicable Date.

The FSC, on 11 March 2009, amended the Regulations Governing Required Qualifications for Responsible Persons of Insurance Enterprises to better ensure the proper management of insurance companies. Key amendments included the following:

- New provisions list additional financial laws and regulations that the responsible persons of insurance enterprises are required to obey;
- At least one-third of an insurance company's board members and supervisors are now required to meet specific requirements regarding professional qualifications, as is its chairman of the board; and
- The new professional qualification requirements will apply to whomever is selected to replace currently serving board members and supervisors.

5. HISTORY AND ORGANISATION OF NAN SHAN

5.1 Nan Shan

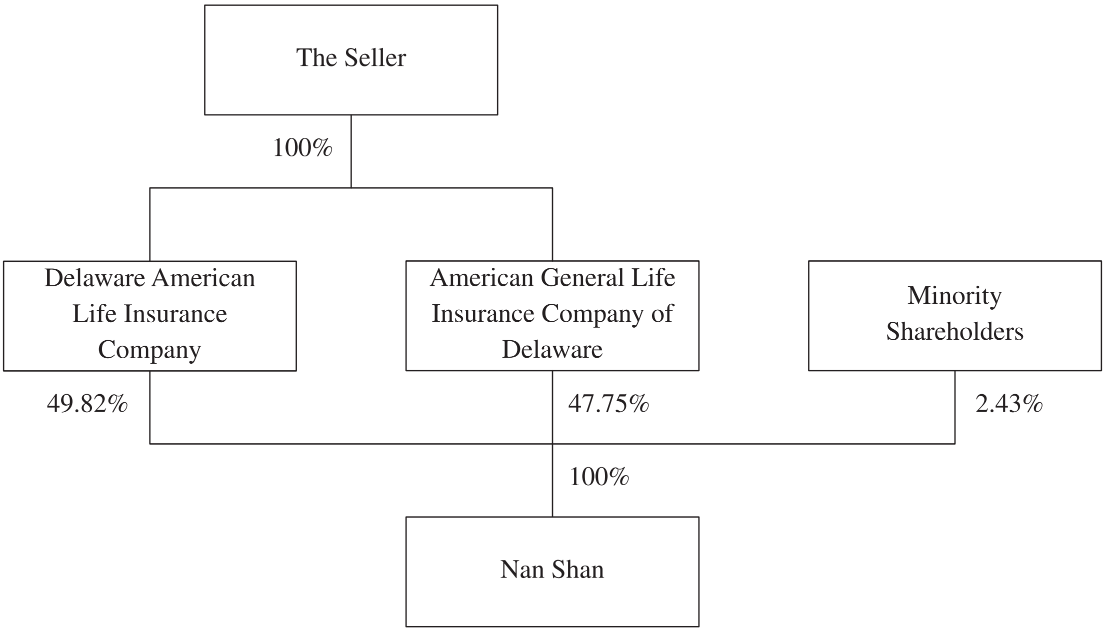
Nan Shan is a licensed insurance company formed under the laws of Taiwan. Nan Shan was established in 1963 by local individuals as one of the first life insurance companies in Taiwan. In 1970, AIG became a major shareholder, providing operational, financial and risk management support, as well as access to international resources. Since then, Nan Shan has grown to become the second largest life insurance company in Taiwan by total premiums in the calendar year of 2008, with a market share of over 11%, according to statistics published by the TII.

5.2 **The shareholding structure of Nan Shan**

As at 31 August 2009, the entire issued share capital of Nan Shan is 787 million shares with a par value of NT$100 each. The paid-up capital of Nan Shan is NT$78,700 million with an authorised capital of NT$100,000 million.

As at 31 August 2009, the issued share capital of Nan Shan is held as to approximately 47.75% by American General Life Insurance Company of Delaware, formerly known as “AIG Life Insurance Company” before December 2009, in trust for AIRCO, and approximately 49.82% by Delaware American Life Insurance Company in trust for AIRCO, each of which are entities under the control of AIG. The remaining approximately 2.43% of the issued share capital of Nan Shan is held by a group of minority shareholders consisting of over 7,000 members (who are mainly employees, agents and policyholders of Nan Shan).

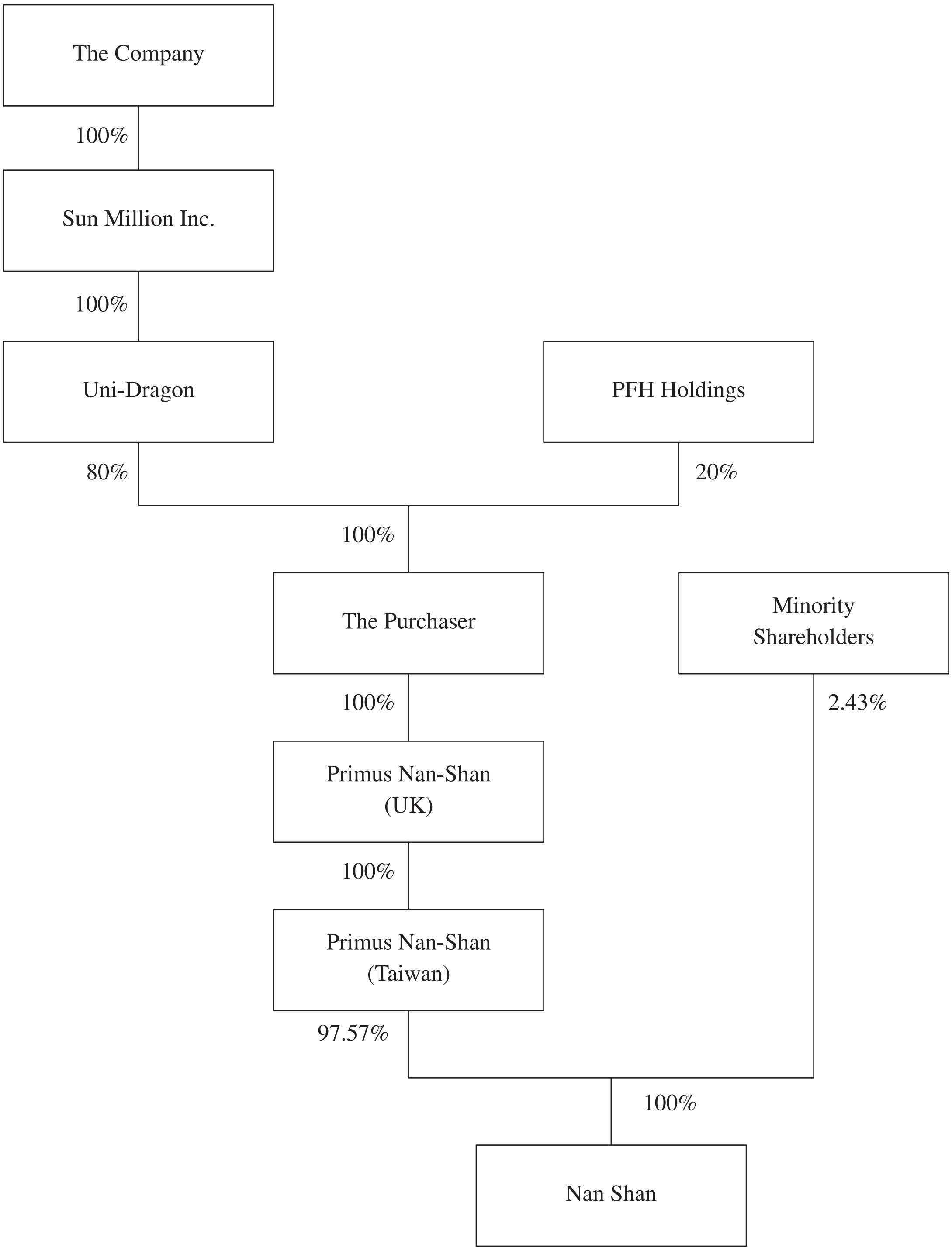
The shareholding structure of Nan Shan immediately before Acquisition Completion is as set out below:



Pursuant to the Share Purchase Agreement, the Seller has agreed to sell, and the Purchaser has agreed to purchase, the entire issued share capital of Nan Shan held by the Seller through Delaware American Life Insurance Company and American General Life Insurance Company of Delaware.

Upon completion of the Acquisition, the issued share capital of Nan Shan will be owned as to approximately 97.57% by the Purchaser, which in turn is owned as to 80% by Uni-Dragon, a wholly-owned subsidiary of the Company, and 20% by the Primus Investor, an affiliate of Primus. The remaining approximately 2.43% of the issued share capital of Nan Shan will continue to be held by the minority shareholders.

The shareholding structure of Nan Shan immediately after Acquisition Completion is as set out below:



6. BUSINESS OF NAN SHAN

The information set out in this section has been provided by Nan Shan, its directors, supervisors, senior management, employees or affiliates. As Acquisition Completion has not taken place as at the date of this circular and therefore Nan Shan is not yet a subsidiary of the Company, there are limitations on the quality and extent of the independent verification which has been carried out on the information, data and statistics contained in this section of the circular. None of the Seller, Nan Shan or any of their respective directors, supervisors, officers, employees, advisers, consultants or agents makes any representation as to the accuracy and completeness of such information, data and statistics, which may not be consistent with each other or other information. In particular, there are certain data contained in this section which are prefaced by the phrase "based on Nan Shan's internal financial data" which refers to data provided to the Company and its advisers by Nan Shan and which the Company and its advisers understand to be derived by Nan Shan by reference to and using Taiwan insurance industry information compiled by the TII and/or the LIA or, in the case of data relating to Nan Shan's investment assets, unless specified otherwise specified, are derived from Nan Shan's own financial records prepared based on HKFRS but presented in a format which is different to that presented under Note 8 of the Accountant's Report. Accordingly, such information and data may not be consistent with the financial data set out in the Accountant's Report. Shareholders should read carefully the section headed "Part E — Information about Nan Shan — 1. Risk Factors — 1.4 Risks Relating to this Circular" of this circular for further information.

6.1 **Overview**

Nan Shan is a leading life insurance company in Asia (excluding Japan), providing a broad range of products to individual and institutional customers in Taiwan. As at 20 May 2009, Nan Shan is rated A+ (twn) with negative outlook by Fitch Ratings, Ltd. This rating by Fitch Ratings, Ltd followed the downgrade of AIG's Issuer Default Rating from A to BBB on 15 May 2009, and primarily reflects AIG's weakened capability, as Nan Shan's parent company, to provide it with financial support. Nan Shan continues to have moderate capitalisation, sound liquidity and satisfactory underwriting results, compared with local peers.

Nan Shan had a market share in the Taiwan life insurance market of over 11% across its various life insurance product lines in 2008, according to statistics compiled by the TII.

Based on Taiwan insurance industry data published by the TII, Nan Shan:

- ranked second in the life insurance market Taiwan in 2008 with market share of 11.4%, in terms of total premiums; and
- ranked second in terms of assets under management in the Taiwan insurance industry as of the year end of 2008, accounting for approximately 16.9% of all insurance assets in the Taiwan insurance industry.

The majority of Nan Shan's premium income is derived from its traditional life business. Based on Nan Shan's internal financial data, for the financial year ended 30 November 2008, Nan Shan's total premium income from its traditional life insurance, accident and health insurance and other insurance businesses (including group insurance) amounted to approximately NT$222 billion and total premium income attributable to Nan Shan's traditional life insurance businesses for this period was approximately NT$124 billion (or approximately 56% of Nan Shan's total premium income). Based on Nan Shan's internal financial data, for the nine months ended 31 August 2009, Nan Shan's total premium income from its traditional life insurance, accident and health insurance and other insurance businesses (including group insurance) amounted to approximately NT$163 billion. Total premium income attributable to Nan Shan's traditional life insurance businesses for this period was approximately NT$103 billion (or approximately 63% of Nan Shan's total premium income).

The table below sets forth selected financial information of Nan Shan extracted from the Accountant's Report for the periods indicated. All financial information contained in the table below has been prepared in accordance with HKFRS.

	For the year ended 30 November			**For the nine months ended 31 August**
	2006	**2007**	**2008**	**2009**
	In NT$ millions, unless otherwise stated			
Net Premium and Fee Income	152,778	157,413	162,095	126,425
Net Investment Returns	43,920	60,529	(26,066)	50,565
Total Revenue	199,836	227,495	99,577	198,321
Net Profit (Loss)	11,390	21,997	(49,259)	18,281
Total Assets	1,348,987	1,505,362	1,549,969	1,705,643
Shareholder's Equity	192,312	172,601	162,689	214,783
Return on Average Assets(1)	0.90%	1.54%	(3.22%)	
Return on Average Equity(2)	6.15%	12.06%	(29.38%)	

Notes:

(1) Not directly contained in the Accountant's Report, return on average assets is calculated by dividing Net Profit (Loss) by the average Total Assets for the corresponding year.

(2) Not directly contained in the Accountant's Report, return on average equity is calculated by dividing Net Profit (Loss) by the average Shareholders Equity for the corresponding year.

Since Nan Shan's establishment in 1963, it has built a long operating history and has grown to be one of the most recognised brand names in the Taiwan insurance industry. Among other things, Nan Shan has one of the most extensive insurance distribution networks in Taiwan. Nan Shan's distribution covers substantially the whole of Taiwan and includes:

- 24 branches and over 460 agency offices located throughout Taiwan as at 31 October 2009;
- more than 37,000 registered agents in Taiwan, which represents the second largest agency force among life insurance companies in Taiwan as at 31 October 2009;
- collaborative arrangements with over 20 banks and financial institutions as at 22 June 2009, as well as approximately 40 brokers as at 6 October 2009, through which Nan Shan distributes its products; and
- a team of employees engaged in Nan Shan's direct marketing and sales activities, including telemarketing, as at 31 May 2009.

As at November 2009, Nan Shan has a total of approximately eight million in-force policies covering over four million insurance customers in Taiwan. According to statistics published by the top five insurance companies in Taiwan and prepared in accordance with the standards prescribed by the TII, Nan Shan had 13-month and 25-month persistency ratios which were among the highest in major life insurance companies in 2008, of approximately 93.2% and approximately 84.9%, respectively. Among other achievements, Nan Shan was recognised in the *Survey of the Risk Management, Insurance & Finance Magazine* released in 2008 as the "Insurance Company with the Best Agents" for the 16th consecutive year, as well as "The Best Insurance Company" for the sixth year, "The Most Renowned Insurance Company" for the second year and "The Best Claim Service" for the eighth year since the survey began in 2001. In addition, the TII has awarded Nan Shan the "Best Customer Service" award three consecutive times since the award's inception and the "Best e-Commerce" award in 2007. For the sixth year in a row, Nan Shan was also awarded the "Gold Medal of Taiwan Trusted Brand Insurance Company" in the *2009 Readers' Digest Asia Survey*. Nan Shan also recently received an award from the Life Office Management Association for the 14th year.

In assessing the benefits of the Acquisition, the Company has considered the above aspects and believes that Nan Shan's wide range of products, established brand name, distribution expertise, high quality customer base and operational efficiency will continue to assist it in firmly maintaining its market position over the long term and capturing the growing demand for insurance in Taiwan.

6.2 **Competitive Strengths of Nan Shan**

Nan Shan is a leading life insurance company with a longstanding operating history, prominent brand name and strong market position in Taiwan.

In assessing the benefits of the Acquisition, the Company has considered how Nan Shan could create sustainable value for its Shareholders and believes that Nan Shan's principal strengths include the following:

Leading position in the life insurance market in Taiwan

The life insurance market in Taiwan is dominated by the top five players, including Nan Shan, which together accounted for approximately 60% of the total Taiwan life insurance market share in 2008. Based on Taiwan industry data published by the TII, Nan Shan was the second largest life insurance company in Taiwan by total premiums in 2008 and Nan Shan's market share in the Taiwan life insurance industry was approximately 11.4% during the 2008 calendar year. Based on Nan Shan's internal financial data, the total premiums generated by Nan Shan's traditional life insurance business amounted to approximately NT$124 billion in the financial year ended 30 November 2008 and approximately NT$103 billion in the nine months ended 31 August 2009.

The Taiwan life insurance industry is expected to benefit as the age of its population continues to rise and with it, the expectation that there will be increasing demand for private solutions for pension, disability, critical illness, health and long-term care. The traditionally high saving rates and the protection gap in Taiwan also suggest that there is potential for further growth in the Taiwan life insurance market. Indeed, the Taiwan insurance market is forecast to reach a gross premium income value of approximately US$88.1 billion (approximately NT$2,819.2 billion) by 2012, representing a CAGR of approximately 8.2% from the 2008 level of approximately US$64.3 billion (approximately NT$2,057.6 billion). The Company believes that Nan Shan is uniquely positioned to capture these substantial growth opportunities, given the significant scale of operations, market knowledge and strong reputation Nan Shan has developed over the years.

One of the most recognised life insurance brand names

Nan Shan has been operating in Taiwan since 1963. The Company understands that with Nan Shan's commitment to the core values of professionalism, excellence and reliability, Nan Shan has continued to provide a wide range of life insurance products to its customers and focus on value creation for the relevant stakeholders, including its customers and shareholders. Nan Shan's brand name is well-known and has approximately 76% national recognition, based on a report published by Research International RI in March 2007. Moreover, Nan Shan has a premium brand image and was recognised in the *Survey of the Risk Management, Insurance & Finance Magazine* released in 2008 as the "Insurance Company with the Best Agents" for the 16th consecutive year, as well as "The Best Insurance Company" for the sixth year, "The Most Renowned Insurance Company" for the second year and "The Best Claim Service" for the eighth year since the survey began in 2001. In addition, the TII has awarded Nan Shan with the "Best Customer Service" award three consecutive times since the award's inception and the "Best e-Commerce" award in 2007. Nan Shan was also awarded the "Gold Medal of Taiwan Trusted Brand Insurance Company" in the *2009 Readers' Digest Asia Survey* for the sixth year in a row.

An extensive customer base

Nan Shan has an extensive customer base in the Taiwan life insurance industry. As of November 2009, Nan Shan has approximately four million insurance customers and a total of approximately eight million in-force policies. In addition, Nan Shan managed to secure approximately 2.7 million policies in 2008. The Company has been informed by Nan Shan that many of its customers are individuals from the metropolitan areas of Taiwan with relatively greater awareness of the need for retirement planning and wealth management and accordingly, the Company believes that Nan Shan is well positioned to expand its business by meeting their growing demand for insurance products with protection features and investment features.

Innovative products and strong product development

Nan Shan has been conducting life insurance business for decades and accordingly, the Company is confident that Nan Shan has a well-established system for developing and pricing new products in response to the changing demands of consumers in the Taiwan life insurance market. Nan Shan offers over 140 different products as at 30 November 2009, including both participating and non-participating policies. In developing new products, Nan Shan has taken a “value-driven” approach by focusing on profitable products, such as accident and health insurance. The premium which Nan Shan derives from accident and health insurance has been growing and, based on Nan Shan’s internal financial data, reached approximately 24% of the total premium received by Nan Shan during the nine months ended 31 August 2009. This is compared to approximately 19% during the year ended 30 November 2006.

The Company understands from Nan Shan that it tailors its products to meet the needs of customers with different characteristics and who are at different stages of life. Over the years, the Company believes that Nan Shan’s ability to consistently deliver innovative and competitive products has allowed it to receive numerous nominations and awards in the category of “Best Product Creativity for Life Insurer” in the *Risk Management, Insurance & Finance Foundation Faith, Love & Hope Award*, among other recognitions.

Strong investment management capabilities

The Company understands from Nan Shan that it manages its investment assets based on an active asset and liability management principle which Nan Shan has developed. Through the ongoing development, implementation and monitoring of strategies relating to its investment management, taking into account Nan Shan’s risk tolerances and other constraints, Nan Shan has emerged from the 2008 financial crisis as a strong company compared to other Taiwanese life insurance companies in terms of net assets. As at 31 December 2008 and based on statistics published by the TII, Nan Shan had an investment portfolio of approximately NT$1,342.6 billion, being the second largest investment portfolio among life insurance companies in Taiwan. As a result of the two injections of capital from AIG, Nan Shan was able to weather the 2008 global financial crisis. Nan Shan continued to implement “de-risking” strategies to minimise investment and foreign exchange risks. These de-risking strategies were implemented in order to maintain Nan Shan’s capital at adequate levels and reduce investment risks during the 2008 global financial crisis. Please refer to the section headed “Part E — Information about Nan Shan — 8. Financial Information and Management Discussion and Analysis — 8.2 Significant Events Affecting Nan Shan’s 2008 Results — De-risking” of this circular for further information on the de-risking measures Nan Shan undertook during the 2008 global financial crisis.

Following these de-risking measures, Nan Shan's cash increased significantly during the fourth quarter of 2008 until the second quarter of 2009. During this period, conservative investment strategies were gradually and cautiously implemented to ensure Nan Shan had adequate capital in preparation for the stabilisation of the financial markets. Nan Shan then implemented cash reduction plans in the second half of 2009 to reduce cash to around 9% of its total invested assets by the end of November 2009.

The Company understands that Nan Shan's investment decisions are formulated through Nan Shan's Investment Committee, which reports directly to the Nan Shan Board and which follows a set of guidelines for effective management of Nan Shan's short and long term investment portfolios. Key members of the asset management and investment team include Nan Shan's Chief Strategic Investment Officer, who leads a group of portfolio managers and asset and investment managers, who are responsible for the development and daily execution of Nan Shan's asset allocation and investment strategies. The Company has been informed by Nan Shan that it ensures that a proper risk management mechanism is in place by separating the investment activities from the risk management operations and having a portion of its investment portfolio externally managed. Nan Shan's risk management function is led by the Corporate Risk Officer with cooperation from Nan Shan's internal audit and compliance teams.

In addition, notwithstanding the shortage of supply of long-term government bonds in the Taiwanese fixed-income market, Nan Shan was the largest holder of Taiwanese government bonds in the Taiwan life insurance industry in 2008, and the Company believes that its ability to maintain a strong-hold in the Taiwanese government bond market has enabled it, to a large extent, mitigate the risks arising from the inability to match the duration of Nan Shan's assets to their related liabilities and Nan Shan's exposure to changes in interest rates.

Experienced and dedicated management team

The Company is confident that Nan Shan's management team has extensive knowledge and experience in the insurance and related industries in Taiwan and overseas. Indeed, many of the individuals in the team have made significant contributions to the development of the insurance industry across Asia. Members of the management team have, on average, more than 20 years of experience in the insurance and related industries, and most have served in regional and global roles prior to joining Nan Shan. Moreover, several of the key executives were transferred from other overseas AIG entities, which places them in a position to supplement local expertise with international best practices. Most of the management team is trained and promoted internally, with an average tenure of 15 years. The Company believes that the experienced and dedicated management team has the ability to develop and execute Nan Shan's business strategies effectively and, at the same time, respond quickly to changes in its business environment.

Robust distribution network

Nan Shan's distribution network is one of the most extensive and productive in Taiwan. As at 31 October 2009, Nan Shan's distribution network includes 24 branches and more than 460 agency offices located throughout Taiwan, as well as over 37,000 registered agents. Nan Shan's other distribution channels include cooperative arrangements with banks and financial institutions, brokers and direct marketing and sales.

The Company believes that Nan Shan appropriately incentivises the agency force under its compensation structure. Nan Shan's agents have a longstanding track record of consistent performance and have, to a large extent, maintained high productivity. Moreover, the complaint ratio, being the percentage of complaint cases to in-force policies, of Nan Shan is relatively low within the Taiwan life insurance industry. According to data from the FSC, Nan Shan's average claim-related complaint ratio for the period from 1 January 2006 to 30 June 2009 was 0.00029% compared to the average ratio in the industry in the same period of 0.00053%. Nan Shan's average non-claim related complaint ratio for the period from 1 January 2006 to 30 June 2009 was 0.00050% compared to the average ratio in the industry in the same period of 0.00097%. Nan Shan also has among the highest 13-month and 25-month policy persistency ratios in major life insurance companies. In 2008, Nan Shan was considered in the *Survey of the Risk Management, Insurance & Finance Magazine* to be the "Insurance Company with the Best Agents" for the sixteenth consecutive year.

6.3 **Strategies of Nan Shan**

The Company intends for Nan Shan to continue to build on its leading position in the Taiwan insurance industry, while leveraging on its existing well-established platform to accelerate growth and create long-term Shareholder value via strategic expansion in its local market as well as overseas in order to create a leading Asian regional insurance franchise.

The Company understands that Nan Shan intends to pursue the following business strategies:

Continue to refresh the brand and maintain reputation

Nan Shan's brand name is one of the most recognised life insurance brand names in Taiwan, and is associated with the core values of professionalism, excellence and reliability. Nan Shan hopes to reinforce its reputation as a premium provider of insurance products and services by continuing to provide industry-leading customer service. The Company understands that Nan Shan also intends to be at the forefront of the Taiwan insurance industry in offering innovative and competitive products that suit the continuously changing needs of its customers. The Company understands that Nan Shan plans to conduct corporate marketing campaigns targeted at developing specific customer segments, such as high net worth individuals, in order to uphold its leading position.

Further, the Company understands that Nan Shan plans to use initiatives such as the "Young Leaders Program" to continue invigorating its brand and strengthening its appeal to the youth market both as a reliable insurance provider and as the employer of choice, to attract and retain talent. The Company understands that Nan Shan also intended that its image as a socially responsible corporate citizen will be upheld via the sponsorship of social activities through the Nan Shan Life Charity Foundation.

Continue to attract talent and grow the staff through systematic training and professional development

The Company believes that the quality of Nan Shan's personnel has been a key to its success in the Taiwan insurance industry. It seeks to attract and retain talented individuals in the industry and improve their skills, productivity and career development opportunities through human resources management and training programs. The Company believes that Nan Shan's various incentive schemes should help motivate its existing employees and agents and attract qualified talent. Nan Shan's initiatives include:

- ***Young Leaders Program.*** Nan Shan has in place the "Young Leaders Program" which the Company understands is aimed to reinforce its image as the employer of choice and therefore attract new talent.

- ***Transparent Opportunities.*** The Company believes Nan Shan has established transparent career development opportunities with a focus on training and developing high-quality professionals within its organisation. The Company understands that Nan Shan plans to continue using the Search for Talent Committee to select employees across all levels every year and giving them the opportunity to be part of its fast-track Talent Pool for specific leadership and professional positions.

- ***Management Associate Program.*** The Company understands that Nan Shan also intends to organise a Management Associate Program for junior employees and rotation programs for senior executives.

Expand the agency force and alternative distribution channels

The Company believes that Nan Shan currently possesses one of the most extensive and productive distribution networks in the Taiwan insurance industry. Nan Shan's core distribution channel is its agency network, which is the second largest in Taiwan in 2008 and provides Nan Shan with robust, national coverage in every key regional market and customer segment. The Company believes that Nan Shan's agents are considered professional and provide good customer services due to Nan Shan's unique compensation structure, as well as its best-in-class continuous training and support infrastructure.

Nan Shan currently has coverage in all the major cities of Taiwan. The Company understands from Nan Shan that its planned focus is to expand and develop its agency force through broadening its geographical reach by setting up agency offices in certain rural areas of Taiwan and investing in agency recruitment, training and development and that Nan Shan also plans to expand into different market segments, including wealth management, through offering the necessary training programs for agents to become qualified. In addition, the Company understands from Nan Shan that it would also continue to seek to attract young talented individuals to join by implementing appropriate training and development programs.

The Company believes that Nan Shan has implemented effective means of real time communication with its agency force and has adopted new technologies to enhance coordination between Nan Shan's headquarters and its agency force. In particular, Nan Shan's e-Broadcasting and online agency portal allow it to provide updates and applications to each branch and agency office through the media of television and internet, respectively, while Nan Shan's monthly bulletin and SMS alerts remind agents of best practices and key events.

The Company also understands that Nan Shan plans to further explore and develop other distribution channels such as bancassurance to enhance its customer reach and sales initiatives. Nan Shan currently has bancassurance arrangements with a number of banks and financial institutions in Taiwan. Bancassurance is a fast growing distribution channel in the Taiwan life insurance industry, and the Company understands that Nan Shan intends to further develop this channel by extending its bank partnership network. By implementing a cooperative model with bank partners, the Company is confident that Nan Shan should be able to leverage its strength in insurance products design and underwriting expertise, combined with bank partners' unique access to their customers. To broaden the customer base and accelerate premium growth, the Company understands that Nan Shan also plans to reach corporate clients through the bancassurance channel and promote other higher margin products to improve the business mix.

Enhance product mix management

Nan Shan's product mix is balanced and profit-oriented. The Company also understands that Nan Shan has generally been able to consistently develop and launch innovative products that meet its customers' needs more quickly than its competitors and intends to continue doing so through its effective product development process. By leveraging on its underwriting and claims expertise, the Company understands that Nan Shan intends to continue focusing on developing products that can drive long-term profitability and does not intend to sacrifice profit margins or resort to cut-throat pricing in an attempt to capture more market share and that it plans not only to continue to pursue the sale of profitable riders, such as accident and health insurance, but also to develop new products such as health plans and US$ traditional life products. The Company also understands that Nan Shan intends to be at the forefront of the Taiwan insurance industry in offering innovative and competitive products to its customers and that it also plans to continue to align agent incentives with product mix management by establishing remuneration schemes with varying rewards for the sale of different products.

Pursue disciplined investment strategies

The Company intends for Nan Shan to continue pursuing a disciplined investment management strategy in order to meet future benefit claims and liabilities and create long-term sustainable value for Shareholders and investors. Nan Shan's de-risking strategy to minimise investment risks in its investment portfolio following the 2008 global financial crisis has been completed, placing it in a strategically favourable position to re-invest in assets with appropriate risk and return profiles. In respect of its re-investment strategies, the Company believes that Nan Shan will be aiming to maintain a balanced asset mix, taking into account key investment criterion such as the generation of investment income, capital position and the management of assets and liabilities.

Strengthen regional offices and streamline operations

With a view to strengthening Nan Shan's regional offices, the Company believes that Nan Shan has improved its regional management by establishing a Head of Administration at each of its branches to oversee local operations. The Company believes that Nan Shan is well positioned to solidify its competitiveness by launching differentiated, region-specific campaigns and initiatives.

The Company also understands that Nan Shan intends to enhance all aspects of its business, including its operational efficiency, customer service and risk control, through technological innovation. To improve its time and cost efficiency, the Company understands that Nan Shan plans to automate key processes by implementing information technology systems such as Image and Workflow. The Company believes that Nan Shan will be able to improve its customer service through a combination of professionalism and advanced information technology, such as strengthened online service functions for customers. For example, the Company understands that Nan Shan intends to build a personal account overview platform to provide customer inquiry services under a single account and to provide a means of applying for e-statements. The Company also understands that Nan Shan also plans to continue leveraging on its superior underwriting and claims expertise.

Enhance risk management practices and infrastructure to maintain sustainable and consistent returns in excess of Nan Shan's costs and liabilities in a consistent and sustained manner

Notwithstanding that Nan Shan already has a sound risk management practice in place, the Company believes that a key factor to Nan Shan's future success is to further enhance its risk management abilities. With a view to maintaining sustainable and consistent returns, the Company seeks to ensure that Nan Shan adhere to the following key elements of its risk management goals:

- ***Continue to develop and maintain sustainable risk management policies and practices.*** The Company aims for Nan Shan to continue to develop and maintain risk management policies and practices which are in line with its operational goal of increasing Shareholder value and maximising risk-adjusted returns. As such, the Company intends for Nan Shan to continue to leverage on its existing risk management policies, as well as relevant management and control principles which correspond to Nan Shan's risk tolerance and preference levels to further improve its risk management practices.

- ***Continue to develop and maintain attainable risk-based limits.*** Since Nan Shan's risk management process is built upon an integrated investment portfolio perspective, the Company intends for Nan Shan to continue to build on its risk measurement methodologies with a view to set and monitor attainable risk-based limits, to adjust riskier asset costs and to reflect the risk-adjusted performance of Nan Shan's investment portfolio.

- ***Maintaining a well-organised risk management system.*** The Company aims for Nan Shan to maintain a risk management infrastructure which is well organised and easy to implement. The Company's objective is to further enhance Nan Shan's existing infrastructure whose organisational design is based upon attainable risk measurements, well-trained staff, an aligned incentive system, expertise and an information system that supports risk management decisions.

6.4 **Products of Nan Shan**

Overview

Nan Shan offers a broad range of products to its customers in Taiwan. As at 30 November 2009, Nan Shan offers a total of over 140 different types of products, of which approximately 110 are individual products (products sold to individuals) and approximately 35 are group products (products sold to group/corporate clients). The largest product offering of Nan Shan is its traditional life insurance line, which accounted for approximately 56% and approximately 63% of total premium for the financial year ended 30 November 2008 and the nine months ended 31 August 2009, respectively, based on Nan Shan's internal financial data.

Nan Shan offers the following four key products:

- traditional life insurance;
- accident and health insurance;
- investment-linked insurance; and
- others, including universal life insurance, traditional annuities and group insurance.

The table below sets forth Nan Shan's total premium receipts by product type for the periods indicated and based on Nan Shan's internal financial data(1):

	For the year ended 30 November						For the nine months ended 31 August			
	2006		2007		2008		2008		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(NT$ in millions, except percentages)									
Traditional Life	146,899	65	148,356	58	124,089	56	96,583	55	102,583	63
Accident & Health	42,767	19	45,277	18	48,105	22	37,517	21	39,474	24
Investment-Linked	32,723	15	58,702	23	46,385	21	40,475	23	18,009	11
Others	3,349	1	3,338	1	3,323	1	2,525	1	2,898	2
Total	225,738	100%	255,673	100%	221,902	100%	177,101	100%	162,964	100%

Traditional life insurance

Nan Shan offers various traditional life insurance products to individuals. The traditional life insurance products for individuals have been a significant source of income received for Nan Shan's life insurance business. As shown in the above table, the total premium receipts of the traditional life insurance products for the year ended 30 November 2008 were approximately NT$124.1 billion.

(1) Figures in this table are based on Nan Shan's financial data prepared in accordance with the standards prescribed by the TII, which uses a cash basis and includes investing proceeds from investment-linked insurance products. This differs from the HKFRS basis which uses a due and earned basis and excludes investing proceeds from investment-linked insurance products.

Nan Shan provides a wide variety of life insurance products to individuals, providing a wide range of coverage throughout the policyholder's life. The traditional life insurance products for individuals consist of whole life insurance, term life insurance and endowment insurance.

- ***Whole Life Insurance.*** The whole life insurance products offered by Nan Shan generally provide insurance for the insured party's entire life in exchange for the periodic payment of a fixed premium over a pre-determined period. The face amount of the policy is paid upon the death of the insured party or upon early termination of the whole life insurance policy, a cash surrender value is paid to the policyholder.

- ***Term Life Insurance.*** The term life insurance products offered by Nan Shan generally provide insurance for the insured party for a specified time period, in exchange for the periodic payment of a fixed premium. Term life insurance products normally do not include any savings or investment component, and term life insurance contracts generally expire without value if the insured party is still alive at the end of the coverage period.

- ***Endowment Insurance.*** The endowment insurance products offered by Nan Shan generally provide various guaranteed benefits to the insured party if the insured survives specified maturity dates or periods, as well as guaranteed benefits to a beneficiary or beneficiaries of the policy upon the death of the insured party within the coverage period, in return for the periodic payment of premiums.

Nan Shan offers both non-participating and participating products for its traditional life insurance products. In addition to providing the benefits offered under the traditional life insurance products, policyholders of participating life insurance products are also entitled to receive dividends in the event the participating products have a distributable surplus in any year during the policy period. Insurance companies are required by *Principles to be Observed in Selling Non-Participating and Participating Life Policies* to allocate at least 70% of the annual distributable surplus for participating life insurance products for the benefit of policyholders.

The following table sets forth the participating and non-participating premium split for the periods indicated based on Nan Shan's internal financial data[1].

		For the year ended 30 November			For the nine months ended 31 August	
		2006	2007	2008	2008	2009
		(NT$ in millions)				
Participating premiums	First year premium	3,000	3,288	4,860	4,364	7,004
	Recurring year premium	1,983	4,805	7,656	6,221	9,831
	Total Premium	4,983	8,092	12,516	10,585	16,835
Non-Participating premiums and compulsory dividend	First year premium	3,353	2,729	2,476	2,119	3,634
	Recurring year premium	138,563	137,535	109,097	83,879	82,114
	Total Premium	141,916	140,264	111,573	85,998	85,748
Traditional Life	First year premium	6,354	6,017	7,336	6,483	10,638
	Recurring year premium	140,546	142,340	116,753	90,100	91,945
	Total Premium	146,899	148,356	124,089	96,583	102,583

Based on Nan Shan's internal financial data, Nan Shan's total premiums from individual participating life insurance products accounted for approximately 10.1% and approximately 16.4% of Nan Shan's total premiums derived from traditional life insurance products for the financial year ended 30 November 2008 and the nine months ended 31 August 2009, respectively.

Accident and health insurance

Nan Shan is a leading accident and health insurance provider in Taiwan based on its development of innovative and full range of accident and health products. According to statistics published by the LIA, Nan Shan was ranked second in terms of new business premiums in the accident and health market in the calendar years of 2008 and 2009. Nan Shan offers a variety of accident and health insurance products to individuals. As shown in the table below, Nan Shan's total premium receipts from accident and health insurance products for the financial year ended 30 November 2008 were approximately NT$48,105 million, of which approximately NT$13,154 million were generated from accident insurance and approximately NT$34,952 million were generated from health insurance. Nan Shan's accident and health insurance products are sold as both standalone policies and as riders to other policies. The accident and health insurance riders often provide profitability enhancement opportunities for existing in-force policies.

(1) Figures in this table are based on Nan Shan's financial data prepared in accordance with the standards prescribed by the TII, which uses a cash basis and includes investing proceeds from investment-linked insurance products. This primarily differs from the HKFRS basis which uses a due and earned basis and excludes investing proceeds from investment-linked insurance products.

The table below sets forth Nan Shan's total premium receipts for its accident and health insurance products as of the dates or for the periods indicated based on Nan Shan's internal financial data[(1)].

	For the year ended 30 November			CAGR	For the nine months ended 31 August	
	2006	**2007**	**2008**	**2006-2008**	**2008**	**2009**
	(NT$ in millions, except as otherwise indicated)					
Accident insurance total premiums	12,206	12,880	13,154	3.8%	10,060	9,868
Health insurance total premiums	30,561	32,397	34,952	6.9%	27,457	29,605
Total premiums*	42,767	45,277	48,105	6.1%	37,517	39,474

* Column totals may not add up due to rounding.

Nan Shan provides a broad range of accident and health insurance products to its individual customers.

- ***Accident Insurance.*** Nan Shan offers various individual accident insurance products which provide benefits in the event of death or disability of the insured party as a result of an accident during the policy period, or a reimbursement of medical expenses to the insured party in connection with an accident. Typically, a death benefit is paid if the insured dies within 180 days of the accident, and a disability benefit is paid if the insured becomes disabled, with the benefit depending on the extent of the disability. If the insured receives medical treatment at a medical institution approved by Nan Shan as a result of an accident, individual accident insurance products also may provide coverage for medical expenses.

- ***Health Insurance.*** Nan Shan offers various health insurance products which provide disease and medical benefits during the policy period. Nan Shan provides primarily three types of individual health insurance, namely, disease-specific insurance, medical expense insurance and defined benefit plan. The disease-specific plans offered by Nan Shan provide a fixed payment benefit for various diseases, whereas the medical expense insurance provide for the reimbursement of the participant's outpatient or hospitalisation treatment fees and expenses. The defined health benefit plans offered by Nan Shan provide for a fixed payment based on the number of days of hospitalisation or the specific type of medical or surgical operation. The health insurance plans can be short-term products or long-term products.

(1) Figures in this table are based on Nan Shan's financial data prepared in accordance with the standards prescribed by the TII, which uses a cash basis and includes investing proceeds from investment-linked insurance products. This primarily differs from the HKFRS basis which uses a due and earned basis and excludes investing proceeds from investment-linked insurance products.

Investment-linked products

Nan Shan provides a range of investment linked insurance products, whereby the benefits that the policyholders are entitled to are linked with the performance of a certain underlying investment portfolio. Nan Shan's portfolio of investment-linked products mainly consists of mutual funds, exchange traded funds or structured notes. Under the investment-linked plans, part of the premiums paid by the policyholders will be invested in specific investment funds at the choice of the policyholders.

Based on Nan Shan's internal financial data, Nan Shan's premium receipts from the investment-linked insurance product accounted for approximately 21% and approximately 11% of the total premiums for the financial year ended 30 November 2008 and the nine months ended 31 August 2009, respectively.

Nan Shan has not engaged in the sale of Lehman Brothers mini-bonds or any products similar to Lehman Brothers mini-bonds or been involved in any related outstanding litigation, dispute or investigation.

Other products

Universal life insurance

Universal life products offered by Nan Shan combine the advantages of permanent protection and account value accumulation with the flexibility to adjust the time and amount of premiums. The nature of such policies is that premium payments in excess of the cost of insurance, together with charges or fees, are credited to the account value, together with interest credited at a rate determined by Nan Shan.

Traditional annuities

The individual annuity products offered by Nan Shan generally provide a guaranteed level of payments to the insured party during the payoff period specified in the annuity contracts, in exchange for the payment of a premium up front in a lump sum.

Group life, accident and health insurance

Nan Shan provides group life insurance products to companies and institutions in Taiwan. The group life insurance products primarily consist of term life insurance products. Nan Shan also offers accident and health insurance products to companies and institutions.

6.5 **Product development and pricing**

Nan Shan develops new products in response to the changing needs and demands of its potential and existing customers.

Nan Shan's pricing strategies focus on ensuring long-term growth while balancing the interests of various parties, including Nan Shan, its customers, and its distribution channels. Nan Shan has been conducting life insurance business for 46 years and has a team of internationally certified actuaries. It has accumulated a large amount of valuable data that serves as the basis for the pricing of its new products. Nan Shan prices its life insurance products primarily on the basis of relevant mortality, morbidity, expense, interest rates, expected investment returns and historical claim experience data, as well as information and data provided by third parties, such as reinsurance companies.

Nan Shan's product development and pricing system is customer-oriented and consists of five main stages:

- ***Feasibility Study.*** In order to ensure that its new products are feasible and in line with market demands, Nan Shan's Product Development Committee gathers internal inputs on operational, management information system and regulatory considerations. The relevant business departments, sales teams at branches and customers are surveyed extensively as part of the process.

- ***Marketability.*** Nan Shan's Marketing Department then collects feedback from Nan Shan's various distribution channels, such as agents and the relevant departments, to obtain information on how well received certain product features have been and whether sample rates were seen as reasonable. The Marketing Department then designs terms for new products, taking into consideration factors such as the needs and preferences of Nan Shan's customers, the terms of its existing products and the terms of any similar competing products that are already in the market. A preliminary marketing plan is formulated accordingly.

- ***Product Creation.*** Nan Shan's Product Department prices products based on the preliminary product ideas and expected sales, as well as profitability testing and risk assessment. Appropriate risk management plans are also formulated. A product is ready to be launched once its features and pricing are finalised and the approval of Nan Shan's chief executive officer is obtained.

- ***Product Launch.*** The Product Implementation Committee coordinates the preparation of the product launch and ensures that the product complies with regulatory requirements. Nan Shan's agency force is then briefed in detail about the product.

- ***Post-Launch Review.*** Following product launch, the Marketing Department conducts a post-launch review by collecting and analysing the production metrics and feedback from Nan Shan's various distribution channels. Appropriate actions are subsequently taken based on the feedback, such as the consideration of whether further automation is needed, whether underwriting should be relaxed or tightened, or whether any aspects of agency training or the marketing plan require modification. Nan Shan's Product Department conducts ongoing actuarial review and continues to monitor pricing factors and product performance by gathering information on things such as the number of claims, claim amounts and claim frequency. If necessary, product pricing is adjusted according to these findings.

6.6 **Distribution**

Nan Shan's primary distribution channel is agency-based. Nan Shan also distributes its life insurance products through bancassurance, brokers, direct marketing and sales, and other channels. As at 31 October 2009, Nan Shan's distribution network comprised of 24 branches and more than 460 agency offices located throughout Taiwan, as well as more than 37,000 registered agents. In addition, Nan Shan has cooperative arrangements with over 20 banks and financial institutions as at 22 June 2009, approximately 40 brokers as at 6 October 2009 and a team of direct marketing and sales personnel as at 31 May 2009.

The following table sets forth, based on Nan Shan's internal financial data, Nan Shan's total premiums by distribution channel[(1)]:

All Lines Total Premium (including 100% single premium)	**For the year ended 30 November**						**For the nine months ended 31 August**			
	2006		**2007**		**2008**		**2008**		**2009**	
	Amount	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**	**Amount**	**% of total**
	(In NT$ millions, unless otherwise stated)									
Agency	213,677	95	242,577	95	213,623	96	170,877	96	157,950	97
Bancassurance	9,874	4	10,631	4	5,548	3	4,100	2	2,440	1
Brokers	624	0	505	0	654	0	527	0	1,002	1
Direct marketing and sales	638	0	869	0	1,029	0	798	0	833	1
Others	925	1	1,090	1	1,047	1	799	1	739	0
Total	225,738	100%	255,672	100%	221,901	100%	177,101	100%	162,964	100%

Agency

As shown in the table above, agency, although not considered as Nan Shan's employees, represents the largest portion of premium income of all of Nan Shan's distribution channels. Total premiums generated through agency represented approximately 96% and 97% of Nan Shan's total life insurance premiums in the financial year ended 30 November 2008 and the first nine months of 2009, respectively. Among other tasks, Nan Shan's agents are responsible for submitting customers' information and insurance applications to Nan Shan's headquarters and branches for processing.

Nan Shan has the second largest agency force in Taiwan, with over 37,000 registered agents in Taiwan as at 31 October 2009, according to statistics published by the LIA. Moreover, Nan Shan has been recognised as the "Insurance Company with the Best Agents" by *Risk Management, Insurance and Finance Magazine* for 16 consecutive years as of 2008. The high-quality service of Nan Shan's agency force is also reflected in Nan Shan's 13-month and 25-month persistency ratios, which are among the highest in major life insurance companies in Taiwan.

(1) Figures in this table are based on Nan Shan's financial data prepared in accordance with the standards prescribed by the TII, which uses a cash basis and includes investing proceeds from investment-linked insurance products. This primarily differs from the HKFRS basis which uses a due and earned basis and excludes investing proceeds from investment-linked insurance products.

All of Nan Shan's agents are required to undergo regular training and development programs in relation to knowledge about products, sales and marketing skills, customer service, compliance and other relevant topics. The programs are comprehensive and segmented based on different levels of competency, such that they are in line with the career paths of particular groups of agents. The Company believes that Nan Shan also has a unique compensation model that fosters a distinctive entrepreneurial culture and promotes productivity. Further, Nan Shan provides various forms of continuous support to its agents through its branches, call centres and internal information technology system.

In addition, Nan Shan requires all of its agents to comply with the rules and guidelines issued by it when distributing its products. The rules and guidelines set out terms under which agents act for Nan Shan, such as the types of products they are authorised to sell, the activities they are authorised to carry out on Nan Shan's behalf and certain prohibited activities.

Bancassurance

Bancassurance is a fast growing distribution channel within the Taiwan life insurance industry. One of the ways in which Nan Shan sells its life insurance products to customers is through branches of banks and financial institutions that have bancassurance arrangements with Nan Shan. As at 22 June 2009, Nan Shan has cooperative arrangements with over 20 banks and financial institutions in Taiwan.

Brokers

As at 6 October 2009, Nan Shan has established cooperative relationships with around 40 brokers in Taiwan. Based on Nan Shan's internal financial data, in the financial year ended 2008 and the first nine months of 2009, approximately 0.3% and 0.6% of Nan Shan's total premiums were generated by insurance brokers including those brokers associated with banks.

Direct marketing and sales

Nan Shan's direct marketing and sales personnel are primarily responsible for selling Nan Shan's products directly to customers with whom it has long-term relationships. In the financial year ended 2008 and the first nine months of 2009, based on Nan Shan's internal financial data, Nan Shan generated around 1% or less of its total premiums through direct marketing and sales.

6.7 Marketing

Nan Shan has developed various marketing strategies based on its understanding of the needs and preferences of consumers in the Taiwan life insurance industry, the current competitive landscape and cost considerations. The main ways in which Nan Shan markets its products and services include preparing and circulating promotional materials, holding promotional events, organising targeted activities based on annual marketing themes, as well as maintaining continuous communication with Nan Shan's distribution channels.

- ***Promotional Materials.*** For every new life insurance product that is launched, Nan Shan prepares a package of promotional materials that highlight the main features and advantages of the product to potential customers. Agents and Nan Shan's other distribution channels are also given regular product training aimed at giving those responsible for selling the products a better understanding of the products' features, positioning, targeted customers, value proposition, administrative process and major underwriting criteria.

- ***Promotional Events.*** As part of its marketing activities, Nan Shan holds a number of sales force promotional events, including regular product road shows to Nan Shan's branches across Taiwan and sales talk campaigns for the agency force to exchange best practices. Nan Shan also holds customer promotional events, where initiatives such as lucky draws or prize giveaways are used to create or stimulate interest in Nan Shan's products.

- ***Targeted Activities.*** Nan Shan organises a variety of activities based on annual marketing themes that are designed to resonate with specific customer segments or specific topics of concern. For example, the themes in recent years were seniors market promotion (銀髮市場銷推廣), retirement marketing promotion (退休市場行銷推廣) and retirement market (退休市場).

- ***Continuous Communication.*** Given Nan Shan's principal reliance on its agency force to sell and market its products, Nan Shan has established a specific section within the "Agent Area" section of its website to enhance agency marketing by communicating product information, upcoming marketing activities and sales information to the agency force. More specifically, agents are given access to content such as monthly industry news and analysis reports and downloadable marketing materials.

6.8 Customers and Customer Service

Customers

Nan Shan has an extensive customer base in Taiwan. Its customers range from individuals to enterprises of various sizes. The total number of in-force policies up to approximately eight million as of November 2009.

Renewal business is important to Nan Shan in terms of total premiums. Nan Shan also has 13-month and 25-month persistency ratios that are among the highest in major life insurance companies. The following table sets forth 13-month and 25-month persistency ratios for Nan Shan's traditional life insurance premiums as at the dates indicated:

	As at 30 November			As at 31 August
	2006	2007	2008	2009
		%		
13-month persistency ratio(1)	96.2	92.3	93.2	91.1
25-month persistency ratio(2)	86.8	90.9	84.9	80.9

(1) Percentage of in-force traditional life insurance policies 13 months after their issuance

(2) Percentage of in-force traditional life insurance policies 25 months after their issuance

Customer Service

Nan Shan was granted the "Best Customer Service Award" by the TII for three consecutive times since the award's inception. Upholding Nan Shan's core values of professionalism, excellence and reliability is an important component in its effort to provide high-quality customer service, to maintain customer relationships and to expand its business. Accordingly, Nan Shan has established a number of servicing units to ensure that its customer service is accessible, prompt and personalised according to different customers' needs.

- ***Call Centre.*** Nan Shan provides toll-free telephone support to its policyholders and telephone support for local call costs to its agents through its Call Centre, which is open 7 days a week, 24 hours a day. The Call Centre has over 100 Customer Service Representatives, who are trained to deal with inbound customer enquiries, as well as over 60 Telemarketing Service Representatives, who carry out outbound telemarketing functions. The Call Centre primarily allows customers to make product and service enquiries, file complaints, report claims and arrange overseas emergency assistance. The productivity of the Call Centre is enhanced by the use of advanced technology, such as: (i) computer telephone integration, which allows Nan Shan's representatives to pull up customer profiles onto the screen quickly to shorten the processing time; (ii) customer relationship management system, which records every call detail for easy follow-ups and to improve call quality; and (iii) call management system, which monitors incoming calls and handles status and service performance. The operations of the Call Centre are managed by real-time call management system monitoring and reporting, with close co-operation from the floor management of Nan Shan.

- ***Policy Owner Service.*** Nan Shan's Policy Owner Service unit, available at each of its branches, comprises of various customer-oriented systems designed to satisfy different service requests. The Policy Owner Service unit mainly facilitates the services of policy change, policy loan, maturity coupon payments, surrender, fund transaction, and other policy-related services. Among other things, Nan Shan provides a one-stop service for customers with queries, an e-Service for customers to make inquiries and claims online and other innovative services, such as policy loan reservation service and home service for policy loan service, which allow related application forms to be delivered to customers' homes by an assigned person and for all customers' policy loan inquiries to be resolved in time.

- ***Other Units.*** In addition to these servicing units, there are dedicated teams within Nan Shan whose primary responsibilities are to maintain customer loyalty, to manage customer relationships, and to continue delivering products that meet customers' needs. Specifically, Nan Shan has a Customer Service Enhancement Department, a Customer Relationship Department, a Project Development Department, Product Implementation Committee, as well as a Head of Administration in each branch.

With the capacity to provide superior service to its customers, the Company believes that Nan Shan is well positioned to strengthen its relationships with them and increase the likelihood that they will turn to Nan Shan when their various life insurance needs arise.

6.9 **Underwriting**

The Company believes that Nan Shan has strong risk control capabilities in its underwriting operations, which is a source of competitive advantage and profitability. Nan Shan has an Underwriting and Issue unit with over 270 staff who deliver underwriting service, as well as a medical team of doctors and health professionals who provide medical consultation to Nan Shan's other departments and customer service units. According to statistics published by the TII, Nan Shan has consistently enjoyed mortality ratios that are, respectively, approximately 75% to 85% of the average in the Taiwan life insurance industry. Nan Shan separates its underwriting process flow into three levels: underwriting submission, underwriting assessment and underwriting decision. During underwriting assessment, Nan Shan's staff of underwriters determine whether the risk related to a particular applicant, including both mortality risk and insurance fraud risk, is consistent with the amount of risk Nan Shan is willing and able to accept. As part of this application and risk evaluation, the risk characteristics of the individual to be insured, including their health conditions, occupations, financial profiles and the in-force policies they already own, are also considered.

The underwriting of policies involving larger insured amounts or more complicated insurance risks is subject to stricter procedures and risk control mechanisms. For example, Nan Shan's reinsurance personnel may be consulted in relation to the underwriting of complex and jumbo life, accident and health insurance policies, and such policies are not issued unless and until Nan Shan is able to arrange for appropriate reinsurance.

In addition, Nan Shan uses a New Business Automation System with an expert underwriting core engine and a common front-end platform, which has been built with underwriting rules and underwriting authority limits to allow it to process underwriting applications and supplemental submissions in a structured manner. The New Business Automation System is integrated with the Image and Workflow system. The Image and Workflow system allows underwriting applications and supplemental submissions to be processed centrally regardless of the location at which they are made.

In conjunction with the Image and Workflow system, Nan Shan has also set up two Simple Processing Centres to improve its efficiency and productivity. As junior staff members and contractors are capable of handling most of the simple cases by using the automatic underwriting system in the Simple Processing Centres, the Company believes that Nan Shan has managed to save on the costs of labour. Overall, the turnaround time for document delivery under the Image and Workflow system has been decreased dramatically from one day to five seconds. Paper usage has also been reduced significantly.

More complex cases and/or those involving higher sum assured are routed to underwriters with appropriate authority, which then assesses the application, makes a request for further medical or financial evidence if necessary, and make a decision as to whether to accept or reject the case.

6.10 **Claims Settlement**

Nan Shan's life insurance claims settlement is handled through the claims management staff located in its headquarters and branches. The Company believes that Nan Shan is able to provide convenient, timely and high-quality claims settlement services to its customers. At the same time, the Company believes that Nan Shan has benefited from prudent investigative and adjustment measures in preventing and detecting fraud and misconduct. Such measures include, among others:

— investigations of claims of chronic diseases within two policy years;

— automatic warning messages reminding claim adjusters that further investigation may be needed in cases of frequent and/or early claims;

— requiring claim adjusters to conduct investigation when receiving medical receipts from some overseas hospitals and clinics;

— segregation of duties among claim assessing, approval and accounting in each claim unit;

— due cooperation with police, the public prosecutor and law enforcement agency on suspected fraudulent claims;

— establishing a claim risk control task force to review products and claim ratio quarterly; and

— internal audit process to identify any risks in each product as well as self-assessment on claims in each claim unit which the Company understands from Nan Shan is conducted on a quarterly basis.

Nan Shan has over 270 staff at its headquarters and branches who are dedicated to processing customers' claims quickly and accurately. For eight years since the survey began in 2001, Nan Shan has been recognised as the life insurance company in Taiwan with the "Best Claim Service" by the *Risk Management, Insurance & Finance Magazine*.

Typically, claims are received by the employees at the counters of Nan Shan's branches or by its agents, who forward the claims to Nan Shan's claim adjusters for verification. Claims are also received online or through the mail. The claim adjusters register the case and enter certain data into Nan Shan's claims system, which provides an assessment of the case after a review of the policy status and relevant claims records. The claims system operates according to a comprehensive rule, formulated on the basis of further claims check, eligibility check, auto allocation rule of benefit, limitation of benefit check, and approval authority check.

It may be necessary to request further evidence in relation to the claim or embark on a process of claims investigation. Nan Shan's claims investigators is responsible for the verification of the authenticity of the events reported. They record the investigative process in Nan Shan's investigation system, which is linked to the claims system and automatically tracks the progress of cases under investigation.

The claims are then processed in the claims system by a person with appropriate authority and a decision as to whether to settle the case by making a payment is made. Nan Shan's claim adjusters must pass various forms of internal evaluations and training to obtain or upgrade their authorisation level, which is evaluated and adjusted semi-annually based on their work experience and performance.

6.11 **Actuarial practices**

As at the Latest Practicable Date, Nan Shan has 15 qualified actuarial professionals who are Fellows of the Society of Actuaries in the United States and who hold positions in various departments, including Executive Office, Actuarial, Product Development and Management, Agency Planning and Marketing. Moreover, Nan Shan has approximately 100 actuarial staff members in its Actuarial and Product Development and Management departments. Following Acquisition Completion, for the purposes of preparing the Enlarged Group's consolidated financial statements, Nan Shan will prepare its financial statements in accordance with HKFRS. For the purposes of valuing Nan Shan's reserves in accordance with HKFRS, Nan Shan has adopted its existing accounting standards for insurance accounting. As a result, following Acquisition Completion, the current actuarial team at Nan Shan will have the relevant experience in preparing the valuation of Nan Shan's reserves in accordance with HKFRS.

The actuarial team conducts periodic valuations of Nan Shan's reserves in accordance with applicable actuarial and accounting regulation and standards in Taiwan to ensure that its calculation of reserves complies with such regulations and actuarial standards. It also conducts various experience studies, including mortality, morbidity, persistency and expenses, the results of which are utilised in a number of actuarial workstreams, including the testing of reserve adequacy, pricing, projection and the calculation of embedded value. For product development-related actuarial workstreams, please refer to the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.5 Product Development and Pricing" of this circular.

6.12 **Reserves**

Statutory reserves that Nan Shan is required to set aside are determined pursuant to the Insurance Law and other relevant regulations in Taiwan. The types of reserves include policy benefit reserve, premium deficiency reserve, unearned premium reserve, claim reserve, and special reserve. All of Nan Shan's reserves have been determined in all material respects in compliance with the applicable laws, regulations, particularly the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", and actuarial standards of practice in Taiwan, as issued by the relevant government authorities and the AIRC.

- *Policy benefit reserve and premium deficiency reserve*. Nan Shan maintains policy benefit reserves to provide for its future benefit obligations for its long-term insurance policies, that is, the policies with policy benefit period longer than one year. The policy benefit reserves for life insurance policies are determined using a modified premium valuation method and actuarial assumptions as to mortality and the interest rate prescribed in regulations. In the case that the modified valuation net premium is higher than the gross premium, a premium deficiency reserve is set up to further secure future benefit obligations. The assumptions and methodology used for both policy benefit reserve and premium deficiency reserve are locked-in at policy issue and remain unchanged unless the reserves are deemed inadequate following Nan Shan's periodic review. Each year, reserve adequacy testing is performed as part of the Appointed Actuary's Report, which is submitted to the Nan Shan Board and the IB.

- *Unearned premium reserve*. Nan Shan maintains unearned premium reserves for policies with coverage equal to or less than a year, to provide its benefit obligations for the unexpired period. The reserves are calculated on a pro rata basis over the term of the related policy coverage based on premium received.

- *Claim reserves*. Nan Shan maintains claims reserves, which comprise the estimate of insurance policy provisions for the ultimate cost of all claims incurred but not reported and reported but not settled as follows:

  - *Incurred, but not reported*. Incurred, but not reported reserves are maintained with respect to policies that are in one-year term. For personal accident insurance, the reserve is calculated based on past claim experience and in accordance with actuarial principles. For life insurance and health insurance, the reserve set aside is equal to one percent of earned premiums prior 31 December 2009. Starting from 1 January 2010, the claims reserve is calculated based on past claim experience and in accordance with actuarial principles.

  - *Reported, but not settled*. Reported, but not settled reserves are maintained for both long-term, insurance policies and policies with coverage equal to or less than a year. The reserve is estimated on a case-by-case basis based on relevant actual information.

- *Special reserves*. Special reserves comprise of catastrophe risk reserve and risk-volatility reserve which, respectively, cover the payouts relating to major losses from future catastrophic events and claims over expected losses. The reserves are established based on a regulatory-prescribed percentage over the earned premium and claims experience, respectively, for catastrophe risk reserve and risk-volatility reserve.

Nan Shan's statutory reserve is determined in accordance with the standards and practices generally accepted in Taiwan. The methodologies and assumptions used for the calculation of Nan Shan's statutory reserves are prescribed under relevant Taiwanese laws and regulations. Taiwanese insurance companies, including Nan Shan, must comply with such requirements under Taiwanese laws and regulations unless prior approval from the IB is obtained.

The reserve prepared by Nan Shan's actuarial team is certified by a qualified actuary as part of the annual Appointed Actuary's Report, and the reserve is also subject to internal and external audit as well as inspection by the FSC. To date, Nan Shan's has not received any qualified opinions from its external auditor relating to its reserve calculation. In August 2009, Nan Shan was fined by the FSC as a result of an incorrect interpretation and application of a reserving practice relating to premium deficiency reserve calculation. The Company believes that the impact of this incorrect interpretation and application was insignificant and did not have any overall impact on Nan Shan's reserve adequacy.

As part of the preparation of Nan Shan's HKFRS accounts, Nan Shan adopted a basis of accounting for insurance accounting in accordance with HKFRS 4. The differences between HKFRS and the predecessor accounting standards used by Nan Shan prior to the adoption of HKFRS are mainly related to the assumptions used in calculating the insurance reserves. For details please refer to the Accountant's Report and the footnote disclosures.

6.13 **Reinsurance**

Through multiple reinsurers, Nan Shan reinsures a portion of the risk that it assumes under its life insurance policies in exchange for a portion of the premiums it receives with respect to these policies, in order to control and diversify Nan Shan's overall exposure to potential future claims loss and expand its underwriting capacity.

Reinsurance arrangements of Nan Shan are principally risk-premium arrangements whereby mortality, morbidity and catastrophe risks are ceded to reinsurers. After evaluating the nature and degree of the mortality and morbidity risks embedded in various insurance policies, Nan Shan determines the risks it will retain and reinsures the rest on an excess of retention or quota share basis. Nan Shan also uses excess of loss reinsurance arrangements to minimise exposure to catastrophe risks.

For further details on reinsurance, please refer to the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.15 Risk Management" of this circular.

6.14 **Asset Management and Investment Portfolio**

Overview

Nan Shan manages its investment funds in a centralised manner that emphasises long-term and stable income to match Nan Shan's liability obligations while maximising return for its policyholders and shareholders based on acceptable levels of risk. Nan Shan's investment funds primarily originate from life insurance premiums and investment income. As Nan Shan's life insurance business continues to grow, the portion of its investment funds from life insurance premiums has steadily grown. Along with the improvements in its financial condition and together with the growth in life insurance premiums, Nan Shan has achieved an overall growth in the assets under its management in recent years.

In the calendar year of 2008, Nan Shan had the second largest investment portfolio among life insurance companies in Taiwan based on statistics prepared by the TII. A large portion of Nan Shan's investment portfolio is divided between investments in Taiwan bonds and investments in foreign bonds. As at 31 August 2009, based on Nan Shan's internal financial data, Nan Shan's investments in Taiwan bonds and foreign bonds accounted for approximately 42.3% and 27.7% of its total investment portfolio, respectively. The Insurance Act has prescribed that a Taiwanese life insurance company may invest up to 45% of its total investment portfolio in foreign investments subject to regulators' approval. In respect of Nan Shan, following the AIG Event in 2008, the IB lowered this limit from 40% to 35% for Nan Shan.

Following the 2008 global financial crisis and the AIG Event, based on Nan Shan's internal financial data, Nan Shan's net investment yield dropped to approximately -2.04% for the 2008 financial year and this was mainly driven by sizeable foreign exchange losses and disposal losses resulting from its de-risking strategies. As a result of capital injections by AIG, Nan Shan was able to weather the 2008 global financial crisis. Nan Shan continued to implement "de-risking" strategies to maintain its capital position. Please refer to the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.2 Competitive Strengths of Nan Shan — Strong Investment Management Capabilities" of this circular for further details on Nan Shan "de-risking" strategies in 2008.

As the result of active investment programs to take advantage of the global financial market recovery, based on Nan Shan's internal financial data, Nan Shan's investment returns in terms of yield on average assets has improved since 2008 and reached approximately 4.74% for the nine months ended 31 August 2009.

Asset management framework

Nan Shan's asset management framework aims to ensure that Nan Shan's investment assets are invested in accordance with sound investment practices that take into account the maturity durations of assets and liabilities, Nan Shan's financial needs and circumstances, the return and risk profiles of Nan Shan's products, the time horizon available for investment, the nature of Nan Shan's cash flows and liabilities, regulatory requirements, as well as other factors that affect its risk tolerance. Other than the foreign bond investment mandate currently outsourced to AIG, all the investment assets in Nan Shan are managed by itself.

In particular, Nan Shan established the IC to provide high level senior management oversight over its investment activities. The IC comprises the President of Nan Shan (who is also the Chairman of the IC), Nan Shan's Executive Vice President of Operations, Nan Shan's Chief Strategic Investment Officer, Nan Shan's Head of Product Development and Management Department, Nan Shan's Corporate Risk Officer and Nan Shan's Head of Finance and Accounting Department. The President may request additional members to be included in the IC or request that a non-IC member of Nan Shan report on Nan Shan's investment activities at an IC meeting, or to respond to questions raised by IC members to enable them to make appropriate decisions on Nan Shan's investment strategies. The IC may also set up sub-committees to address Nan Shan's specific business needs and related investment regulations. Prior to Acquisition Completion, major investment strategies have been submitted to AIG for monitoring and discussed in meetings if necessary.

The IC convenes regular meetings to review and evaluate Nan Shan's investment portfolio, investment performance and risk tolerance. The IC meetings will also consider and determine future investment strategies. The IC's responsibilities and duties largely include: monitoring the current domestic and global economic and financial conditions, as well as changes to relevant rules and regulations; reviewing Nan Shan's investment performances, risk exposures and RBC; considering and managing Nan Shan's asset allocation, investment and hedging strategies; and approving major investment proposals. The IC will, at times, seek the opinion of external experts on its investment strategies, particularly in respect of its investments in global emerging markets. Nan Shan generally outsource the management of its global emerging markets investment portfolios to external fund managers. Nan Shan has signed investment management agreements with the outsourced managers to specify the investment parameters and investment debt-issuers. The outsourced portfolio is closely monitored to ensure risks taken are managed according to the investment management agreements. In addition, risk factors will be monitored and reported to IC for major investment actions.

The IC formulates its investment return targets, risk exposure targets and strategic asset allocations based on the characteristics of Nan Shan's assets and liabilities and their maturity duration, Nan Shan's financial needs and circumstances, the return and risk profiles of Nan Shan's products and the operational needs of Nan Shan's life insurance businesses. The task of setting Nan Shan's tactical asset allocations and executing its day-to-day investment operations lies with Nan Shan's asset management and investment team. Key members of the asset management and investment team include Nan Shan's Chief Strategic Investment Officer, who is in charge of the overall management of Nan Shan's investment portfolio and who leads a group of experienced portfolio managers and asset and investment managers who are responsible for the development and daily execution of Nan Shan's asset allocation and investment strategies. Nan Shan's asset management and investment team also includes the Senior Managers of the Fixed Income Investment, Equity Investment, Mortgage Loan and Real Estate Investment divisions and is supported by other key functions within Nan Shan, including the compliance team and the risk management team.

Portfolio composition

As at 31 August 2009 and based on Nan Shan's internal financial data, Nan Shan had a total investment portfolio of approximately NT$1,437.5 billion. Nan Shan's investment management framework seeks to pursue investment returns that exceed the cost of liabilities and actuarial assumptions in a consistent and sustained manner, to achieve sustainable growth in Nan Shan's value, and to reduce the adverse impact of economic cycles and market volatilities on Nan Shan's value. As a result of the Insurance Act, and following the AIG Event in 2008, the IB stipulated that only 35% of Nan Shan investment funds are permitted to be invested in foreign assets.

The following table sets forth certain information regarding the composition of Nan Shan's investment portfolio as at the dates indicated and is based on Nan Shan's internal financial data[(1)]:

	As at 30 November						As at 31 August	
	2006		2007		2008		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(NT$ in millions, except percentages)							
Cash and cash equivalents	5,300	0.5%	17,007	1.4%	104,963	8.2%	164,588	11.4%
Fixed-maturity investments								
• Taiwan government bonds	549,300	47.9%	524,411	42.0%	566,519	44.2%	537,782	37.4%
• Foreign government bonds	59,185	5.2%	71,897	5.8%	49,839	3.9%	71,571	5.0%
• Taiwan corporate bonds	41,213	3.6%	52,423	4.2%	66,471	5.2%	70,590	4.9%
Other foreign investments	306,315	26.7%	321,647	25.8%	277,898	21.7%	326,212	22.7%
Loan to policyholders	60,068	5.2%	67,078	5.4%	100,747	7.9%	89,114	6.2%
Mortgage loans	46,980	4.1%	47,416	3.8%	50,732	4.0%	44,170	3.1%
Investments in Taiwan listed equities	53,908	4.7%	84,709	6.8%	29,370	2.3%	47,260	3.3%
Taiwan real estate investments	12,492	1.1%	16,380	1.3%	19,100	1.5%	21,038	1.5%
Other investment assets	12,909	1.1%	45,977	3.7%	16,216	1.3%	65,149	4.5%
Total*	**1,147,669**	**100%**	**1,248,945**	**100%**	**1,281,854**	**100%**	**1,437,475**	**100%**

* Column totals may not add up due to rounding.

(1) Figures in this table are based on Nan Shan's internal financial data which is prepared based on HKFRS but presented with a different break-down to that in Note 8 of the Accountant's Report.

The following table sets forth the yields on average assets for each component of Nan Shan's investment portfolio, based on Nan Shan's internal financial data, for the periods indicated[(1)]:

	Year ended 30 November						Nine Months ended 31 August	
	2006		2007		2008		2009	
	Amount	Yield[(2)] (%)	Amount	Yield[(2)] (%)	Amount	Yield[(2)] (%)	Amount	Yield [(2 & 3)] (%)
	(NT$ in millions, except percentages)							
Cash and cash equivalents	**52**	**0.99%**	**163**	**1.47%**	**215**	**0.35%**	**185**	**0.18%**
Bonds	**39,583**	**4.46%**	**41,154**	**4.38%**	**32,799**	**3.46%**	**44,131**	**5.71%**
- Taiwan government bonds	18,960	3.53%	19,034	3.61%	19,302	3.60%	28,486	6.16%
- Taiwan corporate bonds[(1)]	996	4.86%	1,414	3.07%	2,104	3.60%	1,698	3.24%
- Foreign bonds[(1)]	19,627	5.94%	20,705	5.66%	11,393	3.23%	13,947	5.51%
Equities	**4,663**	**9.29%**	**9,651**	**11.12%**	**(16,789)**	**-18.19%**	**(4,870)**	**-6.76%**
- Taiwan stocks	4,035	9.67%	8,992	13.87%	(14,691)	-22.82%	(4,383)	-10.82%
- Foreign stocks	375	15.57%	428	12.79%	(1,031)	N/A	—	N/A
- Mutual funds	253	4.16%	231	1.24%	(1,067)	-4.22%	(487)	-1.54%
Policy loans	**3,938**	**6.89%**	**4,134**	**6.72%**	**4,812**	**5.90%**	**4,354**	**6.30%**
Mortgage loans	**1,344**	**2.98%**	**1,385**	**2.98%**	**1,500**	**3.10%**	**1,053**	**3.00%**
Taiwan real estate investments	**345**	**3.47%**	**524**	**3.69%**	**642**	**3.69%**	**470**	**2.37%**
Others	(757)	N/A	(34)	-0.37%	590	3.22%	(18)	-0.11%
Net hedge cost	(5,247)	N/A	3,553	N/A	(49,836)	N/A	5,259	N/A
Net Investment Returns	**43,920**	**4.14%**	**60,529**	**5.18%**	**(26,067)**	**-2.04%**	**50,565**	**4.74%**

(1) There are two preferred shares (one domestic and one foreign) classified under the category of bonds for their bond-like feature.

(2) Net investment yield is computed as "(net investment returns x 2) ÷ (opening invested assets + ending invested assets - net investment returns)". Of which net investment returns include net investment income, net realised gains (losses) and net gains (losses) on financial investments at fair value through profit and loss shown in the income statement.

(3) It is the annualised investment yield for fixed-income type investments.

In order to prevent the RBC from being further affected by deteriorating market conditions as a result of the financial crisis, Nan Shan implemented "de-risking" strategies to dispose of risky securities in foreign investments and equities. As a result, investment returns in foreign bonds and equities for the year ended 30 November 2008 and the nine months ended 31 August 2009 were lower than historical levels. Please refer to the section headed "Part E — Information about Nan Shan — 8. Financial Information and Management Discussion and Analysis — 8.2 Significant Events Affecting Nan Shan's 2008 results — De-risking" of this circular for further information. Further, Nan Shan has focused on maintaining stability on its investment returns on other asset classes such as policy loans, mortgage loans and real estate since the 2008 global financial crisis. For the purpose of stabilising the RBC ratio, Nan Shan also disposed of some of its high-yield Taiwan government bonds to realise gains.

(1) Figures in this table are based on Nan Shan's internal financial data which is prepared based on HKFRS but presented with a different break-down to that in Note 8 of the Accountant's Report.

Cash and cash equivalents

As at 31 August 2009 and based on Nan Shan's internal financial data, approximately 11.4% of Nan Shan's investment portfolio was deposited with a number of commercial banks in Taiwan. Nan Shan generally deposits funds with banks for fixed terms of less than one year. During the year ended 30 November 2008 and the nine months ended 31 August 2009 and based on Nan Shan's internal financial data, Nan Shan's yield on fixed deposits was approximately 0.4% and 0.2%, respectively. Cash and bank deposits allow Nan Shan to maintain liquidity and flexibility. In the aftermath of the 2008 financial crisis, in order to safeguard its RBC ratio and to ensure that it has sufficient cash to meet any potential increase in surrenders of insurance policies following the AIG Event, Nan Shan increased its cash and cash equivalent holdings and short term investments in the latter part of 2008 and the first half of 2009. Under normal circumstances, Nan Shan will continue to actively deploy surplus cash into other assets which can achieve greater investment yields and can generate stable returns.

Government bonds

Nan Shan's fixed-maturity investments are largely in government bonds issued by the Taiwan government, other foreign governments and government-related bodies, including emerging market government bonds and supranational bonds. Government bonds provide a stable source of interest income and carry relatively low investment risks compared to other investment vehicles. Further, Nan Shan's investment in government bonds helps it to reduce its asset and liability duration gap because of their relatively longer duration compared to Nan Shan's other investment assets. As at the Latest Practicable Date, the Company understands from Nan Shan that it has not experienced any default on its investments in government bonds. Accordingly, government bonds make up the largest portion of Nan Shan's investment portfolio.

The following table sets forth certain information concerning Nan Shan's government bonds based on Nan Shan's internal financial data[1]:

	As at 30 November						As at 31 August	
	2006		2007		2008		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(NT$ in millions, except percentages)							
Issuer								
Taiwan Government Bonds	549,300	47.9%	524,411	42.0%	566,519	44.2%	537,782	37.4%
Foreign Government/ Supranational Bonds	59,185	5.2%	71,897	5.8%	49,839	3.9%	71,571	5.0%

(1) Figures in this table are based on Nan Shan's internal financial data which is prepared based on HKFRS but presented with a different break-down to that in Note 8 of the Accountant's Report.

The following table sets forth the rating breakdown of Nan Shan's government bonds based on Nan Shan's internal financial data:

Credit Rating*	**Percentage of investment portfolio** *(%)*
AAA	7.6%
AA	88.8%
A	0.9%
BBB+	1.4%
Below	1.3%
	100%

* Based on portfolio as at 31 August 2009 and credit ratings as at 22 January 2010

The following table sets forth the maturity analysis of Nan Shan's government bonds based on Nan Shan's internal financial data:

Maturity period*	**Percentage of portfolio**
Taiwan Government Bonds	
5 years and below	8.5%
6 to 10 years	43.0%
11 to 20 years	41.5%
Above 20 years	7.0%
Foreign Government/Supranational Bonds	
5 years and below	3.6%
6 to 10 years	13.8%
11 to 20 years	10.6%
Above 20 years	72.0%

* Based on portfolio as at 31 August 2009

Taiwan Government Bonds

As at 31 August 2009 and based on Nan Shan's internal financial data, Taiwan government bonds represented approximately 37.4% of Nan Shan's investment portfolio. Taiwan government bonds have maturities of up to 30 years but longer-maturity Taiwan government bonds are in very short supply. Taiwan government bonds make up the largest portion in Nan Shan's investment portfolio. Nan Shan holds the largest long tenor bond portfolio in Taiwan. As at the Latest Practicable Date, the Company understands from Nan Shan that it has not experienced any default on its investments in Taiwan government bonds.

Foreign Government/Supranational Bonds

As at 31 August 2009 and based on Nan Shan's internal financial data, approximately 5.0% of Nan Shan's investment portfolio was in foreign government bonds and supranational bonds. The average duration of foreign government bonds (which includes government bonds in emerging market countries) other than supranational bonds is around 15 years, relatively shorter than supranational bonds whose maturities are up to approximately 29 years. Approximately 36% of Nan Shan's foreign government bond holdings have maurities of over 20 years. Nan Shan does not hold US Treasury holdings because of their unattractive yield.

Taiwan corporate bonds

Nan Shan's Taiwan corporate bonds include straight corporate bonds and bank notes which have higher yields than government bonds but with the same tenors, and a small portion of convertible bonds (NT$8 million as at 31 August 2009). The following sets forth certain information concerning Nan Shan's investments in Taiwan corporate bonds based on Nan Shan's internal financial data[(1)]:

	As at 30 November						As at 31 August	
	2006		2007		2008		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Taiwan corporate bonds	41,213	3.6%	52,423	4.2%	66,471	5.2%	70,590	4.9%

The following table sets forth the rating breakdown of Nan Shan's Taiwan corporate bonds, excluding convertible bonds based on Nan Shan's internal financial data.

Credit Rating*	Percentage of investment portfolio *(%)*
AAA	0.0%
AA	0.0%
A	85.7%
BBB	14.3%
Below	0.0%
	100%

* Based on portfolio as at 31 August 2009 and credit ratings as at 22 January 2010

(1) Figures in this table are based on Nan Shan's internal financial data which is prepared based on HKFRS but presented with a different break-down to that in Note 8 of the Accountant's Report.

The following sets forth the maturity analysis of Nan Shan's Taiwan corporate bonds, excluding convertible bonds based on Nan Shan's internal financial data.

Maturity period*	**Percentage of portfolio**
Taiwan corporate bonds	
5 years and below	37.7%
6 to 10 years	56.2%
11 to 20 years	5.2%
Above 20 years	0.9%

* Based on portfolio as at 31 August 2009

As at 31 August 2009 and based on Nan Shan's internal financial data, approximately 4.9% of Nan Shan's investment portfolio was in the form of Taiwan listed corporate bonds. Taiwan listed corporate bonds have generated stable interest income and resulted in yield enhancement in the low interest rate environment over the last few years. Another positive feature of Taiwan listed corporate bonds is that they are relatively liquid. Nan Shan invests in Taiwan corporate bonds which are typically rated A and above. Supported by a set of rigorous credit risk control mechanisms, the quality of the Taiwan listed corporate bonds held by Nan Shan is high and as at the Latest Practicable Date, Nan Shan has not experienced any default in its holding of corporate bonds. For investments in corporate bonds, Nan Shan enjoyed yield pick-ups over government bonds with the same tenor.

Other foreign investments

As at 31 August 2009 and based on Nan Shan's internal financial data, approximately 22.7% of Nan Shan's investment portfolio was foreign investments other than foreign government bonds and mainly composed of corporate bonds and notes as foreign equities had been fully disposed of after the financial crisis. After a series of "de-risking" actions in 2008 and the first half of 2009 in which Nan Shan sought to reduce and minimise investment risk, the majority of Nan Shan's foreign investments (other than foreign government bonds) are rated A or above. As part of the "de-risking" activities in the fourth quarter of 2008, Nan Shan fully disposed of its foreign equities portfolio. Prior to this de-risking activity, Nan Shan's foreign equities portfolio consisted of primarily three portfolios:

- U.S. Equity Portfolio (which consisted of U.S. listed stocks and was originally held for long-term investments purposes);

- Asian Dividend Roll Portfolio (which consisted of high yield investments in Asian-listed equities excluding China and Japan);

- Singapore Portfolio (which consisted of Singapore-listed stocks and was originally held for long-term investments purposes).

Credit default swaps or collateralised debt obligations are not foreign equities and did not form any of the above three portfolios. Rather, collateralised debt obligations are considered as other foreign investments.

New additions to Nan Shan's portfolio in the second half of 2009 were mainly AAA- or AA-rated securities which were added with an aim to enhance the overall credit profile of the portfolio. With the global credit concerns easing, the Company understands that Nan Shan intends to continue to deploy cash into high yield foreign investments.

Due to the global financial crisis in 2008, Nan Shan experienced two defaults in its foreign investments in 2008, which were linked to defaults by Lehman Brothers and Kaupthing Bank. Based on Nan Shan's internal financial data, the impairment loss related to Lehman Brothers bonds amounted to approximately NT$5,361.2 million and loss related to Kaupthing Bank was approximately NT$69.4 million. The investment in Kaupthing Bank was written down to its market value (near zero) in Nan Shan's financial statements, and the investment in Lehman Brothers bonds was fully disposed of by the end of October 2009. Other than losses derived from these defaults, foreign investments with credit concerns were written down to their fair values.

Save for Nan Shan's holding in Kaupthing Bank, the largest bank in Iceland which subsequently went into government receivership in October 2008, Nan Shan has not held any government bond, sovereign debt obligation or foreign investments in Iceland.

The Company also understands from Nan Shan that it has invested in hybrid debt issued by the Royal Bank of Scotland (the "**RBS Bonds**"). The Royal Bank of Scotland was recapitalised by the British government in 2008 who subsequently took a controlling stake in October 2008. The Company further understands that the Royal Bank of Scotland announced in November 2009 that it had agreed with the European Commission to defer coupon payment on its hybrid capital instruments. As a result, the Company expects the market value of the RBS Bonds to be very volatile and that Nan Shan had therefore, in accordance with Taiwan GAAP rules for the purpose of evaluating the investment impairments of its investment portfolio, written down approximately 40% of its investments in its RBS Bonds in November 2009. Prior to such write down, the book value of Nan Shan's investments in the RBS Bonds was approximately NT$4 billion.

Nan Shan incurred impairment losses on available-for-sale financial instruments, prepared in accordance with HKFRS, of approximately NT$15,280 million and NT$10,736 million for the year ended 30 November 2008 and for the nine months ended 31 August 2009, respectively. The Company understands that in 2008, these losses were primarily attributable to prolonged losses in local equity and foreign bonds, whereas in 2009, they largely resulted from losses in local equity and, to a lesser extent, foreign collateralised debt obligations. Nan Shan also held two US$ denominated South Korean government agency bonds with costs amounting to approximately NT$348 million (approximately US$10.6 million) (based on Nan Shan's internal financial data). These two securities comprised approximately 0.024% of total invested assets as at 31 August 2009, which had no impairment. In order to enhance the overall credit profile of the portfolio, Nan Shan's additions to its portfolio in the second half of 2009 were mainly AAA- or AA-rated securities. Nan Shan has not held any government bonds or sovereign debt obligations of Dubai or Greece.

The following table sets forth the rating breakdown of Nan Shan's other foreign investments (based on Nan Shan's internal financial data):

Credit Rating*	Percentage of investment portfolio (%)
AAA	2.1%
AA	20.5%
A	59.9%
BBB	16.0%
Below	1.6%
	100%

* Based on portfolio as at 31 August 2009 and credit ratings as at 22 January 2010

The following table sets forth the maturity analysis of Nan Shan's other foreign investments (based on Nan Shan's internal financial data):

Maturity period*	Percentage of portfolio
Taiwan corporate bonds	
5 years and below	11.1%
6 to 10 years	17.7%
11 to 20 years	15.5%
Above 20 years	55.7%

* Based on portfolio as at 31 August 2009

Foreign Exchange and Hedging

Nan Shan invests in foreign currency denominated bonds as part of its investment strategy. Accordingly, Nan Shan will be subject to foreign exchange volatilities. Nan Shan experienced sizable foreign exchange losses as a result of the sharp appreciation of the NT$ against the US$ in early 2008. Due to the limited availability of direct hedging instruments between US$ and NT$, Nan Shan was only able to diversify its US$ exposure into various Asian currency exposures through proxy basket hedging, which involved entering into derivative instruments that are linked to a basket of products that have a high correlation with the NT$. However, with the financial turbulence in the latter half of 2008, Asian currencies were significantly weakened as there was great demand for US$, causing an increase in mark-to-market losses in these basket positions. To prevent a similar situation from occurring, Nan Shan re-focused its currency hedging efforts on minimising the foreign currency volatilities to profit and loss and ensuring the maintenance of its RBC ratio. Nan Shan increased its role in direct hedges involving onshore foreign exchange swaps, currency options, and forward contracts. In relation to any unhedged positions, the Directors are informed that Nan Shan will diversify its foreign currency risks amongst various major currencies to help neutralise the undesirable effects of any foreign exchange movements. As at 31 August 2009 and based on Nan Shan's internal financial data, Nan Shan had increased its direct hedge ratio to 77%.

Loans to policyholders

As at 31 August 2009 and based on Nan Shan's internal financial data, loans to policyholders accounted for approximately 6.2% of Nan Shan's investment portfolio. Loans to policyholders are loans issued by Nan Shan that use the cash value of the policyholder's life insurance policy as collateral. If the borrower (that is, the policyholder) fails to repay the loan, the money is withdrawn from the insurance death benefit. Loans by Nan Shan to its policyholders in general are fully secured by the cash value of that policyholder's life insurance policy.

Mortgage loans

As at 31 August 2009 and based on Nan Shan's internal financial data, mortgage loans represented approximately 3.1% of Nan Shan's investment portfolio. Nan Shan collaborates with its agents to promote and provide mortgage loan products to its policyholders. The sale of Nan Shan's mortgage loan products involves multiple cross-selling strategies with its Investment-Linked Products, Accident and Health Insurance Products and Loan Products to create sales synergy effects. The quality of Nan Shan's mortgage loans are generally high with non-performing loans registering at only NT$659 million as at 31 August 2009 or 1.5% non-performing loan ratio, based on Nan Shan's internal financial data. The Company believes that Nan Shan's prudent and customised underwriting efforts have resulted in a very diversified portfolio which has in turn produced very minimal losses on its mortgage loans.

Investments in Taiwan listed equities

As at 31 August 2009 and based on Nan Shan's internal financial data, approximately 3.3% of Nan Shan's investment portfolio was invested in equities which are listed on the Taiwan Stock Exchange. Nan Shan considers its investments in such assets as a means to enhance overall portfolio returns in the long term. Since the 2008 financial crisis, Nan Shan has reduced its exposure in Taiwan listed equities from the pre-crisis peak level of 6.8% (based on Nan Shan's internal financial data) to the current 3-4% level and divested all of its holdings in foreign equities as part of its de-risking strategies. The Company understands from Nan Shan that it invests in equities which are listed on the Taiwan Stock Exchange by employing three principles: (i) invest in equities which produce high dividend yields; (ii) invest for mid- to long-term capital appreciation; and (iii) consistently seek trading opportunities. The Company understands from Nan Shan that its main investment objective is to generate a high total return on a long-term basis through prudent research and portfolio management process and risk control. As at the Latest Practicable Date and save as disclosed in the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.20 Legal and Regulatory Proceedings" of this circular, Nan Shan has had no investment defaults or fines by the regulatory authorities in respect of its equity investment activities in the past 5 years. Nan Shan manages its equities portfolio internally with its investment team overseeing the asset allocation, strategy and performance of Nan Shan's equities portfolio on a daily basis. The Taiwan equity portfolio suffered significant losses due to the financial crisis in 2008 along with the price collapse of all global financial assets. However, the unrealised losses have been reduced tremendously after the subsequent equity market rebound year to date in 2009.

Real estate

As at 31 August 2009 and based on Nan Shan's internal financial data, Nan Shan's investments in real estate accounted for approximately 1.5% of Nan Shan's investment portfolio. Nan Shan's investment portfolio currently consists only of real estate in Taiwan. However, the Company understands from Nan Shan that it has considered and envisages that Nan Shan will expand its real estate investment activities in the future. The Company believes that based on Nan Shan's considerations, real estate investment delivers enhanced returns and stable income to Nan Shan's investment portfolio. Nan Shan may invest in other types of property in the future, including hotels, mixed-use properties and development projects, such that the portfolio becomes more comprehensive and diversified.

Other securities

As at 31 August 2009 and based on Nan Shan's internal financial data, approximately 4.5% of Nan Shan's investment portfolio comprised of other securities. These mainly consisted of short-term instruments used for liquidity management purposes such as money market funds, structured deposits that enhance portfolio yields such as "bond-linked deposits" in NT$ which produces higher yields than normal deposits but are convertible into government bonds if certain thresholds are met. Nan Shan has also previously invested in hedge funds which it has subsequently divested in October 2008 as a result of its "de-risking" activities to try to reduce and minimise investment risk following the 2008 financial crisis. Mark-to-market effects in derivatives transactions for foreign exchange hedging purposes are also included in this category.

Investment policies

The Company understands from Nan Shan that it seeks to maximise the returns of its investment portfolio on the basis of sound asset allocation and effective risk control. Accordingly, the Company believes that the following underlying principles guide Nan Shan in its fund utilisation and management: achieving budgeted investment yields or spreads; minimising income volatility; controlling risks effectively; diversifying risk and return; maintaining adequate liquidity; and matching assets to Nan Shan's liability profile.

In particular, the Company understands from Nan Shan that it has adopted the following investment policies:

Stable income generation

In order to generate long term and stable income, Nan Shan has allocated approximately 89.7% and 82.4% of its total investment portfolio to local and foreign fixed income investment, loans and real estate as at 30 November 2008 and 31 August 2009, respectively, based on Nan Shan's internal financial data. In comparison to its competitors, Nan Shan holds the highest percentage of long tenor bonds. Nan Shan also has a loan portfolio consisting of fully collateralised loans on insurance policies and quality mortgage loans.

Duration matching

It is a key strategy for any life insurance company to manage its investment portfolio to ensure that it can meet the liabilities associated with the insurance policies that it underwrites and a key element of this strategy is to ensure that the duration of the investments are properly matched with its liabilities. The liabilities of life insurance policies generally have a long maturity. Given the general limited availability of longer-term fixed income securities in other Asian countries, Nan Shan's fixed income investments are primarily made in the Taiwan and U.S. markets. In order to reduce the duration gap between its assets and liabilities, Nan Shan has been very active in the Taiwanese and global longer tenor bond markets. As a result, as at 31 August 2009 and based on Nan Shan's internal financial data, approximately 74.5% of its fixed income assets have maturities beyond 2016, and the average duration of Nan Shan's fixed income portfolio is approximately 14 years.

Diversification and hedging

Although Nan Shan's portfolio performance is expected to be achieved through active, value-adding management decisions, Nan Shan will continue to evaluate and assess other investment opportunities with a view to diversify its investment portfolio through investing in different economic sectors, industries and products.

Foreign exchange gains or losses on foreign currency denominated bonds are accrued to Nan Shan's income statement. In view of Nan Shan's foreign exchange exposures in its foreign currency denominated bonds and the potential significant impact such changes may have on Nan Shan's profitability and RBC, Nan Shan has, in compliance with strict guidelines and rules from applicable Taiwanese regulatory authorities, including the FSC on foreign exchange hedging activities, entered into financial derivative instruments including swap contracts and forward contracts, to hedge its exposures to such foreign exchange volatilities. Please refer to the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.14 Asset Management and Investment Portfolio — Foreign Exchange and Hedging" of this circular to further details on Nan Shan's foreign exchange losses in 2008. Prior to Acquisition Completion, under the Share Purchase Agreement, AIG is required to seek the Purchaser's consent with respect to certain conduct of Nan Shan, including among other things, the purchasing, selling, leasing, exchanging or otherwise disposing of or acquiring any property or assets (other than transactions occurring in the ordinary course of business with respect to certain investment assets and other reinsurance related assets).

Asset allocation process

Based on the investment performance of the first half of each year, Nan Shan's projected cash flows and market financial forecast, Nan Shan's Chief Strategic Investment Officer and its team of senior managers of respective asset classes will recommend an overall asset allocation strategy. Nan Shan's asset allocation strategies are reviewed and approved annually by the IC and are also reviewed by the AIG investment team and the AIG enterprises risk team prior to Acquisition Completion. Such reviews will continue until Acquisition Completion. Once approved, the Chief Strategic Investment Officer oversees the implementation and issues detailed instructions and procedures to the relevant asset managers. Notwithstanding the annual consideration and approval process, the IC also reviews and re-evaluates the existing asset allocation strategies by reviewing monthly documentation consisting of the relevant investment budget data, house view and statistics, and generally more regularly at each IC meeting to ensure investment performance targets are being met, the investment strategies are working, and to also consider whether changes to such investment strategies or rebalancing of the investment portfolio is necessary to take into account changes in Nan Shan's needs.

Internal risk control in asset management

Transaction approval is based on Nan Shan's Guidelines on Investment Authorisation which are a set of rules for effectively planning Nan Shan's long- and short-term investments and which provides a set of limitations on the level of funds which can be invested in a particular type of product. Any proposed investment which exceeds such limits must be separately approved by the Nan Shan Board. The Guidelines on Investment Authorisation are initiated by the investment team, reviewed by related key functions and finally approved by the Nan Shan Board. The Guidelines on Investment Authorisation are subject to review on request by the Nan Shan Board or when there are changes to the Guidelines on Investment Authorisation, which will be submitted to the Nan Shan Board for review and approval and which will look at the effectiveness of overall investment execution, investment performance, and the management and control of investment risks. The Nan Shan Board will consider appropriate amendments, if necessary, to accommodate any changes to the circumstances or needs of Nan Shan and developments in the overall market. In addition, all investments have followed AIG internal guidelines and necessary approvals required for specific investments such as structured products with embedded options.

In addition, prior to the fund disbursement of any transaction, the transaction must be approved by the respective approval authority, the necessary legal documentation must be satisfactorily completed and the trade ticket must be signed off by the respective portfolio manager and the Chief Strategic Investment Officer. Checks and balances in place include the need for the disbursements of funds to be authorised by Nan Shan's Finance and Accounting Department, notwithstanding that the trade tickets are initiated and executed by the Investment Department. Further, the accounting records of the investment transactions are maintained by the Finance and Accounting Department.

Rigorous credit risk management procedures are in place, including the setting of a maximum investment and transaction limits for any single bank or counterparty. Further, Nan Shan may only enter into transactions with counterparties which have been pre-approved by AIG, although prior to Acquisition Completion, under the Share Purchase Agreement, AIG is required to seek the Purchaser's consent with respect to certain conduct of Nan Shan, including among other things, the purchasing, selling, leasing, exchanging or otherwise disposing of or acquiring any property or assets (other than transactions occurring in the ordinary course of business with respect to certain investment assets and other reinsurance related assets).

These limits are controlled and monitored by Nan Shan via pre-trade checks and routine limit reviews by portfolio managers, the finance and accounting department and the investment finance (including investment compliance) department.

As part of maintaining a sound liquidity management system, operation and investment cash flows are monitored and evaluated on a regular basis such that Nan Shan will have advanced information on any increases in liquidity risk. Each year, monthly cash flow projections and a three-month rolling cash flow projection are made to promote efficient cash flow and liquidity management. Bonds repurchase agreements are also used as a tool for liquidity management. As a result of its proactive approach on managing liquidity risks and ensuring its RBC ratio is maintained, Nan Shan has been able to handle liquidity crises such as the 2008 financial crisis and the AIG Event effectively, and the Company is confident that Nan Shan's liquidity management system will continue to perform well under extreme conditions.

6.15 **Risk Management**

Management of risk is fundamental to Nan Shan's operations and long-term growth. The Company understands from Nan Shan that it is exposed to six primary sources of risks:

- ***Operational Risk.*** Operational risk is the risk of loss resulting from breakdowns in information, communication, transaction processing, settlement systems and procedures which may arise from, for example, failure to obtain proper internal authorisations or to properly document transactions, equipment failure, inadequate training or errors by employees.

- ***Market Risk***. Market risk is the risk of potential loss on investment holdings from unfavourable changes in interest rates, foreign currency exchange rates, stock prices and other market risk factors. Market risks include:

  - *Interest Rate Risk*. Interest rate risk is the risk to the earnings or market value of Nan Shan's investment portfolio due to uncertainty in future interest rates.

  - *Foreign Exchange Rate Risk*. Foreign exchange rate risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the NT$ and other currencies in which Nan Shan conducts business may affect its results of operations and financial condition.

  - *Equity risk*. Equity risk is the risk of market volatility as a result of investment in stocks, which may adversely affect results of operations and net assets.

- ***Credit Risk***. Credit risk is the risk of economic loss resulting from the failure of one or more of Nan Shan's obligors or co-obligors to make any payment of principal or interest when due, the failure of one or more of Nan Shan's counterparties to perform their contractual obligations or the deterioration in the credit profile of relevant parties.

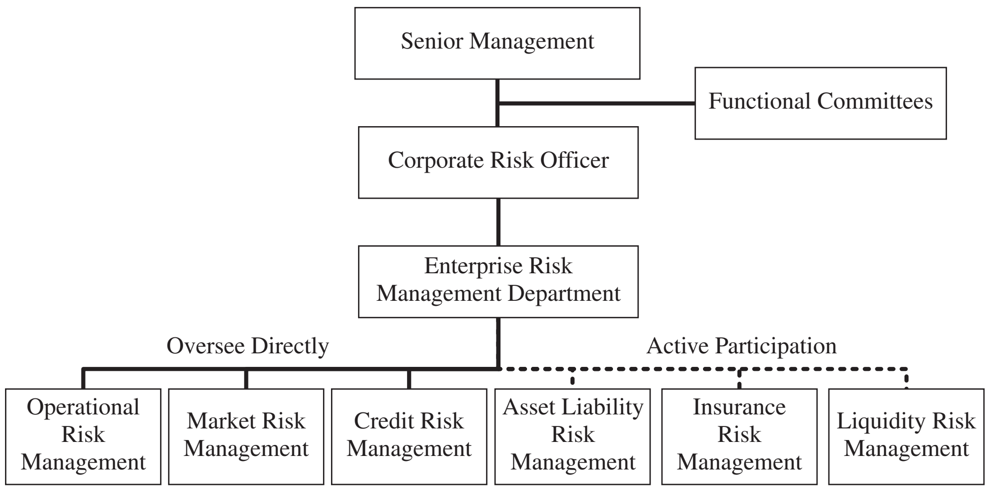
- ***Asset and Liability Risk.*** As an insurance company, the asset and liability matching risks, being the availability of investments with returns that reliably match its insurance policy liabilities is an inherent risk.

- ***Insurance Risk***. Insurance risk is a combination of risks relating to the possibility that an insured event occurs and the uncertainty that Nan Shan will have sufficient assets to satisfy the benefits payable under an insurance contract. The insurance risk for Nan Shan is a combination of underwriting risk, product pricing risk, reserving risk, reinsurance risk, catastrophe risk and concentration risk, which together would likely expose Nan Shan to financial losses and the consequent inability to have in place adequate reserves.

- ***Liquidity Risk***. Liquidity risk is the risk of not having access to sufficient funds in a timely manner to meet obligations as they become due. Nan Shan is exposed to liquidity risk on insurance policies that permit surrender, withdrawal or other forms of early termination.

Risk management and risk monitoring framework

The Company understands from Nan Shan that its risk management framework is designed to identify, assess and control the range of risks in Nan Shan's operations and to support its business decisions. The following diagram sets forth the functional structure of Nan Shan's risk management framework as at 31 August 2009:



Operational risk, market risk and credit risk management activities are directly overseen by the Enterprise Risk Management department while the asset liability risk, insurance risk and liquidity risk are managed by, relevant business units which include (1) Product Development and Management, Actuarial, and Investment departments for asset liability matching risk management; (2) Actuarial, Product Development and Management, Underwriting, and Claim departments for insurance risk management; and (3) Actuarial, Investment, and Finance & Accounting departments for liquidity risk management, with active participation from the Enterprise Risk Management Department to form a risk management framework. The Corporate Risk Officer also reports to the Nan Shan Board every quarter or as required regarding the effectiveness of Nan Shan's risk management efforts, the current of the RBC ratio and other risk indicators that might have emerged.

The Company understands from Nan Shan that its senior management is responsible for establishing the key principles and guidelines for Nan Shan's risk management, while the Enterprise Risk Management Department and the functional heads of each business unit are responsible for implementing processes and responding to the individual needs of different business areas. Nan Shan also has in place specific committees, that meet periodically, or when required, to set appropriate strategies for investments, consider the risk elements involved and review the overall performance of Nan Shan's strategies. Nan Shan has the following specific functional committees:

- Management Committee: the main responsibility is to establish Nan Shan's business strategies and oversee its operations under the guidance of the Nan Shan Board. The committee holds meetings as required which are chaired by the Nan Shan vice chairman.

- Investment Committee: the main responsibility is to provide sound asset allocation strategies, achieve profit targets, and ensure financial soundness and quality of assets. The committee holds meetings monthly and which are chaired by Nan Shan's chief executive officer.

- Real Estate Investment Committee: the main responsibility is to ensure the quality and adequacy of real estate investments for stable income generation. The committee holds meetings as required which are chaired by Nan Shan's chief executive officer.

- Transaction Review Committee: the main responsibility is to review identified complex structured financial transactions which may involve heightened legal, regulatory, accounting or reputational risks. The committee holds meetings as required which are chaired by EVP-Operations.

- Underwriting Committee: the main responsibility is to review special underwriting cases to mitigate underwriting risks. The committee holds meetings as required which are chaired by EVP-Operations.

- Claim Committee: the main responsibility is to review special claim cases to mitigate claim risks. The committee holds meetings as required which are chaired by EVP-Operations.

- Incident Management Team: the main responsibility is to respond to threats and/or incidents and take precautionary/remedial actions. The committee holds meetings as required which are chaired by EVP-Operations.

- Product Implementation Committee: the primary responsibility is to ensure compliance of insurance products before selling. The committee holds meetings as required which are chaired by head of Administration function.

- Product Assessment Committee: the main responsibility is to ensure compliance of insurance products before regulatory submission. The committee holds meetings as required which are chaired by head of Operational Risk Management.

In addition, other ad hoc committees are formed if and when necessary. For example, at the time when top down risk assessment was performed in 2007, an Operational Risk Assessment Committee was formed on an ad hoc basis to determine the primary risks of the company and to formulate appropriate risk mitigation plans.

Risk management process

The Company believes that Nan Shan strives to achieve effective risk management policies, methodology and infrastructure to maintain its competitive edge. As a Subsidiary of AIG, Nan Shan has, in the past, largely leveraged on AIG's global risk management policies and practices in monitoring and mitigating its risks. Please refer to the section headed "Part A — The Acquisition — 5. Risks Associated with the Acquisition — 5.2 Prior to Acquisition Completion, Nan Shan is a subsidiary of AIG and has, to a limited extent, leveraged on AIG and its affiliates on certain key aspects of its operations. The change of Nan Shan's controlling shareholder to the Company and the separation from AIG and its affiliates after Acquisition Completion may give rise to risks and uncertainties for Nan Shan's operations and business if the Company and/or Nan Shan fail to effectively control the costs and expenses of replacement providers or if replacement providers fail to match the level and standard of service that AIG and its affiliates had provided in the past or if the Company and Nan Shan fail to fully adopt or effectively implement new investment and risk management policies and procedures" of this circular for further details on Nan Shan's past relationship with AIG on risk management policies and procedures. In anticipation of the divestment from AIG, Nan Shan is undertaking a separation exercise which, as at the Latest Practicable Date, is close to completion (and is targeted to complete by Acquisition Completion), whereby substantial resources have been devoted to develop and enhance its own risk management infrastructure, practices and internal controls. For further information on Nan Shan's separation process, please refer to the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.18 The AIG — Nan Shan Separation Process" of this circular.

Nan Shan's enterprise risk management process consists of the following four stages:

- ***Risk Identification.*** Nan Shan's risks are identified through the following two approaches: (i) discussion with senior management to indicate a set of key risks which might have significant impacts on business (top-down approach), and (ii) through training, self-assessments and various audits and inspections on operations to identify risks involved in daily activities (bottom-up approach).

- ***Risk Assessment.*** For identified risks, systematic approaches such as RBC, VaR, risk control self-assessment, procedures under section 404 of the Sarbanes-Oxley Act, and audits are utilised to assess if risks are within tolerance levels and/or if controls are in place to reduce inherent risks.

- ***Risk Mitigation.*** For risks which are over Nan Shan's tolerance level and/or without appropriate mitigating controls, remediation mechanism will be investigated and implemented as an integrated part of the risk assessment process.

- ***Risk Monitoring and Reporting.*** A critical component of risk management is to deliver risk information to appropriate business functions and to monitor if appropriate controls and mitigation mechanisms are in place. Assessment results are delivered to senior management annually and the Nan Shan Board when necessary, and delivered to AIG for AIG's consolidation purposes and/or other related parties such as external auditors or regulators when necessary.

Management of Principal Risks

Operational risk management

Nan Shan has adopted the following mechanisms to mitigate operational risk:

- ***Risk and Control Self-Assessment Framework***. This is a tool introduced by AIG globally for managing and mitigating Nan Shan's operational risks. Nan Shan's Risk and Control-Assessment procedure is a comprehensive assessment plan designed to address Nan Shan's major operational risks. The procedure is a key component of Nan Shan's risk assessment process and is used consistently to facilitate the identification by each business function of risks involved in their respective operations and evaluate the effectiveness of associated controls. Following completion of the separation process from AIG, Nan Shan will continue its Risk and Control Self-Assessment practice in accordance with its new risk management policies and to be in compliance with the applicable Taiwan regulations as well.

- ***Compliance.*** Nan Shan's compliance function focuses on assisting and monitoring the business function to ensure that they comply with the relevant regulations. In addition to the risk control self-assessment and compliance reviews which are carried out annually, the compliance team also takes a proactive approach and raises risk management awareness by providing extensive training and education for employees and agents to enhance their levels of regulation awareness. Nan Shan also reacts to changes in regulations through the active soliciting of opinions from each business function and generally, the insurance industry, on new draft regulations relevant to such business functions. Such action is not intended to achieve any lobbying purposes but is aimed at coordinating industry opinion to provide quick and helpful responses on such draft regulations.

- ***Incident Management Team.*** Nan Shan has in place an Incident Management Team which is designed to provide timely responses to urgent situations, such as the 2008 financial crisis and the recent H1N1 epidemic. If any particular event or incident is considered an urgent case, it will be analysed by the Incident Management Team who will then decide on the relevant courses of action and disseminate the required information through efficient communication channels. When necessary, the Business Continuity Plan will be activated to maintain the functionality of critical operations.

- ***Other.*** Although Nan Shan will no longer be required to adhere to the rules and regulations as a subsidiary of a US listed company after Acquisition Completion, as a Subsidiary of a US listed company prior to Acquisition Completion, Nan Shan has also implemented controls required under various US regulations, such as the Foreign Corrupt Practices Act and the requirements of Office of Foreign Asset Control established by the US Treasury Department.

Market risk management

Please refer to Note 4.2.2 of the Accountant's Report for a detailed analysis on how Nan Shan manages its market risks. In particular, Notes 4.2.2(a), (b) and (c) of the Accountant's Report describe how Nan Shan manages its interest rate risks, foreign exchange rate risks and equity risks, respectively.

Further, Nan Shan's Investment Committee is responsible for monitoring and managing investment-related risks. Among other responsibilities, the Investment Committee monitors investment strategies and performance and reviews investment risks, including any exposure to real estate and financial institutions related risks. The personnel responsible for investing in each asset class must report to the Investment Committee on a monthly basis to ensure all investment performance and strategies are monitored.

Credit Risk Management

Please refer to Note 4.2.1 of the Accountant's Report for a detailed analysis on how Nan Shan manages its credit risks.

Historically, Nan Shan leverages on AIG's global risk management policies in determining credit limits and the counterparties it transacts with. Following Acquisition Completion, it is envisaged that a separate set of credit and counterparty risks guidelines will be put in place which are similar to those that have been in place prior to Acquisition Completion. Any changes to such guidelines will need to be approved by appropriate authorisation. Further, Nan Shan will continue to conduct weekly credit monitoring meetings to investigate and assess any volatility in the securities that it has invested in and also conducts credit analyses and verifies available counterparty credit limits for investment transactions. Investment portfolios are also to be reported on and reviewed quarterly according to categories of credit ratings, country, maturity, industry, issuer and bank exposure.

Asset and liability risk management

Nan Shan has adopted the following measures to manage asset liability risks:

- *Duration.* Nan Shan periodically monitors the duration of its assets and liabilities to analyse their sensitivities to interest rate movements and to adjust its investment strategy, if necessary, based on the projected asset and liability cash flows. The annual appointed actuary's report will also provide a detailed analysis and evaluation of Nan Shan's duration matching management.

- *Interest Rate Sensitivity.* Nan Shan monitors trends in interest rates, and its Investment Department meets at least monthly with its Actuarial Department to discuss the trends in interest rates movement and determine the pricing interest rates and credit interest rates of insurance products as well as the policy loan rates, dividend accumulation rates and asset liability management.

Insurance risk management

Nan Shan manages its insurance risks through the management of each component of insurance risk. Please refer to Note 4.1 of the Accountant's Report for a detailed analysis on how Nan Shan manages each component of insurance risk.

Liquidity risk management

Please refer to Note 4.4 of the Accountant's Report for a detailed analysis on Nan Shan's management of liquidity risks.

6.16 **Internal Control System**

Underlying principles

Nan Shan's internal control system is designed by its management and has been approved by the Nan Shan Board. Nan Shan's internal control system aims to ensure that Nan Shan achieves its objectives in operations, financial reports and regulatory compliance in a reasonable manner.

In addition to these general principles, internal control policies and procedures have been developed for certain functions within Nan Shan, including: insurance product development, sale of insurance products, insurance claim processing, investment, solvency assessment, derivatives transactions, reinsurance, finance and accounting related control operations and human resources and personnel management. These internal control policies and procedures are reviewed at least once a year by management.

Regulatory requirements on internal control

Nan Shan's internal control is subject to strict, regular and consistent review both internally and externally. Nan Shan's internal controls system must meet the requirement imposed by the FSC and any failure to comply with such requirements would invite serious penalties or even orders to suspend the provision of certain services. As such, Nan Shan's internal audit team must conduct its internal review of Nan Shan's internal controls system periodically and submit to the FSC an internal control statement annually. Further, the FSC will conduct an examination of Nan Shan's internal controls system once every two years (or more regularly if the FSC is of the view that such audit is necessary).

As a subsidiary of AIG, Nan Shan is required to adhere closely to the internal control requirements of section 404 of the Sarbanes-Oxley Act to ensure that information required to be disclosed in the financial reports is properly recorded, processed, summarised and reported as appropriate. In 2009, in compliance with section 404 of the Sarbanes-Oxley Act, Nan Shan has tested and assessed various key controls, including the existing Sarbanes-Oxley key controls, balance sheet reconciliation and Accounting Close Memo and no material issues were found. Following the separation process from AIG, Nan Shan will no longer be required to comply with the requirements of the Sarbanes-Oxley Act, and accordingly, quarterly certificate on financial results and internal controls will not be submitted to AIG.

In addition, external auditors are engaged to perform independent assessment of Nan Shan's internal control system. For the years between 2004 and 2009, there has not been any significant deficiency or material weaknesses in respect of Nan Shan's internal control system.

Misconduct of agents and employees

Nan Shan has been subject to litigation and proceedings as a result of misconduct by its agents and employees. Please refer to the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.20 Legal and Regulatory Proceedings" of this circular for further details. Nan Shan considered that the misconduct by its agents and employees are not an indication of material internal control issue. In fact, one of the purposes of setting up Nan Shan's internal control system is to monitor and minimise any potential misconduct engaged by its agents and employees. Nan Shan had incentives in place to encourage and educate its agents and employees to closely adhere to the prescribed guidelines and procedures. In any event, regarding the misconduct issue by agents and employees of Nan Shan, Nan Shan has taken relevant improvement actions to enhance its internal control system, including but not limited to enhancing the control of conditional binding receipt, and improving business solicitation practices. In addition, to mitigate the misconduct risk, Nan Shan has strengthened its compliance related education and training for its employees and agency force, such that each staff and agent should complete certain training courses on business regulations, work ethics, leadership, compliance, internal regulations and policies, prevention of fraud, customers complaints handling policies and handling of agent malpractices. Nan Shan will also extend its training to its staff and agency force by promoting seasonal compliance campaigns as part of the compliance training materials to agency offices for internal discussion and reporting purposes.

The Internal Audit Team

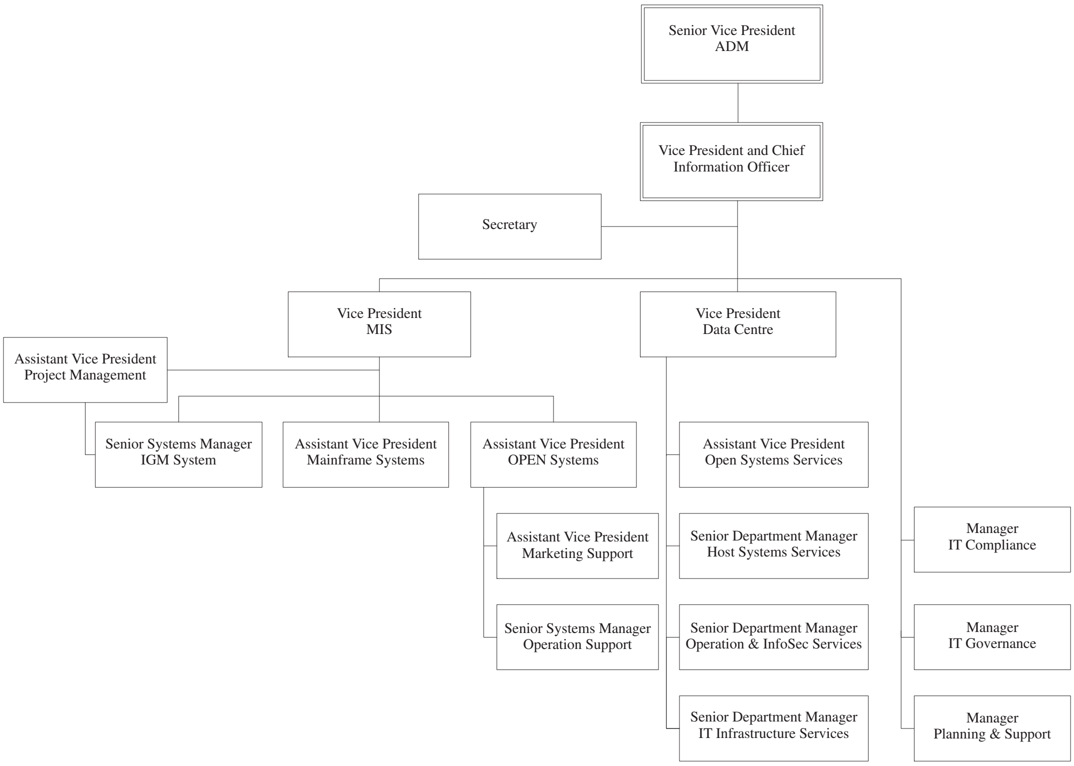
Nan Shan has established an internal audit team to execute and ensure compliance by each business unit of its internal control policies and procedures. The internal audit team is responsible for monitoring each department at Nan Shan and producing audit reports for Nan Shan's Supervisors and the FSC's review. The internal audit team will also report to the Nan Shan Board the results of its audit and the status of and the progress of remedies put in place to improve the internal audit system.

6.17 **Information Technology**

Overview

Information technology is key to Nan Shan's operations. Nan Shan relies on information in its product development, underwriting, customer services and claims settlement, sales support and channel management, customer relationship management, investment management, actuarial practice, financial management and risk management functions. Although Nan Shan's information technology systems are largely centralised, it also has a disaster recovery mechanism that reduces the risk of system failures and the impact these failures may have on its business.

Decision-making mechanism and professional team



Planning and development

Nan Shan's Operations and Systems organisation fully supports the strategic goals of its business. Nan Shan has a Project Management Office whereby project managers help coordinate and conduct feasibility studies, along with testing the cost effectiveness of certain initiatives.

Features

The key features of Nan Shan's information technology systems include: distribution and sales support functions, product operational support for Application Case processing, New Business processing, Policy Change Management, Claims Settlement, Customer Centre, Billing, as well as Corporate Support to departments such as Finance and Accounting, Actuarial management, Investment management, and Human Resources management.

Nan Shan's sales support systems provide its agents with a need-and-gap analysis system, which not only assists them with understanding prospective customers' requirements, but also allows them to access various pre-sale support tools, such as a sales illustration system and trial underwriting through eApplication. Nan Shan also has a personal digital assistant portal embedded with internal access and messaging for agents, which provides them with greater mobility and the means of delivering better customer service.

In addition, Nan Shan delivers services to its agents and customers through a comprehensive eService information portal and a Call Centre network with computer telephone integration technology and interactive voice response system support. Nan Shan is also the first insurance company in Taiwan to adopt network technology which provides talk-over-the-net service in its portal.

Nan Shan's distribution channel support systems give its sales force within the bancassurance distribution channel access to individual websites dedicated to banks, as well as data exchange mechanisms which are tailored to the banks' requirements. Further, Nan Shan is able to engage in database marketing and can up-sell and cross-sell through its data warehouse system, campaign management and tracking system, and call centre telemarketing system. Online sales and registration of policies are also possible with the use of internet and eCommerce digital signatures.

Most of the processes accessed by customers have been automated to make transactions more efficient. The Image and Workflow technology which was adopted by Nan Shan in 1999 has been implemented and developed into the key insurance systems at Nan Shan for policy processing in the areas of underwriting, policy issuance, policy change and claim settlement.

Nan Shan's operation support systems provide an internet-based Agency Assistant System that virtually centralises the operations of Nan Shan's branches and agency offices on Image and Workflow, including new business processing, customer policy services and claims settlement. In addition, there is a Counter Service Automation system that supports the counter staff.

Nan Shan's life product policy administration relies on two core systems: LifeComm, which offers support to traditional product policy administration; and Ingenium, which is a new generation client-centric, web-enabled policy administration system that offers support to all lines of life insurance products. It also utilises the Compass 2000 system for the basic policy administration of group life products. Nan Shan has experienced MIS engineers, technicians and specialists to maintain these systems.

Nan Shan's financial accounting systems provide support to its policy accounting, general ledger and other accounting administrative functions. The systems are capable of gathering and processing financial data and transactions for the purpose of management and financial analysis. Further, Nan Shan has an actuarial system in place for use in tasks such as reserve calculation, embedded value calculation, asset-liability modelling and cash flow projections.

Nan Shan's human resources systems use the PeopleSoft system for the purposes of staff management and maintaining a talent database. In addition, there is an Office Automation system under the StaffPortal website which is updated weekly with the latest company notices and information for staff, and updated on request for functionalities (such as leave requests and purchase requests) and knowledge management contents (such as insurance products, operation manuals and frequently asked questions).

IT infrastructure

The Company believes that Nan Shan's IT infrastructure supports its business growth in the medium-term. Currently, the IT infrastructure supports the processing of over eight million policies, including over 11 million in-force basic and long-term riders (being additional endorsements to insurance contracts which permits flexibility in adapting basic plans to individual needs) for over 4 million customers, over 4,000 employees and 37,000 agents. In particular, online services are available to agents and customers 24 hours a day, 7 days a week, and there is constant data centre operation support that maintains system performance and monitors network security.

6.18 **The AIG — Nan Shan Separation Process**

Identifying interdependencies

As part of Nan Shan's sale process, a separation team was established within Nan Shan in early 2009 and in coordination with AIG, members of which were assigned to each business function and corporate function at Nan Shan to:

- identify the business and corporate functions which share resources with AIG;
- develop separation strategies for each such function;
- develop separation and transition agreements and execution plans; and
- execute separation strategies and transition agreements.

Historically, Nan Shan has operated largely on a standalone basis with limited interdependencies on corporate functions or sharing resources or being dependent on AIG. The Nan Shan separation team has however identified the following key areas which have interdependencies with AIG and its affiliates:

- ***Human resources***: AIG shares information with Nan Shan on human resources management.
- ***Legal and compliance***: AIG shares information with and provides technical support to Nan Shan on the US regulatory and compliance matters which AIG Group is required to comply with.
- ***Investment / risk management***: AIG shares information with and provides facility and technical support to Nan Shan in respect of Nan Shan's foreign investment, market risk and credit risk management.

- ***Finance and accounting***: AIG shares information with and provides technical support to Nan Shan in preparing financial information for consolidation with AIG's financial accounts.

- ***Actuarial / product***: AIG shares market information and product ideas with Nan Shan.

- ***Information systems***: AIG shares information with and provides facility and technical support to Nan Shan in Active Directory and Exchange Services, third party software products, networking, system development and system maintenance.

It is the objective of the separation process that, on or prior to Acquisition Completion, Nan Shan will be completely independent of AIG and no major changes to Nan Shan's existing operations will be required. As at the Latest Practicable Date, the Company understands from Nan Shan that the seperation process is close to completion.

Separation status

Following Acquisition Completion, the Company has been informed by Nan Shan that Nan Shan will no longer require any support or services in relation to its legal compliance, finance and accounting functions as the support from AIG relates to compliance with US-related accounting and regulatory requirements which will no longer be relevant following Acquisition Completion. The Company also understands from Nan Shan that it is also of the view that it has the requisite information and technical capabilities in managing its human resources. In respect of the actuarial and product functions, following Acquisition Completion, notwithstanding that AIG will no longer share any market information or product ideas with Nan Shan, the Company remains of the view that the existing Nan Shan actuarial and product teams are well positioned to develop new product ideas and that the Group's management team (including Nan Shan's management team) will have sufficient access to market information relevant to Nan Shan's operations in Taiwan.

Accordingly, Nan Shan identified three key areas which require specific separation strategies and execution plans: investments; risk management; and information systems.

(a) ***Investments***

Historically, as part of the AIG group, Nan Shan's foreign investment portfolio was managed by AIG's internal fund managers. Following Acquisition Completion, Nan Shan's foreign investment portfolio will be brought under Nan Shan's internal management or outsourced to selected fund managers for management.

In addition, Nan Shan has also, to a limited extent, shared information with AIG on research analysis. As part of the separation process, Nan Shan enhanced its research teams and its analysis capabilities. The Company believes that Nan Shan will, following Acquisition Completion, have the necessary research and analysis capabilities and resources to ensure that no major changes to its investment and hedging operations will need to be made.

(b) ***Risk management***

In respect of the management of market risk and credit risk, Nan Shan has historically leveraged on AIG's global risk management policies. As part of the separation process, Nan Shan enhanced its risk management team and also outsourced the preparation of its market risk management report to a third party provider.

In respect of the management of credit risk following separation from AIG, Nan Shan is in the process of enhancing its internal credit risk management function with reference to the AIG global credit policy.

(c) ***Information systems***

Historically, Nan Shan had support from AIG for its active directory and exchange services. In preparation for separation from AIG, Nan Shan has contracted with a third party provider to establish an independent active directory and exchange services platform. The active directory and exchange services platforms have been completed.

In order to maintain its application system support and development, Nan Shan has further enhanced its local competency and has also outsourced some of the programming functions to third party contractors, where necessary. For development and maintenance of all main application systems, Nan Shan has enhanced its in-house capability with part of the programming work outsourced to outside vendors when necessary. Nan Shan is seeking to obtain its own licences with the vendors where such licences are not already in place. With respect to the governance and maintenance of its information systems, Nan Shan has begun the process of hiring internal technical engineers.

As at the Latest Practicable Date, this separation is close to completion (and is targeted to be completed prior to Acquisition Completion). Following separation of interdependencies between Nan Shan and AIG, the Company and Nan Shan may enter into business relationships with AIG in the future on an arm's length basis.

6.19 **Competition**

Nan Shan faces competition in its life insurance business. Competition in the insurance industry is based on many factors, including price, sales force strength and abilities, product design capability, customer service, claims services, reputation, perceived financial strength and the experience of the insurance company in the line of insurance to be written.

As at 31 August 2009, there were 22 domestic life insurance companies and seven foreign life insurance companies with branches in Taiwan. However, the Taiwan insurance industry is considered to be fairly concentrated in that the market is dominated by a number of major players with long operational histories, extensive customer bases, strong distribution capabilities and reputations for quality service. Based on the statistics in *Premium Receipts of Life Insurance Companies (2008)* published by the TII, the top five insurance companies in Taiwan accounted for 60% of the total premiums in the life insurance industry in 2008. The remaining 40% is distributed among the other 24 companies, with many having an individual market share of less than 1%.

Nan Shan holds a solid competitive position in the industry. Nan Shan's market share in the Taiwan life insurance market, in terms of total premiums, based on industry data published by the TII, was over 11% in 2008 (including both domestic foreign life insurance companies).

6.20 **Legal and Regulatory Proceedings**

General

Nan Shan's management at each corporate level is responsible for compliance with laws, regulations and internal policies within their departments. Nan Shan's branches are required to report material customer dispute cases, agent fraud cases, litigation and regulatory matters to the head office on a timely basis. Nan Shan may penalise its employees or individual agents who commit misconduct or fraud, breach the terms of their employment or agency agreements, exceed their authorisation limits or fail to follow prescribed procedures in delivering insurance policies and premium payments, in each case having regard to the severity of the offence. In addition, Nan Shan conducts regular courses and seminars to ensure employees and individual insurance agents are kept up to date on the evolving legal and regulatory framework of the Taiwan insurance industry.

As at 31 December 2009, based on information provided to the Company by Nan Shan and information contained in the Disclosure Letter, Nan Shan was involved in approximately 130 on-going litigation proceedings. Save as disclosed in this section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.20 Legal and Regulatory Proceedings" of this circular, the Directors are not aware that Nan Shan was involved in any litigation, arbitration or administrative proceedings that would, individually or in aggregate, have a material adverse effect on its financial condition or result of operations other than in the ordinary course of its business.

Legal and regulatory proceedings disclosed in the Disclosure Letter

Pursuant to the Share Purchase Agreement, the Seller has warranted to the Purchaser that there are no material claims, demand, action, suit, arbitration, investigation or proceeding by or before any governmental authority, court, tribunal or arbitration body, such warranty being qualified by the Disclosure Letter. As disclosed in the Disclosure Letter, Nan Shan has been subject to various litigation and disputes from time to time, the material ones of which are described in summary below:

(i) On 9 September 2008, a civil complaint seeking damages of NT$677,198,802, in connection with the criminal case alleging that Nan Shan be jointly and severally liable with a director of another company for illegally granting subscription rights for new shares to companies controlled by this director. Hearings have been held at the Taipei District Court in relation to the director's breach of trust and violation of securities laws and regulations in connection with embezzlement of funds via an investment management company not affiliated with Nan Shan.

(ii) Nan Shan was subject to a claim by a former agency leader who was demoted to a business representative for loss of remuneration amount to NT$1,852,524 due to the termination of such contract. It was held it was not a labour contract, and the fact that Nan Shan purchased labour and health insurance did not determine whether the former agent was an employee of Nan Shan. Nevertheless, Nan Shan paid compensation of NT$402,780 for vocational injuries and NT$25,443 for membership fees, labour and health insurance premiums and benefits.

(iii) On 27 May 2009, an agent filed for labour dispute mediation with the Department of Labour following his unsuccessful attempt to request Nan Shan to accord him employee status and pay the retirement pension prescribed by the Labour Pension Law. Following an unsuccessful mediation session on 15 July 2009, the agent brought a civil suit against Nan Shan, demanding a cash payment of NT$273,078 plus a monthly deposit of statutory retirement benefits. The court subsequently convened two sessions by 29 October 2009 and 9 December 2009. The next session will be held on 26 February 2010.

(iv) Nan Shan was subject to a claim from 409 agents who alleged they had terminated their mandates to Nan Shan in respect of the provident funds on 20 August 2009 and requested withdrawal of all of their entitlements under the provident funds, together with compensation for their share of the investment losses sustained by the provident funds in 2008. The total amount claimed is NT$486,481,598. Please see the section headed "Part E — Information about Nan Shan — 1. Risk Factors" of this circular for further information on risks in connection with this litigation.

(v) Following a change of beneficiary in a policy on 12 March 2007, Nan Shan received an enforcement order prohibiting it from paying any benefits and from changing the beneficiary. Nan Shan filed an argument on 29 August 2008 stating that the beneficiary had already been changed, but the policy holder unsuccessfully claimed the maturity benefits from Nan Shan. Nan Shan appealed against the enforcement order and an action was brought to determine if the change of beneficiary was effective.

(vi) Nan Shan was subject to a claim by a landlord alleging that Nan Shan had damaged the premises and withheld NT$4.76 million from Nan Shan's security deposit. Nan Shan claimed that it need only hand over the premises in an "as-is" condition. The case was settled in November 2009, the landlord returned the deposit (NT$3,542,695) after Nan Shan brought the case to court. Subsequently the parties reached settlement and the landlord returned NT$417,341 of the remaining deposit (NT$1,217,341) to Nan Shan.

(vii) Nan Shan was subject to a claim by a senior employee against a former chief auditor of Nan Shan for losses suffered due to submitting what was alleged to be an incorrect auditor's report to the regulator. Nan Shan had agreed to indemnify losses and damages arising out of the auditor's performance of employment duties. The senior manager who brought the case was a manager of Kaohsiung Branch who was ordered to discharge his managerial position by the IB in a disciplinary action against Nan Shan. He claimed this discharge was based on misleading information provided in the auditor's report to the IB, and claimed he was not the manager of Kaohsiung Branch when the agent's misconduct and fraud were committed. Nan Shan believes the auditor report did not contain any false or misleading information and such employee's allegation was baseless. The employee had issued a demand letter to Nan Shan's former chief auditor but no legal action had been brought. Nan Shan considers that such baseless allegation will not affect its performance in the future.

(viii) Since the enactment of the Labour Pension Act in 2005 provides for benefits applicable to employees and not to independent contractors, an unidentified number of Nan Shan's agents have claimed that they should be accorded employee status. As such, Nan Shan may have to contribute to pensions for such persons, pay labour insurance and national health insurance premiums in respect of such persons, and afford such person protection under the Labour Standards Law.

(ix) Following the establishment of the Nan Shan Agent Self-Help Association by agents in 2009, the Seller had offered each agent the opportunity to pre-withdraw a certain amount from his or her entitlement under the relevant provident fund. The aggregate sum of such payments to the agents would amount to approximately 27% of the value of the provident funds (which, as at the date of the Disclosure Letter, would equal to approximately NT$3,906 million). Please refer to the section headed "Part H — Additional Information — 4. Developments Regarding Nan Shan's Agents and Employees Since the Date of the Share Purchase Agreement" of this circular for further development on the provident funds.

(x) The Nan Shan Self Help Association has also made a number of other requests in relation to the Acquisition including compensation for past and future losses due to the AIG Event and the Transactions as well as unquantified amount of compensation to be provided to agents if they are re-characterised as employees since 1998 and the provision to each agent of certain unquantified sums commensurating such agent's service period, under the concept of "cash out one's seniority" under Taiwan law.

(xi) On 1 July 2005, the Labour Pension Law established a new scheme and restructured the pension fund system. Nan Shan was fined NT$500,000 for not contributing to the labour pension for those of its agency leaders whose labour insurance it has paid from August to December 2005. Nan Shan paid the fines but filed four appeals against the decision. Nan Shan and the representatives of the agency leaders subsequently signed a joint statement on 28 December 2005 stating that agency leaders are independent contractors rather than employees of Nan Shan. Nan Shan withdrew the appeals and in 2006, received written confirmation that it would no longer be fined.

(xii) Nan Shan filed a complaint with the Kaohsiung District Prosecutor's Office and to the Criminal Investigation Bureau against a group which fraudulently enticed individuals to join schemes with promises of high-interest time deposits and complimentary insurance. The alleged fraud involves gains exceeding NT$300 million. To protect its interests, Nan Shan applied for provisional seizures against members of the group and 11 other agents. Nan Shan received official notification that three of these members were indicted for violating the law, fraud and forgery, and that the other agents were not prosecuted. In terms of the non-prosecution decision, Nan Shan had filed an application for reconsideration to the Kaohsiung District Prosecution Office on 5 October 2009. On 1 November 2009, Taiwan High Prosecution Office notified that the reconsideration applied by Nan Shan was granted. The case will be transferred to the Kaohsiung District Prosecutors Office for successive investigation. For those three agents who were prosecuted, the Kaohsiung District Court undertook the case and Nan Shan was informed a hearing was held on 30 November 2009. However, no complainant was summoned.

(xiii) Based on the above criminal case, Nan Shan filed civil actions with the Kaohsiung District Court against the agent and 12 other agents, alleging that they were jointly and severally liable for damages of NT$30,000,000 to Nan Shan caused by their criminal action. The first hearing was held on 27 May 2009. The most recent hearing was held on 7 October 2009 and Nan Shan has not received any further notification of the next hearing.

(xiv) On 26 December 2008, Nan Shan received a complaint in which a policyholder alleged that he had purchased a three-year deposit insurance policy through the solicitation of an individual involved in the criminal case stated in the previous litigation case and Nan Shan agreed to provide life and accident insurance without knowing the criminal offence of such individual. It was alleged that Nan Shan be jointly and severally liable for the damages of this individual. Nan Shan intends to settle with the bona fide victims of the fraud litigation. Nan Shan has set aside a provision of approximately NT$100 million for the proposed settlement. Further to this litigation, Nan Shan filed civil actions with the Kaohsiung District Court against, among others, 12 other agents, alleging that they are jointly and severally liable for damages to Nan Shan. The claim for damages amounts to NT$30 million. Nan Shan has petitioned the court to suspend this case until the conclusion of this civil litigation against Nan Shan.

(xv) From 1995 to 2008, an agent forged certain policyholders' signatures on contract change application forms, loan agreements and policies and misappropriated the premiums of certain customers amounting to NT$3,309,617. The agent's contract was terminated. Nan Shan filed a complaint with the Banciao District Prosecutor's Office where the case is currently under investigation and also filed a petition with the Taipei District Court to provisionally attach the agent's assets for an amount of NT$15,000 and intends to file a civil action against her after she is indicted.

(xvi) In August 2008, Nan Shan found that an agent had misappropriated premium payments of a policyholder from 2000 to 2005, amounting to NT$6 million. Nan Shan terminated his agency contract and revoked his registration qualification on 3 September 2008, and filed a complaint and a petition to provisionally attach his assets in October 2008. The Banciao District Prosecutor's Office started criminal investigations. On 19 March 2009, Nan Shan reached settlement and he agreed to return the misappropriated sums in instalments.

(xvii) In February 2002, Nan Shan received a complaint from policyholders about certain insurance policies in connection with an agent who had been misappropriating the premium payments of 33 policies since 2000, amounting to NT$3,729,518. Nan Shan terminated his agency contract, revoked his registration qualification in March 2002 and filed criminal actions against him in October 2002. The agent was seized in 2007 and Nan Shan brought civil claims against him for damages in March 2008. The criminal case is pending in Taipei District Court.

(xviii) Two policyholders alleged that that their insurance policies were void, as the agent who they purchased the insurance products from had signed the application form on their behalf. They sought to recover the premiums which they had paid, amounting to NT$4,127,363. The case is currently under the jurisdiction of the Taichung District Court.

(xix) Two policyholders claimed that they had purchased annuity policies from Nan Shan in 2003, but were not informed by the agent soliciting the policies that any redemption of a policy before its maturity date would be subject to certain charges. They claimed that, in comparison with time deposits offered by banks, such charges were unreasonable and they had been misled by the agent soliciting the policies, thus rendering such policies void. They sought to have premiums amounting to approximately NT$14 million returned.

The Company has appointed Taiwan legal advisers to advise it on some of these litigations and proceedings. The litigation involving agent's claim of payments in connection with the provident fund will be dealt with separately as described in the section headed "Part E — Information about Nan Shan 1.1 Risks Relating to Nan Shan's Business — Nan Shan may become exposed to litigation in addition to ongoing litigation involving its insurance operations" of this circular for further details.

As the Seller has not granted any indemnity to the Purchaser under the Share Purchase Agreement for any losses or damages suffered by the Purchaser in relation to Nan Shan's litigations and proceedings, Nan Shan will be responsible for the liabilities arising from the litigations and proceedings as contemplated under the Disclosure Letter and the Purchaser will bear the potential losses arising from such liabilities.

The litigation and proceedings of Nan Shan as disclosed in the Disclosure Letter will continue to be litigation and proceedings of Nan Shan. Accordingly, Nan Shan will need to resolve these matters. As there is no provision under the Share Purchase Agreement requiring the Seller to indemnify the Purchaser or Nan Shan for the losses incurred as a result of the litigation and proceedings disclosed in the Disclosure Letter, Nan Shan will continue to bear any potential losses arising from such proceedings.

Other Legal and Regulatory Proceedings which are not disclosed in the Disclosure Letter

In addition to information contained in the Disclosure Letter, Nan Shan has also informed the Company that it has been subject to the following recent litigation and disputes:

(i) Recently, two policyholders alleged that their children had not signed the application forms by themselves when the agent presented the forms to them, and argued that it was the agent who signed for them. The policyholders claimed that the life insurance policy was void and Nan Shan had to return applicant's premium of NT$413,696, which Nan Shan had agreed to in order to protect its image. According to the agent contract and regulations, Nan Shan is entitled to ask the agent to pay back the losses and commissions earned from such solicited insurance policies. However, the agent refused and brought a suit against Nan Shan. The case is currently under the jurisdiction of the Taiwan Taichung District Court. The latest session was held on 28 January 2010 with the judgment scheduled to be handed down on 24 February 2010. The Company understands that Nan Shan estimates the monetary impact to it is approximately NT$1.3 million if the court rules against Nan Shan.

(ii) An agency leader claimed that she was caught in a car accident on her way to a client on 12 June 2006 and following that suffered from convulsion and epilepsy. She argued that she was an employee of Nan Shan and therefore entitled to a occupational disaster compensation of NT$1,182,191 pursuant to the provisions set forth in the Labour Insurance Act and the Labour Standards Act. The last hearing was held on 28 December 2009. Nan Shan argued that the agent was not an employee and has not received any further notification of the next hearing. The Company understands that Nan Shan estimates the monetary impact to it is approximately NT$1.2 million if the case is ruled against Nan Shan.

(iii) An agent of Nan Shan requested that Nan Shan accord him employee status and pay him the retirement pension as prescribed under the Labour Pension Law. On 9 November 2008, he wrote to the Bureau of Labour Insurance and other labour administration offices demanding that Nan Shan make contributions to his labour pension pursuant to the Labour Pension Law. Nan Shan endeavoured unsuccessfully to settle the dispute. On 27 May 2009, he filed for labour dispute mediation with the Department of Labour of the Taipei City Government. Following an unsuccessful mediation session on 15 July 2009, he subsequently brought a civil suit against Nan Shan to the Taipei District Court. Subsequent to another unsuccessful mediation session on 22 September 2009, the court subsequently convened two sessions by 29 October 2009 and 9 December 2009. The next session will be held on 26 February 2010. The Company understands that Nan Shan estimates the monetary impact to it is approximately NT$1.3 million if the case is ruled against Nan Shan.

(iv) An ex-employee of Nan Shan had executed the mandate agreement with Nan Shan on 10 August 2006 to serve the vice president of the corporate research and development center of Nan Shan. Pursuant to the mandate agreement, the payment of year-end bonus and performance bonus shall follow the rule of Nan Shan. By 31 May 2009, Nan Shan terminated this mandate agreement. The ex-employee brought a suit to the Taipei District Court against Nan Shan for the performance bonus of 2008 and the adjustment of salary of 2009 in the amount of NT$332,913. The ex-employee also claimed that Nan Shan is required to give her 246 restricted stock units which Nan Shan committed to provide to her. The Taipei District Court convened a mediation session on 5 January 2010 and negotiations failed. The case will enter the litigation process. The Company understands that Nan Shan estimates the monetary impact to it is approximately NT$0.3 million, if the case is ruled against Nan Shan.

(v) A former project manager of the customer relationship department of Nan Shan claimed that she has been employed by Nan Shan for 22 years, yet she was informed by Nan Shan that, due to serious financial losses, Nan Shan would terminate her employment on 1 January 2009. The plaintiff alleged that she was threatened into signing the agreement of termination and that Nan Shan did not sustain serious financial losses as it claimed. She argued that this constituted a violation of the provisions set forth in the Labour Standards Act and therefore filed a civil action to (a) revoke her agreement; (b) determine if the her employment agreement with Nan Shan is still valid; and (c) claim for payments of monthly salaries starting from 1 January 2009. The case was submitted to the Taipei District Court. The next hearing is scheduled for February 26, 2010.

(vi) One of Nan Shan's policyholders filed a criminal complaint against Nan Shan's chairman, vice chairman and chief executive officer to the Taipei District Prosecutors Office on 10 December 2009. Based on the information contained in a news report, the complaint relates to Nan Shan's real estate investment in the "Rich 19" building in Taichung in November 2009. The news report suggests that the alleged criminal charge may amount to the breach of faith to Nan Shan's shareholders and policyholders. Up to the date of this circular, no material was received for this specific complaint. In order to protect the innocence and reputation of Nan Shan's chairman, vice chairman and chief executive officer, a counter-complaint of false allegation against the policyholder has been filed with the Taipei District Prosecutors Office on 20 January 2010. Nan Shan is awaiting summons for the investigation hearing.

(vii) In 1984, Nan Shan established two provident funds for its agents and agency leaders and established the Provident Fund Management Committee to manage the provident funds. It also implemented the Rules for Agency Provident Funds which provide that an agent can receive their entitlement under the relevant provident funds only upon termination of their agency agreement or in the event of death. In 1998, a number of Nan Shan's agents set up Nan Shan's labour unit which, although is not recognised by Nan Shan as an official labour union as it is contrary to applicable law, it consists of agents instead of employees. In early December 2008, the labour unit argued that its members were entitled to withdraw their entitlements to the provident funds at any time and brought a case to the labour department. As no agreement was reached during the mediation process, the labour unit filed several criminal complaints against the former members of the Provident Fund Management Committee in late December 2008. The Taipei District Prosecutors' Office has instructed the IB to investigate the case. The current and former members of the Provident Fund Management Committee have been interviewed by the IB on 29 and 30 September 2009. It is unlikely that the aforementioned members of the Provident Fund Management Committee will be indicted.

(viii) A previous unit manager and his subordinate agents claimed that they were employees of Nan Shan and that Nan Shan's unilateral action in terminating their contracts without prior notice constituted a violation against the Labour Standards Act, and they are therefore entitled to receive severance payments. The case is currently under the jurisdiction of the Taipei District Court and the judge has formulated the issues. The next hearing is scheduled for 25 February 2010. The Company understands that Nan Shan estimates the monetary impact to it is approximately NT$0.8 million if the case is ruled against Nan Shan.

(ix) An ex-agent applied for retirement and requested Nan Shan to pay the retirement pension and apply for annuity for her. Nan Shan argued that her relationship with Nan Shan was not employment, and therefore the retirement pension as prescribed under the Labour Standards Act was not applicable in her case. She terminated her contracts with Nan Shan and filed for an action to demand Nan Shan to pay the retirement pension at the amount of NT$1,818,660. The judge has formulated the issues on 7 January 2010 and the case is pending in the Taipei District Court. The Company understands that Nan Shan estimates the monetary impact to it is approximately NT$1.8 million if the case is ruled against Nan Shan.

Potential impact of proceedings involving Nan Shan's agents potentially being treated as employees

The Company understands from Nan Shan that its considers its legal relationship with its agents as contractual rather than an employer-employee relationship. Nan Shan is of the view that if this status is in dispute, it should be subject to the decision of the Taiwan civil court on a case-by-case basis and that no party is in any position to unilaterally determine the content and merit of this relationship. Accordingly, taking into account the merits of the existing proceedings, the Company understands that Nan Shan currently does not consider any of these proceedings to be contingent liabilities which requires provisioning in its financial accounts.

During Nan Shan's operating history, it has entered into different versions of the agency contract with its agents. Accordingly, the Company understands that Nan Shan is of the view that even if it loses one of the proceedings relating to this issue, it will not necessarily need to alter its evaluation of the legal position for other related or similar proceedings or change its evaluation on the financial impact such outstanding proceedings may have on its financial position. However, the Company understands that if Nan Shan subsequently loses several similar proceedings, it may be forced to re-evaluate the legal position of such proceedings and consider their potential impact on its financial condition and results of operation. As at the Latest Practicable Date, based on the precedents existing in the Taiwan courts Nan Shan remains of the opinion that it has a contractual relationship with its agents. Accordingly, the Company understands that Nan Shan remains of the view that no re-evaluation is needed on its legal position on the outstanding proceedings or of their impact on Nan Shan's financial condition and results of operation.

Tax disputes

Nan Shan has several ongoing tax proceedings or litigation, including tax disputes for income tax for the years 1999 to 2004 and income tax for surplus earnings which were not distributed for the years 2001 and 2003. These are currently under review by the Supreme Administrative Court or on administrative appeal or re-examination. The total potential claim on Nan Shan's pending tax disputes in aggregate is approximately NT$1,065 million.

Other fines

(i) The FSC had assessed NT$3,300,000 in fines on Nan Shan in August 2009. These fines were assessed on the basis that Nan Shan was found to have violated provisions under the Insurance Act by undervaluing the premium deficiency reserve and paying foreign currencies to policyholders of policies denominated in NT$ in general business examination in 2007. The provisions which Nan Shan had failed to comply with were Article 16 of the Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises, Article 15 or 20 of the Regulations Governing Pre-sale Procedures for Insurance Products, and Article 18, Paragraph 1 of the Regulations Governing Investment-Linked Insurance Investment.

(ii) In April 2009, the FSC imposed a penalty of NT$3,000,000 on Nan Shan for breach of certain insurance regulations. The FSC stated that the solicitation of insurance through time deposit programs by an agent of Nan Shan and the misuse of conditional binding receipts for fraudulent funds collection by such agent resulted from deficiencies in Nan Shan's internal controls. The FSC ordered the discharge of the manager of the Kaohsiung branch office. The FSC also prohibited Nan Shan from registering new agents for a period of three months to be discharged from 30 April 2009.

(iii) The FSC had assessed NT$0.9 million in administrative fines on Nan Shan on 15 January 2010. These fines were assessed after the FSC reviewed Nan Shan's annual report and discovered that the aggregate amount of investment in an unspecified company exceeded 10% of such company's paid-in capital and capital surplus during the 2008 calendar year, which is in violation of Article 7 paragraph 3 of the ROC Regulations Governing Foreign Investment of Insurance Enterprises and Article 146-4 paragraph 3 of the ROC Insurance Act. The amount fined was determined in accordance with Article 168 paragraph 4 of the same Act.

6.21 **Human Resources of Nan Shan**

As at 31 August 2009, Nan Shan had 4,527 employees in Taiwan, comprising of 4,187 permanent employees and 340 contract staff.

Functions	**Head office**	**Branch**	**Agency**	**Total**
Distribution Including Product Development and Management	482	554	519	1,555
Operations				
- Administration (Excluding IT)	473	823	0	1,296
- Actuarial (Excluding Product Development and Management)	43	0	0	43
- Finance & Accounting / Premium Collection	168	478	0	646
- Investment	176	0	0	176
- IT	237	0	0	237
- Others	234	0	0	234
Total	1,813	1,855	519	4,187

The following table sets forth the total number of Nan Shan's employees by education as at 31 August 2009:

Level of Education	Number of Employees	% of Total
High School	403	9.6
College	1,134	27.1
Bachelor Degree	2,202	52.6
Masters Degree	448	10.7
Total	4,187	100

The Company understands that Nan Shan's sustainable growth depends on the capability and dedication of its employees, and that Nan Shan recognises the importance of human resources for improving its business and results of operation. Nan Shan has therefore devoted substantial attention and resources to recruitment and training. Nan Shan also provides its employees with benefits in accordance with Taiwan laws and regulations.

6.22 **Properties of Nan Shan**

Nan Shan's headquarters is located at Nan Shan Financial Centre, 168 Zhuang Jing Road, Xinyi District, Taipei City 11049, Taiwan.

Nan Shan currently owns and occupies an aggregate gross floor area of approximately 524,545 sq.m of properties in Taiwan for offices, retail outlets and warehouses. Colliers International, an independent valuer appointed by the Company for the purpose of the Acquisition, has valued the owned property interests as at 31 December 2009 at approximately NT$51,732 million. The text of the letter and the valuation certificates issued by Colliers International are set out in the Property Valuation Report in Appendix IV of this circular.

Nan Shan has 355 leased properties with an aggregate gross floor area of approximately 174,708.8 sq.m from independent third parties in Taiwan for its office space.

6.23 **Intellectual property of Nan Shan**

As at 31 August 2009, Nan Shan was the registered owner of eight trademarks and has applied for registration of one trademark in Taiwan.

As at 31 August 2009, Nan Shan was the registered owner of 52 domain names. Details of Nan Shan's registered intellectual property portfolio are provided in the section headed "Part E — Information about Nan Shan — 10. Statutory and General Information on Nan Shan — 10.2 Further Information about Nan Shan's Business" of this circular.

7. DIRECTORS AND SENIOR MANAGEMENT OF NAN SHAN

7.1 Directors and supervisors

Details of Nan Shan's directors and supervisors following Acquisition Completion are provided in the section headed "Part A — The Acquisition — 6. Directors of the Enlarged Group after Acquisition Completion — 6.6 Information on the Directors and Supervisors of Nan Shan" of this circular.

7.2 Senior management

Members of Nan Shan's senior management are responsible for the day-to-day management of Nan Shan's business. It is the Company's intention to retain existing senior management following Acquisition Completion. As at the Latest Practicable Date, there is no indication from any member of Nan Shan's senior management that any of them will resign from their positions following Acquisition Completion.

Mr. Frank Y.L. CHAN (陳潤霖), 64, has been the Managing Director and President of Nan Shan since May 2003. He has also been the Senior Vice President of the Life Insurance Division of AIG since 2002. Mr. Chan has over 40 years of experience in the insurance industry and was heavily involved with growing, developing and overseeing the life insurance operations of AIG in various parts of Southeast Asia.

Mr. Simpson HSU (徐水俊), 58, has been Nan Shan's Head of Sales and Marketing and the Chief Agency Officer since January 2010. Mr. Hsu has been with Nan Shan for 28 years and with AIG for 8 years. Mr. Hsu was previously the Chief Agency Officer of AIA China and the General Manager of AIA Shanghai branch. He started his career with AIA from April 2002, and was previously the Senior Vice President and Regional head of Northern, Branch Manager of Chungli and all Agency Office Manager in Nan Shan.

Mr. Ernest CHAN (陳潤權), 52, has been Nan Shan's Head of Operations since September 2003. Mr. Chan has been with AIG for 27 years, including 5 years with Nan Shan. Mr. Chan was previously General Manager of AIA in Shanghai from 2002 to 2003, and Regional Head of Finance and Accounting of AIA from 1999 to 2002.

Mr. Tony CHEN (陳彥廷), 40, has been Nan Shan's Chief Financial Officer since June 2009 and Head of Finance and Accounting since 2004. He has been with Nan Shan for 8 years. Prior to joining Nan Shan, Mr. Chen had approximately 10 years of finance experience.

Mr. Terence CHERN (陳正哲), 49, has been Nan Shan's Corporate Risk Officer since May 2009. Prior to this, Mr. Chern was Nan Shan's Chief Investment Officer. Mr. Chern has been with Nan Shan and AIG for 7 years and has over 22 years of industry experience. Prior to joining Nan Shan, Mr. Chern had more than 15 years of experience as risk officer, portfolio manager and corporate banker in Singapore and Taiwan.

Mr. Ian LUI (呂文熾), 47, has been Nan Shan's Chief Strategic Investment Officer since April 2009. Prior to this, Mr. Lui had over 21 years of experience as Chief Investment Officer, Managing Director and portfolio management for global investment in Hong Kong, Malaysia, Singapore and Taiwan.

Mr. Shih Nin LOW (劉禧寧), 41, was appointed as Nan Shan's Strategic Agency Officer in January 2009. From 2000 to 2008, Mr. Low held various key positions in Nan Shan, including Strategic Partnership, Life Profit Centre, Operations and Appointed Actuary. He has been with Nan Shan and AIG for 11 and 7 years, respectively.

7.3 **Company Secretary**

Ms. M.F. CHEN (陳楊美芬), 58, has been in charge of Nan Shan's Secretariat since 1991 and has been Nan Shan's Company Secretary since 2004. Ms. Chen joined Nan Shan in 1973, where most of her time has been spent in Secretariat. She is a Master Fellow of the Life Office Management Association.

7.4 **Compensation of directors and five highest paid individuals**

The remuneration the directors of Nan Shan have received (including wages, salaries, bonuses, allowances, and post retirement benefits) for the three years ended 30 November 2006, 2007 and 2008 and the nine months ended 31 August 2009 was NT$4 million, NT$4 million, NT$6 million and NT$1 million, respectively.

The aggregate amount of fees, salaries, bonus, allowances, post retirement benefits, housing and other allowances, and other benefits in kind paid to the five highest paid individuals of Nan Shan, including its directors, during each of the three years ended 30 November 2006, 2007 and 2008 and the nine months ended 31 August 2009 fell within the following salary bands:

	Year ended 30 November			**Nine months ended 31 August**	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
NT$11 to NT$13 (equivalent of HK$2,500,000 to HK$3,000,000)	1	1	1	—	—
NT$8 to NT$11 (equivalent of HK$2,000,000 to HK$2,500,000)	—	—	3	1	1
NT$6 to NT$8 (equivalent of HK$1,500,000 to HK$2,000,000)	2	4	1	4	1
NT$4 to NT$6 (equivalent of HK$1,000,000 to HK$1,500,000)	2	—	—	—	3
	5	5	5	5	5

Salary bands have been converted to millions of NT$ using the NT$ to HK$ exchange rate of 4.24 as at 31 August 2009.

Nan Shan has not paid any remuneration to its directors or the five highest paid individuals as an inducement to join or upon joining it or as a compensation for loss of office in respect of the three years ended 2006, 2007 and 2008 and the nine months ended 31 August 2009. Save for instances where some members of the Nan Shan Board had waived the bonuses, monthly transportation allowance and attendance fee for each board meeting, none of the other directors of Nan Shan had waived any remuneration during the same period.

Save as disclosed above, no other payments have been paid or are payable, in respect of the three years ended 2006, 2007 and 2008 and the nine months ended 31 August 2009, to the directors of Nan Shan. Nan Shan has paid an aggregate amount of approximately NT$14.2 million, including benefits and contributions to its directors as remuneration, in respect of the three years ended 30 November 2006, 2007, 2008 and the nine months ended 31 August 2009, according to the present arrangements.

Employee benefits

Nan Shan operates various pension schemes including both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which Nan Shan pays fixed contributions into an independently administered pension plan.

Nan Shan operates two defined benefit pension plans, one of which is a post-retirement life insurance plan. The primary pension scheme is funded through payments to trustee-administered funds by the Taiwanese government. The post-retirement life insurance plan is unfunded. The obligations under defined benefit plans are based on participants' length of service and average salaries at the time of retirement, with a benefit ceiling of a specified number of months of salary and are determined by periodic actuarial calculations. The retirement fund balance is not included in the financial statements.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the funded and unfunded benefit obligation at the balance sheet date less the fair value of plan assets. Plan assets exclude any insurance contracts issued by Nan Shan. The defined benefit obligation is calculated at least annually by independent actuaries using the projected unit credit method. The defined benefit plan of Nan Shan is reviewed by Mercer. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

For each defined benefit plan, costs charged to the income statement comprise the current service cost (the increase in pension obligation resulting from employees' service in the current period, together with the plans' administration expenses) with past service cost (resulting from changes to benefits with respect to previous years' service). In addition, the difference between the expected return on plan assets, less investment expenses, and the interest cost of unwinding the discount on the plan liabilities (to reflect the benefits being one period closer to being paid out) is credited to investment income. Nan Shan recognises all actuarial gains and losses, being the difference between the actual and expected returns on plan assets, changes in assumptions underlying the liability calculations and experience gains or losses on the assumptions made at the beginning of the period, in equity through the Statement of recognised income and expense.

For defined contribution plans, contributions to these plans are expensed as incurred. Under these plans, Nan Shan has no legal or constructive obligation for benefits beyond the contributions made. Forfeited contributions may not be used to reduce the existing level of contributions.

8. FINANCIAL INFORMATION AND MANAGEMENT DISCUSSION AND ANALYSIS

Shareholders should read the following discussion and analysis of Nan Shan's financial condition and results of operations together with Nan Shan's audited financial statements as at and for the three years ended 30 November 2006, 2007 and 2008 and as at and for the nine months ended 31 August 2009, Nan Shan's unaudited financial information for the nine months ended 31 August 2008 and the accompanying notes included in the Accountant's Report set out in Appendix I of this circular and the unaudited pro forma financial information of the Enlarged Group set out in Appendix II of this circular. The financial data and information contained in this section headed "Part E — Information about Nan Shan — 8. Financial Information and Management Discussion and Analysis" of this circular are based on the financial information contained in the Accountant's Report unless otherwise stated. The Accountant's Report has been prepared in accordance with HKFRS. The following discussion and analysis contain forward-looking statements that involves risks and uncertainties. Nan Shan's actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set out in the sections headed "Important — Forward Looking Information", "Part A — The Acquisition — 5. Risks Associated with the Acquisition" and "Part E — Information about Nan Shan — 1. Risk Factors" of this circular. Shareholders are again reminded that the information contained in this section has been provided to the Company by Nan Shan. In particular, the analyses of Nan Shan's financial information and results of operations contained in this section, including analysis of the events which affected Nan Shan's financial results for Nan Shan's 2008 financial year, the factors affecting Nan Shan's results of operation and financial condition, the accounting policies which constitute Nan Shan's critical accounting policies and the events which affected Nan Shan's results of operation for the three years ended 30 November 2008 and the nine-months ended 31 August 2009 have been provided by Nan Shan and are largely the judgment and analyses of Nan Shan. Accordingly, there are limitations to the extent which such information, analyses and judgment are capable of independent verification.

8.1 **Overview**

Nan Shan is a leading life insurance company in Taiwan and in Asia (excluding Japan), providing a broad range of life insurance products to individual and institutional customers in Taiwan. Nan Shan had a market share in the Taiwan life insurance market of over 11% across its various life insurance product lines in 2008, according to statistics compiled by the TII. As at 31 October 2009, Nan Shan's distribution network includes 24 branches and more than 460 agency offices located throughout Taiwan, as well as over 37,000 registered agents in Taiwan.

Net premiums and fee income of Nan Shan for the year ended 30 November 2008 and the nine months ended 31 August, 2009 were approximately NT$162,095 million and NT$126,425 million, respectively. The net profit (loss) of Nan Shan for the same periods was approximately NT$(49,259) million and NT$18,281 million, respectively.

8.2 **Significant events affecting Nan Shan's 2008 results**

The global financial markets were in turmoil during the latter part of 2008 and resulted in reductions in the value of financial assets, increased concerns over the creditworthiness of financial institutions and caused serious disruption to the credit, equity and foreign exchange markets globally.

Nan Shan was not immune from the effects of the 2008 global financial crisis which in general, caused Nan Shan's investment returns and fair value of its financial assets to decrease and similar to other insurers globally, Nan Shan was exposed to the volatility of the foreign exchange markets. Nan Shan also suffered losses as a result of the AIG Event, which, in addition to the reductions in investment returns and decreases in fair value of its financial assets, resulted in temporary changes to the behaviour of Nan Shan's customers with respect to new product sales and the termination of existing policies.

Comparison of Nan Shan's financial results the nine months ended 31 August 2008 and its financial results for its financial year ended 30 November 2008

General

The following table sets forth the income statement data for the nine months ended 31 August 2008 and the year ended 30 November 2008, prepared in accordance with HKFRS. For the year ended 30 November 2008, Nan Shan's total revenues were approximately NT$22,187 million less than its total revenue for the nine-month period ended 31 August 2008 largely as a result of net realised losses of approximately NT$55,608 million, net losses on assets at fair value through profit and loss of approximately NT$28,487 million and investment-link product losses of approximately NT$37,671 million. This is offset by the increase in net premiums and fee income during the last quarter of 2008.

This section seeks to demonstrate that the losses suffered by Nan Shan in 2008 was primarily a result of the investment related losses driven by the extraordinary circumstances surrounding the 2008 global financial crisis and by the AIG Event which resulted in significant foreign exchange-related losses for Nan Shan as well as losses through the reduction in the value of financial assets during this period.

Income statement data for the nine-months ended 31 August 2008 and the year ended 30 November 2008

(All amounts in NT$ million)	Year ended 30 November 2008	Nine months ended 31 August 2008 *(unaudited)*
Gross premium and fee income	165,784	129,475
Premium ceded to reinsurers	(3,689)	(2,951)
Net premiums and fee income	162,095	126,524
Net investment income	58,029	44,091
Net realised gains (losses)	(55,608)	(21,173)
Net gains (losses) on assets at fair value through profit and loss	(28,487)	(12,979)
Investment-linked product returns	(37,671)	(15,660)
Other revenues	1,219	961
Total revenues	99,577	121,764
Gross insurance contract benefits	82,639	52,723
Gross change in contract liabilities	90,426	82,731
Insurance contract benefits ceded to reinsurers	(2,092)	(1,189)
Net insurance contract benefits	170,973	134,265
Investment-linked product expense (benefit)	(37,671)	(15,660)
Commission and other acquisition costs	22,115	15,329
Other operating expenses	7,622	5,319
Total expenses	163,039	139,253
Profit (loss) before tax	(63,462)	(17,489)
Income tax expense (benefit)	(14,203)	(6,143)
Profit (loss)	(49,259)	(11,346)

As shown in the table above, almost 77% of Nan Shan's net loss in 2008 was incurred during the fourth quarter from 1 September 2008 to 30 November 2008.

As shown in the table below, during this period, Nan Shan's net realised losses primarily comprised of net realised losses on investment sales, foreign exchange losses and asset impairment losses.

For the nine-months ended 31 August 2008, Nan Shan suffered a net loss of approximately NT$11,346 million largely as a result of foreign exchange losses of approximately NT$17,405 million.

Net investment returns

(All amounts in NT$ millions)	Year ended 30 November 2008	Nine months ended 31 August 2008 (unaudited)
Net investment income	58,029	44,091
Net realised gains (losses)		
- Realised gains (losses)	(24,184)	2,858
- Foreign exchange gains (losses)	(16,144)	(17,405)
- Impairment losses	(15,280)	(6,626)
Total net realised gains (losses)	(55,608)	(21,173)
Net gains (losses) on assets at fair value through profit and loss	(28,487)	(12,979)
Total net investment returns	(26,066)	9,939

Net realised gains (losses) for the nine months ended 31 August 2008 and the year ended 30 November 2008

Of the approximately NT$24,184 million net realised losses on investment sales suffered by Nan Shan for the year ended 30 November 2008, approximately NT$15,030 million was attributable to realised losses for available-for-sale equity securities. Please refer to the table under Note 8(b)(2) of the Accountant's Report.

In response to the reduction in value of financial assets and the concerns over the credit worthiness of financial institutions, Nan Shan, like many other financial institutions globally, took action to de-risk its balance sheet and raise liquidity. Cash and cash equivalents as at 31 August 2009 amounted to approximately NT$164,588 million compared to just approximately NT$44,167 million as at 31 August 2008. Nan Shan's net realised losses on investment sales during the latter part of 2008 was therefore attributable to Nan Shan's "de-risking" activities through the disposal of foreign stocks and reducing its exposures to Taiwanese stocks when the valuations of global and local equity securities reduced in value as a result of the 2008 global financial crisis. This is compared to the realised gains Nan Shan enjoyed during the first nine-months of 2008 prior to its "de-risking" activities taking place.

Foreign exchange losses for the nine months ended 31 August 2008 and the year ended 30 November 2008

Nan Shan invests a significant portion of its invested assets in foreign currency assets which are classified as Nan Shan's foreign investments, principally long-term fixed income securities and is accordingly exposed to foreign exchange risks. Nan Shan does not have any foreign exposures over its Taiwan investments. Nan Shan suffered foreign exchange losses of approximately NT$17,405 million for the nine-months ended 31 August 2008 and approximately NT$16,144 million for the year ended 30 November 2008. Its foreign exchange losses for the nine-months ended 31 August 2008 were a result of its exposure to the US$, which depreciated against the NT$ during the first quarter of 2008, its exposure to the Korean Won and its exposures to the Australian dollar, both of which depreciated significantly during the course of 2008. Together, Nan Shan's losses as a result of its exposures to the US$, the Australian dollar and Korean Won during this period amounted to approximately NT$14,348 million for the nine months ended 31 August 2008.

Notwithstanding the recovery of the US$ in the latter part of 2008, Nan Shan continued to suffer foreign exchange losses through its exposures to the Australian dollar and its exposures to the Korean Won. Together, Nan Shan's losses as a result of its exposures to the Australian dollar and Korean Won for the year ended 30 November 2008 amounted to approximately NT$19,804 million. As a result, despite the US$ recovery, the net foreign exchange losses amounted to approximately NT$16,144 million for the year ended 30 November 2008.

Nan Shan subsequently reduced its exposures to the Korean Won and the Australian dollar and as at 31 August 2009, it does not have any exposures to the Korean Won.

The significant foreign exchange losses suffered by Nan Shan in 2008 was driven by the extraordinary circumstances surrounding the disruption to the global financial markets which resulted in significant volatilities in the foreign exchange markets. In general, during the years ended 30 November 2006 and 2007, the effect of the foreign exchange market fluctuations on Nan Shan's results were a lot less significant than for the year ended 30 November 2008 with foreign currency gains (after taking into account hedging costs) of approximately NT$3,553, million in 2006 and foreign currency losses (after taking into account hedging costs) of approximately NT$5,246 million in 2007.

Asset impairment losses for the nine months ended 31 August 2008 and the year ended 30 November 2008

Nan Shan's asset impairment losses for the full year ended 30 November 2008 and the nine-months ended 31 August 2009 were attributable to impairment losses on available-for-sale debt securities of approximately NT$7,552 million which resulted mainly from the credit events related to the 2008 global financial crisis. Its impairment losses on available-for-sale equity securities of approximately NT$7,728 million during these periods resulted mainly from the significant and/or prolonged decline of certain equity securities which was primarily caused by the overall reduction in valuation of financial assets following the 2008 global financial crisis.

Foreign exchange related losses

As shown in the table below, the foreign exchange related losses of approximately NT$49,835 million which Nan Shan suffered in the year ended 30 November 2008 were a result of its realised foreign exchange losses of approximately NT$16,144 million and losses on foreign currency derivative which comprised of realised losses on derivative financial instruments of approximately NT$5,702 million and approximately NT$27,989 million of net losses on derivative instruments from mark-to-market.

		Year ended 30 November			**Nine months ended 31 August**	
		2006	**2007**	**2008**	**2008**	**2009**
					(unaudited)	
(a)	Foreign exchange gains (losses)	(2,244)	6,918	(16,144)	(17,405)	5,600
(b)	Derivative financial instruments: - Carried at fair value through profit and loss	(2,125)	(3,135)	(5,702)	3,226	(25,918)
(c)	Net gains (losses) on derivative financial instruments from mark-to-market	(877)	(230)	(27,989)	(12,737)	25,577

In particular, Nan Shan's suffered a realised loss of approximately NT$5,702 million on its derivative financial instruments (carried at fair value through profit and loss) during the year ended 30 November 2008. This is compared to a realised gain of approximately NT$3,226 million for the first nine-months ended 31 August 2008. Such loss was attributable to losses realised when the derivative instruments (such as non-deliverable forwards which are short-term in nature) matured towards the end of 2008 when the global foreign exchange market was volatile.

Nan Shan's net losses on assets at fair value through profit and loss for the year ended 30 November 2008 of approximately NT$28,487 million was largely attributable to foreign exchange derivatives losses which amounted to approximately NT$27,989 million. Nan Shan's derivatives portfolio consists only of foreign exchange derivatives. These losses were primarily due to the proxy hedges adopted by Nan Shan in 2008 which proved to be ineffective when the US$ strengthened against the Asian currencies during the second half of 2008 and which negatively affected the value of Nan Shan's direct holding of unhedged Asian securities and the value of foreign exchange derivatives which were in place to directly and indirectly hedge Nan Shan's US$ exposures.

These foreign exchange-related losses included losses from Nan Shan's unhedged foreign exchange exposures, direct hedge losses and proxy hedge costs. During 2008, Nan Shan employed both direct and indirect hedging strategies to minimise hedging costs. Nan Shan's derivatives portfolio consist only of foreign derivative financial instruments. During 2008, Nan Shan's proxy hedging strategies did not prove to be effective when historical cross-currency correlations diverged. As a result, Nan Shan incurred significant realised and unrealised losses in its derivative financial instruments portfolio in 2008. To prevent similar losses in the future, Nan Shan no longer employs a proxy hedging strategy. In fact, Nan Shan's proxy hedging positions closed out by May 2009. Accordingly, for the nine months ended 31 August 2009, Nan Shan's net foreign exchange derivative losses amounted to a loss of NT$341 million.

For the years ended 30 November 2006 and 2007, Nan Shan's net foreign exchange derivative losses amounted to NT$3,002 million and NT$3,365 million, respectively.

De-risking

Foreign exchange risks

As a result of the fluctuations on the foreign exchange market in 2008 and the losses which Nan Shan suffered as a result, Nan Shan undertook a number of de-risking measures to manage its foreign exchange exposure. These include:

- increasing the direct hedge ratio.

- reducing foreign currency exposures such as the Korean Won and the Australian dollar. In fact, as shown in the table below Nan Shan disposed of its Korean Won exposures by 31 August 2009 and significantly reduced its Australian dollar exposure at the same time. Please refer to the table under Note 4.2.2 (b) of the Accountant's Report.

- Close out all proxy hedge positions which primarily contributed to Nan Shan's foreign exchange losses in 2008 as they did not prove to be effective when historical cross-currency correlations diverged.

In the long term and following Acquisition Completion, the Company intends to allow Nan Shan to continually monitor foreign exchange movements and to maintain a very high direct hedge ratio of 85% or above to minimise the impact of any future foreign exchange valuation volatilities.

Other de-risking measures

As part of its de-risking exercise to ensure that Nan Shan meet the RBC ratio requirements following the 2008 global financial crisis, Nan Shan selected certain types of its invested assets which it considered to be risky and reduced its exposures to them. In particular, Nan Shan took actions to:

- Fully dispose of foreign stocks (which included US listed-stocks, high-yield Asian-listed equities (but excluding China and Japan) and Singapore-listed stocks);

- Reduce exposures to local stocks (approximately 6.8% of Nan Shan's total invested assets as at 30 November 2007 to approximately 2.3% of Nan Shan's total invested assets as at 30 November 2008); and

- Reducing of its emerging market bond portfolio.

Prior to "de-risking", Nan Shan's exposures to the above risky assets amounted to approximately 9.5% of Nan Shan's total invested assets. Following "de-risking", these risky assets only constitute approximately 3.9% of Nan Shan's total invested assets.

These de-risking strategies were temporary measures only and which were adopted under extreme financial conditions. Going forward the Company will continue to monitor Nan Shan's investment portfolio and strategies taking into account the then existing market conditions and financial strength of Nan Shan.

Nan Shan did not dispose of its collateralised debt obligations at the time as they were all senior tranches and Nan Shan did not have any severe credit concerns for the collateralised debt obligations held by it. Rather, Nan Shan decided to take impairments on its holdings of collateralised debt obligations to reflect the latest mark-to-market values at the time. During the year ended 30 November 2008, Nan Shan wrote-down its collateralised debt obligation portfolio from NT$2,213 million as at 31 August 2008 to NT$371 million as at 30 November 2008.

In October 2008, Nan Shan redeemed its hedge funds portfolio, in which approximately a loss of NT$17,073 was recognised for the year ended 30 November 2008 and approximately NT$782 million loss was realised during the nine months ended 31 August 2009. In addition, Nan Shan wrote down the costs of hedge-funds which remain unredeemed by approximately NT$150 million for the nine-month period ended 31 August 2009. After this impairment, Nan Shan's remaining exposure to hedge funds is approximately NT$453 million as at 31 August 2009.

Nan Shan's loss in 2008 was the result of the unusual volatility in the foreign exchange market in 2008, which was temporary

Stabilised results in 2009

Nan Shan's financial results for the nine months ended 31 August 2009 reflect stable operating results following the 2008 global financial crisis and the AIG Event that had a significant impact on Nan Shan's business and financial results during the year ended 30 November 2008. Nan Shan's business has since stabilised as asset values have recovered to a large degree and management has proactively reduced risk in its investment portfolio and foreign exchange exposures to mitigate financial losses and maintain sufficient capital adequacy. While some risk remains with respect to foreign currency exposures, the level of such risk will depend on the level of hedging of Nan Shan's foreign currency assets, which as the Company understands, Nan Shan aims to achieve a hedge ratio of 85% or above. Customer behaviour with respect to policy terminations has returned to normal levels, but customers' appetite for investment-linked products have reduced in favour of more conservative traditional products as equity markets remain volatile. With respect to the risk of loss or impairment related to the financial assets, the recovery of global financial markets during 2009 has diminished those risks.

During April to July 2009, Nan Shan disposed of some of its Taiwan government bond holdings for further protection of its RBC ratio. The Company understands that this action was not due to a further deterioration in Nan Shan's RBC ratio but was a prudent measure by Nan Shan to ensure that its RBC ratio has a sufficient protective buffer. During the second quarter of 2009, there continued to be great uncertainty in the global financial markets and signs of recovery remained weak. As such, Nan Shan took an opportunity to realise gains from its investments. The Company understands that Nan Shan expects to begin reducing its cash position in the future by deploying these funds into fixed income securities.

As mentioned, the global economy during the first quarter of 2009 remain uncertain and as a result, Nan Shan's surrender activities increased in the first quarter of 2009. Following the first quarter of 2009, Nan Shan's surrender activities have subsided to historic levels.

Losses in the first three quarters of 2008 largely due to foreign exchange losses resulting from the unusual volatility in the foreign exchange markets, especially the Korean Won and the Australian dollar

The main drivers for Nan Shan's losses for the first three quarters of 2008 were the approximately NT$17,405 million realised foreign exchange losses and Nan Shan's foreign exchange derivatives losses of approximately NT$12,737 million which resulted from Nan Shan's exposures to the US$. The US$ depreciated against the NT$ during the first quarter of 2008 but subsequently recovered in the second half of 2008. In addition, Nan Shan was exposed to the Korean Won and the Australian dollar, both of which also depreciated significantly during the course of 2008. Nan Shan has since closed out all of its exposures to the Korean Won and reduced its exposure to the Australian dollar by more than 46% since 30 November 2008. Please refer to the table under Note 4.2.2 (b) of the Accountant's Report.

In view of the above, Nan Shan's loss in 2008 was not due to a fundamental deterioration of commercial or operational viability of Nan Shan. In particular, in spite of the global financial market turmoil, Nan Shan's net premium and fee income increased by approximately 2.97% for the financial year ended 30 November 2008, which is in line with the 3.03% growth in net premium and fee income compared with the year ended 30 November 2007. In addition, Nan Shan's net investment income increased by approximately 8.1% during the year ended 30 November 2008 compared to 12.8% during the year ended 30 November 2007. Nan Shan's losses suffered in 2008 were largely a result of the unusual volatility in the foreign-exchange market, which were temporary, and this is best evidenced by Nan Shan's financial results for the nine-months ended 31 August 2009 which reflect a profit of approximately NT$18,281 million.

8.3 **Factors affecting Nan Shan's results of operations and financial condition**

The following factors affect Nan Shan's results of operations and financial condition, as well as the comparability of its results of operations between periods.

Product mix and distribution

Nan Shan's revenues and business performance are affected by its ability to deliver suitable products to its targeted customers through Nan Shan's distribution channels on a timely basis. Nan Shan designs and distributes a broad range of insurance products. In addition to market demand, Nan Shan takes into account product features, pricing and margins in determining the optimal product mix. Nan Shan's ability to expand its existing distribution networks and develop new distribution networks may impact the performance of its business.

Competition in Taiwan

Nan Shan faces competition in the Taiwan insurance industry, particularly from other large market participants including insurance companies, mutual fund companies and other financial services providers. Competition in the Taiwan insurance industry is based on factors such as price and distribution capability, the types of products offered, customer service, claims services, reputation and experience, as well as the perceived financial strength of the insurance company. Competition may negatively affect Nan Shan's business and future business prospects by reducing market share, decreasing margins, increasing expenses and reducing the existing customer base.

Claims experience and policyholder behaviour

Nan Shan's results are affected by its claims experience which may differ from the assumptions made both in the pricing and design of its products, and the calculation of insurance contract liabilities. Claims experience varies over time and may be affected by specific events, changes in mortality and morbidity, population demographics and other factors. In addition, changes in policyholder behaviour outside of Nan Shan's control may result in experience that differs from that which was expected in the design and pricing of its products. Such changes in policyholder behaviour could result in lower persistency causing Nan Shan's business results to fluctuate from year to year.

Expense levels

In the course of its business, Nan Shan incurs significant operating expenses, comprising of selling and administrative expenses. Further, Nan Shan's operating costs include items such as commission and other acquisition expenses and investment expenses. Historically, Nan Shan has had one of the lowest operating costs structures of major life insurance companies in Taiwan.

Although Nan Shan exercises tight expense controls through its annual budget review and strict monitoring processes, certain costs and expenses are a function of market forces and outside of its direct control. Future fluctuations in Nan Shan's expense structure could impact its financial condition and results of operations.

Fluctuations in market interest rates, equity prices and property values

Nan Shan is affected by fluctuations in market interest rates as a substantial portion of its assets are invested in long-term fixed income debt securities. The Taiwan financial market is currently experiencing a relatively low interest rate environment. Movements in interest rates affect Nan Shan's returns on investment assets, a significant proportion of which is held in bank deposits, bonds and other fixed maturity securities. In a declining interest rate environment, interest rate changes expose Nan Shan to reinvestment risks that would generally reduce investment yields over time. However declining interest rates would also increase the value of Nan Shan's existing fixed income securities that would result in higher realised and unrealised gains. In a rising interest rate environment, investment returns would increase over time, but may reduce the market value of existing investments resulting in realised or unrealised losses.

Interest rate risk also arises from Nan Shan's insurance products with guaranteed features. These products expose Nan Shan to the risk that investment returns will be insufficient to fund the benefits guaranteed in the products as interest rates fall.

Further, sustained levels of high or low interest rates may affect the competitiveness of Nan Shan's various products versus products offered by other financial services companies. A period of rapidly increasing interest rates may lead to an increase in policy surrenders and withdrawals. This trend may result in cash payments to policyholders requiring the sale of invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, potentially resulting in realised investment losses. Moreover, a rise in interest rates would also adversely affect Nan Shan's shareholders' equity in the immediate fiscal year due to a decrease in the fair value of its fixed income investments.

Fluctuation in equity markets

Fluctuations in equity markets may affect Nan Shan's investment results and investment-linked product business. Nan Shan's direct exposure to equity markets is significantly less than its exposure to debt securities (including preferred shares). The Company believes that fluctuations in equity securities held in Nan Shan's general account could affect its business results from year to year.

Equity securities backing investment-linked contracts totalled approximately NT$105,281 million as at 31 August 2009. In the case of equity securities backing investment-linked contracts the investment risk is borne entirely by the policyholders. Sales of investment-linked products will generally decline during periods of equity market volatility or uncertainty. In addition, policy loans, surrenders and withdrawals of investment-linked products may also increase during such periods. As equity markets fluctuate, the underlying policy account values increase or decrease which affects the level of asset management and other fees earned by Nan Shan that are based on the account values of those contracts.

Fluctuations in foreign exchange rates

Nan Shan invests a significant portion of its invested assets in foreign currency assets, principally long-term fixed income securities, in order to enhance investment yield. To mitigate the foreign exchange risk from such investments, Nan Shan hedges a portion of the risk with derivative instruments. In addition, Nan Shan diversifies a portion of the risk among a basket of currencies. The level of hedging varies from time to time depending on such factors as hedging cost, capital availability and other factors. Fluctuations in foreign exchange rates will result in foreign exchange and derivative gains or losses recognised in the results of operations from period to period, the amount of which depends on the level of hedging and the extent of foreign exchange rate changes. In addition, changes in foreign exchange rates will affect the level of interest income earned on an NT$ basis.

Credit risk

Nan Shan is exposed to credit risk primarily through its investments in debt securities, reinsurance, derivative instruments and secured loan transactions. Changes in estimated future contractual cash flows related to debt securities, secured loans and derivative instruments could result in realised losses, higher loan loss provisions or asset impairments.

Reinsurance

Nan Shan enters into reinsurance contracts to mitigate certain risks such as catastrophe risk. Through multiple reinsurers, Nan Shan reinsures a portion of the risk that it assumes under its life insurance and accident and health policies in exchange for a portion of the premiums it receives with respect to those policies. These reinsurance arrangements are principally risk-premium arrangements covering mortality and morbidity risks and excess of loss arrangements covering catastrophe risks.

Economic conditions in Taiwan

Taiwan's economic growth trends, household savings rates, demographic profiles and life insurance penetration rates are some of the factors affecting the performance of the Taiwan life insurance industry. The Directors believe that the scale of Nan Shan's business, breadth of its product offerings and solid distribution networks will enable it to benefit from future growth of the Taiwan insurance market. Conversely, if the economic conditions deteriorate, or the impact of such deterioration is different from expectations, Nan Shan's business may be materially and adversely affected.

Changes in regulatory environment

Nan Shan operates in a highly regulated industry and is subject to the supervision of insurance regulators in Taiwan. The regulators have broad authority over Nan Shan's business including capital requirements, the ability to enter certain lines of business, offer new products and declare dividends. In addition, Nan Shan is restricted by insurance laws, rules and regulations to a range of investment activities. These restrictions may limit Nan Shan's ability to diversify investment risks and obtain higher returns on its investment portfolio. Changes in regulation may have a significant impact on Nan Shan's revenues, expenses, profitability and the ability to pay dividends. Furthermore, Nan Shan is subject to tax regulations in Taiwan. Changes in tax regulations may impact Nan Shan's tax assets and liabilities.

8.4 **Basis of presentation**

The financial information contained herein is presented in accordance with HKFRS.

8.5 **Critical accounting policies**

The preparation of financial information requires the selection of accounting policies and the making of estimates and assumptions that affect items reported in the financial statements. The Company considers Nan Shan's critical accounting policies to be those where either a diverse range of accounting treatment is permitted by HKFRS and/or significant judgment and estimates are required. The critical accounting policies adopted by Nan Shan are described below. For more information regarding Nan Shan's significant accounting policies, see note 2 and note 3 to the Accountant's Report.

Insurance and investment contracts — classification

Nan Shan issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk; such contracts may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of the contracts contain a DPF. This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits. These contracts are within the scope of HKFRS 4.

Insurance and investment contracts

(a) ***Recognition and measurement***

Recognition and measurement of insurance and investment contracts are classified into three main categories:

(i) *Traditional insurance contracts*

These contracts insure events associated with life, accident or health and examples include pay life, endowment and long-term health products. Premiums are recognised as revenue when they become due. Benefits are recorded as an expense when they are incurred. For certain types of policy dividends, the policyholders may elect when to receive payment. These policy dividends payable are recorded in the policyholders dividends payable balance.

A liability for contractual benefits that are expected to be incurred in the future is recorded in insurance contract liabilities when the premiums are recognised. The liability is actuarially determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (valuation premiums). The liability is based on key assumptions made with respect to variables such as mortality, morbidity, lapse, expenses and investment returns that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions. For traditional insurance contracts, a "lock-in" principle applies, whereby the assumptions used to calculate the benefit reserves and deferred acquisition costs are set when a policy is issued and do not change with changes in actual experience unless a deficiency arises on liability adequacy testing.

Where insurance contracts are single-pay or the premium paying period is shorter than the period benefits are to be provided, the excess of the premiums payable over the valuation premiums is deferred in insurance contract liabilities and recognised as income in line with the unexpired insurance risk of the contracts in-force.

(ii) *Investment-type insurance contracts*

These investment-type insurance contracts contain both insurance and investment features; however they are accounted for as insurance contracts as the contracts transfer a sufficiently significant amount of insurance risk. Examples include universal life, other investment-type contracts (such as certain short-term endowments) and investment-linked products.

For universal life, the premiums paid contain a portion that covers the insured event and another portion used to accumulate account values available for withdrawal at the option of the policyholder.

The liabilities arising from these contracts comprise the liability for the insured event and the accumulated account value. The liability for the insured risk is determined in a manner similar to the liability for traditional insurance contracts. The liability for the accumulated account value is carried at its account value and increased by credited interest. Both are recorded in insurance contract liabilities.

Revenue is recognised from the portion of the premium covering the insured risk as premium income. Revenue is also recognised as fee income in relation to fees deducted for management and policy administration. Interest credited to the accumulated cash account balances or excess benefit claims incurred in the period are charged as gross insurance contract benefits.

For other investment-type insurance contracts, such as short-term endowments, the premiums paid for these contracts are recorded as deposits.

The liabilities arising from these contracts are accumulated with premium deposits and increased by the credited interest rate at the effective interest rate, which is derived from contractual premium payment and guaranteed benefit payout for the contract period.

Revenue is recognised for the release in liabilities in excess of the surrender benefit payout. Interest is credited to the liabilities based on the effective interest rate or excess benefit claims incurred in the period are charged as insurance contract benefits.

For investment-linked products, premiums paid for these contracts contain a portion that covers the insured event and is accounted for in the same manner as is described for traditional insurance contracts. The other portion related to the investment portion is unbundled from the insurance portion and is accounted for separately in investment-linked product liabilities as described in note 2.15 of the Accountant's Report.

Revenue for investment-linked policies is recognised as premium and fee income from the portion of the premium covering the insured event. Revenue is also recognised in relation to fees deducted for management and policy administration, with initial fees recognised over the estimated life of the contracts to which they relate. Revenue and expenses for the investment portion are described in note 2.15 of the Accountant's Report.

(iii) *Investment contracts*

Investment contracts are not considered to be insurance contracts and are accounted for as a financial liability. Examples include variable annuities without significant insurance risks. These investment contracts do not transfer significant insurance risk nor do the contracts have DPF. The investment contract liability is recognised as the accumulation of deposits received, less charges, plus interest credited. Revenue from these contracts consists of various charges (policy fees, management fees and surrender charges) made against the contract for the minimal cost of insurance, expenses and early surrender. Excess charges are deferred as an unearned revenue liability and are recognised as revenue over the life of the contracts.

For contracts with DPF included in traditional insurance and investment-type insurance contracts, local statutory regulations and the terms and conditions of these contracts set out the basis for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which Nan Shan may exercise its discretion as to the amount and timing of its payment to policyholders. At least 70% of the eligible surplus must be attributed to policyholders of Nan Shan (which can include future policyholders), while the amount and timing of the distribution to individual policyholders is at the discretion of Nan Shan, subject to the advice of Nan Shan's Appointed Actuary and approval by the Nan Shan Board.

(b) ***Embedded derivatives***

Nan Shan does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate) as they are closely related to the host insurance contract.

(c) ***Deferred acquisition costs***

Policy acquisition costs, including commissions, premium taxes and other underwriting expenses that vary with and are primarily related to the acquisition of new and renewal business are deferred. All other costs are recognised as expenses when incurred. DAC is subsequently amortised over the life of the contracts as follows:

(i) For insurance contracts, DAC is amortised over the premium paying period using assumptions consistent with those used in calculating future liability for contractual benefits.

(ii) For investment-type insurance contracts and investment contracts, DAC is amortised over the expected total life of the contract as a constant percentage of estimated gross profit margins (including investment returns) or insurance in-force arising from these contracts. The pattern of estimated gross profit margins or insurance in-force is based on historical and anticipated future experience and is updated regularly at the end of each accounting period. Deviations of actual results from estimated experience, resulting in changes to the carrying value of the DAC, are reflected through the income statement.

The DAC for investment-type insurance contracts is also adjusted with respect to estimated gross profits as a result of changes in the net unrealised gains or losses on available-for-sale financial assets. Because fixed income available-for-sale financial assets are carried at aggregate fair value, an adjustment is made to DAC equal to the change in amortisation that would have been recorded if such securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. The change in this adjustment, net of tax, is included with the change in net unrealised gains (losses) on available-for-sale financial assets that is credited or charged directly to equity.

(d) ***Liability adequacy test***

At each balance sheet date, the best-estimate assumptions for liability adequacy testing are updated to reflect observed changes in experiences over time for traditional insurance and investment-type insurance contracts. Future results of the liability adequacy testing will involve significant management judgment as to mortality, morbidity, lapse, expenses and investment returns. Adverse changes in these assumptions could accelerate DAC amortisation and require an additional provision.

The liability adequacy test is most sensitive to changes in the new money rate investment return assumption and the current practice permitted by the regulators of offsetting any positive and negative results in the mortality and investment return calculations.

Because of the long term nature of many of Nan Shan's traditional insurance contract liabilities subject to the lock-in principle, small changes in investment return assumption may cause large changes in the degree of liability adequacy. Any significant change in the nature, timing and duration of the investment strategy implemented or yield outlook for individual asset classes from Nan Shan may cause large changes in the degree of liability adequacy. As part of Nan Shan's development of its liability adequacy analysis, it has been assumed that there will be increases in the Taiwan government bond rates to a long-term interest rate that is higher than the current government bond rates. Furthermore, it is assumed that Nan Shan will continue to invest in foreign currency denominated bonds at its current regulatory limit of 35%.

See note 4.1.2 (b) and 4.3 of the Accountant's Report for the estimated sensitivity impact of a basis point change on Nan Shan's assets and liabilities on Nan Shan's profit before tax and equity (without any tax consideration).

It is also assumed that the current practice permitted by the regulators to allow the actual compulsory dividend payout to be calculated based on the net investment return and mortality calculations will continue. This will reduce the actual dividend payout as the negative impact of the investment return calculated in the current economic environment is allowed to be offset by the positive impact of the mortality calculated from any improved mortality experience.

(e) ***Reinsurance contracts held***

The benefits to which Nan Shan is entitled under the reinsurance contracts held are recognised as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistent with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

To the extent that the assuming reinsurers are unable to meet their obligations, Nan Shan remains liable to its policyholders for the portion reinsured. Nan Shan assesses its reinsurance assets for impairment as at the balance sheet date. If there is objective evidence that the reinsurance asset is impaired, Nan Shan reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement.

Investment-linked products

Investment-linked products represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the ultimate investment risk. Each account has specific investment objectives, and the assets backing these products are designated at fair value through profit and loss. The assets of each account are separately accounted. The liabilities for these accounts are equal to the account assets carried at fair value. Changes in the unit prices representing changes in the fair value of investment-linked products are recorded as investment-linked product income and corresponding expense.

Financial assets

Regular-way purchases and sales of financial assets are recognised on trade date, the date on which Nan Shan commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition except for financial assets at fair value through profit and loss in which case transaction costs are expensed as incurred. Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and Nan Shan has also transferred substantially all risks and rewards of ownership.

Nan Shan classifies its investments into the following categories: financial assets at fair value through profit and loss, available-for-sale financial assets, and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(a) ***Financial assets at fair value through profit and loss***

Financial assets at fair value through profit and loss include equity and debt securities and derivative financial instruments. A financial asset is classified into the financial assets at fair value through profit and loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. Management may designate financial assets at fair value through profit and loss in order to better match insurance and investment contract liabilities linked to the changes of fair value of these assets, if the assets are managed on a fair value basis, or if it is a hybrid contract that contains one or more embedded derivatives that would otherwise need to be separated. Nan Shan's preferred stocks, convertible bonds and structured notes are financial assets that have been designated as fair value through profit and loss. Financial assets at fair value through profit and loss are subsequently carried at fair value.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the income statement in the period in which they arise. Interest on fair value through profit and loss debt securities is recognised in the income statement using the effective interest method. Dividends on fair value through profit and loss equity securities are recognised in the income statement when Nan Shan's right to receive payments is established. Both are included in the net investment income.

(i) *Equity and debt securities*

Equity and debt securities include listed equity securities, bond funds, preferred stocks, convertible bonds, bond-linked deposits and structured notes which are carried at fair value.

(ii) *Derivative financial instruments*

Derivatives are classified as held for trading. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. Nan Shan has not applied hedge accounting and therefore designates all derivatives as held for trading. Changes in the fair value of all such derivative instruments are recognised immediately in the income statement under net gains (losses) on assets at fair value through profit and loss. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset in the balance sheet at the date of purchase, representing their fair value at that date.

(b) ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity, except the foreign exchange gains and losses on available-for-sale monetary assets denominated in a foreign currency which are recognised in the income statement as realised gains (losses).

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as net realised gains (losses).

Interest on available-for-sale debt securities is recognised in the income statement using the effective interest method. Dividends on available-for-sale equity securities are recognised in the income statement when Nan Shan's right to receive payments is established. Both are included in net investment income.

(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 other than those that Nan Shan intends to sell in the short term or that it has designated at fair value through profit and loss or available-for-sale. Receivables arising from insurance and reinsurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Loans and receivables are subsequently carried at amortised cost using the effective interest method, net of provision for impairment in value.

(d) ***Securities lending***

Nan Shan conducts securities lending transactions in the Taiwan securities market. Under such transactions, Nan Shan retains economic risks and rewards of ownership over the transferred assets and therefore does not derecognise the assets. The transferred assets are classified as available-for-sale financial assets in line with the appropriate investment classification prior to the investments being included in the securities lending program and are shown in note 8 of the Accountant's Report.

In exchange for the transfer, the Taiwan Stock Exchange Corporation (the Broker) will obtain from the borrower of the securities, collateral equal to at least 140% of the market value initially, not to fall below 120% of the market value, which the Broker will hold in trust for Nan Shan. Nan Shan does not take control of the collateral and thus does not recognise the collateral in its financial statements.

If the borrower of securities fails to return the transferred securities by the agreed date, the securities are accounted for as a sale and the Broker will be required to reimburse Nan Shan for the value of the securities using the collateral held in trust.

(e) ***Fair valuation of financial assets***

Fair value is defined as the amount at which the financial assets and liabilities could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, rather than in a forced or liquidation sale. When there is an active market, fair values are based on quoted prices or current bid prices. Where quoted or current bid prices in an active market are not readily available, fair values are estimated using prices observed in recent transactions. If the market for a particular security is not active, valuation techniques such as discounted cash flow analysis and option pricing models are used.

Impairment of assets

(a) ***Financial assets carried at fair value***

Nan Shan assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised through the income statement, is removed from equity and recognised in the income statement under net realised gains (losses). Impairment losses recognised in the income statement on equity instruments are not subsequently reversed. For a debt instrument classified as available-for-sale, the impairment loss is reversed through the income statement if in a subsequent period the fair value of that instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised through the income statement.

(b) ***Financial assets carried at amortised cost***

Nan Shan assesses at each balance sheet date whether there is objective evidence that its loans and receivables or other financial assets or a group of financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of Nan Shan about the following events:

(i) significant financial difficulty of the issuer or debtor;

(ii) a breach of contract, such as a default or delinquency in payments;

(iii) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

(iv) the disappearance of an active market for that financial asset because of financial difficulties; or

(v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of issuers or debtors; or

- national or local economic conditions that correlate with defaults on the assets.

Nan Shan first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If Nan Shan determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses yet to be incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

8.6 **Results of operations**

The table below provides a summary of the results of operations for Nan Shan for the three years ended 30 November 2006, 2007 and 2008, and for the nine months ended 31 August 2008 (unaudited) and 2009.

Income statement

(All amounts in NT$ millions)	**Year ended 30 November**			**Nine months ended 31 August**	
	2006	**2007**	**2008**	**2008** *(unaudited)*	**2009**
Gross premium and fee income	155,083	159,742	165,784	129,475	130,464
Premium ceded to reinsurers	(2,305)	(2,329)	(3,689)	(2,951)	(4,039)
Net premiums and fee income	152,778	157,413	162,095	126,524	126,425
Net investment income	47,606	53,697	58,029	44,091	39,463
Net realised gains (losses)	(2,772)	7,238	(55,608)	(21,173)	(15,112)
Net gains (losses) on assets at fair value through profit and loss	(914)	(406)	(28,487)	(12,979)	26,214
Investment-linked product income	2,702	8,947	(37,671)	(15,660)	21,056
Other revenues	436	606	1,219	961	275
Total revenues	199,836	227,495	99,577	121,764	198,321
Gross insurance contract benefits	71,417	63,810	82,639	52,723	63,685
Gross change in contract liabilities	86,982	100,616	90,426	82,731	72,429
Insurance contract benefits ceded to reinsurers	(579)	(480)	(2,092)	(1,189)	(2,181)
Net insurance contract benefits	157,820	163,946	170,973	134,265	133,933
Investment-linked product expense	2,702	8,947	(37,671)	(15,660)	21,056
Commission and other acquisition costs	17,678	19,143	22,115	15,329	19,742
Other operating expenses	6,247	6,802	7,622	5,319	4,844
Total expenses	184,447	198,838	163,039	139,253	179,575
Profit (loss) before tax	15,389	28,657	(63,462)	(17,489)	18,746
Income tax expense (benefit)	3,999	6,660	(14,203)	(6,143)	465
Profit (loss)	11,390	21,997	(49,259)	(11,346)	18,281

Selected balance sheet information

(All amounts in NT$ millions)	As at 30 November			As at 31 August
	2006	2007	2008	2009
ASSETS				
Property and equipment	10,301	10,415	10,718	11,922
Investment properties	12,492	16,380	19,100	21,038
Other assets	1,509	2,062	1,904	2,171
Financial assets				
Fair value through profit and loss				
- Equity and debt securities	8,927	18,036	20,461	45,890
- Derivative financial instruments	1,987	1,805	15	937
Available-for-sale financial assets	1,012,136	1,063,342	992,811	1,048,228
Loans and receivables	121,171	148,736	185,686	171,560
Investment-linked product assets	53,551	95,928	76,803	105,281
Deferred acquisition costs	102,520	110,975	112,134	106,958
Income tax receivable	—	563	3,977	5,806
Accrued investment income	19,093	20,113	21,397	21,264
Cash and cash equivalents	5,300	17,007	104,963	164,588
Total assets	1,348,987	1,505,362	1,549,969	1,705,643
LIABILITIES				
Insurance contract liabilities	1,042,934	1,176,298	1,258,527	1,340,501
Investment-linked product liabilities	53,551	95,928	76,803	105,281
Investment contract liabilities	4	78	70	65
Derivative financial instruments	221	269	26,123	990
Deferred income tax liability	36,553	34,282	6,429	23,030
Income tax payable	195	—	—	—
Policyholder dividend and other insurance payables	11,550	10,792	11,447	12,335
Other payables and accrued expenses	11,667	15,114	7,881	8,658
Total liabilities	1,156,675	1,332,761	1,387,280	1,490,860
EQUITY				
Share capital	12,000	13,500	78,700	78,700
Retained earnings	83,604	98,837	39,513	77,000
Other reserves	96,708	60,264	44,476	59,083
Total equity	192,312	172,601	162,689	214,783
Total liabilities and equity	1,348,987	1,505,362	1,549,969	1,705,643

Discussion of selected results of operations

Nine Months Ended 31 August 2009 Compared to 31 August 2008

Net premiums and fee income

Net premiums and fee income represents the amount of premiums and fees collected, net of reinsurance premiums ceded, for insurance contracts primarily representing traditional life, accident and health and group products.

Net premiums and fee income for insurance contracts decreased approximately NT$99 million for the nine months ended 31 August 2009 when compared to the same period in 2008. The reduction was primarily due to the increase in ceded reinsurance premiums related to a new reinsurance contract started from 1 May 2008 for the cancer business.

Net investment income

Net investment income decreased approximately NT$4,628 million for the nine months ended 31 August 2009 compared to the same period in 2008 as a result of reductions in interest and dividend income. The lower dividend income was largely due to decreased levels of equity positions held in addition to the effects of the 2008 global financial crisis which restricted the distribution of dividends by many Taiwan companies in 2009. Interest income from debt securities also decreased for the nine months ended 31 August 2009 compared to the same period in 2008 largely as a result of the disposal of Taiwan government bonds during April to July 2009 for the purpose of realising capital gains and protection of RBC ratio. Please refer to the section headed "Part E — Information about Nan Shan — 8. Financial Information and Management Discussion and Analysis — 8.2 Significiant events affecting Nan Shan's 2008 results — Nan Shan's loss in 2008 was the result of the unusual volatility in the foreign exchange market in 2008, which were temporary" of this circular for the reason behind such measures.

Net realised gains (losses)

As shown in the table below, net realised losses for the nine months ended 31 August 2009 reduced by approximately NT$6,061 million from NT$21,173 million for the same period in 2008 to NT$15,112 million notwithstanding realised losses of approximately NT$9,976 million and impairment losses of approximately NT$10,736 million in 2009.

	Nine months ended	
(Amounts in NT$ millions)	**31 August 2008** *(unaudited)*	**31 August 2009**
Realised gains (losses)		
Debt securities:		
- Available-for-sale	(1,470)	14,809
- Carried at fair value through profit and loss	(3)	2
Equity securities:		
- Available-for-sale	920	1,126
- Carried at fair value through profit and loss	185	5
Derivative financial instruments:		
- Carried at fair value through profit and loss	3,226	(25,918)
Subtotal	2,858	(9,976)
Foreign exchange gains (losses)	(17,405)	5,600
Impairment losses	(6,626)	(10,736)
Total	(21,173)	(15,112)

The reduction in net realised losses was largely due to foreign exchange gains of approximately NT$5,600 million made in 2009 compared to the significant foreign exchange losses of approximately NT$17,405 million incurred in 2008. Foreign exchange gains in the first nine-months ended 31 August 2009 were primarily attributable to the recovery of the Australian dollar. Please see the section headed "Part E — Information about Nan Shan — 8. Financial Information and Management Discussion and Analysis — 8.2 Significant events affecting Nan Shan's 2008 results — Comparison of Nan Shan's financial results the nine months ended 31 August 2008 and its financial results for its financial year ended 30 November 2008" of this circular for further details on the reasons for such foreign exchange losses during 2008. The realised losses of approximately NT$9,976 million in 2009 included approximately NT$15,942 million realised gains mostly from the disposal of Taiwan government bonds for the purpose of realising gains and increase its liquidity position to provide Nan Shan's RBC ratio a protection "buffer" and approximately NT$25,918 million loss on foreign exchange derivatives. As foreign exchange derivatives are entered into for the purpose of mitigating foreign exchange fluctuations, any losses in foreign exchange derivatives would be offset by foreign exchange gains. The table below provides a breakdown of the foreign exchange gains and derivatives losses and gains for the nine months ended 31 August 2009.

		Nine months ended 31 August 2008 *(unaudited)*	2009
(a)	Foreign exchange gains (losses)	(17,405)	5,600
(b)	Derivative financial instruments:		
	— Carried at fair value through profit and loss	3,226	(25,918)
(c)	Derivative financial instruments	(12,737)	25,577

As shown above, Nan Shan's realised losses of approximately NT$25,918 million on derivative financial instruments for the nine-months ended 31 August 2009 was offset by foreign exchange gains of approximately NT$5,600 million and net gains on derivative financial instruments from market-to-market of approximately NT$25,577 million for the nine-months ended 31 August 2009. The realised loss of approximately NT$25,918 million was increased primarily as a result of the derivatives positions entered into in 2008 reaching maturity.

Net gains (losses) on assets at fair value through profit and loss

There was a net fair value gain on assets at fair value through profit and loss of approximately NT$26,214 million for the nine months ended 31 August 2009 compared to a net loss of approximately NT$12,979 million for the same period in 2008. This net gain in 2009 was primarily related to unrealised foreign exchange gains on foreign currency derivatives and the increase in the market values of investment securities at fair value through profit and loss in 2009 as the global financial markets gradually recover. The net loss in 2008 was driven by losses on foreign currency derivatives which was attributable to the appreciation and strengthening of the US$ against the NT$ and other Asian currencies.

(Amounts in NT$ millions)	**Nine months ended 31 August 2008** *(unaudited)*	**31 August 2009**
Debt securities	(175)	317
Equity securities	(67)	320
Derivative financial instruments	(12,737)	25,577
Total	(12,979)	26,214

As shown below, for the nine months ended 31 August 2009, Nan Shan's gain from foreign exchange (after taking into account hedging costs) was approximately of NT$5,259 million as compared to a loss (net of hedging costs) of approximately NT$26,916 million during the same period in 2008.

	Nine months ended	
(Amounts in NT$ millions)	**31 August 2008** *(unaudited)*	**31 August 2009**
Foreign exchange gains (losses)	(17,405)	5,600
Derivative financial instruments		
- Realised gains (losses)	3,226	(25,918)
- Net gains (losses) on assets at fair value through profit and loss	(12,737)	25,577
Total	(26,916)	5,259

Investment-linked product income and expenses

Investment-linked product income comprises of investment returns related to the underlying assets. Investment-linked product income is entirely offset by investment-linked product expense as investment risk and reward is entirely borne by the policyholder.

Investment-linked product income increased approximately NT$36,716 million for the nine months ended 31 August 2009 due to a significant recovery of the values of the underlying assets linked to the products as global financial markets gradually recovered.

Total revenues

Total revenues increased in 2009 primarily due to better investment returns related to foreign currency derivative gains (losses) and higher investment-linked product income.

Net insurance contract benefits

Net insurance contract benefits reflect the costs of all maturities, surrenders, withdrawals and claims arising during the reporting period and the net movement in the associated liabilities as a result of new business, benefit payments and changes to expected future benefits payable to policyholders of insurance contracts, net of reinsurance recovered.

Net insurance contract benefits slightly decreased in the nine months ended 31 August 2009 compared to the same period in 2008 merely, which reflected the ordinary movements of in-force polices.

Commission and other acquisition costs

Commission and other acquisition costs represent the costs of acquiring new business including commissions, premium taxes and fees during the period.

Commission and other acquisition costs increased in the nine months ended 31 August 2009 primarily due to accelerated amortisation of deferred acquisition costs related to increased surrender activities in the first quarter of 2009.

Other operating expenses

Other operating expenses primarily represent maintenance and overhead expense incurred during the period.

Operating expenses declined in the nine months ended 31 August 2009 primarily due to cost reduction initiatives in the latter half of 2008. Nan Shan reduced its staffing levels by approximately 9 percent in late 2008 as a result of the completion of major IT projects to improve efficiency.

Profit (loss) before tax

Profit before tax was positive for the nine months ended 31 August 2009 compared to a loss in the same period in 2008 primarily due to improved investment and foreign exchange results as the global financial markets improved.

Income tax expense

Nan Shan incurred an income tax expense for the nine months ended 31 August 2009 compared to an income tax benefit in the same period in 2008 which mirrors the movement in pre-tax profit (loss) for the respective periods. The 2009 tax expense also reflects the effect on deferred tax assets and liabilities of a future reduction in income tax rates announced in May 2009 and the adjustment of surtax on undistributed earnings (deficit).

Profit (loss) for the period

Profit for the period increased due to the factors mentioned above.

Year Ended 30 November 2008 Compared to 30 November 2007

Net premiums and fee income

Net premiums and fee income for insurance contracts increased approximately NT$4,682 million in 2008 compared to 2007 primarily due to the increase in premium income from in-force policies, notwithstanding that the AIG Event in the latter part of 2008 led to higher surrender activities.

Net investment income

Net investment income increased in 2008 primarily due to growth in the underlying investment portfolio and higher equity dividends compared to 2007.

Net realised gains (losses)

As shown in the table below, Nan Shan suffered net realised losses of approximately NT$55,608 million in 2008 compared to net gains of approximately NT$7,238 million in 2007. The significant net realised losses in 2008 were driven primarily by the extraordinary circumstances surrounding the disruption to the global financial markets during the latter part of 2008.

(Amounts in NT$ millions)	**Year ended 30 November 2007**	**Year ended 30 November 2008**
Realised gains (losses)		
Debt securities:		
- Available-for-sale	(1,774)	(3,655)
- Carried at fair value through profit and loss	108	(4)
Equity securities:		
- Available-for-sale	5,325	(15,030)
- Carried at fair value through profit and loss	139	248
Derivative financial instruments:		
- Carried at fair value through profit and loss	(3,135)	(5,702)
Other	—	(41)
Subtotal	663	(24,184)
Foreign exchange gains (losses)	6,918	(16,144)
Impairment losses	(343)	(15,280)
Total	7,238	(55,608)

Please see the section headed "Part E — Information about Nan Shan — 8. Financial Information and Management Discussion and Analysis — 8.2 Significant events affecting Nan Shan's 2008 results — Comparison of Nan Shan's financial results the nine months ended 31 August 2008 and its financial results for its financial year ended 30 November 2008" of this circular for further details on the reasons for such foreign exchange losses during 2008.

Foreign exchange losses (net of hedging costs of approximately NT$5,702 million) totalled approximately NT$21,846 million which comprised primarily of un-hedged foreign currency exposures of approximately NT$25,110 million and indirect proxy hedge losses of approximately

NT$3,105 million but offset by direct hedge gains of approximately NT$6,369 million. The realised loss on sales of investments related to de-risking activities was approximately NT$18,482 million (which comprise of realised gains (losses) on debt securities, equity securities and other realised gains (losses)) and impairment losses amounted to approximately NT$15,280 million as a consequence of the decline in value of financial assets resulting from the 2008 global financial crisis.

Net gains (losses) on assets at fair value through profit and loss

There was a net fair value loss on assets at fair value through profit and loss of approximately NT$28,487 million in 2008 compared to a net loss of approximately NT$406 million in 2007 driven primarily by losses of foreign currency derivatives as a result of the strengthening of the US$ in the second half of 2008.

Please see the section headed "Part E — Information about Nan Shan — 8. Financial Information and Management Discussion and Analysis — 8.2 Significant events affecting Nan Shan's 2008 results — Comparison of Nan Shan's financial results for the nine months ended 31 August 2008 and its financial results for its financial year ended 30 November 2008" of this circular for further details on the reasons for Nan Shan's net losses on assets at fair value through profit and loss during this period.

Investment-linked product income and expenses

Investment-linked product income and expenses decreased approximately NT$46,618 million due to the effects of the global financial crisis and the AIG Event. These factors resulted in lower sales of single premium business, significant decline in the value of underlying assets and higher surrenders.

Total revenues

Total revenues declined in 2008 primarily due to investment losses driven mostly by derivative and foreign exchange losses, losses on disposals of investments, and the decrease in investment-linked product income.

Net insurance contract benefits

Net insurance contract benefits increased in 2008 reflecting the growth of new business and in-force portfolio from net premium and the accretion of interest cost in contract liabilities.

Commission and other acquisition costs

Commissions and other acquisition costs increased in 2008 compared to 2007 primarily due to accelerated amortisation of deferred acquisition costs related to increased surrender activity due to the AIG Event.

Other operating expenses

Operating expenses increased in 2008 compared to 2007 primarily due to severance costs incurred related to staff reduction initiatives and restructuring costs related to the AIG Event.

Profit (loss) before tax

In 2008, Nan Shan incurred a loss before tax compared to a profit in 2007. The loss in 2008 was the result of significant investment losses related to derivative instruments, foreign exchange losses and losses on the sale of debt and equity securities. These investment losses were primarily related to the global financial turmoil in the latter part of 2008. During the turbulent period in the last quarter of 2008, Nan Shan also experienced higher surrender activity which has since subsided to historical levels after the first quarter of 2009.

Income tax expense

Nan Shan incurred an income tax benefit in 2008 compared to an income tax expense in 2007 due to the significant investment losses resulting in a pre-tax loss.

Profit (loss) for the period

Nan Shan incurred a net loss for the period due to the reasons stated above.

Year Ended 30 November 2007 Compared to 30 November 2006

Net premiums and fee income

Net premiums and fee income for insurance contracts increased in 2007 reflecting good persistency of traditional life insurance business and new business growth. Accident and health insurance business also continued to grow with strong persistency of renewal business.

Net investment income

Net investment income grew approximately NT$6,091 million during the year mainly due to growth in the underlying investment portfolio, higher equity dividends and increased interest income related to an increase in the level of foreign securities assets.

Net realised gains (losses)

As shown in the table below, Nan Shan's net realised gains in 2007 were approximately NT$7,238 million which were driven primarily by the realised gains from the sale of equity securities of approximately NT$5,325 million and net foreign exchange gains (net of hedging costs) of approximately NT$3,783 million (which comprises of net foreign exchange gains of approximately NT$6,918 million and realised losses on derivative financial instruments of approximately NT$3,135 million).

(Amounts in NT$ millions)	Year ended 30 November 2006	Year ended 30 November 2007
Realised gains (losses)		
Debt securities:		
- Available-for-sale	143	(1,774)
- Carried at fair value through profit and loss		108
Equity securities:		
- Available-for-sale	1,699	5,325
- Carried at fair value through profit and loss	150	139
Derivative financial instruments:		
- Carried at fair value through profit and loss	(2,125)	(3,135)
Subtotal	(133)	663
Foreign exchange gains (losses)	(2,244)	6,918
Impairment losses	(395)	(343)
Total	(2,772)	7,238

Nan Shan enjoyed gains from the sale of equity securities as a result of a higher valuations for equities securities during 2007. Nan Shan's realised foreign exchange gain is primarily driven by gains on financial assets held in Australian dollars which appreciated against the NT$ during 2007.

Nan Shan's net realised gains on the disposal of investment securities was approximately NT$663 million in 2007. Taking into account hedging costs of approximately NT$3,135 million and impairment loss of approximately NT$343 million, Nan Shan's net realised gains amount to NT$3,455 million in 2007.

Net gains (losses) on assets at fair value through profit and loss

Net losses on assets at fair value through the profit and loss were approximately NT$508 million lower in 2007 compared to 2006 mostly due to a reduction of unrealised losses of foreign currency derivatives.

	Year ended 30 November 2006	Year ended 30 November 2007
(Amounts in NT$ millions)		
Debt securities	(36)	11
Equity securities	(1)	(187)
Derivative financial instruments	(877)	(230)
Total	(914)	(406)

The net foreign currency gains after taking into account hedging costs of approximately NT$3,135 million were approximately of NT$3,553 million in 2007 which improved from the same period in 2006 when foreign exchange losses (taking into account all hedging costs) of approximately NT$5,246 million were incurred. The foreign exchange losses incurred in 2006 were primarily due to the depreciation of the US$ against the NT$.

	Year ended 30 November 2006	Year ended 30 November 2007
(Amounts in NT$ millions)		
Foreign exchange gains (losses)	(2,244)	6,918
Derivative financial instruments	(2,125)	(3,135)
- Realised gains (losses)		
- Net gains (losses) on assets at fair value through profit and loss	(877)	(230)
Total	(5,246)	3,553

Investment-linked product income and expenses

Investment-linked product income and expenses increased approximately NT$6,245 millon in 2007 compared to 2006 due to strong sales of variable life products and increasing values of the underlying assets.

Total revenues

Total revenues increased by approximately NT$27,659 million in 2007 compared to 2006 primarily due to growth in the net premiums and fee income, investment-linked products business, and higher investment returns and foreign exchange gains.

Net insurance contract benefits

Net insurance contract benefits increased approximately NT$6,126 million reflecting the growth of new business and in-force portfolio from net premiums and the accretion of interest cost in contract liabilities.

Commission and other acquisition costs

Commissions and other acquisition costs increased in 2007 primarily related to the increase in new business.

Other operating expenses

Operating expenses grew in 2007 primarily due to increased staffing levels relating to business growth and the implementation of a new operating system.

Profit (loss) before tax

Profit before tax increased in 2007 compared to the prior year primarily due to higher investment returns, foreign exchange gains, and growth in underlying business in-force.

Income tax expense

Income tax expense increased in 2007 compared to 2006 reflecting the trend in pre-tax profit for those years.

Profit (loss) for the period

Profit for the year increased NT$10,607 million due to the increased level of business in-force and higher investment returns.

Events since 31 August 2009

The Directors have performed further due diligence, based on information made available to the Group (particularly the information according to Taiwan GAAP), on the financial position of Nan Shan since 31 August 2009 and have the following observations:

(a) Nan Shan's profitability will continue to be highly sensitive to the volatilities in the foreign exchange market. In particular, the Company understands that Nan Shan's US$ denominated foreign assets accounted for approximately 89% of its total foreign investment portfolio as at 31 January 2010 and the remainder of its foreign investment portfolio comprises investment assets denominated in the Euro, the British Pound, the Australian dollar and the Canadian dollar which are unhedged. Notwithstanding the high hedge ratio of Nan Shan's US$ denominated foreign assets, these hedges were not perfect hedges as a result of time lags between the relevant hedge instruments and Nan Shan's US$ denominated foreign assets. The Company understands that the size of Nan Shan's total foreign assets portfolio has remained stable since 31 August 2009. In the past and particularly during the 2008 global financial crisis, significant foreign exchange losses were suffered when the global foreign exchange markets experienced significant volatilities. In addition, the Company understands that during the last quarter of 2009 and the two months in December 2009 and January 2010, the US$, the Euro and the British Pound, the Australian dollar and the Canadian dollar were very volatile against the NT$. The Company understands from publicly available information that the US$ to NT$ exchange rate reached approximately US$1:NT$32.95 in early September 2009 but fell to around US$1: NT$32.1 in mid-November 2009 and further fell to US$1:NT$31.70 in early January 2010. Although the Euro appreciated against the NT$ towards the last quarter of 2009, it fell sharply from approximately €1:NT$48.52 to approximately €1:NT$44.36 towards the end of January 2010. The same applied to the British Pound which fell from approximately £1:NT$53.51 in early December 2009 to approximately £1: NT$50.89 in early January 2010. The Australian dollar during the two-month period ended 31 January 2010 experienced volatilities which fell from AUD1:NT$29.85 in early December 2009 to AUD1:NT$28.29 in late January 2010. The Canadian dollar also fell during this period from CAD1: NT$30.99 in late December 2009 to CAD1: NT$28.89 in late January 2010. The Company understands from Nan Shan's accounts prepared in accordance with Taiwan GAAP that the foreign exchange related net negative impact for Nan Shan for the last quarter of the 2009 financial year will be approximately NT$3 billion. The Company further understands from Nan Shan's accounts prepared in accordance with Taiwan GAAP that the foreign exchange related net negative impact on Nan Shan's profitability during the two months ended 31 January 2010 will be around NT$4 billion. The Company also understands that these figures are unlikely to be materially different when calculated in accordance with HKFRS.

(b) Nan Shan has invested in RBS Bonds. The Royal Bank of Scotland was recapitalised by the British government in 2008 who subsequently took a controlling stake in October 2008. The Company further understands that the Royal Bank of Scotland announced in November 2009 that it had agreed with the European Commission not to make repayment on its bonds. As a result, the Company expects the market value of the RBS Bonds to be very volatile and that Nan Shan had therefore, in accordance with Taiwan GAAP rules for the purpose of evaluating the investment impairments of its investment portfolio, written down approximately 40% of its investments in its RBS Bonds in November 2009. Prior to such write down, the book value of Nan Shan's investments in the RBS Bonds was approximately NT$4 billion.

Please also see page 99 for information relating to Nan Shan's net profits for the full financial year ended 30 November 2009 compared to its net profits for the nine-months ended 31 August 2009, calculated in accordance with Taiwan GAAP for further information on the changes in Nan Shan's net profits during the last quarter of 2009.

Discussion of balance sheet information

Assets

Total assets as at 31 August 2009 were approximately NT$1,705,643 million compared to approximately NT$1,549,969 million as at 30 November 2008. The increase in assets during 2009 was primarily due to the change in the value of Nan Shan's financial assets, the majority of which are carried at fair value along with higher cash and cash equivalents.

Total assets grew by approximately NT$44,607 million in 2007 compared to 2008 as a result of AIG's capital injections of NT$58,720 million in total. This was also partially offset by the decline in asset value due to a decrease of approximately NT$24,298 million in unrealised gains on available-for-sale financial assets (net of tax) and an impairment of approximately NT$15,280 million recognised in 2008 as a result of the 2008 global financial crisis and AIG Event in 2008.

Total assets also grew between 2006 and 2007 by approximately NT$156,375 million which reflect the growth of Nan Shan's insurance business through it in-force portfolios as well as new insurance businesses.

The following table sets forth the financial assets by asset class:

(Amounts in NT$ millions)	As at 30 November 2006	As at 30 November 2007	As at 30 November 2008	As at 31 August 2009
Fair value through profit and loss:				
- Equity and debt securities	8,927	18,036	20,461	45,890
- Derivative financial assets	1,987	1,805	15	937
Available-for-sale financial assets	1,012,136	1,063,342	992,811	1,048,228
Loans and receivables	121,171	148,736	185,686	171,560
Total financial assets	1,144,221	1,231,919	1,198,973	1,266,615

Financial assets at fair value through profit and loss

Nan Shan's financial assets at fair value through profit and loss had a fair value of approximately NT$45,890 million as at 31 August 2009 compared to approximately NT$20,461 million as at 30 November 2008. The increase is principally related to the investment of excess cash into short-term securities such as bond funds.

Similar to 2007 and 2008, the increase of financial assets at fair value through profit and loss in 2006 was a result of Nan Shan having excess cash to invest in bond funds.

Financial assets at fair value through profit and loss

(Amounts in NT$ millions)	**As at 30 November 2006**	**As at 30 November 2007**	**As at 30 November 2008**	**As at 31 August 2009**
Equity securities:				
- Listed equity securities	—	—	—	1,520
- Bond funds (unlisted)	4,063	13,626	15,929	38,065
- Preferred stocks (unlisted)	2,999	2,786	2,927	3,148
Other Debt securities (unlisted):				
- Convertible bonds	291	36	20	8
- Bond linked deposit	—	—	—	1,276
- Structured notes	1,574	1,588	1,585	1,873
Total Financial assets at fair value through profit and loss excluding derivative financial instruments	8,927	18,036	20,461	45,890

Structured notes set out in the table above refer to principal protected notes with interest return which is linked to the performance of either equity index, interest rate index and/or credit portfolio, respectively.

Available-for-sale financial assets

Nan Shan's available-for-sale financial assets had a fair value of approximately NT$1,048,228 million as at 31 August 2009 compared to NT$992,811 million as at 30 November 2008. The increase was primarily due to new purchases, decreasing interest rates and tightening of credit spreads during 2009. Taiwan government and government agency bonds accounted for approximately 54% of Nan Shan's available-for-sale debt securities as at 31 August 2009 compared to approximately 60% as at 30 November 2008.

Nan Shan's available-for-sale equity securities had a fair value of approximately NT$47,225 million as at 31 August 2009 compared to approximately NT$36,714 million as at 30 November 2008. The increase was due the recovery in equity market during 2009 as well as new purchases.

The decrease in available-for-sale financial assets in 2008 of approximately NT$70,531 million was primarily the result of de-risking activities and the decline of asset value due to the 2008 global financial crisis. The de-risking activities as well as the decline of asset value resulted in Nan Shan's proportion of Taiwan government and government agency bonds as a percentage of its available-for-sale financial assets reaching approximately 60% in 2008 while its holdings in equity securities fell to approximately 4% of its available-for-sale financial assets and its holdings in foreign currency denominated bonds was approximately 33% of its available-for-sale financial assets in 2008.

Total available-for-sale financial assets increased approximately NT$51,206 million in 2007 mainly in equity securities and foreign currency denominated bonds. The growth of available-for-sale financial assets primarily reflected the growth of insurance business.

(Amounts in NT$ millions)	**As at 30 November 2006**		**As at 30 November 2007**		**As at 30 November 2008**		**As at 31 August 2009**	
Equity securities:								
- Listed equity securities	56,238	6%	86,233	8%	29,468	3%	45,865	4%
- Mutual funds (unlisted)	7,080	1%	12,665	1%	7,246	1%	1,360	0%
- Securities lending (listed)	767	0%	2,904	0%	—	—	—	—
Debt securities (unlisted):								
- Government	549,300	54%	524,411	49%	566,519	56%	537,782	51%
- Government agency bonds	27,586	3%	33,014	3%	31,968	3%	32,335	3%
- Corporate bonds	5,328	1%	7,065	1%	7,886	1%	9,570	1%
- Financial institution bonds	5,008	0%	9,522	1%	23,671	3%	25,530	3%
- Foreign currency denominated bonds	360,829	35%	387,528	37%	326,053	33%	395,786	38%
Total available-for-sale financial assets	1,012,136	100%	1,063,342	100%	992,811	100%	1,048,228	100%

Loans and receivables

Nan Shan's loans and receivables outstanding were approximately NT$171,560 million as at 31 August 2009 compared with approximately NT$185,686 million as at 30 November 2008. The decrease was primarily due to significant repayments from policy loans lent out in late 2008 as a consequence of the AIG Event, the early termination of mortgage loans and the disposal of delinquent car loans.

Loans and receivables grew significantly in 2008 primarily from the increase in policy loans which increased approximately NT$33,669 million to approximately NT$185,686 million in 2008 compared to 2007. Such increases were mainly due to the AIG Event in the fourth quarter of 2008 when policyholders were allowed to enter into policy loans in Nan Shan rather than having to withdraw its insurance policies with Nan Shan.

The increase in loans and receivables in 2007 of approximately NT$27,565 million from approximately NT$121,171 million in 2006 was mainly due to an increase in policy loans and structured bank deposits which reflected the growth of Nan Shan's insurance business.

(Amounts in NT$ millions)	As at 30 November 2006	As at 30 November 2007	As at 30 November 2008	As at 31 August 2009
Policy loans	60,068	67,078	100,747	89,114
Secured loans	46,980	47,416	50,732	44,170
Receivables arising from insurance and reinsurance contracts	12,072	12,356	14,294	12,811
Other receivables	2,051	3,886	913	965
Structured deposits	—	18,000	19,000	24,500
Total loans and receivables	121,171	148,736	185,686	171,560

Cash and cash equivalents totalled approximately NT$164,588 million as at 31 August 2009 compared to approximately NT$104,963 million as at 30 November 2008. The increase was due to an approximately NT$47,220 million cash injection in the late 2008 and a de-risking strategy implemented in late 2008 and early 2009 in response to the economic uncertainty during the global financial crisis and the AIG Event. The Company understands that Nan Shan intends to begin reducing its cash position in the future by deploying funds into fixed income securities.

Capital injections which totalled NT$58,720 million and the de-risking activities in the latter part of 2008 resulted in higher cash and cash equivalent positions as at 30 November 2008 as compared to that in 2007. Nan Shan had approximately NT$17,007 million in cash and cash equivalents as at 30 November 2007 and approximately NT$104,963 million in cash and cash equivalents as at 30 November 2008.

Cash and cash equivalents also increase between 30 November 2006 and 30 November 2007. The increase in cash and cash equivalents in 2007 amounted to approximately NT$11,707 million which was primarily due to operating activities from higher sales of single premium investment-linked products.

Liabilities

The following table summarises Nan Shan's liabilities as at 31 August 2009, 30 November 2008, 2007 and 2006:

(Amounts in NT$ millions)	As at 30 November 2006	As at 30 November 2007	As at 30 November 2008	As at 31 August 2009
LIABILITIES				
- Insurance contract liabilities	1,042,934	1,176,298	1,258,527	1,340,501
- Net investment-linked product liabilities	53,551	95,928	76,803	105,281
- Investment contract liabilities	4	78	70	65
- Derivative financial instruments	221	269	26,123	990
- Deferred income tax liability	36,553	34,282	6,429	23,030
- Income tax payable	195	—	—	—
- Policyholder dividend & other Insurance payable	11,550	10,792	11,447	12,335
- Other payables and accrued expenses	11,667	15,114	7,881	8,658
Total liabilities	1,156,675	1,332,761	1,387,280	1,490,860

Nan Shan's liabilities as at 31 August 2009 totalled approximately NT$1,490,860 million compared to approximately NT$1,387,280 million as at 30 November 2008. The increase is primarily reflected in Nan Shan's insurance contract liabilities and investment-linked products liabilities. The increase in insurance contract liabilities reflects the growth in the underlying business in-force for traditional life insurance and accident and health policies. The increase in the investment-linked products liabilities is driven by the increase in the fair value of the corresponding matching assets and new deposits, partially offset by withdrawals and fees charged against policyholder accounts.

Equity

Nan Shan's total equity was approximately NT$214,783 million as at 31 August 2009 compared to approximately NT$162,689 million as at 30 November 2008 due to an increase in other reserves and retained earnings. The increase in other reserves of approximately NT$14,607 million is attributable to the improvement in the fair value of available-for-sale securities of approximately NT$34,047 million during 2009, which is partially offset by an approximate NT$19,206 million transfer to retained earnings. Retained earnings increased by approximately NT$37,487 million primarily consisting of profit for the nine months ended 31 August 2009 of approximately NT$18,281 million and the transfer from other reserves (including statutory and special reserves) to eliminate the accumulated deficit approximately of NT$19,206 million. The reserve figures are calculated using a statutory accounting basis and may not reconcile with the other reserve figures in the circular. The statutory reserve is required under Taiwan Company Law, in which 20% of the net profit after tax under statutory accounting basis must be appropriated from retained earnings as statutory reserve. This requirement was 10% in 2006 and 2007. This statutory reserve is essentially restricted earnings which are not available for distribution and shall be used to eliminate any accumulated deficit. In addition, according to article 145-1 of the Insurance Act, the regulatory authority may as necessary order an insurance enterprise to set aside a special reserve. Pursuant to current regulations as specified by the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" article 20 and relevant rulings issued by the Ministry of Finance of Taiwan, the regulatory authority has ordered insurers to set aside the recovery of risk-volatility reserve in excess of the prescribed cap from liabilities to a special reserve under equity. Nan Shan is therefore required to appropriate this recovery amount after-tax following the resolution adopted at the stockholders' meeting in the subsequent fiscal year. Such special reserve is essentially restricted earnings which are not available for distribution and shall neither be distributed as dividends nor used in other ways without prior approval by the regulatory authority.

8.7 **Liquidity and capital resources**

Nan Shan's major source of cash inflow is generated from insurance premiums, deposits and fees from its investment-linked products. The principal sources of funds generated by Nan Shan's insurance operations are generally affected by fluctuations in the level of new business, policy surrenders, withdrawals, maturities and guarantees to policyholders. Nan Shan could face liquidity pressure in the form of unexpected cash demands that could arise from an increase in the level of policy terminations. Nan Shan closely monitors and manages the level of policyholder terminations in order to minimise such liquidity risk. Other sources of funds include interest and dividend income from investment activities. Liquidity is also available from Nan Shan's highly liquid and marketable securities held in its investment portfolio which could be sold to meet cash needs. The primary liquidity concerns with respect to these cash inflows are the risks of default by counter parties, foreign exchange risk and market liquidity risk which may limit the volume of assets that could be sold.

Nan Shan's cash inflows and existing cash balances are used to pay liabilities under its various insurance contracts, fund operating expenses and income taxes, as well as to purchase investment and capital assets. Nan Shan's funds may also be used to pay dividends to shareholders. The Directors believe that Nan Shan's sources of liquidity are sufficient to meet its current cash requirements and to support any unexpected liquidity needs of its insurance operations.

Cash flows

The following table sets forth certain information regarding Nan Shan's cash flows for the periods indicated. Nan Shan classifies cash flows for the purchases and disposal of financial assets and investment properties in its operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of insurance benefits and claims and investment contract benefits.

	Year ended 30 November			**Nine months ended 31 August**	
(Amounts in NT$ millions)	**2006**	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Net cash provided by operating activities	2,486	13,034	30,933	16,915	59,183
Net cash (used in)/provided by investing activities	(1,069)	(653)	(1,011)	(690)	(122)
Net cash (used in)/provided by financing activities	(1,100)	(720)	58,645	11,425	—
Net increase (decrease) in cash held	317	11,661	88,567	27,650	59,061
Cash and cash equivalents at end of period	5,300	17,007	104,963	44,167	164,588

Operating activities

Net cash provided by operating activities was approximately NT$59,183 million for the nine months ended 2009, an increase compared to the same period in 2008. This was primarily due to the proceeds from disposal of financial assets partially offset by the lower sales of single premium products. Net cash provided by operating activities for the year ended 30 November 2008 was approximately NT$30,933 million, an increase over the same period in 2007 due to disposal of Taiwan government bonds and an increase in liquidity targets during the latter half of 2008 due to the economic crisis and the AIG Event. Net cash provided by operating activities for the year ended 30 November 2007 was approximately NT$13,034 million, an increase of approximately NT$10,548 million over the same period in 2006. The increase in 2007 was due to higher sales of single premium investment-linked products

Investing activities

Net cash used in investing activities was approximately NT$122 million for the nine months ended 31 August 2009, compared to net cash used of approximately NT$690 million for the same period in 2008. The decrease was primarily due to lower purchases of fixed assets. Net cash used in investing activities for the year ended 30 November 2008 was approximately NT$1,011 million, an increase of approximately NT$358 million compared to the same period in 2007. The increase in 2008 was primarily due to purchase of IT and office equipment. Net cash used in investing activities for the year ended 30 November 2007 was approximately NT$653 million compared to NT$1,069 million in the same period in 2006. The decrease was primarily due to a decrease in purchases of IT and office equipment in 2007.

Financing activities

For the nine months ended 31 August 2009, Nan Shan did not receive any capital contributions or pay cash dividends compared to the same period in 2008 which reflected net cash provided of approximately NT$11,425 million. The decrease was primarily due to an approximately NT$11,500 million capital infusion partially offset by an approximate NT$75 million cash dividend for the year 2007 that was paid in May 2008. Net cash provided by financing activities was approximately NT$58,645 million for the year ended 30 November 2008 compared to net cash used of approximately NT$720 million in the same period in 2007. The increase was primarily due to capital infusions totalling NT$58,720 million in 2008. Net cash used in financing activities for the year ended 30 November 2007 was approximately NT$720 million, a decrease of approximately NT$380 million compared to the same period in 2006. The decrease was due to lower dividends paid in 2007 as compared to 2006.

Insurance solvency margin

Nan Shan is in compliance with the applicable insurance solvency margin and capital adequacy requirements of the Taiwan regulators. Nan Shan's primary insurance regulator is the IB of the FSC which sets the minimum solvency margin requirements for the life insurance industry. For example, as required by the Insurance Law, an insurance company in Taiwan must meet minimum capital requirements and also post a guarantee bond with the Taiwan government which is equal to 15% of such insurance company's paid-in capital, and a fraction of premiums are further required to be set aside to be contributed to a stabilisation fund without recourse. In addition to such basic requirements, the FSC has established a risk based capital framework to supervise and monitor the solvency and capital adequacy of insurance companies in Taiwan. In the event an insurance company is not in compliance with the requirements of the RBC framework, the FSC has broad enforcement powers which includes among other things; ordering representatives of the subject company to effect increases in capital, prohibiting the subject company from selling products, restricting the payment of remuneration to the representatives of the subject company, suspending or dismissing directors, supervisors or officers of the subject company, ordering the disposal of assets, ordering the dissolution of branches or appointing personnel to take over the subject company. Nan Shan is therefore subject to an extensive regulatory supervision system which focuses on the RBC ratio, capital requirements, requirements on reserves and the use of insurance funds by insurance companies. Please refer to the sections headed "Part E — Information about Nan Shan — 4. Insurance Regulations in Taiwan — 4.3 Regulation of Insurance Companies — (c) Risk-Based Capital Adequacy Requirements" and "Part E — Information about Nan Shan — 4. Insurance Regulations in Taiwan — 4.5 Recent Regulatory Developments" of this circular for a detailed description of the calculation of the RBC ratio and changes to it since 6 February 2010.

Nan Shan's historical compliance with the RBC ratio

The table below summarises the range within which Nan Shan's RBC ratio fell within as at 31 December 2003, 2004, 2005, 2006, 2007 and 2008. It also shows the range within which Nan Shan's RBC ratio fell within as at 30 June 2008 and 2009.

	As at 31 December						**As at 30 June**	
	2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2008**	**2009**
RBC ratio	over 300%	over 300%	close to the highest limit of the percentages of 200% to 300%	close to the highest limit of the percentages of 200% to 300%	close to the middle of the percentages of 200% to 300%	close to the middle of the percentages of 200% to 300%	close to the middle of the percentages of 100% to 200%	close to the highest limit of the percentages of 200% to 300%

Except as at 30 June 2008 when Nan Shan's RBC ratio fell below 200%, Nan Shan complied with the RBC ratio requirements stipulated by the IB for all periods of time since 2003 when the RBC framework became effective.

However, during the year ended 30 November 2008, Nan Shan fell below the 200% minimum capital ratio as a result of the continued decline in the global financial markets which adversely affected the value of Nan Shan's investments and adverse foreign currency movements relative to the NT$.

Nan Shan's RBC ratio fell below the regulatory minimum requirement in June 2008 as a result of the continued decline in the global financial markets which adversely affected the value of Nan Shan's investments and resulted in adverse foreign currency movements relative to the NT$. Except for this incident in June 2008 and capital injections were required from its parent AIG, Nan Shan has been compliant with the regulatory requirements of the FSC since it became effective in July 2003. Nan Shan's solvency margin increased as at 30 June 2009 as compared to 31 December 2008 primarily due to a reduction in interest rate risk as financial markets recovered and a reduction in foreign exchange risk due to increased levels of foreign currency hedging. The solvency margin as at 31 December 2008 increased over 2007 primarily due to several key factors. Positive factors affecting solvency margin in 2008 were capital infusions of NT$11,500 million and NT$47,220 million in June and November 2008, respectively, and a reduction of insurance risk through a new cancer product reinsurance treaty. In addition, the FSC implemented temporary measures to mitigate the effect of the global economic turmoil on the risk based capital for the entire insurance industry through temporary changes to the risk based capital formula which expired at the end of 2009. The significant foreign exchange and derivative losses for the year, as well as the significant decline in the fair value of financial assets had a negative effect on the solvency margin in 2008. The solvency margin declined between 31 December 2006 and 31 December 2007 primarily due to increasing risk capital requirements as a result of the growth in the investment portfolio, increase in foreign currency exposures and unfavourable claim experience of cancer products.

With effect on 6 February 2010, the FSC restored the original RBC formula and permanently include special catastrophe reserves as a part of Total Adjusted Capital in the calculation of the RBC ratio. On the other hand, the restoration of recognising 80% unrealised capital gain or 100% unrealised capital loss on equity investments in Total Adjusted Capital would place a significant "volatility buffer" into the RBC calculation. Any future stock market volatility will have immediate and full-scale impact on RBC ratio. The FSC has not officially released the new formula for RBC ratio for 2010 and changes to it since 6 February 2010. Please refer to the sections headed "Part E — Information about Nan Shan — 4. Insurance Regulations in Taiwan — 4.3 Regulation of Insurance Companies — (c) Risk-Based Capital Adequacy Requirements" and "Part E — Information about Nan Shan — 4. Insurance Regulations in Taiwan — 4.5 Recent Regulatory Developments" for a detailed description of the calculation of the RBC ratio and changes to it since 6 February 2010.

Contingencies

Nan Shan operates in the insurance industry and is subject to legal proceedings in the normal course of business. Management has made provision for losses that are more likely than not and believes that pending proceedings or litigations that management has not made provisions for will not have a material effect on the financial position or operating results of Nan Shan.

Commitments

Nan Shan has entered into various rental commitments, construction and improvement contracts and real estate acquisition contracts. Future minimum commitments for non-cancellable operating leases consist of the following:

(Amounts in NT$ millions)	**As at 30 November 2008**	**As at 31 August 2009**
Operating lease commitments payable:		
- Within one year	493	345
- Between 1 year and 5 years	658	464
- Later than 5 years	122	47
Total	1,273	856

Future minimum commitments for real estate purchases or construction contracts consist of the following:

(Amounts in NT$ millions)	**As at 30 November 2008**	**As at 31 August 2009**
Real estate purchases or construction contract commitments	2,140	6,575

Real estate purchases or construction contract commitments are normally completed within the next twelve month period.

Disclaimer

Except as disclosed above, Nan Shan did not have, at the close of business on the Latest Practicable Date, any material credit facilities or any mortgages, charges, debentures or other loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

No material changes

Nan Shan's directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of Nan Shan since the Latest Practicable Date.

Off balance sheet arrangements

Nan Shan has no material off balance sheet arrangements.

8.8 **Quantitative and qualitative information about market risk**

Market Risk

Market risk is the risk of potential loss on investment holdings from unfavourable changes in interest rates, foreign currency exchange rates, stock prices and other market risk factors. Nan Shan manages the risk of market-based fluctuations in the value of its investments, as well as liabilities with exposure to market risk.

Nan Shan uses various quantitative measures to assess market risk, including sensitivity analysis, hedge effectiveness testing for economic hedges, and on-going review of investment strategies.

As Nan Shan's investments are mostly fixed rate bonds, their associated fair values generally fluctuate conversely to market interest rates. The market price of these fixed rate debt securities fluctuates with changes in interest rate risk. When interest rates rise, the market value of these fixed rate debt securities generally falls; when interest rates fall, the market value of these securities generally rise. Since Nan Shan's primary investment strategy is to pursue steady and long term profits, short term market interest rate fluctuations are not its major concern.

Fair values of Nan Shan's foreign currency denominated bonds are also subject to foreign currency exchange rate fluctuations, and Nan Shan entered into certain derivative transactions to address exchange risks associated with these investments.

(a) ***Interest rate risk***

Interest rate risk is the risk to the earnings or market value of Nan Shan's investment portfolio due to uncertainty in future interest rates. As an insurance company, the availability of investments with returns that reliably match its insurance policy liabilities is an inherent risk.

In the Taiwan market, the duration of available investments is shorter than the effective maturity of the related policy liabilities. Therefore, there is risk that the reinvestment of the proceeds upon the maturity of the initial investments may be at a yield below that of the interest required for the accretion of the policy liabilities. Additionally, there exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future increasing the policy liability; the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

Nan Shan actively manages the interest rate assumptions and crediting rates used for its new and in-force business. The majority of Nan Shan's in-force policy portfolio is traditional life insurance and endowment insurance products with implicit interest rate guarantees. New business with lower interest rate guarantees or policies where the policyholder bears a significant portion of the investment return risk are gradually reducing the overall interest requirements. However, asset portfolio yields have declined faster due to the prolonged low interest rate environment.

While Nan Shan's largest investment portfolio component is investments in Taiwan government bonds, Nan Shan uses a diverse portfolio of investments, including equities, real estate and foreign currency denominated fixed rate bonds as interest rates in the Taiwan market remain low and of short term durations. This investment strategy has historically helped to increase the yield of the investment portfolio to more closely match the requirements of the policyholder liabilities and DAC recoverability.

Nan Shan's exposure to interest rate changes primarily results from its holdings in debt securities, loans and other interest bearing assets. The table below shows the total holdings of Nan Shan that are exposed to interest rate risk:

	As at 30 November			As at 31 August
(Amounts in NT$ millions)	**2006**	**2007**	**2008**	**2009**
Available-for-sale:				
- Government bonds	549,300	524,411	566,519	537,782
- Government agency bonds	27,586	33,014	31,968	32,335
- Corporate bonds	5,328	7,065	7,886	9,570
- Financial institution bonds	5,008	9,522	23,671	25,530
- Foreign currency denominated bonds	360,829	387,528	326,053	395,786
Fair value through profit and loss:				
- Convertible bonds	291	36	20	8
- Bond-linked deposit	—	—	—	1,276
- Structured notes	1,574	1,588	1,585	1,873
Time deposits	1,720	5,457	15,663	43,614
Other cash equivalents	—	8,741	7,132	33,224
Policy loans	60,068	67,078	100,747	89,114
Secured loans	46,980	47,416	50,732	44,170
Total	1,058,684	1,091,856	1,131,976	1,214,282

Nan Shan invests mainly in fixed rate bonds. As at 31 August 2009, 99% of the above bonds, structured deposits and structured notes were at fixed interest rates.

The majority of the policy loans and secured loans are at floating interest rates, therefore the fair value will approximate the current carrying value.

Interest rate risk also arises from Nan Shan's traditional insurance contracts with guaranteed and fixed terms which carry the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable as interest rates rise and fall. For other products, including the investment-linked products, interest rate risk is significantly reduced due to the non-guaranteed nature.

(b) ***Foreign exchange rate risk***

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the NT$ and other currencies in which Nan Shan conducts business may affect its results of operations and financial condition.

Nan Shan invests approximately 35% of its investment portfolio in foreign currency denominated bonds or other investments as part of its investment strategy. Accordingly, Nan Shan will be subject to foreign exchange risks. This is particularly the case as changes in foreign exchange are marked-to-market on a monthly basis and any foreign exchange gains or losses on available-for-sale foreign currency denominated bonds are taken directly to Nan Shan's income statement.

To manage such foreign currency risks, Nan Shan implements direct economic hedges on US$ to NT$ swaps and forward contracts to economically hedge its exposures to such foreign exchange volatilities in compliance with strict guidelines and rules from applicable Taiwanese regulatory authorities. Nan Shan previously also entered into indirect economic proxy hedges which involve entering into derivative instruments that are linked to a basket of products which have high correlation with the NT$. Following the 2008 financial crisis, Nan Shan re-focused its currency risks hedging efforts on ensuring the maintenance of its risk-based capital ratio given the increased volatility of the NT$. For any un-hedged positions, Nan Shan will diversify its foreign currency risks amongst various major currencies to help neutralise the undesirable effects of any foreign-exchange movements.

Nan Shan's foreign exchange positions by major currencies presented in original currency are shown in the following table:

	In original currency in millions					
	US dollar	**Korean Won**	**Australian dollar**	**Euro**	**British Pound**	**Canadian dollar**
30 November 2006						
Cash and cash equivalents	59	—	8	—	1	—
Financial assets	8,412	950,555	1,256	378	109	290
Accrued investment income and other	167	11,218	20	10	3	6
Total foreign currency denominated financial assets	**8,640**	**961,773**	**1,284**	**388**	**113**	**296**
Total foreign currency denominated liabilities	**(19)**	**—**	**(1)**	**—**	**—**	**—**
Net	**8,621**	**961,773**	**1,283**	**388**	**113**	**296**
Derivatives notional amount	**5,269**	**—**	**—**	**—**	**—**	**—**
Net exposure	**3,352**	**961,773**	**1,283**	**388**	**113**	**296**

	In original currency in millions					
	US dollar	Korean Won	Australian dollar	Euro	British Pound	Canadian dollar
30 November 2007						
Cash and cash equivalents	160	23	9	1	1	1
Financial assets	8,824	871,668	1,347	384	151	330
Accrued investment income and other	143	11,156	22	11	5	15
Total foreign currency denominated financial assets	**9,127**	**882,847**	**1,378**	**396**	**157**	**346**
Total foreign currency denominated liabilities	**(86)**	**—**	**—**	**—**	**—**	**—**
Net	**9,041**	**882,847**	**1,378**	**396**	**157**	**346**
Derivatives notional amount	**4,941**	**—**	**—**	**—**	**—**	**—**
Net exposure	**4,100**	**882,847**	**1,378**	**396**	**157**	**346**
30 November 2008						
Cash and cash equivalents	599	152	19	1	1	1
Financial assets	7,488	861,534	1,158	333	151	329
Accrued investment income and other	157	11,218	19	11	5	6
Total foreign currency denominated financial assets	**8,244**	**872,904**	**1,196**	**345**	**157**	**336**
Total foreign currency denominated liabilities	**(2)**	**—**	**—**	**—**	**—**	**—**
Net	**8,242**	**872,904**	**1,196**	**345**	**157**	**336**
Derivatives notional amount	**8,577**	**—**	**—**	**—**	**—**	**—**
Net exposure	**(335)**	**872,904**	**1,196**	**345**	**157**	**336**
31 August 2009						
Cash and cash equivalents	751	—	1	—	—	—
Financial assets	10,447	—	624	206	163	345
Accrued investment income and other	156	—	12	10	4	5
Total foreign currency denominated financial assets	**11,354**	**—**	**637**	**216**	**167**	**350**
Total foreign currency denominated liabilities	**(4)**	**—**	**—**	**—**	**—**	**—**
Net	**11,350**	**—**	**637**	**216**	**167**	**350**
Derivatives notional amount	**10,189**	**—**	**—**	**—**	**—**	**—**
Net exposure	**1,161**	**—**	**637**	**216**	**167**	**350**

Nan Shan's net exposure of foreign exchange by major currencies presented in NT$ are shown in the following table:

	In NT$ millions					
Net exposure of foreign exchange	**US dollar**	**Korean Won**	**Australian dollar**	**Euro**	**British Pound**	**Canadian dollar**
Balance as at 30 November 2006	108,452	33,082	32,762	16,660	7,213	8,383
Balance as at 30 November 2007	132,313	30,932	39,401	18,755	10,413	10,866
Balance as at 30 November 2008	(11,155)	19,810	26,105	14,611	8,015	9,060
Balance as at 31 August 2009	38,218	—	17,657	10,205	8,939	10,497

The exchange rates applied above for the purpose of foreign currency translation are based on the AIG Treasury mid-point rates as at noon New York time on the relevant balance date.

(c) ***Equity risk***

Nan Shan is exposed to the risk of market volatility as a result of its investment in stocks, which may adversely affect its results of operations and net assets. The following are the equity securities or securities in investment funds, which expose it to the risk of changes in equity price:

		As at 30 November		As at 31 August
	2006	**2007**	**2008**	**2009**
Fair value through profit and loss:				
- Listed equity securities	—	—	—	1,520
- Bond funds (unlisted)	4,063	13,626	15,929	38,065
- Preferred stocks (unlisted)	2,999	2,786	2,927	3,148
Available-for-sale:				
- Listed equity securities	56,238	86,233	29,468	45,865
- Mutual funds (unlisted)	7,080	12,665	7,246	1,360
- Securities lending (listed)	767	2,904	—	—
Total equity securities	71,147	118,214	55,570	89,958

A significant proportion of Nan Shan's equity instruments are held to match investment-linked products, of which the investment risk is wholly borne by policyholders thus the exposures are not shown here.

(d) ***Sensitivity analysis***

Sensitivity analysis to interest rate risk, foreign exchange rate risk and equity risk are set out in the table below to illustrate the potential impact on profit (loss) before tax and equity based on the fluctuation of only a single variable on assets and liabilities before taking into account any tax impact based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

	30 November 2006		30 November 2007		30 November 2008		31 August 2009	
(NT$ in millions)	**Profit (loss)**	**Impact on equity**	**Profit (loss)**	**Impact on equity**	**Profit (loss)**	**Impact on equity**	**Profit (loss)**	**Impact on equity**
Interest rate risk								
Liability adequacy test adjustment (see note 4.1.2 of the Accountant's Report)								
+50 basis point change in new money earned	—	—	—	—	—	—	—	—
-50 basis point change in new money earned	—	—	—	—	—	—	(3,312)	(3,312)
Assets								
+50 basis point shift in yield curve	—	(45,186)	—	(41,986)	—	(39,385)	—	(45,996)
-50 basis point shift in yield curve	—	45,186	—	41,986	—	39,385	—	45,996
Foreign exchange risk								
1% strengthening of foreign currencies	2,220	2,272	2,919	3,004	2,078	2,108	1,965	1,968
1% weakening of foreign currencies	(2,220)	(2,272)	(2,919)	(3,004)	(2,078)	(2,108)	(1,965)	(1,968)
Equity risk								
10% increase in equity prices	706	7,115	1,641	11,821	1,886	5,557	4,273	8,996
10% decrease in equity prices	(706)	(7,115)	(1,641)	(11,821)	(1,886)	(5,557)	(4,273)	(8,996)

The interest rate risk sensitivity analysis excludes the impact of a 50 basis point shift in the yield curve on convertible bonds, bond-linked deposits and structured notes as the impact is considered to be immaterial.

8.9 Dividend policy

According to the Company Act of the ROC, Nan Shan may declare dividends by an ordinary resolution of the shareholders' meeting. The articles of incorporation of Nan Shan provide that the amount of dividends should be recommended by the Nan Shan Board of Directors. Following Acquisition Completion, the Company intends to cause the Nan Shan Board to recommend the declaration of dividends, if any, after considering various factors including:

- Nan Shan's financial results;
- Nan Shan's shareholders' interest;
- general business conditions and strategies;
- Nan Shan's capital and solvency requirements;
- regulatory restrictions on the payment of dividends by us to Nan Shan's shareholders;
- possible effects on Nan Shan's creditworthiness;
- other factors the Nan Shan Board of Directors deems relevant.

8.10 Due Diligence performed by the Directors regarding events subsequent to 31 August 2009

The Directors would like to draw Shareholders' attention to the section headed "Part E — Information about Nan Shan — 8. Financial Information and Management Discussion and Analysis — 8.6 Results of Operations — Events Since 31 August 2009" of this circular. The Directors confirm that they have performed sufficient due diligence on Nan Shan and that up to the date of this circular, the Directors have discovered no other material change to the financial position or prospects of Nan Shan since 31 August 2009 and that there has been no other event since 31 August 2009 which would materially affect the information shown in the Accountant's Report.

8.11 **Property Interest**

The table below shows the reconciliation of the net book value of the relevant property interests as at 31 August 2009 to their fair value as at 31 December 2009 as stated in Appendix IV to this Circular.

	NT$ in million	HK$ in million
Net book values as at 31 August 2009		
Freehold land	6,526	1,591
Buildings and constructions	4,629	1,128
Investment properties	21,038	5,128
	32,193	7,847
Movements for the four months ended 31 December 2009		
Additions	8,938	2,179
Depreciation	(123)	(30)
Net book value as at 31 December 2009	41,008	9,996
Valuation surplus	10,725	2,614
Valuation as at 31 December 2009 as per Appendix IV to this Circular	51,733	12,610

9. NAN SHAN'S EMBEDDED VALUE

In order to provide investors with an additional tool to understand Nan Shan's economic value and business results, the Company has disclosed information regarding Nan Shan's embedded value, as discussed below. These measures are based on a traditional deterministic cash flow methodology to determine components of economic value. This methodology makes implicit allowance for the time value cost of options and guarantees and other risks associated with the realisation of the expected future distributable earnings through the use of a risk adjusted discount rate and is consistent with the generally accepted traditional embedded value principles and is a common methodology used by life insurance companies in Asia at the current time. Standards with respect to the calculation of embedded value are still evolving, however, and there is no single adopted standard for either the form, determination or presentation of the embedded value of an insurance company. Moreover, because of the technical complexity involved in embedded value calculations and the fact that embedded value estimates vary materially as key assumptions are changed, Shareholders should read the following discussion as well as the Actuarial Report in their entirety, and Shareholders should use special care when interpreting embedded value results. See also the section headed "Important — Forward-Looking Statements".

The financial statements of the Company and the Accountant's Report disclosed in this circular are prepared in accordance with HKFRS. An alternative method of measuring the value and profitability of a life insurance company is the embedded value method. Embedded value is an actuarially determined estimate of the economic value of the life insurance business of an insurance company based on a particular set of assumptions as to future experience, excluding any economic value attributable to any future new business. In addition, the value of one year's sales represents an actuarially determined estimate of the economic value arising from new life insurance business issued in one year.

The Company believes that reporting Nan Shan's embedded value provides useful information to Shareholders in their decision on how to cast their votes in relation to the Acquisition in that it reports the total amount of distributable earnings, in present value terms, that is expected to emerge over time, in accordance with the assumptions used, from business already sold and still in force. In addition, the value of new business issued in a year provides useful information as to the value being created for investors in the Company by new business activity and hence the future potential of the business.

Ernst & Young, independent actuaries, has prepared a report providing information as to Nan Shan's embedded value as at 31 August 2009 and the value of one year's new business in respect of business issued during the 12 months to 31 August 2009, on a range of assumptions. A copy of the Actuarial Report is included in Appendix V. The Actuarial Report does not constitute an audit opinion of the financial information used in it.

In its calculation of embedded value and the value of one year's sales, Ernst & Young has relied, without independent verification, upon the completeness and accurency of the data and information supplied by Nan Shan. Ernst & Young's report provides further information regarding its use of, and reliance on, the data and information supplied to it.

In Ernst & Young's report, values have been shown under a range of assumptions given the particular uncertainties associated with the future investment environment in Taiwan and other future operational uncertainties in relation to Nan Shan's portfolio of policies. The Company advises Shareholders and investors to consider the range of values contained in Ernst & Young's report in order to gain an understanding of the impact on those values arising from the use of alternative assumptions as to future investment and operational experience. Moreover, the values shown do not necessarily encompass the full range of potential outcomes.

Since actual market value is determined by Shareholders and investors based on a variety of information available to them and their own investment criteria, embedded value should not be construed to be a direct reflection of actual market value. In particular, embedded value does not include the potential contribution arising from new business to be issued in the future which will depend on, among other things, the prospects for the life insurance market in Taiwan, Nan Shan's future position in that market and the profitability of new business issued in the future.

Further, in the current environment in Taiwan and worldwide markets, material uncertainty exists with respect to asset valuations, a key component of embedded value.

10. STATUTORY AND GENERAL INFORMATION ON NAN SHAN

10.1 Further information about Nan Shan

Incorporation

Nan Shan is a licenced insurance company formed under the laws of Taiwan. Nan Shan was established in June 1963 and obtained the insurance business licence from the Ministry of Finance on

29 June 1963, a licence from the Ministry of Economic Affairs on 1 July 1963 and an enterprise registration certificate from the Taipei City Government, Taiwan on 17 July 1963. Nan Shan's registered office is at No. 168, Zhuang Jing Road, Xingyi District, Taipei City, Taiwan, and it does not have an established place of business in Hong Kong.

As Nan Shan was established in Taiwan, it is subject to the relevant laws and regulations of Taiwan. A summary of the relevant laws and regulations of Taiwan is set out in the sections headed "Part E — Information about Nan Shan — 4. Insurance Regulations in Taiwan" and "Part E — Information about Nan Shan — 10. Statutory and General Information on Nan Shan — 10.6 Summary of Taiwanese Company Law" of this circular. A summary of the Articles of Incorporation of Nan Shan is set out in the section headed "Part E — Information about Nan Shan — 10. Statutory and General Information on Nan Shan — 10.5 Summary of Nan Shan's Constitution" of this circular.

Changes in share capital of Nan Shan

At the time of Nan Shan's establishment, its initial registered share capital was NT$20 million divided into 200,000 Shares of par value NT$100 each, of which NT$10 million was paid up. Nan Shan was authorised by the Insurance Bureau to increase its registered capital and paid up capital various times since then. Save as disclosed below, there has been no change to the share capital of Nan Shan within two years prior to the date of this circular:

- in 2007, Nan Shan was authorised by the Insurance Bureau to increase its registered capital from NT$12,000 million to NT$25,000 million and paid up capital from NT$12,000 million to NT$13,500 million.

- in 2008, Nan Shan was authorised by the Insurance Bureau to increase its registered capital from NT$25,000 million to NT$100,000 million. The Insurance Bureau also authorised Nan Shan to increase its paid up capital from NT$13,500 million to NT$25,000 million in April 2008 and subsequently authorised a surplus transfer of NT$6,480 million to increase the paid up capital to NT$31,480 million in June 2008, and following that authorised an increase in paid up capital to NT$78,700 million in October 2008.

10.2 **Further information about Nan Shan's business**

Summary of material contracts

As at the Latest Practicable Date, Nan Shan had not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular.

Intellectual property rights

As at the Latest Practicable Date, Nan Shan had registered or has applied for the registration of the following intellectual property rights which are material in relation to Nan Shan's business.

Trademarks

(i) As at the Latest Practicable Date, Nan Shan had registered the following trademarks which are material in relation to Nan Shan's business:

Trademark	Filing Number	Registration Number	Registration Date	Expiry Date
	097022252	01344999	1 January 2009	31 December 2018
	097022250	01348825	1 February 2009	31 January 2019
	097022247	01348824	1 February 2009	31 January 2019
南山	097022241	01340586	1 December 2008	30 November 2018
Nan Shan	097022240	01340585	1 December 2008	30 November 2018
	092051811	01103208	16 May 2004	15 May 2014
	092051809	01102971	16 May 2004	15 May 2014
	078014293	00042495	1 February 1990	31 December 2019

(ii) As at the Latest Practicable Date, Nan Shan had applied for the registration of the following trademarks which are material in relation to Nan Shan's business:

Trademark	Filing Number	Registration Number	Registration Date	Expiry Date
	098033697	Pending	Pending	Pending

Domain Names

As at the Latest Practicable Date, Nan Shan had registered the following domain names:

Domain Name	Registrant	Expiry Date
nanshanlife.com.tw	Nan Shan	31 May 2011
assure.com.tw	Nan Shan	31 July 2011
nanshancharity.org.tw	Nan Shan Life Charity Foundation	26 July 2010
ns-etc.com.tw	Nan Shan	17 September 2011
nanshanwealthmanagement.com.tw	Nan Shan	19 December 2010
nanshan-wealthmanagement.com.tw	Nan Shan	19 December 2010
nanshanwm.com.tw	Nan Shan	19 December 2010
nswealthmanagement.com.tw	Nan Shan	19 December 2010
ns-wealthmanagement.com.tw	Nan Shan	19 December 2010
nswm.com.tw	Nan Shan	22 January 2011
ns-wm.com.tw	Nan Shan	19 December 2010
nanshanwm.com	Nan Shan	10 December 2010
nswealthmanagement.com	Nan Shan	10 December 2010
nanshanwealthmanagement.com	Nan Shan	10 December 2010
ns-wm.com	Nan Shan	10 December 2010
ns-wealthmanagement.com	Nan Shan	10 December 2010
nanshan-wealthmanagement.com	Nan Shan	10 December 2010
central-nanshan.com	Nan Shan	26 May 2012
nanshan.asia	Fourier Chiang (Registrant organisation: Nan Shan)	12 March 2013
nanshan.info	Fourier Chiang (Registrant organisation: Nan Shan)	10 August 2013
nanshan.us	Fourier Chiang (Registrant organisation: Nan Shan)	20 May 2012
nanshan-central.com	Nan Shan	26 May 2012
nanshancharity.asia	Fourier Chiang (Registrant organisation: Nan Shan)	21 March 2013
nanshangeneral-central.com	Nan Shan	26 May 2012
nanshanlife.asia	Nan Shan	21 March 2013
nanshanlife.us	Fourier Chiang (Registrant organisation: Nan Shan)	20 May 2012
nanshanta.com.tw	Nan Shan	17 December 2013
nscharity.asia	Fourier Chiang (Registrant organisation: Nan Shan)	21 March 2013
ns-etc.asia	Fourier Chiang (Registrant organisation: Nan Shan)	21 March 2013
nan-shan.asia	Fourier Chiang (Registrant organisation: Nan Shan)	21 March 2013

Domain Name	Registrant	Expiry Date
nanshanlife.com.vn	Nan Shan	25 May 2010
nanshan.com.tw	Nan Shan	16 March 2010
nslife.com.tw	Nan Shan	02 April 2010
nsli.com.tw	Nan Shan	02 April 2010
nsl.com.tw	Nan Shan	14 March 2010
nan-shan.com.tw	Nan Shan	03 April 2010
nanshanlife.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nanshan-cn.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nanshan-china.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nan-shan.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
ns-etc.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nscharity.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nanshancharity.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nanshan.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nanshangeneral-central.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nanshan-central.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
central-nanshan.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nanshanta.at	Fourier Chiang (Registrant organisation: Nan Shan)	27 November 2010
nanshan-cn.cn	Fourier Chiang (Registrant organisation: Nan Shan)	23 November 2011
nanshan-china.com.cn	Fourier Chiang (Registrant organisation: Nan Shan)	23 November 2011
nanshan-china.cn	Fourier Chiang (Registrant organisation: Nan Shan)	23 November 2011
nan-shan.com	Lin Chen Yu (Registrant organisation: Nan Shan)	06 April 2014

10.3 **Further information about Nan Shan's directors, management and staff**

Service contracts

None of Nan Shan's directors has or is proposed to have a service contract with Nan Shan (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation).

Fees or commissions received

None of the directors or any of the persons whose names are listed in the paragraph headed "Experts and Consents" in Appendix VI of this circular had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of Nan Shan from Nan Shan within the two years preceding the date of this circular.

10.4 **Other information**

Litigation

As at the Latest Practicable Date, save as disclosed in the section headed "Part E — Information about Nan Shan — 6. Business of Nan Shan — 6.20 Legal and Regulatory Proceedings" of this circular, Nan Shan was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against Nan Shan.

Miscellaneous

No share or capital of Nan Shan is under option or is agreed conditionally or unconditionally to be put under option.

None of the Directors is interested in any assets which have, within the two years immediately preceding the issue of this circular, been acquired or disposed of by or leased to Nan Shan, or are proposed to be acquired or disposed of by or leased to Nan Shan.

None of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to Nan Shan's business.

Save as disclosed in Appendix VI of this circular, no other person has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group and the amount of each of such person's interest in such securities, together with particulars of any options in respect of such capital.

10.5 **Summary of Nan Shan's Constitution**

Set out below is a summary of certain provisions of the Articles of Incorporation dated as at 28 May 2008 and of certain aspects of Taiwan Company Law.

Nan Shan was incorporated in Taiwan as a company limited by shares under the Taiwan Company Act. It has authorised capital of NT$100 billion divided into 1 billion shares.

(a) **Articles of Incorporation**

The share capital of Nan Shan consists of common shares. All certificates of shares issued by Nan Shan shall be in registered form.

(b) **Directors**

Nan Shan shall have between five (5) to fifteen (15) directors. Each director shall serve a term of two years and is eligible for re-election. The Nan Shan Board shall elect among themselves at least three (3) managing directors but up to no more than one-third of the total number of directors. One chairman shall be elected among the managing directors and if necessary, one vice-chairman. If the Nan Shan Board deems that it is not necessary to elect managing directors, one chairman shall be elected among the directors and if necessary, one vice-chairman.

(i) ***Power to allot and issue shares***

The Nan Shan Board is authorised to issue new shares within the amount of authorised capital.

(ii) ***Power to dispose of the assets of Nan Shan or any Subsidiary***

Subject to the Taiwan Company Act, the Nan Shan Board is authorised to dispose of or acquire major assets or real estate.

(iii) ***Proceedings of the Nan Shan Board***

Subject to the Articles of Incorporation, the directors shall attend the Nan Shan Board meeting in person or, in case he cannot attend the meeting in person, may appoint another director to act as his proxy, but shall prepare a separate letter of proxy for each meeting. Such an appointed director shall serve as proxy for one director per meeting only. The meeting of the Nan Shan Board shall be convened by the chairman of the Nan Shan Board. A notice stating the purpose of the meeting shall be given 7 days in advance to the directors and supervisors. However, in case of an emergency, a meeting of the Nan Shan Board can be convened immediately without prior notice.

(c) **Alteration to Constitutional Documents**

The Articles of Incorporation may be amended in accordance with the following procedures:

(1) the Nan Shan Board shall pass a resolution pursuant to the Articles of Incorporation proposing amendments to the Articles of Incorporation;

(2) the shareholders' meeting shall be convened to approve the amendment by the way of special resolution.

(d) **Alteration of Capital**

According to the Articles of Incorporation, the Nan Shan Board shall submit its proposal to increase or decrease Nan Shan's capital of a shareholders' meeting for the shareholders' approval. The shareholders' meeting shall adopt a special resolution to approve the submitted proposal.

(e) **Special Resolution — Majority Required**

The resolution of shareholders' meeting shall be divided into ordinary resolutions and special resolutions. Ordinary resolutions shall be adopted by a majority vote of the shareholders present, who represent more than one-half of the total number of voting shares. To adopt special resolutions, votes by the majority of shareholders representing two-thirds or more of the total number of the outstanding voting shares are required.

(f) **Voting Rights (generally, on a poll and right to demand a poll)**

Shareholders of Nan Shan shall have one vote for each share held.

(g) **Annual General Meetings and Extraordinary General Meetings**

The shareholders' meetings should be divided into annual general meetings of shareholders and extraordinary general meetings of shareholders. The annual general meeting of shareholders should be held once a year within six months after the close of fiscal year. Any extraordinary general meeting of shareholders shall be convened when necessary.

(h) **Accounts and Audit**

At the close of every fiscal year, the following statements and records of accounts shall be prepared for review and approval by the Nan Shan Board and for examination by supervisors, before being presented to a shareholders' meeting for consideration and adoption:

(1) the management discussion and analysis;

(2) the financial statements; and

(3) the proposal for distribution of surplus profit or making up loss.

(i) **Notice of Meetings and Business to be Conducted**

Notice for the annual general meeting of shareholders shall be given to the shareholders 20 days in advance. Notice for any extraordinary general meeting of shareholders shall be given to the shareholders 10 days in advance.

(j) **Transfer of Shares**

A shareholder of Nan Shan shall register transfers of shares with Nan Shan by preparing and presenting to Nan Shan a transfer application form.

(k) **Dividends and other methods of distributions**

After paying all taxes chargeable on the net profit gained at the end of every fiscal year, the balance of the profit shall be applied firstly to make up losses sustained in previous year; and secondly to set aside the remaining profits as legal reserve and special reserve required by law. No less than 1% of the balance of profit shall then be appropriated as bonus for distribution among company employees. A portion of the remaining profit may be set aside for additional special reserves or for any other appropriation as resolved by the shareholders' annual general meeting in accordance with the law.

(l) **Supervisors**

There shall be three to five supervisors, to be elected by the annual general shareholders' meeting, with a tenure of office of two years, eligible for re-election.

The powers and duties of the supervisors shall be as follows:

(1) To investigate on the financial position of Nan Shan;

(2) To examine the books, records and documents of Nan Shan;

(3) To review the business operations of Nan Shan;

(4) To supervise the performance of Nan Shan's employees;

(5) To investigate and report on any misconduct or illegal practices of the employees;

(6) To exercise any other powers granted by law; and

(7) To attend the Nan Shan Board meeting without voting right.

According to the Articles of Incorporation, the functions and powers of the Nan Shan Board include, among others:

(a) to make decisions on the convention of meetings of the shareholders;

(b) to formulate management policies;

(c) to examine and approve the company rules and regulations;

(d) to examine and approve budgets and final accounts;

(e) to propose on increase or decrease of capital of the company;

(f) to make decision on issue of new shares;

(g) to propose on distribution of profits;

(h) to make decisions on purchase, sale or disposition of major assets or real estates; and

(i) to exercise other powers as provided by law or as conferred by meetings of shareholders.

10.6 **Summary of Taiwanese Company Law**

The following is a summary of certain provisions of the Taiwan Company Act as currently in effect.

Certain provisions of the Taiwan Company Act and other matters related to companies incorporated thereunder are described below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review thereof, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) **Incorporation**

A company may be organised under the Taiwan Company Act as a "company limited by shares". The total capital of the company is divided into shares and each shareholder is generally liable for the company in an amount equal to the total value of shares subscribed by such shareholder.

(b) **Share Capital, Issuance of Additional Stock, and Transfer of Shares**

The Taiwan Company Act provides that any change in the issued share capital of a company shall be determined by the board of directors. In the event that the issuance of any new shares will result in any change in the authorised share capital of the company, in accordance with the Taiwan Company Act, the company must amend its articles of incorporation and obtain shareholders' approval at a shareholders' meeting.

The Taiwan Company Act provides that 10% to 15% of any new issue of shares of capital stock sold for cash must be offered first to the issuing company's employees, unless permitted otherwise by the competent authorities. Existing shareholders who are listed on the shareholders' register as of the record date have a pre-emptive right to acquire the remaining 85% to 90% of the issue in proportion to their existing shareholdings. Such restriction will not apply to a company established as a special approved foreign or overseas Chinese invested company. The shares not subscribed by the employees and shareholders at the expiration of the period for the exercise of their rights may be offered by the company (subject to ROC laws) to the public or specified persons as arranged by the board of directors. The pre-emptive rights do not apply to shares issued as dividend shares capitalised with the reserve fund or the value increments of assets, shares issued upon conversion of convertible bonds or shares issued upon exercise of warrants or stock options.

Under the Taiwan Company Act, transfers of common stock (in registered form) are completed by endorsement and delivery of the share certificates. In order to assert shareholders' rights against the company, the transferee must have his name and domicile or residence registered on the company's register of shareholders.

(c) **Dividends and Distributions**

Under the Taiwan Company Act, except under certain limited circumstances, a ROC company is not permitted to distribute dividends to shareholders or pay bonuses to directors, supervisors or employees unless it is generating net profits. Before distributing any dividends or making any payment from net profits, a company must first allocate such net profits to the following: (1) all outstanding taxes and dues, (2) losses suffered in previous years, if any, and (3) a legal reserve equivalent to 10% of the company's net income until the legal reserve equals the company's paid-in capital. The company may also, under its articles of incorporation or by resolution of the shareholders, set aside another sum as a special reserve.

Subject to the requirements described in the preceding paragraph, following approval of the financial statements for the preceding fiscal year by the shareholders in an annual shareholders' meeting, dividends may be, unless otherwise stipulated under the company's articles of incorporation, distributed in proportion to the number of shares owned by each shareholder as listed on the register of shareholders on the relevant record date. In addition to cash only, dividends and/or bonuses may be distributed in stock or a combination of cash and stock, as determined by resolution adopted by a majority of shareholders present who represent two-thirds or more of the total number of outstanding shares of the company. The Taiwan Company Act further provides that the percentage of net profits distributable as employees' bonuses shall be specified in the articles of incorporation of the company.

In addition to distributing dividends out of the net profits of a company, the Taiwan Company Act also permits a company to distribute to shareholders additional shares by capitalising reserves (including the company's legal reserve referred to above, any special reserve and capital surplus of premiums from issuing stock and earnings from gifts received if the company does not have any losses). However, such capitalisation out of a company's legal reserve can only be effected when the accumulated legal reserve reaches 50 percent of the paid-in capital of such company, and only one-half of the amount of such legal reserve may be capitalised.

(d) **Shareholders' Meetings**

There are two types of shareholders' meetings, (i) regular meetings of shareholders (also known as an annual meeting of shareholders) which shall be held at least once a year within six months after the close of each fiscal year, and (ii) extraordinary meetings of shareholders, which shall be held when necessary. A private company must give shareholders notice of a regular meeting 20 days prior to the scheduled meeting date and notice of an extraordinary meeting 10 days prior to the scheduled meeting date. When meetings are convened to discuss matters relating to election or discharge of directors or supervisors, amendments to the articles of incorporation, dissolution, merger, spin-off, or any other significant transfers of its business, the notice to convene must include a description of such matters.

A holder of common stock has one vote for each share of common stock. Such voting power may be exercised by proxy, in writing or by way of electronic transmission. Votes in favour of resolutions by a majority of shareholders representing two-thirds or more of the total number of outstanding shares are required to pass shareholder resolutions with respect to the following matters:

1. Approval of the company to invest more than forty percent of its paid-in capital in another company;

2. Approval of the company to enter into, amend, or terminate any contract for lease, entrustment or joint operation with third parties of the company's business as a whole;

3. Approval of transfer of a whole or substantial part of the company's business or assets;

4. Approval of acceptance of another company's whole business or assets, which shall materially affect the operations of the company;

5. Approval of a director who does anything for his own interest or on behalf of another person that is within the scope of the company's business;

6. Approval for discharging a director;

7. Approval of distributing all or a part of the company's surplus profit as dividends and bonuses in the form of new shares;

8. Approval of any modification to the articles of incorporation;

9. Approval of dissolution, consolidation or merger, or spin-off of the company; and

10. Approval of capitalising all or a part of the company's legal reserve and/or certain capital reserves.

Except the aforementioned corporate actions, other resolutions at a shareholders meeting shall be adopted by a majority vote of the shareholders present, who represent more than one-half of the total number of voting shares.

(e) **Board of Directors**

A company shall have a board of directors, which shall consist of at least three members. Under the Taiwan Company Act, each term of office of a director shall not exceed three years, but a director may serve consecutive terms if re-elected.

The directors shall be elected by shareholders at a shareholders' meeting. Using a cumulative voting system, each share shall have a number of votes equal to the number of directors to be elected unless otherwise provided for by the company's articles of incorporation. The holder of each share may submit one or more votes for any of the candidates.

Meetings of the board of directors shall be convened with at least seven (7) days' notice of the matters to be discussed at the meeting, but an emergency meeting may be convened at any time. Meetings of the board of directors shall take place in person or via videoconference, or a proxy may be appointed. The first meeting of each new term of the board of directors shall take place within 15 days of re-election.

The board of directors has the duty of executing business operations of the company pursuant to laws, regulations, shareholders' resolutions, and the articles of incorporation. The board of directors shall convene shareholders meetings as required and as necessary. If any director discovers the possibility that the company will suffer substantial damage, he or she shall report this possibility to the supervisors immediately.

Votes in favour of resolutions by a majority of directors representing two-thirds or more of the total number of directors are required to pass board of directors resolutions with respect to the following matters:

1. Issuance of new shares;

2. Approval to buy back a limited number of the company's shares to be transferred or assigned to employees of the company within a certain time frame as required by the Taiwan Company Act;

3. Approval to enter into share subscription warrants with employees;

4. Approval of the company to enter into, amend, or terminate any contract for lease, entrustment or joint operation with third parties of the company's business as a whole;

5. Approval of transfer of a whole or substantial part of the company's business or assets;

6. Approval of acquisition of another company's whole business or assets, which shall materially affect the operations of the company;

7. Election of a chairman of the board of directors should the board of directors not have any managing directors;

8. Approval of merger or consolidation between the company and a controlled subsidiary, which is at least 90% owned by the company;

9. Approval to issue corporate bonds;

10. Approval to issue new shares as a consideration for the acquisition of the shares of another company; and

11. Application to be filed with the court for reorganisation.

Except the aforementioned corporate actions, resolutions shall be adopted by majority vote at a meeting attended by a majority of the directors.

(f) **Supervisors**

A company shall have at least one supervisor elected by the shareholders. Under the Taiwan Company Act, each term of office of a supervisor shall not exceed three years, but a supervisor may serve consecutive terms if re-elected. Supervisors may also attend and speak at meetings of the board of directors, but they shall not have any voting rights.

Supervisors have the right to supervise the execution of business operations of the company, and they may investigate the business and financial conditions of the company, examine the accounting books and documents, and request the board of directors or managerial personnel to make reports with respect to the company.

(g) **Shareholders' Suits**

Under the Taiwan Company Act, a shareholder may petition the court for relief under the following events:

- Within 30 days from the date on which a shareholders' resolution is adopted, a shareholder may petition the court to annul a shareholders' resolution if the procedure for convening a shareholders' meeting or the method of resolution violated any law or regulation or the company's articles of incorporation.

- If the substance of a resolution adopted at a shareholders' meeting contradicts any applicable law or regulation or the company's articles of incorporation, a shareholder may petition the court to determine the validity of such resolution.

Shareholders may bring suit against the company's directors and supervisors under the following circumstances:

- Shareholders who have continuously held three percent (3%) or more of the company's issued shares for a period of one year or more may request in writing that a supervisor institute an action against a director on the company's behalf. In case the supervisor fails to institute an action within 30 days after receiving such request, the shareholders may institute an action on the company's behalf. In the event shareholders institute an action, a court may, upon application of the defendant, order such shareholders to furnish appropriate security.

- Shareholders who hold three percent (3%) or more of the company's total issued shares may institute an action with a court to remove a company director who has materially violated the applicable laws or the company's articles of incorporation or has materially damaged the interests of the company if a resolution for removal on such grounds has been voted on and rejected by the company's shareholders and such suit is filed within 30 days of such shareholders' vote.

(h) **Protection of Minorities**

Under the Taiwan Company Act, dissenting shareholders are entitled to appraisal rights in the event of a spin-off or a merger and various other major corporate actions. Dissenting shareholders may request the company to redeem all of their shares at a fair price to be determined by mutual agreement. If no agreement can be reached, the valuation will be determined by a court. Subject to applicable law, dissenting shareholders may, among other things, exercise their appraisal rights by notifying the company before the related shareholders' meeting and/or by raising and registering their dissent at the shareholders' meeting.

One or more shareholders who have together held three percent (3%) or more of the issued and outstanding shares for more than one year may require the company's board of directors to call an extraordinary shareholders' meeting by sending a written request to the company's board of directors. One or more shareholders who have together held one percent (1%) or more of the issued and outstanding shares of the company may submit one proposal to the regular shareholders' meeting.

(i) **Accounting and Auditing Requirements**

The board of directors shall prepare a management discussion and analysis, financial statements and a statement indicating proposed distributions of surplus profits or plans to offset losses. Such statements and records shall be forwarded to the supervisors not less than 30 days prior to a regular meeting of shareholders. Such financial statements and records shall be prepared in accordance with ROC's generally accepted accounting principles.

(j) **Shareholders' Roster**

The shareholders' roster of a company shall be assigned with serial numbers and shall contain certain information about the shareholders, including the names of the shareholders, their residences, the number of shares held and the date of such holding. The date of record for the shareholders' roster shall, with respect to regular and extraordinary meetings of shareholders, be the date that is 30 days and 15 days prior to the dates of such meetings, respectively. The date of record for the shareholders' roster with respect to the distribution of dividends, bonuses and any other benefits shall be five (5) days prior to the date of distribution.

(k) **Inspection of books and records**

Shareholders who have continuously held three percent (3%) of the total number of outstanding shares of a company for a period of one year or more may request that the court appoint an inspector to inspect the current status of the company's business operations, its financial accounts, and any other property of the company. When deemed necessary based on the report made by the inspector, the court may order the supervisors of the company to convene a shareholder's meeting. Any person who impedes, refuses or evades the inspection, or any failure by the supervisors to convene a meeting of the shareholders when ordered by the court, shall be subject to a fine.

Additionally, at a regular shareholders' meeting where financial statements are presented, shareholders may examine the statements and books prepared by the board of directors and the auditing reports submitted by the supervisors to determine whether the shareholder shall approve distribution of any surplus profits or plans to offset any deficits. Such statements, books and reports shall be available for a period of ten days at the company's principal office prior to a regular meeting of shareholders. The shareholders may select and appoint inspectors as required to conduct such an examination, and shareholders may also bring their lawyers or certified public accountants to conduct such an inspection. Any person who impedes, refuses or evades such examination shall be subject to a fine.

(l) **Dissolution and Liquidation**

A company limited by shares shall be dissolved in any of the following events:

1. Occurrence of a cause for dissolution as specified in the articles of incorporation;

2. Achievement or non-achievement of the company's business objectives;

3. Adoption of a shareholders' resolution to dissolve the company;

4. The number of registered shareholders is less than two persons, except when the sole shareholder is a governmental agency or a legal entity; or

5. Consolidation, merger, spin-off, bankruptcy of the company or entry of a dissolution order or judgment.

If applicable, the directors shall be the liquidators of a company, unless liquidators are otherwise provided for under the Taiwan Company Act, the articles of incorporation, or by shareholders' resolution. Liquidation expenses and remuneration of liquidators shall be paid for from the available assets of the company. When impediments to liquidation arise, any creditor, liquidator, or shareholder can request a court to institute a process of special liquidation by which the court will supervise the liquidation and creditors are granted certain rights under the Taiwan Company Act.

(m) **Taxation**

Domestic companies, which include companies incorporated under the Taiwan Company Act, must pay corporate taxes on net income at a fixed rate of 20% on all net income in excess of NT$120,000.

(n) **Foreign Exchange Control**

The ROC Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated by the FSC and by the CBC to handle such business. Current regulations favour trade-related foreign exchange transactions and Foreign Investment Approval investments. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Trade aside, Taiwan companies and resident individuals may, without foreign exchange approval, remit outside the ROC foreign currency of up to US$50 million (approximately NT$1.6 billion) (or its equivalent) and US$5 million (approximately NT$160 million) (or its equivalent) respectively in each calendar year. In addition, Taiwan companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to US$50 million (approximately NT$1.6 billion) (or its equivalent) and US$5 million (approximately NT$160 million) (or its equivalent) respectively in each calendar year. Furthermore, any remittance of foreign currency into Taiwan by a Taiwan company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittances involving a conversion of NT$ to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium- and long-term foreign debt with the CBC.

In addition, foreign persons, may, subject to certain requirements, but without foreign exchange approval of the CBC, remit outside and into the ROC foreign currencies of up to US$100,000 (approximately NT$3.2 million) (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT$ to a foreign currency and vice versa.

(o) **General**

LCS, the Company's legal advisers on Taiwan law, has sent to the Purchaser a letter of advice summarising aspects of Taiwan company law. This letter, together with a copy of the Taiwan Company Act, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Taiwan company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

PART F — EGM

An EGM will be held to consider and, if thought fit, approve, among other things, (1) the Conditional CN Placing Agreement, the Conditional Share Placing Agreement, the CN Placing, the Share Placing and the Specific Mandate, (2) the Acquisition and the Share Purchase Agreement, (3) the Increase in Authorised Share Capital, and (4) the sharing of expenses under the Management Agreement, the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement.

In addition, application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, all the Conversion Shares, the Placing Shares and the Option Shares.

It is currently envisaged that, (1) the Conditional CN Placing Agreement, the Conditional Share Placing Agreement, the CN Placing, Share Placing and the Specific Mandate, (2) the Acquisition and the Share Purchase Agreement, (3) the Increase in Authorised Share Capital, (4) the sharing of expenses under the Management Agreement, the payment of the Service Fees under the Management Agreement, the Option Deeds and the CSH Facility Agreement will be considered and approved at the same EGM based on detailed information disclosed to all Shareholders in the circular.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save as disclosed in the section headed "Part D — Listing Rules Implications — 3. Connected Transactions — 3.1 The Payment of the Service Fees under the Management Agreement, the Option Deeds and the CSH Facility" of this circular in relation to Mr. Ma's deemed interest in Shares, no Shareholder has an interest in (1) any of the Conditional CN Placing Agreement, the Conditional Share Placing Agreement, the CN Placing, Share Placing and the Specific Mandate, (2) the Acquisition and the Share Purchase Agreement, (3) the Increase in Authorised Share Capital, (4) the sharing of expenses under the Management Agreement, the payment of the Service Fees under the Management Agreement, the Option Deeds and the CSH Facility Agreement which is materially different from the other Shareholders, and accordingly, no Shareholder (other than Mr. Ma in respect of the Acquisition, the Option Deed to which he is a party and the Specific Mandate to issue those Option Shares to be granted to him) is required to abstain from voting on the resolutions to be proposed at the EGM to approve such matters. As at the Latest Practicable Date, no member of the Primus Investor Group and none of the Primus Investor, PFH Holdings, Mr. Morse, Mr. Ng or Mr. Or is a Shareholder. Mr. Ma is deemed to be interested in 3,000,000 Shares by virtue of being the settlor and a beneficiary of a discretionary trust for the purpose of Part XV of the SFO and, given his interest in the Option Deed to which he is a party, would be materially different from the other Shareholders, Mr. Ma will abstain from voting (and will instruct the trustee of such discretionary trust to abstain from voting) at the EGM in respect of the resolution to approve the Acquisition, the Option Deed to which he is a party and the Specific Mandate to issue those Option Shares to be granted to him.

Subject to approval by Shareholders, the validity of the approval by Shareholders at the EGM for completion of the Placings shall lapse by the Long Stop Date. The Board is of the view that an approximately nine-month period for completion of the Placings is fair and reasonable due to the fact that the Conditional CN Placing Agreement and the Conditional Share Placing Agreement is subject to a number of factors, including the signing of the Share Purchase Agreement and it not becoming terminated prior to the satisfaction or waiver of the conditions precedent contained therein, either by mutual agreement between the parties to the Share Purchase Agreement or automatically in the case the conditions precedent contained therein are not satisfied or waived on or before the long stop date stated therein, the timing of which is not within the Company's control. Accordingly, it is envisaged that sufficient time will be needed for the completion of the Placings as it will be burdensome and costly for the Company to convene another extraordinary general meeting to obtain approval from Shareholders to extend the period of validity of the Specific Mandate, if required. In addition, obtaining further approval from Shareholders at another extraordinary general meeting will be time consuming and which may affect the success of Placings.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Shareholder (other than Mr. Ma in respect of the Acquisition, the Option Deed to which he is a party and the Specific Mandate to issue those Option Shares to be granted to him) is required to abstain from voting on the resolutions to be proposed at the EGM.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon Shareholders; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby they have or may have temporarily or permanently passed control over the exercise of the voting right in respect of their shares in the Company to a third party, either generally or on a case-by-case basis.

PART G — RECOMMENDATIONS

For the reasons as set out in the sections headed "Part A — The Acquisition — 2. Strategic Rationale for the Acquisition", "Part A — The Acquisition — 3. Financial Effects of the Acquisition" and "Part A — The Acquisition — 4. Prospects of the Enlarged Group" in this letter from the Board, the Board considers that the Acquisition and the Share Purchase Agreement are on normal commercial terms, fair and reasonable and that the entering into of the Acquisition and the Share Purchase Agreement are in the interests of the Company and Shareholders as a whole.

For the reasons as set out in sections headed "Part B — The Financing of The Acquisition — 3. Reasons for the CN Placing and the Share Placing and Use of Proceeds from the Placings" in this letter from the Board, the Board considers that the Placings are fair and reasonable to the Shareholders and the Company as a whole on the basis that the Placings represent an opportunity to raise capital for the Company to acquire Nan Shan and for the further development of Nan Shan.

For the reasons set out in the section headed "Part C — The Payment of the Service Fees and the Sharing of Expenses under the Management Agreement, the Employment Agreements, the Option Deeds and the CSH Facility" in this letter of the Board, the Board considers the terms of the sharing of expenses under the Management Agreement to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Shareholders to vote in favour of the Acquisition, the Share Purchase Agreement, the Placings, the Specific Mandate and the sharing of expenses under the Management Agreement at the EGM.

In respect of the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement, Shareholders' attention is drawn to:

(a) the letter from the Independent Board Committee, the text of which is set out on pages 288 to 289 of this circular, which contains its recommendation to the Independent Shareholders concerning the payment of the Service Fees, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement; and

(b) the letter from the Independent Financial Adviser, the text of which is set out on pages 290 to 304 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the payment of the Service Fees, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement and the principal factors and reasons considered by it in arriving at its advice.

The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote at the EGM in respect of the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement.

The Independent Board Committee has considered the terms of the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement and the advice given by the Independent Financial Adviser and is of the opinion that each of their terms are fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

For the reasons as set out in the section headed "Part C — The Payment of the Service Fees and the Sharing of Expenses under the Management Agreement, the Employment Agreements, the Option Deeds and the CSH Facility" in this letter from the Board, the Board considers that the terms of the transactions under (i) the Management Agreement in respect of the payment of the Service Fees, (ii) each of the Option Deeds and (iii) the CSH Facility Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors also consider that the payment of the Service Fees under the Management Agreement and the grant of the Share Options under the Option Deeds are on normal commercial terms and in the ordinary course of business of the Group.

Accordingly, the Board recommends the Independent Shareholders to vote in favour of the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement at the EGM.

PART H — ADDITIONAL INFORMATION

1. INFORMATION ON THE PURCHASER

Reference is further made to the Signing Announcement pursuant to which the Company announced that it has identified the Purchaser as the investment vehicle to enter into the Share Purchase Agreement, purchase and hold (through Primus Nan-Shan (Taiwan) and Primus Nan-Shan (UK), both 100% owned subsidiaries of the Purchaser) the Sale Shares and that in anticipation of the Acquisition, on 8 October 2009 PFH Holdings transferred 80 shares, representing 80% of the entire issued share capital of the Purchaser, to a wholly-owned subsidiary of the Company, for a consideration of US$8.00. The remainder of the 20% of the entire issued share capital of the Purchaser is held by PFH Holdings as at the Latest Practicable Date. The Purchaser was incorporated on 24 August 2009 as an exempted company with limited liability under the laws of the Cayman Islands. Other than the activities relating to the submission of the Bid, the signing of the Share Purchase Agreement and the arrangement of the Debt Financing, the Purchaser has not engaged in any other business activities since its establishment.

2. INFORMATION ON THE SELLER

The Seller, a Delaware corporation, is a holding company which, through its Subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and internationally. The Seller's primary activities include both general insurance and life insurance and retirement services operations. Other significant activities of the Seller include financial services and asset management.

3. INFORMATION ON PRIMUS

The Company understands that Primus, Primus Investor, Primus Investor Group and PFH Holdings are affiliated entities. Primus is a wholly owned subsidiary of PFH Holdings. PFH Holdings is the managing entity of Primus Investor and an affiliate of the other managing entities of the other members of Primus Investor Group.

4. DEVELOPMENT REGARDING NAN SHAN'S AGENTS AND EMPLOYEES SINCE THE DATE OF THE SHARE PURCHASE AGREEMENT

Provident funds

The Company understands from Nan Shan that settlement was reached with the Nan Shan Agent Self Help Association allowing Nan Shan's agents to withdraw their entitlements under their relevant provident funds in two tranches. The first portion of approximately 27% of the outstanding provident fund balance may be withdrawn (subject to application by the relevant agent seeking to withdraw his or her entitlements) prior to Acquisition Completion and the remainder will be available for withdrawal after Acquisition Completion. There is no impact on Nan Shan for the settlement of the provident funds. These funds are appropriately expensed by Nan Shan and are separately managed by the provident fund's trustee. Accordingly, there is no impact on Nan Shan's income statement or cash flows.

Agent retention bonuses and performance bonuses

Nan Shan's management has, in principle, agreed to pay retention bonuses to its agents following Acquisition Completion ("**Retention Bonuses**") and has also agreed to institute performance-related incentive schemes for its agents ("**Performance Bonuses**"). Both the Retention Bonuses and Performance Bonuses will be determined based on the past and future income of the agents.

As at the Latest Practicable Date, the Company understands from Nan Shan that over 95% of its agents have agreed to such Retention Bonuses and Performance Bonuses and the potential amount payable by Nan Shan is approximately NT$3.8 billion. The Company, however, also understands that such payment of Retention Bonuses and Performance Bonuses remain subject to approval by the Nan Shan Board following Acquisition Completion.

Employee service awards and retention bonuses

Following Acquisition Completion, employees who joined Nan Shan before 13 October 2009 will receive service awards and the employee retention bonuses. Both the service awards and employee retention bonuses will be determined based on the past income of employees. As at the Latest Practicable Date, the potential amount payable on the service awards and the employee retention bonuses is approximately NT$1.4 billion. The Company, however, also understands that such payments of the service awards and the employee retention bonuses remain subject to Acquisition Completion.

PART I — FINANCIAL INFORMATION AND MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the assets and liabilities and results of the Group as at and for each of the three years ended 31 December 2008 as extracted from the annual reports of the Company and assets and liabilities of the Group as at 30 June 2009 and the Group's results for the six months ended 30 June 2009 as extracted from the interim report of the Company, with certain comparative figures reclassified to conform the presentation of the latest financial statements.

CONSOLIDATED INCOME STATEMENT

	Audited Year ended 31st December			**Unaudited Six months ended 30th June,**
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Revenue	32,846	45,717	18,699	2,601
Cost of sales	(24,199)	(50,311)	(36,926)	(2,631)
Gross (loss) profit	8,647	(4,594)	(18,227)	(30)
Other income	31,551	48,779	29,789	8,117
Selling and distribution costs	(2,968)	(4,911)	(3,363)	(352)
Administrative expenses	(27,695)	(41,101)	(28,494)	(21,381)
Other expenses	(11,909)	(31,619)	(38,494)	—
Finance costs	(9,940)	(9,007)	(102,247)	(27,888)
Fair value changes on investments held for trading	564	34,485	(326,731)	156,302
Gain (loss) on partial redemption of convertible notes	—	—	19,664	(71,034)
Impairment loss on goodwill	—	(25,807)	—	—
Gain on disposal of interest in an associate	17,180	—	—	—
Loss on dilution of interest in an associate	(65,762)	—	—	—
Share of results of associates	16,681	—	—	—
Loss (profit) before tax	(43,651)	(33,775)	(468,103)	43,734
Income tax credit (expense)	(5,782)	(6,595)	15,738	4,507
	(49,433)	(40,370)	(452,365)	48,241
Loss for the year from discontinued operation	(9,818)	—	—	—
Loss for the year	(59,251)	(40,370)	(452,365)	48,241

	Audited Year ended 31st December 2006	2007	2008	Unaudited Six months ended 30th June, 2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Attributable to:				
Equity holders of the Company	(38,417)	(40,369)	(452,365)	—
Minority interests	(20,834)	(1)	—	—
	(59,251)	(40,370)	(452,365)	—
Dividend in specie	1,179,307	—	—	—
Loss per share				
- Basic	HK$(0.09)	HK$(0.09)	HK$(0.23)	HK$0.24
- Diluted	N/A	N/A	N/A	HK$0.24

CONSOLIDATED BALANCE SHEET

	Audited As at 31st December			Unaudited As at 30th June,
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*
Non-Current Assets				
Property, plant and equipment	46,982	91,739	87,533	82,576
Prepaid lease payments	27,425	19,604	12,793	12,638
Investment in an associate	—	—	—	—
Club debentures	825	825	825	825
Available-for-sale investments	60,127	36,978	8,138	4,077
	161,166	149,146	109,289	100,116
Current Assets				
Inventories	18,954	9,340	2,739	1,808
Trade and other receivables	12,713	9,743	65,791	38
Prepaid lease payments	626	466	321	320
Amount due from an associate	6,514	6,686	7,101	7,101
Loan and interest receivables	25,761	41,724	—	29,032
Tax reserve certificates paid	5,916	—	—	—
Investments held for trading	8,115	13,800	399,581	436,530
Pledged bank deposits	1,078	—	—	—
Bank balances and cash	8,992	191,617	777,418	480,817
Available-for-sale investments classified as half-for-sale	17,770	—	—	—
	106,439	273,376	1,252,951	955,646
Current Liabilities				
Trade payables, other payables and accrued charges	23,685	40,150	69,353	25,672
Amount due to a related company	4,128	—	—	—
Amount due to a subsidiary of an associate	—	6,686	7,239	7,134
Loan payables	58,568	82,100	63,903	65,639
Income tax payable	6,916	5,735	5,735	5,735
Bank borrowings	12,889	18,042	15,306	15,315
Obligations under finance leases	—	26	26	26
Bank overdrafts	23	—	—	—
	106,209	152,739	161,562	119,521
Net Current Assets	230	120,637	1,091,389	836,125
Total Assets less Current Liabilities	161,396	269,783	1,200,678	936,241

	Audited As at 31st December 2006 HK$'000	2007 HK$'000	2008 HK$'000	Unaudited As at 30th June, 2009 HK$'000 (unaudited)
Capital and Reserves				
Share capital	44,080	52,880	202,880	202,880
Reserves	106,751	91,925	145,957	203,718
Equity attributable to equity holders of the Company	150,831	144,805	348,837	406,598
Minority interests	262	261	261	261
Total Equity	151,303	145,066	349,098	406,859
Non-Current Liabilities				
Deferred tax liabilities	—	4,172	22,548	11,253
Amount due to a related company	5,310	—	—	—
Amount due to an associate	4,993	—	—	—
Convertible notes	—	120,488	829,001	518,111
Obligations under finance leases	—	57	31	18
	10,303	124,717	851,580	529,382
	161,396	269,783	1,200,678	936,241

Set out below is a discussion and analysis of the Group's results of operation for each of the three years ended 31 December 2008 and the six months ended 30 June 2009. The information set out below is principally extracted from the "Management Discussion and Analysis" sections of the Company's 2009 interim report, 2008 annual report, 2007 annual report and 2006 annual report respectively, in order to provide further information relating to the financial condition and results of operations of the Group during the periods stated.

1. **Management discussion and analysis of the six months ended 30 June 2009.**

Set out below is an extract from the interim report of the Company for the six months ended 30 June 2009.

"The revenue of the Group for the six months ended 30th June, 2009 decreased by approximately HK$13.08 million to approximately HK$2.60 million. The revenue for the period was generated from the manufacturing and trading of battery products and related accessories. As affected by the global economic turmoil, high production costs in mainland China and more stringent overseas safety requirements, the demand for the Group's battery products has further weakened and leading to decrease in the revenue and also the gross profit margin. Interest income decreased by approximately HK$11.58 million mainly because of the interest rate maintained at low level during the first half of

2009. Due to the gradual recovery in the global and Hong Kong economies and the recent upturn in the financial market, the Group recorded a gain from fair value changes on investments held for trading which was approximately HK$156.30 million as opposed to a loss of HK$59.80 million for the corresponding period last year. During the period, the Company early redeemed convertible notes with the total principal amount of HK$407.56 million, a loss on partial redemption of convertible notes of HK$71.03 million has been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30th June, 2009. Finance costs decreased by approximately HK$20.30 million to approximately HK$27.89 million, in which HK$25.64 million arising from effective interest on convertible notes and loss on partial redemption of convertible notes of HK$71.03 million have been recorded under the requirements of the Hong Kong Accounting standard ("HKAS") 39 and HKAS 32. However, such financial costs of HK$25.64 million and loss on partial redemption of convertible notes of HK$71.03 million do not affect the Company's cash flow for the period. Overall, total comprehensive income for the period ended 30th June, 2009 was approximately HK$50.98 million as opposed to a comprehensive expense of approximately HK$111.20 million for the corresponding period in 2008.

During the period under review, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by principal bankers, external borrowings, placing shares and placing of convertible notes. As at 30th June, 2009, the Group had working capital calculated by current assets less current liabilities of approximately HK$836.13 million and the current ratio was 8.00, compared with the working capital of approximately HK$1,091.39 million and current ratio of 7.76 as at 31st December, 2008.

In the period under review, the net cash from operating activities was approximately HK$98.48 million compared with approximately HK$354.10 million used in operating activities in the same period of 2008. The net cash generated from investing activities and used in financing activities in the first half of 2009 was approximately HK$12.74 million and HK$408.20 million respectively compared with approximately HK$13.47 million net cash generated from investing activities and HK$1,626.77 million net cash generated by financing activities in the same period of 2008.

The Group's short-term bank overdraft and bank and other borrowings slightly increased from approximately HK$79.24 million as at 31st December, 2008 to approximately HK$80.98 million as at 30th June, 2009, representing an increase of 2.2%. Non-current portion of obligation under finance leases decreased by approximately HK$13,000 to approximately HK$18,000 as at 30th June, 2009. Bank and other borrowings and long term borrowings were fixed rate loans and were denominated in Hong Kong dollars. As at 30th June, 2009, the Group has convertible notes issued on 5th November, 2007 and 7th January, 2008 with aggregated outstanding principal amount of HK$601.34 million (the "First Convertible Notes). The First Convertible Notes are non-interest bearing and with maturity on 31st December, 2010. The outstanding First Convertible Notes are convertible at HK$0.33 per share from the date of issue up to 31st December, 2008, HK$0.36 per shares from 1st January, 2009 to 31st December, 2010 and HK$0.39 per shares from 1st January, 2010 to 31st December, 2010. As at 30th June, 2009, the liability component of the First Convertible Notes was approximately HK$518.11 million. The gearing ratio was approximately 1.59 calculated by the total liabilities of HK$648.90 million divided by total shareholders' equity of HK$406.86 million.

Capital expenditure aggregated to approximately HK$0.05 million for the six months ended 30th June, 2009 and was used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

As at 30th June, 2009, the Group had cash and bank balances amount to approximately of HK$480.82 million (31st December, 2008: HK$777.42 million) and is mainly denominated in Hong Kong dollars. Fair value of investments held for trading was in an amount of HK$436.53 million (31st December, 2008: HK$399.58 million). As at 30th June, 2009, there was no bank deposit pledged. During the period ended 30th June, 2009, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign currencies contracts, currency swaps or other financial derivatives. As at 30th June, 2009, the Company issued all monies guarantee and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary.

As at 30th June, 2009, available-for-sale investments and investments held for trading with a carrying value of approximately HK$1,226,000 (31st December, 2008: HK$6,103,000) and HK$1,000 (31st December, 2008: HK$1,094,000) respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 30th June, 2009 and 31st December, 2008, no margin loan facility was utilised by the Group. At 30th June, 2009, prepaid lease payment with a carrying value of approximately HK$9,390,000 (31st December, 2008: HK$9,487,000) was pledged to secure short-term bank loan granted to the Group.

As at 30th June, 2009, the Group employed approximately 111 staff, the staff cost (excluding directors' emoluments) was around HK$3.47 million for the period under review. The staff remuneration packages are normally reviewed annually. The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the employees in the Group's joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. In addition, the Group provides other staff benefits which include double pay, share option scheme, insurance and medical benefits.

There was no share option granted and exercise under the share option scheme of the Company during the period under review. As at 30th June, 2009, the aggregate number of share options outstanding was 28,800,000 share options.

On 8th June, 2009, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston") pursuant to which, Kingston agreed to place, on a best effort basis, 78,000,000,000 new shares at HK$0.10 per share of nominal value of HK$0.10 each to independent third parties (the "Shares Placing Agreement"). Details of the Share Placing Agreement were disclosed in the Company's announcement dated 8th June, 2009. The Shares Placing Agreement was terminated on 20th August, 2009.

On 15th July, 2009, the Group has entered into a non-legally binding memorandum of understanding, with Primus Financial Holdings Ltd. ("Primus"), a private equity fund, to form an acquiring vehicle with a view to submitting a proposal to acquire a controlling interest in an insurance company located in the Greater China region. Further details are set out in the announcements of the Company dated 29th July, 2009, 31st July, 2009. The transaction is still in processes up to the date of this announcement.

On 20th August, 2009, the Company entered into the conditional placing agreement with Kingston (the "Conditional Placing Agreement"), pursuant to which, Kingston has agreed to act as agent of the Company, procure subscribers for the Convertible notes or, failing which, to subscribe as principal the convertible notes in an aggregate principal amount of HK$7,800 million at a conversion price of HK$0.10 per conversion share (the "Second Convertible Notes"). The Second Convertible Notes shall not bear any interest other than default interest and maturity on six months from the date of issue of the Second Convertible Notes. The whole of the outstanding principal amount of the Second Convertible Notes shall be automatically converted into ordinary shares in the issued share capital of the Company at the conversion price of HK$0.10 per share on a day to be determined by the Company upon which the Second Convertible Notes are converted into conversion shares. The net proceeds of approximately HK$7,600 million is intended to be used to fund the proposed acquisition of more than 90% of the share capital of an insurance company located in the Greater China Region. On 20th August, 2009, the Company and Kingston have mutually agreed to terminate the Share Placing Agreement which entered on 8th June, 2009 pursuant to its terms. Details of the placing of Second Convertible Notes and termination of the Share Placing Agreement were disclosed in the Company's announcements dated 8th June, 2009 and 20th August, 2009.

On 2nd September, 2009, in relation to the Company's entry into a non-legally binding memorandum of understanding with Primus on 15th July, 2009, the Group entered into a consortium letter with PFH Holdings, Ltd and the PFH Partnership Holdings, L.P., both affiliates to Primus, pursuant to which the parties agreed to (i) that on or prior to the date of completion of the sale and purchase agreement and subject to the fulfillment of all the conditions precedent set forth in the sale and purchase agreement and the Conditional Placing Agreement, the Company will direct Kingston to pay an amount up to the net proceeds from the placing of Second Convertible Notes (being a maximum aggregate amount of approximately HK$7.6 billion (or its equivalent in any other currency) to the American International Group, Inc. ("Seller") (or any other person as direct by Seller) for the purpose of satisfying the obligation to make payment of the purchase price under the sale and purchase agreement; (ii) that the Company will appoint Mr. Robert R. Morse as director and vice chairman to the board of the Company with effect from completion of the proposed acquisition of 97.57% of issued share capital of Nan Shan Life Insurance Company Limited by the Company or a member of the Group. Details of the consortium letter were disclosed in the Company's announcement dated 2nd September, 2009.

Looking forward, the proposed acquisition of 97.57% of issued share capital of Nan Shan Life Insurance Company Limited represents a unique opportunity for the Company, and is also potentially beneficial to enhance its shareholders' value. On the other hands, despite the recent signs of stabilizing in global economy, the market in the second half of 2009 will remain full of challenging and the interest rate is expected on hold for the 2nd half of 2009. The Group tends to remain cautious on the performance of securities investment operation and also the batteries manufacturing and trading business. The Group will continue to seek for investment opportunities which it considers to be beneficial to the Company with a view to enhance its shareholders' value.

2. **Management discussion and analysis of the year ended 31 December 2008.**

Set out below is an extract from the annual report of the Company for the year ended 31 December 2008.

"The revenue of the Group for the year ended 31st December, 2008 decreased by approximately HK$27.02 million to approximately HK$18.70 million. The revenue for the year was generated from the manufacturing and trading of batteries products. With the financial crisis arisen from sub-prime mortgage crisis in the United States of America (the "USA"), the world economy has become unstable, the Group's batteries manufacturing and trading business has been tough leading to decrease in the revenue of the Group. Gross profit ratio deteriorated under the high production costs in mainland China amid sustained wages, rising social security benefits and more stringent overseas safety requirements and the credit crunch also hit the domestic demand for the products. Interest income increased by approximately HK$18.79 million mainly because of increase in interest generating in cash balances received from fund raising activities. Due to the adverse market condition, the Group recorded a loss from fair value changes on investments held for trading of approximately HK$326.73 million for the year 2008 as compared to a gain of HK$34.49 million for the year 2007. During the year, administrative expenses decreased 30.67% or HK$12.61 million to HK$28.49 million. During the year, the Company granted share options to a director and the consultant of the Company to subscribe ordinary shares of the Company and accordingly an amount of the share based payment expenses of approximately HK$3.07 million were recognized respectively and included in the administrative expenses for the year to reflect the effect of granting the share options to a director and a consultant of the Company. Finance costs had increased during the period as the second tranch of 2007 convertible notes in the amount of HK$1,173.15 million was issued on 7th January 2008 and as a result, a financial expense of HK$95.38 million has been recorded under the requirements of the Hong Kong Accounting Standard ("HKAS") 39 and HKAS 32. However, such financial expenses do not affect the Company's cash flow for the period. Overall, loss for the year 2008 amounted to HK$452.37 million and was an increase of HK$412.00 million from the year 2007.

During the financial year of 2008, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by principal bankers, external borrowings, share placing and placing of convertible notes. As at 31 December 2008, the Group had working capital calculated by current assets less current liabilities of approximately HK$1,091.39 million and the current ratio increased to 7.76, compared with the working capital of approximately HK$120.64 million and current ratio of 1.79 as at 31 December 2007.

In the fiscal year of 2008, the net cash used in operating activities was approximately HK$764.55 million compared with HK$6.60 million generated by operating activities for the year 2007. The net cash generated by investing activities and financing activities in the fiscal year 2008 was approximately HK$63.02 million and HK$1,287.24 million respectively compared with approximately HK$4.33 million net cash used in investing activities and HK$183.61 million net cash generated by financing activities in 2007.

The Group's bank borrowings slightly decreased from approximately HK$18.04 million as at 31st December, 2007 to approximately HK$15.31 million as at 31st December, 2008, representing a decrease of 15%. There was HK$0.06 million (2007:HK$0.08 million) obligations under finance lease as at 31 December 2008. In 2008, the Group has issued convertible notes on 5th November, 2007, 7th January, 2008 and early redeemed partial convertible notes in November 2008, and as at 31st December, 2008, the aggregated outstanding principal amount of the convertible notes was HK$1,008.90 million, the convertible notes are non-interest bearing and with maturity on 31st December, 2010. The outstanding convertible notes are convertible at HK$0.33 per share from the date of issue up to 31st December, 2008, HK$0.36 per share from 1st January, 2009 to 31st December, 2009 and HK$0.39 per share from 1st January, 2010 to the maturity date, the liability component of the convertible notes was approximately HK$829.00 million. The gearing ratio was increased from 0.83 as at 31st December 2007 to 2.90 as at 31st December, 2008, calculated by the total liabilities of HK$1,013.14 million divided by total shareholders' equity of HK$349.10 million.

Capital expenditure aggregated to approximately HK$7.06 million for the year ended 31st December 2008 and was used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

As at 31st December 2008, the Group had cash and bank balances amount to approximately of HK$777.42 million and is mainly denominated in Hong Kong dollars. Fair value of investments held for trading was in an amount of HK$399.58 million. As at 31st December 2008, there was no bank deposit pledged. During the year ended 31st December, 2008, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any foreign contracts, currency swaps or other financial derivatives. As at 31st December 2008, the Company issued guarantee and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary.

As at 31st December 2008, the Group employed approximately 131 staff, the staff costs (excluding directors' emoluments) was around HK$9.91 million for the year. The staff remuneration packages are normally reviewed annually. The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the employees in the Group's joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. In addition, the Group provides other staff benefits which include double pay, share option scheme, insurance and medical benefits.

During the year 2008, the Company has granted share option to a Director and a consultant of the Company to subscribe 20,000,000 and 4,000,000 ordinary shares of the Company respectively both at the subscription price of HK$0.58 per share. As at 31st December 2008, 28,800,000 share options granted were still outstanding. During the year 2008, no options granted had been exercised.

On 23rd August, 2007, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston") pursuant to which, Kingston agreed to place, on a best effort basis, 1,500,000,000 new shares at HK$0.33 per share of nominal value of HK$0.1 each to independent third parties ("Placing"). The Placing was completed on 7 January 2008 and the net proceeds of HK$482.63 million were initially intended to be used for potential investments or business opportunities.

On 23rd August, 2007, the Company also entered into the placing agreement with Kingston, pursuant to which, Kingston agreed to place, on a best effort basis, the convertible notes in an aggregate principal amount of HK$1,320.00 million ("CN Placing"). The convertible note are non-interest bearing and would carry a right to convert into new shares at the conversion prices subject to adjustment, HK$0.33 per share from the date of issue of the convertible notes to 31st December, 2008, HK$0.36 per share from 1st January, 2009 to 31st December, 2009, and HK$0.39 per share from 1st January, 2010 to maturity date of the convertible notes. On 5th November, 2007 and 7th January, 2008, the aggregate principal amounts to HK$146.85 million and HK$1,173.15 million were issued respectively. The net proceeds of approximately HK$1,287.00 million were initially intended to be used for potential investments or business opportunities. Details of the share placing and placing of convertible notes were disclosed in the Company's announcements dated 30th August 2007, and the Company's circular dated 14th September 2007.

On 7th March, 2008 and 30th October, 2008, the Company announced the change of use of proceeds from the Placing and CN Placing, the relevant net proceeds were to be used for general working capital and/or redemption of existing convertible notes.

Looking forward, as the sub-prime mortgage crisis in the United States has slow down the USA's and the global economy is likely to continue during 2009 and the interest rate is expected on hold until the second half of 2009. Thus, the Group is cautious on the performance of securities and treasury investment and the batteries manufacturing and trading business is also expected to be difficult. Following the completion of the fund raising in 2008 and partial redemption of convertible notes, the Group's capital and shareholders base are much strengthened and the gearing ratio of the group also improved. The Board will continue to seek for suitable investments or business opportunities with good strategic value to enhance the shareholders' value of the Company."

3. **Management discussion and analysis of the year ended 31 December 2007.**

Set out below is an extract from the annual report of the Company for the year ended 31 December 2007.

"For the year ended 31st December, 2007, revenue from the segment of the battery products increased by 39.2% as compared to the financial year ended in 2006.

Production and sales for the battery products operation has increased in the year of 2007, however due to keen competition in pricing and the increased production costs that generally affected factories in China, the battery products operation suffered a loss in 2007.

For the investments in securities and advance the segment result decreased by 13.7% or HK$2.9 million to HK$18.6 million in 2007 from HK$21.5 million in 2006. Interest income derived from this segment decreased by 90.6% or HK$20.0 million to HK$2.1 million in 2007 from HK$22.1 million in 2006. This decrease is attributable to the fact that pursuant to the group reorganisation, the Group paid dividend in specie in 2006 and a total of HK$596.8 million loans and interest receivables, and bank balances and cash were distributed. Excluding the above effect, the performance of investment in securities and advance in 2007 was significantly improved due to the fact that there was approximately HK$34.5 million gained from fair value change on investments held for trading.

Administrative expenses increased by HK$13.4 million mainly due to the recognition of share based payment expenses arising from the share options issued to the eligible participants amounting to HK$11.4 million during the year. Other expenses also increased by HK$19.7 million. It mainly represented the increased incidental commission expenses relating to investment held for trading during the year. An impairment of HK$25.8 million was recognised in relation to the goodwill arising on acquisition of the segment of battery products.

The Group disposed of its entire 22.65% equity interests in China Velocity Group Limited in 2006 and the interests in Wing On Travel (Holdings) Limited ("Wing On") were diluted upon the placement of shares by Wing On and thus Wing On ceased to be an associate in 2006. Therefore during the year there was no contribution from associates recognized. Overall, loss for the year 2007 amounted to HK$40.4 million, a decrease of 31.9% from the year 2006.

During the financial year of 2007, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers, external borrowings, share placing and placing of convertible notes. As at 31st December, 2007, the Group had working capital calculated by current assets less current liabilities of approximately HK$120.6 million and the current ratio increased to 1.79, compared with working capital of approximately HK$0.2 million and current ratio of 1.00 as at 31st December, 2006.

In the fiscal year of 2007, the net cash from operating activities was approximately HK$6.6 million compared with HK$27.2 million used in operating activities in the same period of 2006. The net cash used in investing activities and from financing activities in the fiscal year of 2007 was approximately HK$4.3 million and HK$183.6 million respectively compared with the net cash used in investing activities approximately HK$58.7 million and net cash used in financing activities HK$15.7 million respectively in 2006.

The Group's short-term bank overdraft and bank and other borrowings increased from approximately HK$12.9 million as at 31st December, 2006 to approximately HK$18.1 million as at 31st December, 2007, representing an increase of 39.7%. There was HK$0.06 million long term borrowings as at 31st December, 2007 (31st December, 2006: Nil). As at 31st December, 2007, the Group had convertible notes issued on 5th November, 2007 with outstanding principal amount of HK$146.9 million, the convertible notes are non- interest bearing and with maturity on 31st December, 2010. The outstanding convertible notes are convertible at HK$0.33 per share from the date of issue up to 31st December, 2008, HK$0.36 per share from 1st January, 2009 to 31st December, 2009 and HK$0.39 per share from 1st January, 2010 to 31st December, 2010. As at 31st December, 2007, the liability component of the convertible notes was approximately HK$120.5 million. The gearing ratio was approximately 0.83, calculated by the total long-term borrowing, bank loans, other borrowings and convertible notes of HK$120.5 million divided by total shareholders' funds of 144.8 million.

Capital expenditure aggregated to approximately HK$43.5 million for the year ended 31st December, 2007 and was used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required. Details of the Group's contingent liabilities, commitments and pledge of assets are disclosed in notes 40, 42 and 43 respectively of this report.

Cash and bank balances amounted to approximately HK$191.6 million as at 31st December, 2007, and is mainly denominated in Hong Kong dollars. As at 31st December, 2007, there was no bank deposit pledged. During the year ended 31st December, 2007, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign exchange contracts, currency swaps or other financial derivatives. As at 31st December, 2007, the Company issued "all monies" guarantee and indemnity to a bank for the bank facilities granted to a non-wholly owned subsidiary.

As at 31st December, 2007, the Group employed approximately 337 staff, the staff cost (excluding directors' emoluments) was around HK$21.2 million for the year. Staff remuneration package are normally reviewed annually. The Group has participated in Mandatory Provident Fund Scheme. In addition, the Group provides other benefits which include double pay and medical benefits.

During the year 2007, the company has granted share option to Directors and Employees to subscribe 42,000,000 ordinary shares of the Company at the subscription price of HK$0.724 per share. During the year, 13,200,000 share options have been lapsed upon the changes in staff. As at 31st December, 2007, 28,800,000 share options were still outstanding. During the year, no options granted had been exercised.

On 23rd August, 2007, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston") pursuant to which, Kingston agreed to place, on a fully written basis, 88,000,000 new ordinary shares ("Shares") at HK$0.33 per share of nominal value of HK$0.1 each to independent third parties. The closing price of the Company's share was HK$0.38 per Share on 22nd August, 2007. The gross proceeds from the placing was approximately HK$29.0 million and the net proceeds approximately HK$28.3 million equivalent to HK$0.321 per Share. The placing of Shares was completed on 24th September, 2007 and the net proceeds of HK$28.3 million to be used for general working capital purposes. Details of the placing were disclosed in the company's announcement dated 30th August, 2007.

On 23rd August, 2007, the Company also entered into a placing agreement with Kingston, pursuant to which, Kingston agreed to place, on a best effort basis, 1,500,000,000 new share at HK$0.33 per share of nominal value of HK$0.1 each to independent third parties ("Second Placing"). The Second Placing was completed on 7th January, 2008 and the net proceeds of HK$482.6 million was initially intended to be used for potential investment or business opportunities.

On 23rd August, 2007, the Company further entered into the placing agreement with Kingston, pursuant to which, Kingston agreed to place, on a best effort basis, the convertible notes in an aggregate principal amount of HK$1,320 million ("CN Placing"). The convertible note are non-interest bearing and would carry a right to convert into new Shares at the conversion price subject to adjustment, HK$0.33 per share from the date of issue of the convertible notes to 31st December, 2008, HK$0.36 per share from 1st January, 2009 to 31st December, 2009, and HK$0.39 per share from 1st January, 2010 to 31st December, 2010 which is the maturity date of the convertible notes. On 5th November, 2007, the aggregate principal amount of HK$146.9 million has been issued and on 7th January, 2008, the aggregate principal amount of HK$1,173.1 million has been issued. The net proceeds of approximately HK$1,287 million were initially intended to be used for potential investment or business opportunities. As at 31st December, 2007, the net proceeds from the placing of convertible notes have not been utilised. Details of the share placing and placing of the convertible notes were disclosed in the Company's announcements dated 30th August, 2007 and the Company's circular dated 14th September, 2007.

On 7th March, 2008, the Company has announced the change of use of proceeds from the Second Placing and CN Placing, 50% of the relevant net proceeds is now to be used for general working capital with the rest remained unchanged.

Looking ahead, although the appreciation of RMB and the increased cost of raw materials will be expected to have impact on the company's general performance, the Group foresees enormous opportunities will continue to arise from China's growing economy, high growth rate of capital investments from both foreign and domestic fundings and a resultant upsurge in consumer spending. The opportunities in the PRC market will continue to be the focus of domestic and international investors. Following the completion of the placing of shares and placing of convertible notes, the Group's capital and shareholders base are much strengthened. The Board will continue to seek for suitable investment or business opportunities with good strategic value not only on existing businesses but also in other business area such as natural resources business to enhance the shareholder's value of the Company.

On 11th January, 2008, the Group entered into a framework agreement with an independent third party to acquire part or entire equity interests of 蘇尼特左旗小白陽礦業有限公司 and not less than 20% equity interests of 蘇尼特左旗芒來礦業有限公司, which are engaged in mining and railway companies invested by the vendor in Mongolia, the PRC. This transaction is under the negotiation up to the date of this report. Details are set out in the announcement of the Company dated 11th January, 2008.

The Group acknowledges the economic challenges ahead that might come from the domestic and international level. The Group will therefore maintain a prudent and vigilant attitude when assessing any potential investment or acquisition opportunities. Also as part of our risk management philosophy, the Group will aim to gradually diversity its business and investments so as to maintain a more balanced and healthy portfolio."

4. **Management discussion and analysis of the year ended 31 December 2006.**

Set out below is an extract from the annual report of the Company for the year ended 31 December 2006.

"ANALYSIS OF THE GROUP'S PERFORMANCE

During the year, the Group has adopted the newly effective Hong Kong Financial Reporting Standards. As a result, certain comparative figures for the year ended 31st December, 2005 have been restated.

For the year ended 31st December, 2006, the Group had consolidated the results of the subsidiaries carrying on manufacturing and trading of batteries products and related accessories, investment in securities holding and advance as well as sand mining activities in the People's Republic of China. The operation of sand mining was discontinued during the year following the Group Reorganisation.

The revenue of the Group for the year ended 31st December 2006 totaled HK$32.8 million, a slight decrease of 1.2% from HK$33.2 million as compared to the financial year ended in 2005. The revenue for the year was mainly generated from the manufacturing and trading of batteries products and related accessories. The production and sales in China's battery industry remained fairly stable in 2006 but the international competition in battery market remained keen and pricing was still under competitive pressure which had negatively impacted the revenue of the Group. The Group nevertheless continued to embark on new efficiency and cost cutting measures to minimise the effects of such negative external influences.

The consolidated net loss attributable to equity holders of the parent for the year ended 31st December 2006 decreased from approximately HK$81.8 million for the same year ended in 2005 to approximately HK$38.4 million in the current year of 2006. There was notable decrease in the areas of administrative expenses as well as other expenses which resulted from lower allowance for loans and interest receivables being recognised during the year. The net loss incurred for the current year was mainly attributable to the loss on dilution of interest in an associate.

LIQUIDITY AND FINANCIAL RESOURCES

During the financial year of 2006, the Group financed its operations mainly through cash generated from its business activities, banking facilities provided by its principal bankers and external borrowings. As at 31st December, 2006, the Group had working capital calculated by current assets less current liabilities of approximately HK$0.2 million and the current ratio decreased to 1.00, compared with working capital of approximately HK$755.7 million and current ratio of 3.68 as at 31st December 2005.

In the fiscal year of 2006, the net cash used in operating activities was approximately HK$27.7 million compared with HK$11.8 million used in operating activities in the same period of 2005. The net cash used in investing activities and used in financing activities in the fiscal year of 2006 was approximately HK$58.3 million and HK$15.7 million, respectively; compared with the net cash from investing activities approximately HK$56.9 million and net cash used in financing activities HK$45.4 million, respectively, in the same period of 2005.

The Group's short-term bank overdraft and bank borrowings increased from approximately HK$8.6 million as at 31st December 2005 to approximately HK$12.9 million as at 31st December 2006, representing an increase of 50%. There were no long-term bank loans and other borrowings as at 31st December 2006 and 31st December 2005. The gearing ratio, calculated to the total long-term borrowing bank loans and other borrowing divided by total shareholders' funds, remains nil as at 31st December 2006 and 31st December 2005. As at 31st December 2006, the Group's total borrowings of approximately HK$12.9 million were mainly denominated in Hong Kong dollar, the maturity profile were all within one year, and bear interest at floating rates.

Capital expenditure aggregated to approximately HK$34.2 million for the year ended 31st December 2006 and was used primarily for purchasing of property, plant and equipment. The Group's capital expenditures will continue to be funded primarily by internal resources or external borrowings or a combination of both as required.

Cash and bank balances and pledged bank deposits amounted to approximately HK$10.1 million as at 31st December, 2006, and is mainly denominated in Hong Kong dollars. During the year ended 31st December 2006, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. As a result, the Group did not enter into any material foreign exchange contracts, currency swaps or other financial derivatives.

SIGNIFICANT INVESTMENT

Super Energy Group Limited

Super Energy Group Limited ("Super Energy") is principally engaged in the manufacturing and trading of batteries products and related accessories. Its major products are the primary battery and the rechargeable battery. Super Energy is also actively engaged in new product development by introducing the latest technology into its products.

Since 2004, all Super Energy batteries are manufactured in compliance with the standards of ISO 9001 and Super Energy provides full range of batteries free mercury and cadmium and proud to present its invention of "No Mercury Button Cell Battery" and "Lithium-Ion Battery" are representing high quality, high capacity and advance technology.

Over the years, Super Energy insists on quality production as the crucial path to gain reputation. In order to produce high quality and reliable batteries, high-level vertical integration is employed in our manufacturing process. Starting from electro-plating of metal case, plastic injection, all processes are manufactured and controlled by experienced teams.

A new factory is scheduled to set up in the coming year and occupy over 110,000 square meters. The new set up of the factory are fully equipped with advanced machinery based on the best combination of Japanese and European technologies and facilities. Direct and onsite supervision from our technical experts will ensure that highest quality and efficiency are achieved.

With the recovery of the world economy, the import and export of the battery products in China has increased. For the coming future, Super Energy aspires to achieving further growth in revenue by introducing more high margin products.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 31st December, 2006, the Group employed approximately 165 staff, remuneration packages comprised of salary and year-end bonuses based on individual merits.

No options were granted or exercised during the year ended 31st December, 2006.

CORPORATE DEVELOPMENTS

As stated in the joint announcement of the Company dated 19th April, 2005, the Company announced the following proposals, if approved and implemented, resulted in below.

Group Reorganisation

(i) the Company continuing to be a public listed company with its subsidiaries concentrating on its business of manufacturing and trading of battery products and investments in securities;

(ii) all other subsidiaries of the Company carrying on property development, investment holding business and vessels for sand mining business, and all other associates of the Company carrying on manufacturing and marketing of tires and business of providing package tour, travel and other related services were grouped under Group Dragon Investments Limited ("GDI", a former wholly-owned subsidiary of the Company) and its subsidiaries and operated by the former management of the Company; and

(iii) shares in GDI were distributed as dividend in specie to the then shareholders of the Company on the effective date of the Group Reorganisation, on the basis of one GDI share for every share in the Company after the shares consolidation pursuant to the capital reorganisation.

Capital Reorganisation

The Company has carried out the Capital Reorganisation during the year which involves, inter alia, the following:

(i) subdivision of the Company's shares into two shares of HK$0.05 each;

(ii) cancellation of the paid-up capital of 881,595,087 issued shares of HK$0.05 each ("Capital Reduction") and the cancellation of the entire share premium account of the Company;

(iii) consolidation of two shares of HK$0.05 each into one ordinary share of HK$0.10 each;

(iv) the credits of approximately HK$44,080,000 and HK$1,900,916,000 resulting from the Capital Reduction and the cancellation of the share premium account, respectively transferred to the special capital reserve account of the Company; and

(v) such special capital reserve set off against the accumulated deficit of the Company as the date of the completion of the Group Reorganisation.

Details of the Group Reorganisation and the Capital Reorganisation are set out in the Company's circular dated 10th September, 2005.

The abovementioned proposals relating to the Capital Reorganisation; and the Group Reorganisation have been completed on 18th May, 2006 and 19th May, 2006 respectively.

The Company had been informed by Hanny Holdings Limited ("Hanny") and PYI Corporation Limited ("PYI") that they have entered into the share sale agreement with Nation Field Limited ("Nation Field") on 10th March, 2005 pursuant to which and subject to, inter alia, the implementation of the Group Reorganisation in full, Nation Field agreed to acquire 135,000,000 shares (equivalent to 67,500,000 consolidated shares of the Company upon the Capital Reorganisation having become effective) from each of Hanny and PYI, which shares represent approximately an aggregate of 30.6% of the issued share capital of the Company, for an aggregate consideration of HK$52,110,000, equivalent to about HK$0.193 per share (or HK$0.386 per consolidated share). The share sale agreement has been completed on 24th May, 2006.

On 23rd March, 2006, China Enterprises Limited, a former non-wholly owned subsidiary of the Company, entered into an agreement with Wing On Travel (Holdings) Limited ("Wing On") for the subscription of the 2% convertible exchangeable note issued by Wing On to the Group for the consideration of HK$300,000,000 (the "Subscription"). The Subscription under an agreement constituted a major transaction for the Company under the Listing Rules. Accordingly, the Subscription and the transactions contemplated under the agreement were subject to the approval of the shareholders of the Company at general meeting. This transaction has been completed in June, 2006.

The composite offer document containing terms and details of the offer made by Kingston Securities Limited ("Kingston Securities") on behalf of Nation Field to acquire all the issued shares in the Company other than those already owned by Nation Field and parties acting in concert with it, together with the acceptance form have been despatched to the shareholders of the Company on 26th May, 2006. The offer has been closed on 16th June, 2006.

Immediately following the close of the offer, the valid acceptance of 135,782,321 shares of the Company received under the offer, Nation Field and parties acting in concert with it, (including Hanny and PYI), owned or controlled an aggregate of 394,602,115 shares of the Company, representing approximately 89.52% of the issued share capital of the Company as at the date of close of offer (out of which 270,782,321 shares of the Company, representing approximately 61.43% of the issued share capital of the Company, are held by Nation Field) and there were 46,195,428 shares of the Company in the hands of the public, representing approximately 10.48% of the voting rights of the Company.

Given that the public of shares of the Company was less than 25% of the issued share capital of Company after the close of offer, the Company is required to suspend trading in the shares of the Company until the public float was restored as required under the Listing Rules.

On 29th January, 2007, Nation Field, a controlling shareholder of the Company, entered into the placing agreement (the "Placing Agreement") with Kingston Securities. Pursuant to the Placing Agreement, Nation Field agreed to place, through Kingston Securities, an aggregate of 65,000,000 existing shares of the Company, on a fully underwritten basis, at a price of HK$0.32 per placing share (the "Placing").

Immediately after completion of the Placing, there were 111,195,428 shares of the Company in the hands of the public, representing approximately 25.23% of the issued shares of the Company. The Company confirmed that the public float of the shares of the Company had been restored. The trading of shares of the Company had resumed on 1st February, 2007."

By order of the Board
China Strategic Holdings Limited
Mr. Or Ching Fai
CEO and Vice Chairman

27 February 2010

CHINA STRATEGIC HOLDINGS LIMITED
(中 策 集 團 有 限 公 司)

(Incorporated in Hong Kong with limited liability)

(Stock Code : 235)

To the Independent Shareholders

Dear Sir or Madam,

THE PAYMENT OF THE SERVICE FEE UNDER THE MANAGEMENT AGREEMENT, THE OPTION DEEDS AND THE CSH FACILITY

We refer to the circular to the Shareholders dated 27 February 2010 (the "**circular**") of which this letter forms part. Terms defined in the circular shall have the same meanings when used herein unless the context otherwise requires.

The Independent Board Committee has been formed to give recommendations to the Independent Shareholders on the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the "Letter from the Independent Financial Adviser" as set out on pages 290 to 304 of the circular. We have considered the terms and conditions of each of the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement, the advice of the Independent Financial Adviser and the other factors contained in the "Letter from the Board" as set out on pages 19 to 287 of this circular.

In our opinion, the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We also consider that the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement are on normal commercial terms and in the ordinary course of business of the Group. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the payment of the Service Fees under the Management Agreement, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement.

Yours faithfully,
Independent Board Committee
China Strategic Holdings Limited

Ma Yin Fan	**Leung Hoi Ying**	**Phillip Fei**
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

The following is the text of a letter from Piper Jaffray Asia Limited setting out its advice to Independent Board Committee and the Independent Shareholders for the purpose of inclusion in this circular.

PiperJaffray

3902B, 39th Floor, Tower 1
Lippo Centre
89 Queensway
Hong Kong

27 February 2010

To the Independent Board Committee and the Independent Shareholders of China Strategic Holdings Limited

Dear Sirs,

**CONNECTED TRANSACTIONS:
I) THE PAYMENT OF SERVICE FEES;
II) THE GRANT OF SHARE OPTIONS; AND
III) THE PROVISION OF THE CSH FACILITY**

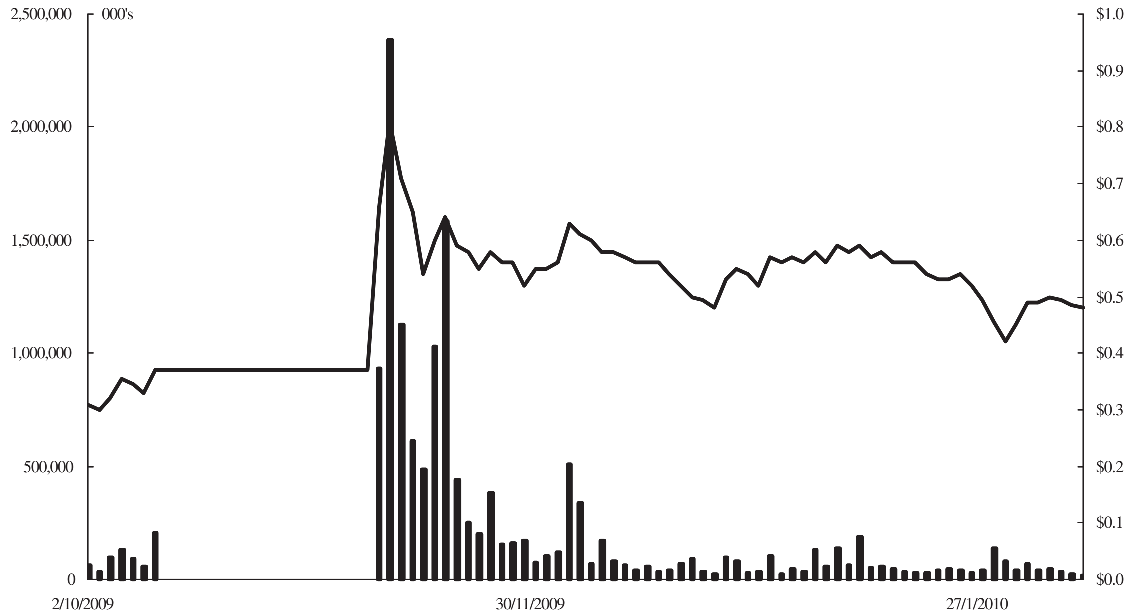
INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with (i) the payment of the Service Fees to Mr. Morse and Mr. Ng under the Management Agreement; (ii) the grant of the Share Options to Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma under the Option Deeds; and (iii) the provision of the CSH Facility under the CSH Facility Agreement to the Purchaser, (collectively the "Transactions"), details of which are set out in the section headed "Letter from the Board" in this circular (the "Circular") issued by the Company to the Shareholders dated 27 February 2010 of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 10 November 2009, the Company announced that the Purchaser (a subsidiary of the Company of which the Company indirectly owns 80% and PFH Holdings owns 20%) and the Seller had entered into the Share Purchase Agreement pursuant to which the Seller and the Purchaser agreed that, subject to the satisfaction of the Conditions, the Seller will sell (or cause one of more of its Subsidiaries to sell) and the Purchaser will purchase approximately 97.57% of the issued and outstanding share capital of Nan Shan at a purchase price of US$2,146,588,190. On the same date, the Company announced the proposed payment of the Service Fees pursuant to the Management Agreement and the proposed grant of the Share Options pursuant to the Options Agreements. Mr. Morse and Mr. Ng, being Directors and Co-CEOs of the Purchaser, a non-wholly owned subsidiary of the Company, as well as

Mr. Or and Mr. Ma, being Directors of the Company, are connected persons of the Company under the Listing Rules. Accordingly, the payment of Service Fees and the grant of Share Options constitute connected transactions for the Company under Chapter 14A of the Listing Rules which will require approval of the Independent Shareholders.

Since the announcement of the Acquisition, the payment of Service Fees and the grant of Share Options on 10 November 2009, the price and trading volume of the Shares are as follows:



Source: Capital IQ, as of 9 Feb 2010

On 26 February 2010, the Company and the Purchaser, being a non-wholly owned subsidiary of the Company for which the Company indirectly owns 80% equity interest and PFH Holdings owns the remaining 20% equity interest, entered into the CSH Facility Agreement in relation to the provision of the CSH Facility in an aggregate principal amount up to HK$5.3 billion by the Company to the Purchaser for funding the balance of the consideration of the Acquisition. Given that Mr. Morse is an associate of PFH Holdings (which owns 20% of equity interest of the Purchaser) and he will be appointed as an executive Director and co-vice chairman of the Company upon the Acquisition Completion, the Purchaser is thus a connected person of the Company under the Listing Rules. Accordingly, the provision of the CSH Facility constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules, and is therefore subject to the approval of the Independent Shareholders at the EGM.

The independent committee of the Board, comprising Ms. Ma Yin Fan, Mr. Phillip Fei and Mr. Leung Hoi Ying, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of voting on the resolutions to approve the Transactions at the general meeting We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Transactions. In our capacity as the independent financial adviser to the Independent Board Committee and the

Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the Transactions are on normal commercial terms, in the ordinary course of business, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

BASIS OF OPINION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by, the Directors and management of the Group. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors and management of the Group will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and management of the Group. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors and management of the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Transactions, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of (i) the payment of the Service Fees under the Management Agreement; (ii) the grant of the Share Options under the Option Deeds; and (iii) the provision of the CSH Facility under the CSH Facility Agreement and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

In arriving at our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

A. PRINCIPAL FACTORS AND REASONS CONSIDERED — SERVICE FEES

Background for the payment of the Service Fees

The payment of the Service Fees pursuant to the Management Agreement

As stated in the VSA Announcement and the Letter from the Board, for services performed by each of Mr. Morse and Mr. Ng in connection with the Transactions and the preparation of the Bid, the Company has agreed in the Management Agreement that, subject to Acquisition Completion and approval by the Independent Shareholders , it will pay a service fee of US$15 million to Mr. Morse and Mr. Ng in equal shares in accordance with the terms of the Employment Agreements on the date that is three months from the Acquisition Completion Date.

Biographies of Mr. Morse and Mr. Ng

Mr. MORSE Robert, aged 54, is the managing director, chairman and Co-CEO of Primus. Upon Acquisition Completion, Mr. Morse will be appointed as executive Director and Co-vice chairman of the Company. From 2004 to 2008, Mr. Morse served as chief executive officer of Citigroup's Asia Institutional Clients Group and was one of Citigroup's most senior executives globally. Prior to this, Mr. Morse served as the head of global investment banking for Citigroup, based in New York. He had also held a variety of increasingly senior positions since he joined Salomon Brothers in 1985. Mr. Morse is a 1977 graduate of Yale College, Phi Beta Kappa and magna cum laude, and a 1981 graduate of the Harvard Graduate School of Business Administration and the Harvard Law School.

Mr. NG Wing Fai, aged 42, was appointed as a director of the Purchaser on 6 October 2009. Mr.Ng is also a managing director and Co-CEO of Primus. Prior to this, Mr. Ng was managing director, senior executive vice president and head of corporate strategy of Fubon Financial Holding Co., Ltd., one of the largest financial services conglomerates in Taiwan. Mr. Ng joined Fubon Financial Holding Co., Ltd. in 2000 and was the founding member of its operating and management committee. Prior to this, Mr. Ng was a managing director and head of the financial institutions group in the investment banking department of Salomon Smith Barney in Asia. Mr. Ng was also a management consultant at Booz Allen & Hamilton, specialising in financial services in the United States and Asia. Mr. Ng holds a masters of business administration from Harvard Business School and a masters of arts from the University of Cambridge where he was awarded, among other awards, the Jardine Scholarship.

Reasons for the payment of the Service Fees

According to the Directors, the payment of the Service Fees is justified by the following reasons:

1. As the whole bidding process was conducted in a close-ended manner, only qualified investors were invited by the Seller to submit a bid for the acquisition of Nan Shan. Both Mr. Morse and Mr. Ng have been long term veterans within the financial industry and they have established a broad network of relationships across the financial sector, hence were a few of the qualified investors being invited by the Seller to submit the bid.

2. Mr. Morse and Mr. Ng had provided the Group with the access and opportunity to take part in this Acquisition. They had demonstrated their knowledge and experience in the financial sector and assisted the Company in the preparation and submission of the relevant biding documentations. Furthermore, Mr. Morse and Mr. Ng had also leveraged on their relationships with the Seller and relevant parties in facilitating the overall communications throughout the different stages of the Acquisition.

Having considered:

1. The benefits of the Acquisition Completion as set out in the paragraphs headed "Strategic Rationale for the Acquisition" and "Prospects of the Enlarged Group" of the section headed "Part A — The Acquisition" of the Letter from the Board;

2. the services performed by Mr. Morse and Mr. Ng is an important element which contributed to the success of the Acquisition Completion and the payment of the Service Fees will be subject to, among other things, the Acquisition Completion; and

3. the price and volume of the Shares appeared to react positively since the announcement of the Acquisition and the payment of the Service Fees,

we concur with the Directors' view that the payment of the Service Fees is on normal commerical terms and in the ordinary and usual course of business, and consider the payment of the Service Fee to Mr. Morse and Mr. Ng in equal shares is fair and reasonable and is in the interest of the Shareholders of the Company as a whole.

B. PRINCIPAL FACTORS AND REASONS CONSIDERED — SHARE OPTIONS

As stated in the Letter from the Board, concurrently with and subject to Acquisition Completion and, if required, approval by Independent Shareholders at general meeting and/or the approval of the Hong Kong Stock Exchange, the Company will enter into Option Deeds with each of Mr. Morse and Mr. Ng. The Company will also enter into Option Deeds with each of Mr. Or and Mr. Ma upon Acquisition Completion.

Background for the grant of the Share Options

The Grant of the Share Options

On 26 February 2010, the Company entered into, with each of Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma their respective Option Deeds. The key terms of each of the Option Deeds, are as follows:

Biographies of Mr. Morse and Mr. Ng

Please refer to paragraph headed "*Biographies of Mr. Morse and Mr. Ng*" under the section headed "A. PRINCIPAL FACTORS AND REASONS CONSIDERED — SERVICE FEES" above for biographies of Mr. Morse and Mr. Ng.

Biographies of Mr. Or and Mr. Ma

Mr. OR Ching Fai (柯清輝), aged 60, was appointed as an executive Director, chief executive officer and vice chairman of the Company in November 2009. He graduated from The University of Hong Kong with a Bachelor's degree in economics and psychology. Mr. Or is a Justice of the Peace and has rich experiences in the insurance, banking and financial services industries. He was the general manager and a director of The Hongkong and Shanghai Banking Corporation Limited. He was also the chairman of HSBC Insurance Limited, the chief executive and vice-chairman of Hang Seng Bank Limited and also the chairman of Hang Seng Insurance Company Limited and Hang Seng Bank (China) Limited. Mr. Or was the chairman of the Hong Kong Association of Banks; the vice president and a Council Member of the Hong Kong Institute of Bankers; the chairman of Executive and Campaign Committee of the Community Chest of Hong Kong. Mr. Or is currently a Vice Patron of the Board of the Community Chest of Hong Kong. Mr. Or was awarded a Silver Bauhinia Star from the Hong Kong Special Administrative Region and Honorary University Fellowships from The University of Hong Kong in 2009. Mr. Or has been chairman of the Financial Services Advisory Committee and a member of the Services Promotion Programme Committee of the Hong Kong Trade Development Council. He has been a member of the Risk Management Committee of Hong Kong Exchanges and Clearing Limited, and a member of the Aviation Development Advisory Committee. He is the deputy chairman of the Council of City University of Hong Kong and was a council member of The University of Hong Kong; an adviser of the Employers' Federation of Hong Kong, a member of the 5th East Asian Games Planning Committee and a director of 2009 East Asian Games (Hong Kong) Limited. Mr. Or was a director of Cathay Pacific Airways Limited and Hutchison Whampoa Limited and is currently an independent non-executive director of Esprit Holdings Limited and a vice chairman and an independent non-executive director of G-Resources Group Ltd., whose shares are all listed on the main board of the Hong Kong Stock Exchange.

Mr. Frederick MA Si-Hang (馬時亨), aged 58, was appointed as non-executive Director and chairman of the Company in November 2009. He graduated from the University of Hong Kong with a Bachelor's degree in Arts (Honours) in 1973, majoring in economics and history. Mr. Ma was the Secretary for Financial Services and the Treasury of the Government of the Hong Kong Special Administrative Region between 2002 and 2007, among many of his responsibilities, one of which is to oversee the insurance industry in Hong Kong as the chairman of the Insurance Advisory Committee of Hong Kong. Mr. Ma was the Secretary for Commerce and Economic Development of the Government of the Hong Kong Special Administrative Region for 2007 and 2008. Mr. Ma has rich experience in the financial services industry; he was the Head of Institutional Banking and Second Vice-President of Chase Manhattan Bank at its Hong Kong Branch Office and Canadian Branch Office respectively. Mr. Ma was also the managing director of RBC Dominion Securities in its London Office and Asia-Pacific Chief Executive of JP Morgan Private Bank. Mr. Ma was an executive director and the group chief financial officer of Pacific Century CyberWorks Limited (now known as PCCW Limited) and was the deputy chairman and managing director of Kumagai Gumi (HK) Limited (now known as HKC (Holdings) Limited) and was also a non-executive director of MTR Corporation Limited, whose shares are all listed on the main board of the Hong Kong Stock Exchange. Mr. Ma is an Honorary Professor of the School of Economics and Finance at the University of Hong Kong. Mr. Ma was awarded a Gold Bauhinia Star from the Hong Kong Special Administrative Region in 2009.

(a) *Number of Share Options to be granted*

The Company agreed to grant to each of Mr. Morse, Mr. Ng, Mr. Ma and Mr. Or the following number of Share Options exercisable at the Exercise Price of HK$0.1:

Director	**Share Options**
Mr. Morse	Such number of share options representing 3,200 million Shares in the Company when exercised
Mr. Ng	Such number of share options representing 3,200 million Shares in the Company when exercised
Mr. Or	Such number of share options representing 600 million Shares in the Company when exercised
Mr. Ma	Such number of share options representing 100 million Shares in the Company when exercised

(b) *Vesting*

As stated in the Letter from the Board, the Share Options will be vested and become exercisable in the 48 months after the grant of the respective Share Options and according to the terms of the Option Deeds.

(c) *Exercise Price*

The Exercise Price is HK$0.10. The Exercise Price was arrived at after arm's length negotiations between the Company and each of Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma.

Reasons for the grant of the Share Options

As discussed in the Letter from the Board and according to the Directors, the grant of Share Options is justified by the following reasons:

1. The Board is of the view that the Share Options to be granted to each of Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma appropriately incentivise and reward each of them in the performance of their roles in the Company, Nan Shan and the Purchaser.

   In respect of the Acquisition, Mr. Morse and Mr. Ng have been closely involved in the negotiations with the Seller and in conjunction with Mr. Or, they have developed strong communication with Nan Shan's management team which the Board believes is vital to the transition process and also the continuing development and management of Nan Shan following Acquisition Completion. The Board also expects Mr. Morse, Mr. Ng and Mr. Or to play a key role in obtaining the relevant regulatory approvals in Taiwan and in communicating with the Taiwanese regulators.

   Accordingly, the Board believes that the employment of Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma upon Acquisition Completion, given the expertise and experience each of them has in the financial services sector, will be a potential enhancement in Shareholders' value and benefit to Shareholders.

2. The Board is of the view that the Exercise Price represents an appropriate award to be awarded to Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma to incentivise them to join the Group and maintain their performance in the Group for five years following Acquisition Completion. The price of the Shares is dependent on the performance of the Group and hence subject to price fluctuation risk, which in turn affects the value of the Share Options. Accordingly, the Board is of the view that the Share Options appropriately align with the interest of Shareholders and with the performance of each of Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma in the Company, Nan Shan and the Purchaser. The Board considers that the vesting schedule of the Share Options is linked directly with Acquisition Completion and the employment of each of Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma with the Group for the next five years following Acquisition Completion.

3. The Board also took into consideration the Conversion Price, the Share Placing Price, which is both HK$0.10, and the need to attract valuable personnel to the Group for the management and development of Nan Shan in determining the Exercise Price.

4. As stated in the Letter from the Board, the Share Options to be granted pursuant to the Option Deeds will be granted in accordance with the requirements under Chapter

15 of the Listing Rules. In particular, the Share Options will be granted at a time and in a manner such that at no time will Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma's aggregate interests in the Company (assuming full exercise of the Share Options) exceed 10% of the Company's entire issued share capital.

We noted that assuming completion of the Share Placing in full, full exercise of existing share options and the Share Options granted under Specific Mandate to Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma and full conversion of the Convertible Notes at the conversion price of HK$0.1, the shareholding interest by each of Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma of the Company's entire issued share capital will be approximately 2.48%, 2.48%, 0.47% and 0.08% respectively. The Board is of the view that there is no significant dilution effect resulting from the grant of the Share Options. We also noted that there are no lock-up provisions in the terms and conditions of the Convertible Notes and the Conditional Share Placing Agreement while the Share Options are subject to vesting.

In light of the above reasons and having considered:

1. the need to attract valuable personnel to the Group for the management and development of Nan Shan which will be the key asset of the Group upon the Acquisition Completion;

2. the expertise and experience of each of Mr. Morse, Mr. Ng, Mr. Ma and Mr. Or;

3. the interests of Mr. Morse, Mr. Ng, Mr. Ma and Mr. Or from the Share Options will align with interests of the Company and Shareholders as a whole;

4. in light of the unique circumstances of the Acquistion, the demand for special expertise to develop business of the Enlarged Group after Acquisition Completion, the special expertise and background of Mr. Morse, Mr. Ng, Mr. Ma and Mr. Or, we have compared the grant of Share Options as part of their compensation package to that of companies in the insurance, asset management and investment banking industries. We also noted the Exercise Price is equal to the Conversion Price and Share Placing Price which gives rise to a necessary discount to attract investors in the market and we consider the Exercise Price is a justifiable price to provide a necessary market discount to attract them to join the Group and to incentivise them to maintain their performance in the Group for the five years following Acquisition Completion. In view of the above, we consider that the Exercise Price is fair and reasonable;

5. there will be no significant dilution effect from full exercise of the Share Options on shareholding assuming completion of the Share Placing in full, full exercise of the Share Options and full conversion of the Convertible Notes conversion;

6. at no time will Mr. Morse, Mr. Ng, Mr. Or and Mr. Ma's aggregate interests in the Company (assuming full exercise of the Share Options) exceed 10% of the Company's entire issued share capital as required under Chapter 15 of the Listing Rules;

7. the Share Options will be subject to vesting period of 48 months after the grant of the Share Options which is in turn conditional of the Acquisition Completion; and

8. the price and volume of the Shares appeared to react positively since the announcement of the Acquisition and the grant of the Share Options,

we concur with the Directors' view that the grant of the Share Options is on normal commercial terms and in the ordinary and usual course of business, and consider the grant of the Share Options is fair and reasonable and is in the interest of the Shareholders of the Company as a whole.

C. PRINCIPAL FACTORS AND REASONS CONSIDERED — CSH FACILITY

Background of the entering of the CSH Facility Agreement

On 26 February 2010, the Company and the Purchaser (a non-wholly owned subsidiary of the Company for which the Company indirectly owns 80% equity interest) entered into the CSH Facility Agreement in relation to the provision of the CSH Facility in a principal amount of HK$5.3 billion by the Company to the Purchaser for financing the balance of the consideration of the Acquisition.

The table below sets out the summary of the unaudited pro forma consolidated financial information of the Group as extracted from the section headed "Appendix III — Unaudited Pro Forma Financial Information of the Enlarged Group" of the Circular:

Unaudited pro forma condolidated cash flow statement of the Enlarged Group

	The Group for the year ended 31 Dec 2008	**NanShan for the year ended 30 Nov 2008**	**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*
			(unaudited)
Operating Activities			
Net cash (used in)/from operating activities	(764,545)	7,539,919	6,775,374

Unaudited pro forma condensed consolidated statement of financial position of the Enlarged Group

	The Group as at 30 June 2009 *HK$'000*	Nan Shan as at 31 August 2009 *HK$'000*	Other pro forma adjustment *HK$'000*	Pro forma Enlarged Group *HK$'000* *(unaudited)*
Bank balances and cash	480,817	40,118,325	(202,800)	40,396,342
Bank borrowings	15,315	—	4,992,000	5,007,315
Net assets	406,859	52,353,356	(47,718,586)	5,041,629

As set out in the tables above, the Enlarged Group recorded an unaudited pro forma net cash from operating activities of approximately HK$6.8 billion, and an unaudited pro forma bank balance and cash, bank borrowings, and net assets of approximately HK$40.4 billion, HK$5.0 billion and HK$5.0 billion respectively. The Directors confirmed that the CSH Facility will be used to fund the balance of the consideration of Acquisition the completion of which is vital to the growth and development of the Group in the future. The Board also confirmed that the Company will arrange adequate funding for the business operation of the Group upon the Acquisition Completion.

Information of the Purchaser

The Purchaser is a non-wholly owned subsidiary of the Company for which the Company indirectly owns 80% equity interest of the Purchaser. The Purchaser is an investment vehicle to enter into the Share Purchase Agreement, purchase and hold (through Primus Nan-Shan (UK) and in turn through Primus Nan-Shan (Taiwan)) the Sale Shares and that in anticipation of the Acquisition, on 8 October 2009 PFH Holdings transferred 80 shares, representing 80% of the entire issued share capital of the Purchaser, to a wholly-owned subsidiary of the Company, for a consideration of US$8.00. The reminder of the 20% of the entire issued share capital of the Purchaser is held by PFH Holdings as at the Latest Practicable Date.

The Purchaser was incorporated on 24 August 2009 as an exempted company with limited liability under the laws of the Cayman Islands. Other than the activities relating to the submission of the Bid, the signing of the Share Purchase Agreement and the arrangement of the Debt Financing, the Purchaser has not engaged in any other business activities since its establishment.

Principal terms of the CSH Facility Agreement

Interest

No interest is payable in respect of the CSH Facility.

Nature

An unsecured term loan facility in an aggregate principal amount of up to HK$5.3 billion.

Financial Maturity Date

A date falling upon the expiry of three years from the date of the CSH Facility Agreement (the "Final Maturity Date").

Renewal

The CSH Facility shall automatically be renewable for a further term of three years upon its maturity subject to compliance with the relevant provisions of the Listing Rules.

Conditions Precedent

The obligation of the Company to make the CSH Facility available to the Purchaser (upon and subject to the terms and conditions set out therein) are conditional upon the following:

(a) the Company having received and found satisfactory all relevant loan documentation unless waived by the Company, whether in whole or in part; and

(b) the Company having obtained Independent Shareholders' approval on the CSH Facility in compliance with the Listing Rules (if applicable); and

(c) due and proper completion of (1) the placing of the Convertible Notes in full and (ii) the placing of the Placing Shares under best effort basis.

The Company may at its absolute discretion waive conditions (a) and (c) above, in whole or in part.

Repayment

The total amount of the CSH Loan outstanding and all other sums payable under the CSH Facility shall be fully repaid on the Final Maturity Date.

Indemnities

The Purchaser shall indemnify the Company against all losses, liabilities, damages, costs and expenses incurred by it in the execution and performance of any of the terms and conditions of the CSH Facility Agreement and against all action, proceedings, claims, demands, costs, charges, losses, liabilities and expenses which may be incurred, sustained or arise in respect of the non-performance or non-observance of any of the undertakings and agreements on the part of the Purchaser contained in the CSH Facility or in respect of any breach of the representations and warranties given by the Purchaser in the CSH Facility Agreement.

Reasons for the entering of the CSH Facility Agreement

As stated in the Letter from the Board and according to the Directors, the entering of the CSH Facility Agreement is justified by the following reasons:

1. The purpose of the CSH Facility is to utilize the readily available funds for the settlement of the balance of the consideration of the Acquisition to facilitate the smooth completion of the Acquisition.

2. The various benefits of the Acquisition which the Board considers to bring to the Group:

   (i) The Acquisition is a good opportunity to diversify the Company's income and asset base with a view to enhancing Shareholders' value. Nan Shan is a well-established insurance company in Taiwan and therefore, the Company considers the Acquisition as a unique opportunity for the Company to diversify its business.

   (ii) The Acquisition represents an opportunity for the Company to partner with Primus, a privately owned Hong Kong-based holding company which focuses on the acquisition, integration and the establishment of financial services companies. Primus and its affiliates have operations principally within the Asia-Pacific region and given its expertise in investing in Asian financial institutions, the Company believes that its cooperation with Primus would significantly benefit the Company in the diversification of its business, income and asset base.

3. The readily available funds will be placed in bank deposit in the event that the CSH Facility is not granted and the opportunity cost to the Group is annual interest income of approximately HK$4 million (20% of the total annual interest that should have been earned by the Company, calculated based on commercial bank deposit rate of approximately 0.4% per annum as anticipated by the Directors.)

4. The Purchaser will undertake not to declare dividends until after the full repayment of the CSH Facility.

5. The equity contribution structure for the Acquisition and the shareholding structure of the Purchaser were agreed in the Management Agreement and determined having regard to factors such as the facilitation of the Bid process (including the negotiation process of the Share Purchase Agreement with the Seller) and expectations of the Taiwan regulatory authorities in respect of the approval of the Acquisition. The Directors are therefore of the view that any changes to the shareholding structure of the Purchaser may have a negative impact on the success of Acquisition Completion.

Potential financial effects of the provision of the CSH Facility

As confirmed by the Directors, the Company will finance the CSH Facility by its internal resources upon completion of the Share Placing and the CN Placing and the provision of the CSH Facility will not result in any material adverse impact on the cashflow and the financial position of the Enlarged Group.

The Enlarged Group recorded an unaudited pro forma net cash from operating activities of approximately HK$6.8 billion, and an unaudited pro forma bank balance and cash, bank borrowings, and net assets of approximately HK$40.4 billion, HK$5.0 billion and HK$5.0 billion respectively. The Directors confirmed that the provision of the CSH Facility will have no material financial effect on the financial position of the Enlarged Group.

Taking into consideration that (i) the Enlarged Group recorded strong net cash from operating activities and sufficient bank balance and has no immediate needs of capital for its business growth and development other than the Acquisition; and (ii) no material financial effect of the provision of the CSH Facility to the financial position of the Enlarged Group, we concur with the Directors' view that the financial position of the Enlarged Group would not be materially and adversely affected in the event of the provision of the CSH Facility.

As mentioned in the "Letter from the Board" in the Circular, the CSH Facility amount was determined with reference to the balance of the consideration required for the completion of the Acquisition. We consider that the provision of non-interest bearing CSH Facility is neither on normal commercial terms nor in the ordinary and usual course of business of the Company, However, with regard to (i) the fund will be readily available to facilitate the smooth completion of the Acquisition; (ii) the diversification of the Company's income and asset base with a view to enhancing Shareholders' value upon completion of the Acquisition; (iii) the insignificant opportunity costs to the Group; (iv) the financial position of the Group would not be materially affected in the event of the provision of the CSH Facility; (v) the Directors' view that any changes to the agreed shareholding structure of the Purchaser may have a negative impact on the success of Acquisition Completion; and (vi) the Purchaser's undertaking not to declare dividends until full repayment of the CSH Facility, we consider that the provision of the CSH Facility under the CSH Facility Agreement is in the interests of the Company and the Independent Shareholders as a whole.

RECOMMENDATION

Having taken into account the principal factors and reasons regarding (i) the payment of the Service Fees; (ii) the grant of the Share Options; and (iii) the provision of the CSH Facility, we consider that (i) the payment of the Service Fees; (ii) the grant of the Share Options; and (iii) the provision of the CSH Facility are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders, and the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM approving (i) the payment of the Service Fees; (ii) the grant of the Share Options; and (iii) the provision of the CSH Facility.

Yours faithfully,
For and on behalf of
Piper Jaffray Asia Limited
Stacey Wong
Head of Investment Banking

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the assets and liabilities and results of the Group as at and for each of the three years ended 31 December 2008 as extracted from the annual reports of the Company and assets and liabilities of the Group as at 30 June 2009 and the Group's results for the six months ended 30 June 2009 as extracted from the interim report of the Company, with certain comparative figures reclassified to conform the presentation of the latest financial statements.

CONSOLIDATED INCOME STATEMENT

		Audited Year ended 31 December			Unaudited Six months ended 30 June
	NOTES	**2006**	**2007**	**2008**	**2009**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000 (unaudited)*
Revenue	5	32,846	45,717	18,699	2,601
Cost of sales		(24,199)	(50,311)	(36,926)	(2,631)
Gross (loss) profit		8,647	(4,594)	(18,227)	(30)
Other income	6	31,551	48,779	29,789	8,117
Selling and distribution costs		(2,968)	(4,911)	(3,363)	(352)
Administrative expenses		(27,695)	(41,101)	(28,494)	(21,381)
Other expenses	7	(11,909)	(31,619)	(38,494)	—
Finance costs	8	(9,940)	(9,007)	(102,247)	(27,888)
Fair value changes on investments held for trading		564	34,485	(326,731)	156,302
Gain (loss) on partial redemption of convertible notes		—	—	19,664	(71,034)
Impairment loss on goodwill	9	—	(25,807)	—	—
Gain on disposal of interest in an associate		17,180	—	—	—
Loss on dilution of interest in an associate		(65,762)	—	—	—
Share of results of associates		16,681	—	—	—
Loss (profit) before tax		(43,651)	(33,775)	(468,103)	43,734
Income tax credit (expense)	10	(5,782)	(6,595)	15,738	4,507
		(49,433)	(40,370)	(452,365)	48,241
Loss for the year from discontinued operation		(9,818)	—	—	—
Loss for the year	11	(59,251)	(40,370)	(452,365)	48,241

	NOTES	Audited Year ended 31 December 2006 HK$'000	2007 HK$'000	2008 HK$'000	Unaudited Six months ended 30 June 2009 HK$'000 (unaudited)
Attributable to:					
Equity holders of the Company		(38,417)	(40,369)	(452,365)	—
Minority interests		(20,834)	(1)	—	—
		(59,251)	(40,370)	(452,365)	—
Dividend in specie		1,179,307	—	—	—
Loss per share	13				
- Basic		HK$(0.09)	HK$(0.09)	HK$(0.23)	HK$0.24
- Diluted		N/A	N/A	N/A	HK$0.24

CONSOLIDATED BALANCE SHEET

	NOTES	Audited As at 31 December 2006 HK$'000	2007 HK$'000	2008 HK$'000	Unaudited As at 30 June 2009 HK$'000 (unaudited)
Non-Current Assets					
Property, plant and equipment	14	46,982	91,739	87,533	82,576
Prepaid lease payments	15	27,425	19,604	12,793	12,638
Investment in an associate	17	—	—	—	—
Club debentures	18	825	825	825	825
Available-for-sale investments	19	60,127	36,978	8,138	4,077
		161,166	149,146	109,289	100,116
Current Assets					
Inventories	20	18,954	9,340	2,739	1,808
Trade and other receivables	21	12,713	9,743	65,791	38
Prepaid lease payments	15	626	466	321	320
Amount due from an associate	17	6,514	6,686	7,101	7,101
Loan and interest receivables	22	25,761	41,724	—	29,032
Tax reserve certificates paid		5,916	—	—	—
Investments held for trading	23	8,115	13,800	399,581	436,530
Pledged bank deposits		1,078	—	—	—
Bank balances and cash	24	8,992	191,617	777,418	480,817
Available-for-sale investments classified as helf-for-sale		17,770	—	—	—
		106,439	273,376	1,252,951	955,646
Current Liabilities					
Trade payables, other payables and accrued charges	25	23,685	40,150	69,353	25,672
Amount due to a related company		4,128	—	—	—
Amount due to a subsidiary of an associate	17	—	6,686	7,239	7,134
Loan payables	26	58,568	82,100	63,903	65,639
Income tax payable		6,916	5,735	5,735	5,735
Bank borrowings	27	12,889	18,042	15,306	15,315
Obligations under finance leases	29	—	26	26	26
Bank overdrafts		23	—	—	—
		106,209	152,739	161,562	119,521
Net Current Assets		230	120,637	1,091,389	836,125
Total Assets less Current Liabilities		161,396	269,783	1,200,678	936,241

	NOTES	Audited As at 31 December 2006 HK$'000	2007 HK$'000	2008 HK$'000	Unaudited As at 30 June 2009 HK$'000 (unaudited)
Capital and Reserves					
Share capital	30	44,080	52,880	202,880	202,880
Reserves		106,751	91,925	145,957	203,718
Equity attributable to equity holders of the Company		150,831	144,805	348,837	406,598
Minority interests		262	261	261	261
Total Equity		151,303	145,066	349,098	406,859
Non-Current Liabilities					
Deferred tax liabilities	33	—	4,172	22,548	11,253
Amount due to a related company		5,310	—	—	—
Amount due to an associate		4,993	—	—	—
Convertible notes	28	—	120,488	829,001	518,111
Obligations under finance leases	29	—	57	31	18
		10,303	124,717	851,580	529,382
		161,396	269,783	1,200,678	936,241

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000 (note)	Special capital reserve HK$'000	Share option reserve HK$'000	Convertible notes reserve HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Other non-distributable reserves HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2006	88,160	1,900,916	414,881	—	—	233	(2,553)	(10,730)	38,126	(1,103,719)	1,325,314	330,255	1,655,569
Exchange difference arising on translation	—	—	—	—	—	—	—	3,851	—	—	3,851	2,705	6,556
Share of reserves movement of associates	—	—	—	—	—	—	—	—	1,495	—	1,495	128	1,623
Gains on fair value changes of available-for-sale investments	—	—	—	—	—	—	37,925	—	—	—	37,925	—	37,925
Share of other non-distributable reserves by minority shareholders	—	—	—	—	—	—	—	—	(669)	—	(669)	669	—
Income recognised directly in equity	—	—	—	—	—	—	37,925	3,851	826	—	42,602	3,502	46,104
Reserves realised upon disposal of an associate	—	—	—	—	—	—	—	(405)	1,044	—	639	—	639
Loss for the year	—	—	—	—	—	—	—	—	—	(38,417)	(38,417)	(20,834)	(59,251)
Total recognised (expense) income for the year	—	—	—	—	—	—	37,925	3,446	1,870	(38,417)	4,824	(17,332)	(12,508)
Capital reorganisation	(44,080)	(1,900,916)	1,944,996	—	—	—	—	—	—	—	—	—	—
Transfer of accumulated deficit of the Company	—	—	(1,212,806)	—	—	—	—	—	—	1,212,806	—	—	—
Dividend in specie (note 14)	—	—	(1,145,804)	—	—	—	(2,380)	6,930	(38,053)	—	(1,179,307)	(312,661)	(1,491,968)
At 31st December, 2006	44,080	—	1,267	—	—	233	32,992	(354)	1,943	70,670	150,831	262	151,093
Exchange difference arising on translation	—	—	—	—	—	—	—	1,682	—	—	1,682	—	1,682
Gains on fair value changes of available-for-sale investments	—	—	—	—	—	—	7,625	—	—	—	7,625	—	7,625
Income recognised directly in equity	—	—	—	—	—	—	7,625	1,682	—	—	9,307	—	9,307
Loss for the year	—	—	—	—	—	—	—	—	—	(40,369)	(40,369)	(1)	(40,370)
Realised upon disposal of available-for-sale investments	—	—	—	—	—	—	(39,625)	—	—	—	(39,625)	—	(39,625)
Realised upon impairment loss on available-for-sale investments	—	—	—	—	—	—	5,348	—	—	—	5,348	—	5,348
Total recognised (expense) income for the year	—	—	—	—	—	—	(26,652)	1,682	—	(40,369)	(65,339)	(1)	(65,340)

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000 (note)	Special capital reserve HK$'000	Share option reserve HK$'000	Convertible notes reserve HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Other non-distributable reserves HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Issue of shares	8,800	19,454	—	—	—	—	—	—	—	—	28,254	—	28,254
Issue of convertible notes	—	—	—	—	23,839	—	—	—	—	—	23,839	—	23,839
Recognition of equity settled share-based payments	—	—	—	11,392	—	—	—	—	—	—	11,392	—	11,392
Deferred tax liabilities on recognition of equity component of convertible notes	—	—	—	—	(4,172)	—	—	—	—	—	(4,172)	—	(4,172)
At 31st December, 2007	52,880	19,454	1,267	11,392	19,667	233	6,340	1,328	1,943	30,301	144,805	261	145,066
At 1st January, 2007	44,080	—	1,267	—	—	233	32,992	(354)	1,943	70,670	150,831	262	151,093
Exchange difference arising on translation	—	—	—	—	—	—	—	1,682	—	—	1,682	—	1,682
Fair value changes of available-for-sale investments	—	—	—	—	—	—	7,625	—	—	—	7,625	—	7,625
Income recognised directly in equity	—	—	—	—	—	—	7,625	1,682	—	—	9,307	—	9,307
Loss for the year	—	—	—	—	—	—	—	—	—	(40,369)	(40,369)	(1)	(40,370)
Realised upon disposal of available-for-sale investments	—	—	—	—	—	—	(39,625)	—	—	—	(39,625)	—	(39,625)
Impairment loss on available-for-sale investments	—	—	—	—	—	—	5,348	—	—	—	5,348	—	5,348
Total recognised (expense) income for the year	—	—	—	—	—	—	(26,652)	1,682	—	(40,369)	(65,339)	(1)	(65,340)
Issue of shares	8,800	20,240	—	—	—	—	—	—	—	—	29,040	—	29,040
Transaction costs attributable to issue of shares	—	(786)	—	—	—	—	—	—	—	—	(786)	—	(786)
Issue of convertible notes	—	—	—	—	24,450	—	—	—	—	—	24,450	—	24,450
Transaction costs attributable to issue of convertible notes	—	—	—	—	(611)	—	—	—	—	—	(611)	—	(611)
Recognition of equity settled share-based payments	—	—	—	11,392	—	—	—	—	—	—	11,392	—	11,392
Deferred tax liabilities on recognition of equity component of convertible notes	—	—	—	—	(4,172)	—	—	—	—	—	(4,172)	—	(4,172)
At 31st December, 2007	52,880	19,454	1,267	11,392	19,667	233	6,340	1,328	1,943	30,301	144,805	261	145,066
Exchange difference arising on translation	—	—	—	—	—	—	—	7,789	—	—	7,789	—	7,789
Fair value changes of available-for-sale investments	—	—	—	—	—	—	(14,261)	—	—	—	(14,261)	—	(14,261)

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000 (note)	Special capital reserve HK$'000	Share option reserve HK$'000	Convertible notes reserve HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Other non-distributable reserves HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Income recognised directly in equity	—	—	—	—	—	—	(14,261)	7,789	—	—	(6,472)	—	(6,472)
Loss for the year	—	—	—	—	—	—	—	—	—	(452,365)	(452,365)	—	(452,365)
Realised upon disposal of available-for-sale investments	—	—	—	—	—	—	(1,557)	—	—	—	(1,557)	—	(1,557)
Impairment loss on available-for-sale investments	—	—	—	—	—	—	12,923	—	—	—	12,923	—	12,923
Total recognised expense for the year	—	—	—	—	—	—	(2,895)	7,789	—	(452,365)	(447,471)	—	(447,471)
Issue of shares	150,000	345,000	—	—	—	—	—	—	—	—	495,000	—	495,000
Transaction costs attributable to issue of shares	—	(12,375)	—	—	—	—	—	—	—	—	(12,375)	—	(12,375)
Issue of convertible notes	—	—	—	—	282,656	—	—	—	—	—	282,656	—	282,656
Transaction costs attributable to issue of convertible notes	—	—	—	—	(7,066)	—	—	—	—	—	(7,066)	—	(7,066)
Redemption of convertible notes	—	—	—	—	(75,664)	—	—	—	—	—	(75,664)	—	(75,664)
Recognition of equity settled share-based payments	—	—	—	3,066	—	—	—	—	—	—	3,066	—	3,066
Lapse of share options	—	—	—	(3,061)	—	—	—	—	—	3,061	—	—	—
Deferred tax liabilities on recognition of equity component of convertible notes	—	—	—	—	(45,472)	—	—	—	—	—	(45,472)	—	(45,472)
Reversal of deferred tax liabilities recognised on partial redemption of convertible notes	—	—	—	—	11,119	—	—	—	—	—	11,119	—	11,119
Effect of change in tax rate	—	—	—	—	239	—	—	—	—	—	239	—	239
At 31st December, 2008	202,880	352,079	1,267	11,397	185,479	233	3,445	9,117	1,943	(419,003)	348,837	261	349,098

Note: The special capital reserve of the Group at 1st January, 2006 represented the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001. During the year ended 31st December, 2006, the amount was reduced as a result of the group reorganisation and capital reorganisation as explained in note 14.

The special capital reserve of the Group at 1st January, 2007 represented the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001.

CONSOLIDATED CASH FLOW STATEMENT

	Audited		
	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
Loss before tax	(53,469)	(33,775)	(468,103)
Adjustments for:			
Finance costs	9,940	9,007	102,247
Interest income	(24,237)	(3,266)	(22,055)
Dividend income	(4,676)	(3,341)	(1,807)
Depreciation of property, plant and equipment	6,438	2,357	7,316
Loss on disposal of property, plant and equipment	(102)	161	—
Release of prepaid lease payments	622	638	651
Share-based payment expenses	—	11,392	3,066
Impairment loss on goodwill	4,561	25,807	—
Impairment loss on inventories	—	13,987	5,172
Impairment loss on available-for-sale investments	—	5,348	22,596
Impairment loss on property, plant and equipment	—	—	9,063
Impairment loss on prepaid lease payments	—	8,015	6,835
Impairment loss on amount due from an associate	—	1,272	—
Impairment loss on other receivables	5,626	946	—
Impairment loss on loan and interest receivables	6,283	191	—
Reversal of impairment loss on trade receivables	—	(310)	—
Fair value changes on investments held for trading	(564)	(34,485)	326,731
Fair value changes on partial redemption convertible notes	—	—	(19,664)
Gain on disposals of available-for-sale investments	—	(39,625)	(1,557)
Share of results of associates	(16,681)	—	—
Gain on disposal of interest in an associate	(17,180)	—	—
Loss on dilution of interest in an associate	(65,762)	—	—
Operating cash flows before movements in working capital	(17,677)	(35,681)	(29,509)

	Audited		
	Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES			
Operating cash flows before movements in working capital	(17,677)	(35,681)	(29,509)
Decrease (increase) in inventories	(6,101)	(3,033)	1,961
(Increase) decrease in trade receivables	8,034	2,597	(55,929)
(Increase) decrease in investments held for trading	455	28,952	(712,512)
Increase (decrease) in trade payables, other payables and accrued charges	(5,391)	15,584	31,444
Net cash outflow (used in) from operations	(20,680)	8,419	(764,545)
Hong Kong Profits Tax paid	(637)	(1,860)	—
Purchase of tax reserve certificates	(5,916)	—	—
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(27,233)	6,559	(764,545)
INVESTING ACTIVITIES			
Repayment of loan and interest receivables	191,107	29,690	43,372
Interest received	6,853	785	20,407
Proceeds on disposal of available-for-sales investments	4,155	53,044	4,906
Dividend income received from available-for-sale investments	4,221	3,189	1,287
Dividend income received from investments held for trading	—	—	520
Decrease in pledged bank deposits	(42)	1,078	—
Proceeds on disposal of property, plant and equipment	1,776	183	—
Proceeds on disposal of an associate	30,000	—	—
Purchase of available-for-sale investments	(25,742)	(4,500)	—
Advance to loan and interest receivables	(244,230)	(43,363)	—
Advance to an associate	7,362	(1,444)	(415)
Purchase of property, plant and equipment	(34,204)	(42,995)	(7,057)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	(58,744)	(4,333)	63,020

	Audited Year ended 31 December		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
FINANCING ACTIVITIES			
Proceeds from issue of convertible notes	—	146,850	1,173,150
Proceeds from issue of shares	—	29,040	495,000
(Repayment to) advance from a subsidiary of an associate	5,577	1,693	553
Advance from related companies	16,112	12,464	—
New bank borrowings raised	11,477	4,245	—
Repayment of obligations under finance lease	(7)	—	(26)
Net cash outflow arising from dividend in specie	(94,092)	—	—
Interest paid	(9,940)	(7,859)	(2,810)
Repayment of bank borrowings	—	—	(3,573)
Repayment of loan payables	55,189	1,630	(22,251)
Expenses on issue of share	—	(786)	(12,375)
Expenses on issue of convertible notes	—	(3,671)	(29,329)
Redemption of convertible notes	—	—	(311,101)
NET CASH FROM FINANCING ACTIVITIES	(15,684)	183,606	1,287,238
NET INCREASE IN CASH AND CASH EQUIVALENTS	(101,661)	185,832	585,713
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	108,601	8,969	191,617
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,029	(3,184)	88
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	8,969	191,617	777,418

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

The following is an extract of the audited financial statements of the Group from the annual report of the Company for the year ended 31 December 2008.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	NOTES	**2008**	**2007**
		HK$'000	*HK$'000*
Revenue	5	18,699	45,717
Cost of sales		(36,926)	(50,311)
Gross loss		(18,227)	(4,594)
Other income	6	29,789	48,779
Selling and distribution costs		(3,363)	(4,911)
Administrative expenses		(28,494)	(41,101)
Other expenses	7	(38,494)	(31,619)
Finance costs	8	(102,247)	(9,007)
Fair value changes on investments held for trading		(326,731)	34,485
Gain on partial redemption of convertible notes		19,664	—
Impairment loss on goodwill	9	—	(25,807)
Loss before tax		(468,103)	(33,775)
Income tax credit (expense)	10	15,738	(6,595)
Loss for the year	11	(452,365)	(40,370)
Attributable to:			
Equity holders of the Company		(452,365)	(40,369)
Minority interests		—	(1)
		(452,365)	(40,370)
Loss per share	13		
— Basic		HK$(0.23)	HK$(0.09)
— Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	NOTES	**2008**	**2007**
		HK$'000	*HK$'000*
Non-Current Assets			
Property, plant and equipment	14	87,533	91,739
Prepaid lease payments	15	12,793	19,604
Investment in an associate	17	—	—
Club debentures	18	825	825
Available-for-sale investments	19	8,138	36,978
		109,289	149,146
Current Assets			
Inventories	20	2,739	9,340
Trade and other receivables	21	65,791	9,743
Prepaid lease payments	15	321	466
Amount due from an associate	17	7,101	6,686
Loan and interest receivables	22	—	41,724
Investments held for trading	23	399,581	13,800
Bank balances and cash	24	777,418	191,617
		1,252,951	273,376
Current Liabilities			
Trade payables, other payables and accrued charges	25	69,353	40,150
Amount due to a subsidiary of an associate	17	7,239	6,686
Loan payables	26	63,903	82,100
Income tax payable		5,735	5,735
Bank borrowings	27	15,306	18,042
Obligations under finance leases	29	26	26
		161,562	152,739
Net Current Assets		1,091,389	120,637
Total Assets less Current Liabilities		1,200,678	269,783

	NOTES	**2008** *HK$'000*	**2007** *HK$'000*
Capital and Reserves			
Share capital	30	202,880	52,880
Reserves		145,957	91,925
Equity attributable to equity holders of the Company		348,837	144,805
Minority interests		261	261
Total Equity		349,098	145,066
Non-Current Liabilities			
Deferred tax liabilities	33	22,548	4,172
Convertible notes	28	829,001	120,488
Obligations under finance leases	29	31	57
		851,580	124,717
		1,200,678	269,783

The above consolidated financial statements were approved and authorised for issue by the Board of Directors on 22nd April 2009 and are signed on its behalf by:

Hui Richard Rui
DIRECTOR

Yeung Kwok Yu
DIRECTOR

BALANCE SHEET

At 31 December 2008

	NOTES	**2008** *HK$'000*	**2007** *HK$'000*
Non-Current Assets			
Property, plant and equipment	14	2,215	1,708
Prepaid lease payments	15	3,510	3,628
Investments in subsidiaries	16	57,883	—
Club debentures	18	825	825
		64,433	6,161
Current Assets			
Prepaid lease payments	15	117	117
Amounts due from subsidiaries	16	684,321	158,636
Loan and interest receivables	22	—	20,980
Other receivables, deposits and prepayments		2,136	1,601
Bank balances and cash	24	576,318	28,503
		1,262,892	209,837
Current Liabilities			
Other payables and accrued charges		5,951	7,555
Loan payables	26	—	21,902
Amounts due to subsidiaries	16	91,969	92,053
		97,920	121,510
Net Current Assets		1,164,972	88,327
Total Assets less Current Liabilities		1,229,405	94,488
Capital and Reserves			
Share capital	30	202,880	52,880
Reserves	32	174,976	(83,052)
Total Equity		377,856	(30,172)
Non-current Liabilities			
Deferred tax liabilities	33	22,548	4,172
Convertible notes	28	829,001	120,488
		851,549	124,660
		1,229,405	94,488

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 (note)	Share option reserve HK$'000	Convertible notes reserve HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Other non-distributable reserves HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	44,080	—	1,267	—	—	233	32,992	(354)	1,943	70,670	150,831	262	151,093
Exchange difference arising on translation	—	—	—	—	—	—	—	1,682	—	—	1,682	—	1,682
Fair value changes of available-for-sale investments	—	—	—	—	—	—	7,625	—	—	—	7,625	—	7,625
Income recognised directly in equity	—	—	—	—	—	—	7,625	1,682	—	—	9,307	—	9,307
Loss for the year	—	—	—	—	—	—	—	—	—	(40,369)	(40,369)	(1)	(40,370)
Realised upon disposal of available-for-sale investments	—	—	—	—	—	—	(39,625)	—	—	—	(39,625)	—	(39,625)
Impairment loss on available-for-sale investments	—	—	—	—	—	—	5,348	—	—	—	5,348	—	5,348
Total recognised (expense) income for the year	—	—	—	—	—	—	(26,652)	1,682	—	(40,369)	(65,339)	(1)	(65,340)
Issue of shares	8,800	20,240	—	—	—	—	—	—	—	—	29,040	—	29,040
Transaction costs attributable to issue of shares	—	(786)	—	—	—	—	—	—	—	—	(786)	—	(786)
Issue of convertible notes	—	—	—	—	24,450	—	—	—	—	—	24,450	—	24,450
Transaction costs attributable to issue of convertible notes	—	—	—	—	(611)	—	—	—	—	—	(611)	—	(611)
Recognition of equity settled share-based payments	—	—	—	11,392	—	—	—	—	—	—	11,392	—	11,392
Deferred tax liabilities on recognition of equity component of convertible notes	—	—	—	—	(4,172)	—	—	—	—	—	(4,172)	—	(4,172)
At 31 December 2007	52,880	19,454	1,267	11,392	19,667	233	6,340	1,328	1,943	30,301	144,805	261	145,066
Exchange difference arising on translation	—	—	—	—	—	—	—	7,789	—	—	7,789	—	7,789
Fair value changes of available-for-sale investments	—	—	—	—	—	—	(14,261)	—	—	—	(14,261)	—	(14,261)
Income recognised directly in equity	—	—	—	—	—	—	(14,261)	7,789	—	—	(6,472)	—	(6,472)

	Attributable to equity holders of the Company												
	Share capital	Share premium	Special capital reserve	Share option reserve	Convertible notes reserve	Capital redemption reserve	Investment revaluation reserve	Exchange reserve	Other non-distributable reserves	Retained profits/ (Accumulated losses)	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* (note)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Loss for the year	—	—	—	—	—	—	—	—	—	(452,365)	(452,365)	—	(452,365)
Realised upon disposal of available-for-sale investments	—	—	—	—	—	—	(1,557)	—	—	—	(1,557)	—	(1,557)
Impairment loss on available-for-sale investments	—	—	—	—	—	—	12,923	—	—	—	12,923	—	12,923
Total recognised expense for the year	—	—	—	—	—	—	(2,895)	7,789	—	(452,365)	(447,471)	—	(447,471)
Issue of shares	150,000	345,000	—	—	—	—	—	—	—	—	495,000	—	495,000
Transaction costs attributable to issue of shares	—	(12,375)	—	—	—	—	—	—	—	—	(12,375)	—	(12,375)
Issue of convertible notes	—	—	—	—	282,656	—	—	—	—	—	282,656	—	282,656
Transaction costs attributable to issue of convertible notes	—	—	—	—	(7,066)	—	—	—	—	—	(7,066)	—	(7,066)
Redemption of convertible notes	—	—	—	—	(75,664)	—	—	—	—	—	(75,664)	—	(75,664)
Recognition of equity settled share-based payments	—	—	—	3,066	—	—	—	—	—	—	3,066	—	3,066
Lapse of share options	—	—	—	(3,061)	—	—	—	—	—	3,061	—	—	—
Deferred tax liabilities on recognition of equity component of convertible notes	—	—	—	—	(45,472)	—	—	—	—	—	(45,472)	—	(45,472)
Reversal of deferred tax liabilities recognised on partial redemption of convertible notes	—	—	—	—	11,119	—	—	—	—	—	11,119	—	11,119
Effect of change in tax rate	—	—	—	—	239	—	—	—	—	—	239	—	239
At 31 December 2008	202,880	352,079	1,267	11,397	185,479	233	3,445	9,117	1,943	(419,003)	348,837	261	349,098

Note: The special capital reserve of the Group at 1st January, 2007 represented the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	2008	2007
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before tax	(468,103)	(33,775)
Adjustments for:		
Finance costs	102,247	9,007
Interest income	(22,055)	(3,266)
Dividend income	(1,807)	(3,341)
Depreciation of property, plant and equipment	7,316	2,357
Loss on disposal of property, plant and equipment	—	161
Release of prepaid lease payments	651	638
Share-based payment expenses	3,066	11,392
Impairment loss on goodwill	—	25,807
Impairment loss on inventories	5,172	13,987
Impairment loss on available-for-sale investments	22,596	5,348
Impairment loss on property, plant and equipment	9,063	—
Impairment loss on prepaid lease payments	6,835	8,015
Impairment loss on amount due from an associate	—	1,272
Impairment loss on other receivables	—	946
Impairment loss on loan and interest receivables	—	191
Reversal of impairment loss on trade receivables	—	(310)
Fair value changes on investments held for trading	326,731	(34,485)
Fair value changes on partial redemption convertible notes	(19,664)	—
Gain on disposals of available-for-sale investments	(1,557)	(39,625)
Operating cash flows before movements in working capital	(29,509)	(35,681)
Decrease (increase) in inventories	1,961	(3,033)
(Increase) decrease in trade receivables	(55,929)	2,597
(Increase) decrease in investments held for trading	(712,512)	28,952
Increase in trade payables, other payables and accrued charges	31,444	15,584
Net cash outflow (used in) from operations	(764,545)	8,419
Hong Kong Profits Tax paid	—	(1,860)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(764,545)	6,559

	2008	2007
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Repayment of loan and interest receivables	43,372	29,690
Interest received	20,407	785
Proceeds on disposal of available-for-sales investments	4,906	53,044
Dividend income received from available-for-sale investments	1,287	3,189
Dividend income received from investments held for trading	520	—
Decrease in pledged bank deposits	—	1,078
Proceeds on disposal of property, plant and equipment	—	183
Purchase of available-for-sale investments	—	(4,500)
Advance to loan and interest receivables	—	(43,363)
Advance to an associate	(415)	(1,444)
Purchase of property, plant and equipment	(7,057)	(42,995)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	63,020	(4,333)
FINANCING ACTIVITIES		
Proceeds from issue of convertible notes	1,173,150	146,850
Proceeds from issue of shares	495,000	29,040
Advance from a subsidiary of an associate	553	1,693
Advance from related companies	—	12,464
New bank borrowings raised	—	4,245
Repayment of obligations under finance lease	(26)	—
Interest paid	(2,810)	(7,859)
Repayment of bank borrowings	(3,573)	—
Repayment of loan payables	(22,251)	1,630
Expenses on issue of share	(12,375)	(786)
Expenses on issue of convertible notes	(29,329)	(3,671)
Redemption of convertible notes	(311,101)	—
NET CASH FROM FINANCING ACTIVITIES	1,287,238	183,606
NET INCREASE IN CASH AND CASH EQUIVALENTS	585,713	185,832
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	191,617	8,969
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	88	(3,184)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	777,418	191,617

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited ("The Hong Kong Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the corporate information to the annual report.

The Company and its subsidiaries (the "Group") are mainly engaged in (i) the manufacturing and trading of batteries products and related accessories and (ii) the investments in securities and advance.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company is an investment holding company. The principal activities of its principal subsidiaries and associates are set out in notes 42 and 17 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]

HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) - Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) - Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) - Int 18	Transfer of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009

2 Effective for annual periods beginning on or after 1st January, 2009

3 Effective for annual periods beginning on or after 1st July, 2009

4 Effective for annual periods ending on or after 30th June, 2009

5 Effective for annual periods beginning on or after 1st July, 2008

6 Effective for annual periods beginning on or after 1st October, 2008

7 Effective for transfers on or after 1st July, 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production of goods, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment losses. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the entity is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loans and interest receivables, trade receivables, other receivables, bank balances, amount due from an associate and amounts due from subsidiaries for the Company) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss of financial assets below).

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivative, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit and loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment of financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amounts are reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities of fair value through profit or loss and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Convertible notes issued by the Group

Convertible notes issued by the Company that contain liability, conversion option and early redemption option are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. Derivatives embedded in non-derivative host contract with risks and characteristics that are closely related to those of the host contract and the host contracts are not measured at fair value with changes in fair value are not separated from the host contract.

On initial recognition, the liability components is measured at fair value, determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability, representing the conversion option for the holder to convert the loan into equity is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method.

The equity component, representing the option to convert the liability component into ordinary shares of the Company will remain in convertible notes reserve until the conversion option is exercised. On conversion of the convertible notes, the liability component is reclassified as equity and the balance stated in convertible notes reserve will be transferred to share premium. No gain or loss on conversion is recognised at maturity.

When the convertible notes are early redeemed, the consideration paid and the transaction costs for the redemption are allocated to the liability (based on fair value of the liability component at the date of redemption) and equity components (being the residual) of the convertible notes at the date of the redemption.

The difference between the considerations allocated to the liability components and the carrying amount of the liability component and is recognised as gain or loss and charged to income statement. The amount of consideration relating to the equity component is recognised in equity.

Where the conversion option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability, equity and early redemption components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the early redemption option are charged to profit or less immediately. Transaction costs relating to the early redemption option are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Other financial liabilities

Other financial liabilities (including trade payables, other payables, loan payables, amount due to a subsidiary of an associate, bank borrowings, bank overdrafts and amounts due to subsidiaries for the Company) are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. When the embedded derivative in the host contracts are closely related to the host contracts, the embedded derivative is not separated from the host contracts.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amounts, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees and directors

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment on trade receivables, loan and interest receivables and other receivables

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised based on the estimation of the future cash flow expected to receive and discounted at the original effective interest rate in order to calculate the present value. If the actual recovery is less than expected, an impairment loss may arise. During the year ended 31st December, 2008, the Group recognised no allowance for loan and interest receivables (2007: HK$191,000) and recognised no allowance for other receivables (2007: HK$946,000).

Fair value of convertible notes

The directors of the Company use their judgment in selecting an appropriate valuation technique to determine fair value of liability component of the convertible notes. Valuation techniques commonly used by market practitioner are applied. In estimating the fair value of this financial liability assumptions are made based on market statistic and adjusted for specific features of the instrument. If the inputs and estimates applied in the model is different, the carry amount of this financial liability will be changed.

As at 31st December, 2008 and 2007, the balance of the convertible notes liability was HK$829,001,000 and HK$120,488,000. Details of the derivative financial instruments are disclosed in note 28.

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into the following two major operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal operating divisions are as follows:

Battery products	—	Manufacturing and trading of battery products and related accessories
Investments in securities and advance	—	Investments in and trading of securities and advance of receivables

An analysis of the Group's revenue and segment results and segment assets and liabilities by business segments is as follows:

	Investments in securities and advance	Battery products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
For the year ended 31 December 2008			
Gross proceeds	338,870	18,699	357,569
Segment revenue	—	18,699	18,699
Other income			
- Dividend income from available-for-sale investments	1,287	—	1,287
- Dividend income from investments held for trading	520	—	520
- Gain on disposal of available-for-sale investments	1,557	—	1,557
- Interest income	4,302	253	4,555
- Others	441	1,579	2,020
	8,107	1,832	9,939
RESULT			
Segment result	(348,113)	(28,639)	(376,752)
Unallocated corporate income			41,277
Unallocated corporate expenses			(30,381)
Finance costs			(102,247)
Loss before tax			(468,103)
Income tax credit			15,738
Loss for the year			(452,365)

	Investments in securities and advance HK$'000	Battery products HK$'000	Consolidated HK$'000
Assets and liabilities at 31 December 2008			
ASSETS			
Segment assets	480,917	96,804	577,721
Unallocated			784,519
Consolidated total assets			1,362,240
LIABILITIES			
Segment liabilities	45,072	31,521	76,593
Unallocated corporate liabilities			936,549
Consolidated total liabilities			1,013,142

	Investments in securities and advance HK$'000	Battery products HK$'000	Unallocated HK$'000	Consolidated HK$'000
Other information for the year ended 31 December 2008				
Capital additions				
- Property, plant and equipment	1,073	5,984	—	7,057
Depreciation of property, plant and equipment	6,048	1,268	—	7,316
Impairment loss on property, plant and equipment	—	9,063	—	9,063
Impairment loss on available-for-sale investments	22,596	—	—	22,596
Impairment loss on inventories	—	5,172	—	5,172
Impairment loss on prepaid lease payments	—	—	6,835	6,835
Fair value changes on investments held for trading	326,731	—	—	326,731
Release of prepaid lease payments	118	533	—	651

	Investments in securities and advance HK$'000	Battery products HK$'000	Consolidated HK$'000
For the year ended 31 December 2007			
Gross proceeds	106,364	45,717	152,081
Segment revenue	—	45,717	45,717
Other income			
- Dividend income from available-for-sale investments	3,189	—	3,189
- Dividend income from investments held for trading	152	—	152
- Interest income	2,067	—	2,067
- Others	—	2,311	2,311
	5,408	2,311	7,719
RESULT			
Segment result	18,582	(39,238)	(20,656)
Unallocated corporate income			37,418
Unallocated corporate expenses			(41,530)
Finance costs			(9,007)
Loss before tax			(33,775)
Income tax expenses			(6,595)
Loss for the year			(40,370)

	Investments in securities and advance	Battery products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Assets and liabilities at 31 December 2007			
ASSETS			
Segment assets	102,774	114,280	217,054
Unallocated			205,468
Consolidated total assets			422,522
LIABILITIES			
Segment liabilities	14,158	25,992	40,150
Unallocated corporate liabilities			237,306
Consolidated total liabilities			277,456

	Investments in securities and advance	Battery products	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other information for the year ended 31 December 2007				
Capital additions				
- Property, plant and equipment	12	43,319	216	43,547
Depreciation of property, plant and equipment	162	2,195	—	2,357
Release of prepaid lease payments	117	521	—	638
Impairment loss on goodwill	—	25,807	—	25,807
Impairment loss on inventories	—	13,987	—	13,987
Impairment loss on available-for-sale investments	5,348	—	—	5,348
Impairment loss on amount due from an associate	—	1,272	—	1,272
Impairment loss on prepaid lease payments	—	—	8,015	8,015
Impairment loss on other receivables	—	—	946	946
Impairment loss on loan and interest receivables	191	—	—	191
Fair value changes on investments held for trading	(34,485)	—	—	(34,485)
Reversal of impairment loss on trade receivables	—	(310)	—	(310)

Geographical segments

The following table provides an analysis of the Group's sales based on location of customers, irrespective of the origin of the goods and services:

	2008	2007
	HK$'000	*HK$'000*
The People's Republic of China ("PRC")	8,001	29,611
Hong Kong	10,698	16,106
	18,699	45,717

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located, except for these investments held for trading and available-for-sale investments which were analysed by the geographical area in which those investment securities were publicly traded:

	Carrying amount of segment assets At 31 December		**Additions of property, plant and equipment For the year ended 31 December**	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PRC	76,956	120,966	6,855	42,913
Hong Kong	500,765	96,088	202	634
	577,721	217,054	7,057	43,547

6. OTHER INCOME

	2008	**2007**
	HK$'000	*HK$'000*
Interest income from banks	20,103	785
Interest income from loan receivables	1,952	2,481
	22,055	3,266
Gain on disposal of available-for-sale investments	1,557	39,625
Dividend income from available-for-sale investments	1,287	3,189
Dividend income from investments held for trading	520	152
Others	4,370	2,547
	29,789	48,779

7. OTHER EXPENSES

	2008	2007
	HK$'000	HK$'000
Impairment loss on available-for-sale investments	22,596	5,348
Impairment loss on amount due from an associate	—	1,272
Impairment loss on loan and interest receivables	—	191
Impairment loss on other receivables	—	946
Impairment loss on prepaid lease payments	6,835	8,015
Impairment loss on property, plant and equipment	9,063	—
Commission expenses on investments held for trading	—	15,847
	38,494	31,619

8. FINANCE COSTS

	2008	2007
	HK$'000	HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	1,320	1,071
Loan payables	5,537	6,782
Obligations under finance leases	7	6
Effective interest expense on convertible notes	95,383	1,148
	102,247	9,007

9. IMPAIRMENT LOSS ON GOODWILL

The carrying amount of the goodwill of approximately HK$25,807,000 at 1st January, 2007 was arisen on the acquisition of certain subsidiaries in the segment of battery products. The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections for a period of 10 years (assuming the business licence expiring in 2012 can be renewed at minimal costs), including financial budgets approved by management covering a 5-year period, with a 7% growth rate and discount rate of 13%. The growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. During the year ended 31st December, 2007, the Group recognised an impairment loss of approximately HK$25,807,000 in relation to goodwill arising on acquisition of the segment of battery products.

10. INCOME TAX (CREDIT) EXPENSE

	2008	2007
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
- Current year	—	3,520
- Underprovision in prior years	—	860
Taxation in other jurisdictions		
- Current year	—	2,215
Deferred tax (note 33)		
- Current year	(15,738)	—
	(15,738)	6,595

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore income tax credit for the year is calculated at 16.5% (2007: 17.5%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, a PRC subsidiary of the Group is exempted from the PRC income tax for two years commencing from the year ended 31st December, 2008, its first profit-making year, followed by a 50% relief from the PRC income tax for the next three years.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No.63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was reduced from 33% to 25% from 1st January, 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC was 25% (2007: 33%).

The income tax (credit) expense for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

	2008	2007
	HK$'000	*HK$'000*
Loss before tax	(468,103)	(33,775)
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	(77,237)	(5,911)
Tax effect of expenses not deductible for tax purpose	22,643	20,959
Tax effect of income not taxable for tax purpose	(8,130)	(8,289)
Tax effect of deductible temporary differences not recognised	(3)	3,809
Tax effect of tax losses not recognised	49,719	—
Utilisation of tax losses previously not recognised	—	(1,792)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,730)	(3,041)
Underprovision in respect of prior year	—	860
Income tax (credit) expenses for the year	(15,738)	6,595

11. LOSS FOR THE YEAR

	2008	2007
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Staff costs		
- directors' emoluments (note 12(a))	9,413	5,737
- other staff costs	9,277	12,833
- retirement benefits schemes contributions, excluding directors	334	326
- share-based payment expenses, excluding directors	—	8,069
Total staff costs	19,024	26,965
Auditor's remuneration	1,170	1,180
Depreciation of property, plant and equipment	7,316	2,357
Release of prepaid lease payments	651	638
Cost of inventories recognised as expense	36,926	50,311
Impairment loss on inventories, included in cost of sales	5,172	13,987
Loss on disposal of property, plant and equipment	—	161
and after crediting:		
Exchange gain	4,791	2,263
Reversal of impairment loss on trade receivables	—	310

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' Emoluments

The emoluments paid or payable to each of the 11 (2007: 14) directors were as follows:

	Notes	**2008**	**2007**
		HK$'000	*HK$'000*
Fees			
Executive directors		—	—
Independent non-executive directors			
- Mr. Phillip Fei		128	28
- Mr. Leung Hoi Ying		128	28
- Ms. Ma Yin Fan		189	39
- Mr. Chan Sek Nin, Jackey		—	19
- Mr. Wong King Lam, Joseph		—	40
- Mr. Sin Chi Fai		—	44
- Ms. Ching Yuen Man, Angela		—	43
		445	241
Other emoluments			
Executive directors			
(i) Salaries and other benefits			
- Ms. Chiu Ching Ching		260	60
- Ms. Chan Ling, Eva		1,500	1,418
- Mr. Chow Kam Wah		650	209
- Mr. Lee Sun Man		520	105
- Mr. Kwok Ka Lap, Alva	(a)	27	100
- Mr. Hui Richard Rui	(b)	211	—
- Mr. Yeung Kwok Yu	(c)	173	—
- Mr. Zhang Hong Ren	(d)	424	—
- Mr. Wong Ah Chik	(e)	910	11
		4,675	1,903

	Notes	2008 HK$'000	2007 HK$'000
(ii) Retirement benefits schemes contributions			
- Ms. Chiu Ching Ching		12	2
- Ms. Chan Ling, Eva		12	12
- Mr. Chow Kam Wah		12	4
- Mr. Lee Sun Man		12	2
- Mr. Kwok Ka Lap, Alva	(a)	—	—
- Mr. Hui Richard Rui	(b)	4	—
- Mr. Yeung Kwok Yu	(c)	2	—
- Mr. Zhang Hong Ren	(d)	9	—
- Mr. Wong Ah Chik	(e)	13	—
		76	20
(iii) Share-based payment expenses			
- Ms. Chan Ling, Eva		—	1,741
- Mr. Kwok Ka Lap, Alva		—	1,582
- Mr. Zhang Hong Ren	(d)	3,066	—
		3,066	3,323
(iv) Bonus			
- Ms. Chan Ling, Eva		306	—
- Mr. Chow Kam Wah		200	200
- Mr. Kwok Ka Lap, Alva	(a)	100	—
- Mr. Yeung Kwok Yu	(c)	300	—
- Mr. Lee Sun Man		25	50
- Mr. Zhang Hong Ren	(d)	100	—
Total directors' emoluments		1,031	250

The bonus is at the discretion of the Board and determined with reference to the director's performance and the Group's performance for the year.

	Notes	**2008**	**2007**
		HK$'000	*HK$'000*
(v) Housing Allowance			
- Mr. Zhang Hong Ren	(d)	120	—
Independent non-executive directors		—	—
		8,968	5,496
Total directors' emoluments		9,413	5,737

Notes:

(a) Resigned on 7th April, 2008

(b) Appointed on 19th September, 2008

(c) Appointed on 1st November, 2008

(d) Appointed on 15th February, 2008 and resigned on 3rd October, 2008

(e) Resigned on 20th April, 2009

During the year, no emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments in the year ended 31st December, 2008 and 2007.

(b) **Employees' Emoluments**

The five highest paid individual in the Group in 2008 were all directors of the Company and details of their emoluments are included in note 12(a) above.

Of the five individuals with the highest emoluments in the Group in 2007, two were directors of the Company, whose emoluments are included in the disclosures in note 12(a) above. The emoluments of the remaining three individuals were as follows:

	2007
	HK$'000
Salaries and other benefits	671
Retirement benefits scheme contributions	23
Share-based payment expenses	3,322
	4,016

The emoluments were within the following bands:

	2007 Number of employees
Nil to HK$1,000,000	—
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	1
	3

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to the equity holders of the Company of approximately HK$452,365,000 (2007: HK$40,369,000) and the weighted average number of 2,004,207,379 (2007: 464,666,036) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31st December, 2007 and 2008 does not assume the conversion of the Company's outstanding convertible notes and share options since their exercise would result in a decrease in loss per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Building	Leasehold improvements	Furniture and fixtures	Machinery and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP							
COST							
At 1st January, 2007	2,125	—	2,713	170,717	1,340	34,173	211,068
Exchange adjustments	—	—	117	1,121	31	3,075	4,344
Transfer	—	10,718	—	—	—	(10,718)	—
Additions	—	—	868	859	491	41,329	43,547
Disposals	—	—	(341)	(366)	(397)	—	(1,104)
At 1st January, 2008	2,125	10,718	3,357	172,331	1,465	67,859	257,855
Exchange adjustments	—	620	135	963	25	3,866	5,609
Transfer	60,163	13,100	—	—	—	(73,263)	—
Additions	—	—	2,184	255	255	4,363	7,057
Disposals	—	—	—	(17)	—	—	(17)
At 31st December, 2008	62,288	24,438	5,676	173,532	1,745	2,825	270,504
DEPRECIATION AND IMPAIRMENT LOSS							
At 1st January, 2007	378	—	1,717	160,687	1,304	—	164,086
Exchange adjustments	—	—	68	353	12	—	433
Provided for the year	53	89	384	1,603	228	—	2,357
Eliminated on disposals	—	—	(296)	(365)	(99)	—	(760)
At 1st January, 2008	431	89	1,873	162,278	1,445	—	166,116
Exchange adjustments	—	5	74	394	20	—	493
Provided for the year	53	4,839	590	1,753	81	—	7,316
Impairment loss recognised in the income statement	—	212	—	8,661	190	—	9,063
Eliminated on disposals	—	—	—	(17)	—	—	(17)
At 31st December, 2008	484	5,145	2,537	173,069	1,736	—	182,971
CARRYING VALUES							
At 31st December, 2008	61,804	19,293	3,139	463	9	2,825	87,533
At 31st December, 2007	1,694	10,629	1,484	10,053	20	67,859	91,739

	Building	Leasehold improvements	Furniture and fixtures	Machinery and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY							
COST							
At 1st January, 2007	2,125	—	1,488	1,226	541	—	5,380
Additions	—	—	—	12	—	—	12
Disposals	—	—	(340)	(351)	—	—	(691)
At 31st December, 2007	2,125	—	1,148	887	541	—	4,701
Additions	—	—	433	243	—	—	676
At 31st December, 2008	2,125	—	1,581	1,130	541	—	5,377
DEPRECIATION							
At 1st January, 2007	378	—	1,443	1,215	541	—	3,577
Provided for the year	53	—	—	9	—	—	62
Eliminated on disposals	—	—	(295)	(351)	—	—	(646)
At 1st January, 2008	431	—	1,148	873	541	—	2,993
Provided for the year	53	—	83	33	—	—	169
At 31st December, 2008	484	—	1,231	906	541	—	3,162
CARRYING VALUES							
At 31st December, 2008	1,641	—	350	224	—	—	2,215
At 31st December, 2007	1,694	—	—	14	—	—	1,708

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Building	Over the shorter of the term of the lease, or 2.5%
Leasehold improvements	5% - 10%
Furniture and fixtures	10% - 25%
Machinery and equipment	10% - 20%
Motor vehicles	12.5% - 25%

At the balance sheet dates, the building of the Group is situated on land in the PRC under medium-term land use right.

The carrying value of certain furniture and fixtures of the Group includes an amount of approximately HK$58,000 (2007: HK$84,000) in respect of assets held under finance leases.

During the year, certain property, plant and equipment were specifically identified to be impaired as a result of relocation of a battery plant. Impairment loss of HK$9,063,000 (calculated by comparing carrying amount of the assets to the recoverable amount determined based on value in use) has been recognised in respect of these assets. In addition, the directors conducted a review of the Group's other manufacturing assets (the recoverable amounts of which have been determined based on fair value less cost to sell) and no further impairment loss is considered necessary.

15. PREPAID LEASE PAYMENTS

	THE GROUP		THE COMPANY	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Analysed for reporting purposes as:				
Current asset	321	466	117	117
Non-current asset	12,793	19,604	3,510	3,628
	13,114	20,070	3,627	3,745

The Group's prepaid lease payments represent payments for land use rights in the PRC under medium-term land use rights.

As at 31st December, 2007, prepaid lease payments include an amount of HK$7,165,000 in respect of prepayment for a land use right for which the Group had not been granted formal title. A subsidiary of the Group has paid substantially the full purchase consideration in previous year but the government authority has not yet granted formal title to such land use right. Such land has not been in use since the prepayment date. The recoverable amount as at 31st December, 2007 has been determined based on fair value less costs to sell, on the assumption that the Group could obtain forward title to the land use rights in due course and an impairment of HK$8,015,000 was recognised to the consolidated income statements for that year.

As at 31st December, 2008, the directors of the Company considered the facts that (i) the business plan regarding such land was suspended due to change in the economic environment, (ii) there exists uncertainties as to the timing for the Group to obtain the legal title of land use right; and (iii) the insignificant recoverable amount of such payment which is calculated based on fair value less cost to sell on the assumption that the Group is unable to obtain forward title to the land use right. Accordingly, an impairment loss of approximately HK$6,835,000 has been made in respect of the prepayment for the land use right and recognised in the consolidated income statements during the year ended 31st December, 2008.

As at 31st December, 2008, the Group has pledged a land use right with a carrying value of approximately HK$9,487,000 (2007: HK$9,160,000) to a bank to secure a short-term bank borrowings granted to a subsidiary.

16. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM (TO) SUBSIDIARIES

	THE COMPANY	
	2008	**2007**
	HK$'000	*HK$'000*
Investments in subsidiaries		
Unlisted shares, at cost	33,261	33,261
Less: Accumulated impairment loss	(33,261)	(33,261)
Deemed capital contribution in subsidiaries	57,883	—
	57,883	—

The amounts due from (to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

Before making any advances, the Company will review the potential subsidiary's credit quality and defines its credit limit. Loan receivables are advanced to subsidiaries with appropriate credit history. Credit limit attributed to subsidiaries are reviewed regularly.

At the balance sheet dates, the Company reviews the carrying amounts of the amounts due from subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount due from a subsidiary is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount.

At 31st December, 2007 and 31st December, 2008, the amounts due from subsidiaries amount to HK$158,636,000 and HK$732,224,000, respectively, net of impairment loss on the amounts due from subsidiaries of HK$913,045,000 and HK$975,045,000 respectively.

While the loans carry no interest, the initial carrying amounts of the loans were determined by discounting the principal amount at their original effective interest rates with the difference recognised as deemed capital contribution to in the subsidiaries. Inputed interest income on the amounts due from subsidiaries of HK$9,980,000 was recognised in the income statement for year ended 31st December, 2008.

At 31st December, 2008 and 2007, except for the amounts due from subsidiaries being impaired, all the Company's remaining amounts due from subsidiaries are not impaired at the reporting date since a significant amount of remaining balance were recoverd. In addition, the Company does not hold any collateral over this balance.

The principal activities of the principal subsidiaries are set out in note 42.

17. INVESTMENT IN AN ASSOCIATE/AMOUNT DUE FROM AN ASSOCIATE/AMOUNT DUE TO A SUBSIDIARY OF AN ASSOCIATE

(a) **Investment in associate**

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
Unlisted	386	386
Share of post-acquisition losses	(386)	(386)
	—	—

Details of the Group's principal associate as at 31st December, 2008 and 2007 are as follows:

Name of associate	**Place of incorporation/ operation**	**Proportion of nominal value of issued share capital held indirectly by the Company** %	**Class of share held**	**Principal activity**
Wing Fung Metal and Equipment Company Limited ("Wing Fung")	Hong Kong	16 (Note)	Ordinary	Manufacturing of battery products

Note: 20% equity interest in Wing Fung was held by a 80% owned subsidiary of the Company.

The summarised financial information in respect of the Group's associate is set out below:

	2008	2007
	HK$'000	*HK$'000*
Total assets	10,734	10,351
Total liabilities	(11,153)	(10,743)
Net liabilities	(419)	(392)
Group's share of net assets of associate	—	—
Revenue	—	—
Loss for the year	(27)	(376)
Group's share of results of associate for the year	—	—

The Group has discontinued recognition of its share of losses of the associate. The amounts of unrecognised share of this associate, extracted from the relevant management accounts of the associate, both for the year and cumulatively, are as follows:

	THE GROUP	
	2008	2007
	HK$'000	*HK$'000*
Unrecognised share of losses of associate for the year	4	60
Accumulated unrecognised share of losses of associate	151	147

(b) **Amount due from an associate**

	THE GROUP	
	2008	2007
	HK$'000	*HK$'000*
Amount due from an associate	7,101	6,686

The amount is unsecured, non-interest bearing and repayable on demand.

Before making any advances, the Group will assess the potential associate's credit quality and defines its credit limit. Loan receivables are advanced to associates with appropriate credit history. Credit limit attributed to the associate is reviewed regularly.

At the balance sheet dates, the Group reviews the carrying amount of the amount due from an associate to determine whether there is any indications that those assets have suffered an impairment loss. If the recoverable amount of the amount due from an associate is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. The recoverable amount has been determined based on present value of the future cash flows expected to be derived from the associate. During the year ended 31st December, 2007, the Group recognised an impairment loss of approximately HK$1,272,000 (2008: NIL).

(c) **Amount due to a subsidiary of an associate**

The amount is unsecured, non-interest bearing and repayable on demand.

18. CLUB DEBENTURES

THE GROUP AND THE COMPANY

The club debentures represent the club membership of Macau Golf & Country Club and Aberdeen Marine Club. The directors are of opinion that it is not necessary to make any impairment loss of the club debentures since the market prices are higher than its carrying values.

19. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
Listed investments at fair value:		
- Equity securities listed in Hong Kong	6,103	25,270
Unlisted investments at cost less impairment loss:		
- Equity securities	2,035	11,708
Total	8,138	36,978
Analysed for reporting purposes as:		
Current assets	—	—
Non-current assets	8,138	36,978
	8,138	36,978

At the balance sheet date, all available-for-sale investments are stated at fair value, except for those unlisted investments of which the fair values cannot be measured reliably. Fair values of the listed investments have been determined with reference to bid prices quoted in active markets.

The carrying values of unlisted investments at 31st December, 2008 and 2007 comprise 16.4% equity interests in Beijing Technology Development Fund LDC, a company incorporated in Cayman Islands and engaged in investment venture business.

The unlisted investments are measured at cost less impairment loss at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

At the balance sheet, the Group reviews the carrying amounts of the unlisted investments due to the significant decline in performance of the investment venture business of Beijing Technology Development Fund LDC. The recoverable amount has been determined based on present value of the future cash flows expected to be derived from the unlisted investments. During the year, the Group recognised an impairment loss of approximately HK$9,673,000 (2007: Nil).

20. INVENTORIES

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
Raw materials	2,739	5,058
Finished goods	—	4,282
	2,739	9,340

21. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
Trade receivables	1,803	4,284
Less: allowance for doubtful debts	(740)	(699)
	1,063	3,585

The Group normally allows its trade customers credit period ranging from 90 days to 180 days. The following is an aged analysis of trade receivables, net of allowance for doubtful debts at the reporting date:

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
0-90 days	914	3,343
91-180 days	149	36
Over 180 days	—	206
	1,063	3,585

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limit. Credit sales are made to customers with appropriate credit history. Credit limits attributed to customers are reviewed regularly.

At the balance sheet the directors considered the trade receivables which were neither past due nor impaired were of good credit quality.

At 31st December, 2007, included in the Group's trade receivable balance were debtors with aggregate carrying amount of approximately HK$206,000 (2008: Nil) which were past due at the reporting date for which the Group had not provided for impairment loss. There had not been significant change in credit quality and the directors of the Company considered the amounts were still recoverable. The Group did not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
Over 180 days	—	206

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movement in the allowance for doubtful debts

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
At 1st January	699	981
Exchange adjustments	41	30
Amounts written off as uncollectible	—	(2)
Impairment losses reversed	—	(310)
At 31st December	740	699

Included in other receivables is unrestricted deposits of approximately HK$53,999,000 (2007: HK$3,901,000) placed with securities brokers for trading securities in Hong Kong which is non-interest bearing. The remaining balance is unsecured, interest-free and repayable on demand.

22. LOAN AND INTEREST RECEIVABLES

	THE GROUP		THE COMPANY	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unsecured loan and interest receivables	—	41,724	—	20,980

At 31st December, 2007, the amounts were unsecured, repayable within one year and carried variable-rate interest (at Hong Kong Prime Rate plus a spread) ranging from 7% to 10% per annum.

At the balance sheet dates, the Group reviews the carrying amounts of the loan and interest receivables to determine whether there is any indications that those assets have suffered an impairment loss. If the recoverable amount of the loan and interest receivables is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount.

The recoverable amount has been determined based on present value of the future cash flows expected to be derived from the debtors. During the year ended 31st December, 2007, the Group recognised an impairment loss of approximately HK$191,000, for which the Group has not hold any collateral. The Group has fully provided for all loans and interest receivables being past due based on the past experience.

At 31st December, 2007, except for the loan and interest receivables being past due and fully impaired, all the Group's remaining loan and interest receivables are neither past due nor impaired at the reporting date for which the Group has not provided for impairment loss since they are debtors with good quality. In addition, the Group does not hold any collateral over these balances.

23. INVESTMENTS HELD FOR TRADING

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
Listed securities at fair value:		
Equity securities listed in Hong Kong	390,521	13,800
Unlisted securities designated at financial assets at FVTPL:		
Convertible notes issued by a Hong Kong listed issuer	9,060	—
	399,581	13,800

During the year 31st December, 2008, the Group acquired convertible notes of principal amount of HK$9,600,000 issued by a Hong Kong listed issuer. The convertible notes with zero-coupon rate and maturity date of 15th October, 2011 are redeemable on maturity date at principal amount.

The Group had the right, at any time until the date falling 7 days before (and excluding) the maturity date, to convert the whole or part of the outstanding principal amount of the convertible notes into ordinary shares in the issued share capital of the issuer at HK$0.06 each, by giving prior written notice to the issuer. The convertible notes have no early redemption option.

The debt component and conversion component of the convertible notes are initially measured at fair value. During the year, a decrease in fair value by HK$540,000 was recognised in the consolidated income statement.

The fair value of the debt component of the convertible notes at 31st December, 2008 is determined using the prevailing market interest rate of 13.84%.

The fair value of the conversion component of the convertible notes at 31st December, 2008 is determined using Black Scholes Model with the following assumptions:

Share price at acquisition date:	HK$0.050
Exercise price:	HK$0.060
Expected life:	2.79 years
Expected volatility:	56.0%
Dividend yield:	Nil
Risk-free rate:	0.786%

24. BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term bank deposits with an original maturity of three months or less held by the Group. The amounts carry interest at 0.15% to 4.72% (2007: 1% to 4%) per annum.

25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Included in trade payables, other payables and accrued charges are trade payables of approximately HK$3,282,000 (2007: HK$4,660,000) with the following aged analysis at the balance sheet date:

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
0-90 days	859	2,720
91-180 days	1,641	1,501
Over 180 days	782	439
	3,282	4,660

The average credit period on purchases of goods is 90 days.

Included in other payables is balances payable to an investment broker of approximately HK$37,209,000 (2007:nil) for acquisition of investments held for trading, payable 2 days after the transaction date. The remaining balances are unsecured, interest-free and repayable on demand.

26. LOAN PAYABLES

The loan payables of the Group and the Company are payable to independent third parties, unsecured and repayable on demand. Except for the amount of approximately HK$3,352,000 (2007: HK$25,254,000) which is non-interest bearing, all remaining amounts carry interest at Hong Kong Prime Rate plus a spread ranging from 6% to 9% (2007: 6% to 10%) per annum.

27. BANK BORROWINGS

	THE GROUP	
	2008	**2007**
	HK$'000	*HK$'000*
Secured bank borrowings repayable within one year	15,306	18,042

An amount of variable-rate bank borrowings of approximately HK$15,306,000 (2007: HK$3,573,000) carried interest at prevailing market rate ranging from 6% to 8% (2007: 5% to 7%) per annum.

As at 31st December, 2007 an amount of fixed-rate bank borrowings of approximately HK$14,469,000 (2008: Nil) carried interest at prevailing market rate ranging from 5% to 7% per annum.

28. CONVERTIBLE NOTES

On 23rd August, 2007, the Company entered into convertible notes placing agreement with the independent placing agent for the placement of a maximum aggregate principal amount of HK$1,320,000,000 on a best effort basis. The convertible notes will be non-interest bearing and redeemable, with maturity date on 31st December, 2010. The conversion price, subject to anti-dilutive adjustments, shall be HK$0.33 per share from the date of issue of the convertible notes up to 31st December, 2008, HK$0.36 per share from 1st January, 2009 to 31st December, 2009, and HK$0.39 per share from 1st January, 2010 to the maturity date. The placements are expected to raise maximum net proceeds of approximately HK$1,287,000,000.

On 5th November, 2007 and 7th January, 2008, convertible notes with principal amounts of HK$146,850,000 and HK$1,173,150,000 ("Convertible Notes") were issued respectively. The Convertible Notes are denominated in Hong Kong dollars.

The Convertible Notes holders had the right, at any time before the maturity date of 31st December, 2010, to convert the whole or part of the outstanding principal amount of the Convertible Notes into ordinary shares in the issued share capital of the Company of HK$0.1 par value each, by giving prior written notice to the Company.

The Company had the right to early redeem the Convertible Notes, at any time before the maturity date on 31st December, 2010, by giving not less than 7 business days' prior written notice to the Convertible Note holders at the principal amounts of the Convertible Notes so redeemed.

On initial recognition, the fair value of the liability component of Convertible Notes is determined using the prevailing market interest rate of similar non-convertible debts at 10.32% (2007: 9.68%). The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the Convertible Notes into equity, is included in equity (convertible notes reserve).

In November, 2008, the Company early redeemed convertible notes with a principal amount of HK$311,101,000.

At 31st December, 2008, the Convertible Notes with a principal amount of HK$1,008,899,000 remained outstanding.

The movement of the liability component of the Convertible Notes for the year ended 31st December, 2008 is set out below:

	THE GROUP AND THE COMPANY *HK$'000*
At 1st January, 2007	—
Issue of Convertible Notes	119,340
Effective interest expenses	1,148
At 1st January, 2008	120,488
Issue of Convertible Notes	868,231
Effective interest expenses	95,383
Early redemption of Convertible Notes	(255,101)
At 31st December, 2008	829,001

The fair value of the liability component of the Convertible Notes issued by the Group as at 31st December, 2008 is approximately HK$745,679,000 (2007: HK$120,488,000).

29. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its furniture and fixtures under finance leases. The average lease term is 5 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates of 8.44% (2007: 5.45%). These leases have no terms of renewal or purchase options and escalation clauses.

	Minimum lease payments		Present value of minimum lease payments	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases				
Within one year	33	33	26	26
In more than one year but not more than two years	33	33	26	26
In more than two years but not more than five years	7	33	5	26
In more than five years	—	7	—	5
	73	106	57	83
Less: future finance charges	(16)	(23)		
Present value of lease obligations	57	83		
Less: Amount due within one year			(26)	(26)
Amount due after one year			31	57

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

30. SHARE CAPITAL OF THE COMPANY

	Number of shares	Value
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each at 1st January, 2007, 31st December, 2007 and 31st December, 2008	8,000,000,000	800,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at 1st January, 2007	440,797,543	44,080
Issue of shares	88,000,000	8,800
At 31st December, 2007	528,797,543	52,880
Issue of shares	1,500,000,000	150,000
At 31st December, 2008	2,028,797,543	202,880

Note:

On 23rd August, 2007, two placing agreements ("Placing Agreements") were entered into with an independent placing agent ("Placing Agent"), pursuant to which the Company has appointed the Placing Agent to place 1,588,000,000 ordinary shares of HK$0.10 each ("Placing Shares") in the Company at a price of HK$0.33 per Placing Share for the period from 23rd August, 2007 to 4 working days after 31st December,2007. The issue price of HK$0.33 represented a discount of 11.53% to the average of the closing price of about HK$0.373 per share of the last five trading days up to and including 23rd August, 2007.

88,000,000 Placing Shares were issued under the general mandate granted to the Directors on 6th June, 2007. The net proceeds of HK$28,254,000 was used for general working capital of the Group. The transaction was completed on 24th September, 2007.

1,500,000,000 Placing Shares were issued under the special mandate granted to the Directors of the Company on 2nd October, 2007. The net proceeds of HK$482,625,000 was initially used for possible investment opportunities. The transaction was completed on 7th January, 2008.

Details of the above are set out in the announcements to the shareholders of the Company dated 30th August, 2007 and the circular of the Company dated 14th September, 2007.

On 7th March, 2008, and 30th October 2008, the Company announced the change of use of proceeds from the share placing, the net proceeds was to be used for general working capital and/or redemption of existing convertible notes.

31. SHARE-BASED PAYMENT TRANSACTIONS

On 4th June, 2002, the Company adopted a share option scheme ("2002 Scheme") which is effective for a period of ten years for the primary purpose of providing incentives to directors and eligible participants. Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible participants, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK$1.00 Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per grant. Options granted are exercisable not later than ten years after the date the options are granted. The exercise price, subject to adjustments, is determined by the board of directors of the Company and will not be less than the highest of (i) the closing price of the Company's share on the date of options granted; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed 202,879,754 shares, representing 10% of the issued share capital of the Company as at the date of adoption of 2002 Scheme. Subject to the issue of a circular and the approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules") from time to time, the Board may refresh the limit at any time to 10% of the total number of shares in issue as at the date of approval by the shareholders of the Company in general meeting. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the aggregate number of shares of the Company in issue and issuable under 2002 Scheme at any point in time, without prior approval from the Company's shareholders.

The following table discloses movements of the Company's share options held by eligible participants and directors during the year:

	Date of grant	Exercisable period	Exercise price HK$	At 1.1.2007	Granted during the year	Lapsed during the year	At 1.1.2008	Granted during the year	Lapsed during the year	At 31.12.2008
				Number of Shares						
Eligible participants	10.7.2007	10.7.2007 to 9.7.2012	0.724	—	21,600,000	(1,200,000)	20,400,000	—	—	20,400,000
	4.11.2008	4.11.2008 to 3.11.2009	0.580	—	—	—	—	4,000,000	—	4,000,000
				—	21,600,000	(1,200,000)	20,400,000	4,000,000	—	24,400,000
Independent non-executive directors:										
Chan Sek Nin, Jackey	10.7.2007	10.7.2007 to 9.7.2012	0.724	—	4,000,000	(4,000,000)	—	—	—	—
Wong King Lam, Joseph	10.7.2007	10.7.2007 to 9.7.2012	0.724	—	4,000,000	(4,000,000)	—	—	—	—
Sin Chi Fai	10.7.2007	10.7.2007 to 9.7.2012	0.724	—	4,000,000	(4,000,000)	—	—	—	—
				—	12,000,000	(12,000,000)	—	—	—	—
Executive directors:										
Chan Ling, Eva	10.7.2007	10.7.2007 to 9.7.2012	0.724	—	4,400,000	—	4,400,000	—	—	4,400,000
Kwok Ka Lap, Alva	10.7.2007	10.7.2007 to 9.7.2012	0.724	—	4,000,000	—	4,000,000	—	(4,000,000)	—
Zhang Hong Ren	19.3.2008	19.3.2008 to 14.2.2014	0.580	—	—	—	—	4,000,000	(4,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2009 to 14.2.2014	0.580	—	—	—	—	2,000,000	(2,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2010 to 14.2.2014	0.580	—	—	—	—	3,000,000	(3,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2011 to 14.2.2014	0.580	—	—	—	—	3,000,000	(3,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2012 to 14.2.2014	0.580	—	—	—	—	4,000,000	(4,000,000)	—
Zhang Hong Ren	19.3.2008	15.2.2013 to 14.2.2014	0.580	—	—	—	—	4,000,000	(4,000,000)	—
				—	8,400,000	—	8,400,000	20,000,000	(24,000,000)	4,400,000
				—	42,000,000	(13,200,000)	28,800,000	24,000,000	(24,000,000)	28,800,000
Exercisable at the end of the year										28,800,000
Weighted average exercise price				—	HK$0.724	HK$0.724	HK$0.724	HK$0.58	HK$0.58	HK$0.704

During the year ended 31st December, 2008, no share options granted had been exercised.

The following assumptions were used to calculate the fair values of share options.

	Granted on 19.3.2008	**Granted on 4.11.2008**	**Granted on 10.7.2007**
Grant date share price	HK$0.52	HK$0.12	HK$0.67
Option exercisable period	19.3.2008 to 14.2.2014	4.11.2008 to 3.11.2009	10.7.2007 to 9.7.2012
Exercise price	HK$0.580	HK$0.580	HK$0.724
Expected life	3.0 to 5.4 years	1 year	2.5 years
Expected volatility	110.99%-125.86%	46.70%	102.86%
Dividend yield	Nil	Nil	Nil
Risk-free interest rate	1.35%-1.95%	0.55%	4.44%
Fair value of option per share	HK$0.370-HK$0.421	HK$0.000012	HK$0.3955

The Black-Scholes pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the director's best estimate. The value of an option varies with different variables of certain objective assumptions.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous two years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The closing price of the Company's shares immediately before 19th March, 2008, 4th November, 2008 and 10th July, 2007, the dates of grant of options, were HK$0.52, HK$0.12 and HK$0.69 respectively.

During the year, share options were granted on 19th March, 2008 and 4th November, 2008. The fair values of the options determined at the dates of grant using the Black-Scholes pricing model totalling approximately HK$3,704,000 (2007: HK$11,392,000) and were recognised in the consolidated income statement for the year ended 31st December, 2008. The total number of shares available for issue under the 2002 Scheme is 178,879,754 which represent 8.82% of the issued share capital of the Company as at 31st December, 2008.

32. RESERVES OF THE COMPANY

	Share premium	Special capital reserve	Share option reserve	Convertible notes reserve	Capital redemption reserve	Deficit	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2007	—	1,267	—	—	233	(14,193)	(12,693)
Issue of shares	20,240	—	—	—	—	—	20,240
Transaction costs attributable to issue of shares	(786)	—	—	—	—	—	(786)
Issue of convertible notes	—	—	—	24,450	—	—	24,450
Transaction costs attributable to issue of convertible note	—	—	—	(611)	—	—	(611)
Recognition of equity settled share-based payments	—	—	11,392	—	—	—	11,392
Deferred tax liability on recognition of equity component of convertible notes	—	—	—	(4,172)	—	—	(4,172)
Loss for the year and total recognised expense for the year	—	—	—	—	—	(120,872)	(120,872)
At 1st January, 2008	19,454	1,267	11,392	19,667	233	(135,065)	(83,052)
Issue of shares	345,000	—	—	—	—	—	345,000
Transaction costs attribuable to issue of share	(12,375)	—	—	—	—	—	(12,375)
Issue of convertible notes	—	—	—	282,656	—	—	282,656
Transaction costs attributable to issue of convertible notes	—	—	—	(7,066)	—	—	(7,066)
Redemption of convertible notes	—	—	—	(75,664)	—	—	(75,664)
Recognition of equity settled share-based payments	—	—	3,066	—	—	—	3,066
Lapse of share options	—	—	(3,061)	—	—	3,061	—
Deferred tax liabilities on recognition of equity component of convertible notes	—	—	—	(45,472)	—	—	(45,472)
Reversal of deferred tax liabilities recognised on redemption of equity component of convertible notes	—	—	—	11,119	—	—	11,119
Loss for the year and total recognised expense for the year	—	—	—	—	—	(243,475)	(243,475)
Effect of change in tax rate	—	—	—	239	—	—	239
At 31st December, 2008	352,079	1,267	11,397	185,479	233	(375,479)	174,976

The special capital reserve of the Company at 1st January, 2007 represented the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001.

The Board of the Company does not recommend the payment of any final dividend for the year ended 31st December, 2008 (2007: nil).

33. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities provided by the Group and the Company in respect of the convertible notes issued as at the balance sheet dates and movements thereon during the current and prior reporting periods:

	THE GROUP AND THE COMPANY *HK$'000*
At 1st January, 2007	—
Charge to equity for the year	4,172
At 1st January, 2008	4,172
Charge to equity for the year	45,472
Reversal on redemption of equity component of convertible notes	(11,119)
Reversal on amortisation of liability component of convertible notes	(15,738)
Effect of change in tax rate	(239)
At 31st December, 2008	22,548

As at 31st December, 2008, the Group has unused tax losses of approximately HK$331,931,000 (2007: HK$30,604,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profits streams. The tax losses may be carried forward indefinitely.

As at 31st December, 2008 and 2007, the Group has deductible temporary differences in respect of allowances on doubtful debts of approximately HK$250,624,000. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

34. CAPITAL RISK MANAGEMENT

The Group and the Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of the borrowings and convertibles notes disclosed in notes 27 and 28, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The capital structure of the Company consist of debt, which represents the convertible notes disclosed in note 28, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues, raising of new debt and redemption of existing debt.

35. FINANCIAL INSTRUMENTS

35a. Categories of financial instruments

	THE GROUP		THE COMPANY	
Balance Sheet	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables				
(including cash and cash equivalents)	848,470	246,895	1,371,957	209,236
Available-for-sale financial assets	8,138	36,978	—	—
Fair value through profit or loss				
Held for trading	390,521	13,800	—	—
Designated at FVTPL	9,060	—	—	—
Financial liabilities				
Amortised cost	981,400	263,787	924,192	241,446

35b. **Income statements**

	THE GROUP		THE COMPANY	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Loans and receivables				
Impairment	—	(2,409)	—	—
Available-for-sale Investments				
Impairment loss	(22,596)	(5,348)	—	—
Gain on disposals	(1,557)	(39,625)	—	—
	(24,153)	(44,973)	—	—
Financial assets at FVTPL - Held for trading				
Commission expenses	—	(15,487)	—	—
Fair value changes	(326,191)	34,485	—	—
	(326,191)	18,998	—	—
Financial assets at FVTPL - Designated at FVTPL				
Fair value changes	(540)	—	—	—

35c. **Financial risk management objectives and polices**

The major financial instruments of the Group and the Company include loans and interest receivables, trade receivables, other receivables, available-for-sale investments, investments held for trading, convertible notes, amounts due from/to subsidiaries, amount due from an associate, amount due to a subsidiary of an associate, trade and other payables, loan payables, bank balances and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Interest rate risk*

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate obligations under finance leases. The Group and the Company currently do not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

The Group and the Company are also exposed to cash flow interest rate risk in relation to variable-rate bank balances, loan receivables, loan payables and bank borrowings. It is the policy of the Group and the Company to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The exposures of the Group and the Company to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group and the Company is mainly concentrated on the fluctuation of Hong Kong Prime Rate and Hong Kong Interbank Offer Rate arising from the bank balances, loan payables, bank overdraft and bank borrowings.

The Group and the Company are also exposed to fair value interest rate risk in relation to the debt element of the convertible notes issued by a Hong Kong Listed issuer (included in investments held-for-trading). The Group and the Company currently do not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. No sensitivity analysis was prepared since the directors consider the amount involved is not significant.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the non-derivative instruments (including bank balances, loan payables and bank borrowings) of the Group and the Company at the balance sheet date. The analysis is prepared assuming the amount of non-derivative instruments outstanding at the balance sheet was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the loss for the year ended 31st December, 2008 of the Group and the Company would increase/decrease by approximately HK$3,287,000 (2007: decrease/increase by approximately HK$180,000) and increase/decrease by approximately HK$2,882,000 (2007: profit for the year increase/decrease by approximately HK$126,000), respectively.

(ii) *Other price risk - Investments in equity securities*

The Group is exposed to equity price risk through its investments in listed and unlisted equity and debt securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's listed equity price risk is mainly concentrated on equity instruments quoted in the Hong Kong Stock Exchange.

The Group is also exposed to price risk through its investments in financial assets designated at FVTPL. The Group does not have any policy to hedge against such risk. No sensitivity analysis was prepared since the directors consider the amount involved is not significant.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks, excluding unlisted investments which are measured at cost less impairment, at the reporting date. For sensitivity analysis purpose, the sensitivity rate is increased to 25% in the current year as a result of the volatile financial market.

If the prices of the respective equity securities had been 25% (2007: 5%) higher/lower:

- loss for the year ended 31st December, 2008 would decrease/increase by approximately HK$100,031,000 (2007: HK$569,000) as a result of the changes in fair value of investments held for trading; and
- loss for the year ended 31st December, 2008 would decrease/increase by approximately HK$1,525,000 (2007: investment valuation reserve would increase by approximately HK$1,043,000) for the Group as a result of the changes in fair value of available-for-sale investments.

(iii) *Currency risk*

Most of the Group's transactions are denominated in the group entities' functional currency, which is either Renminbi ("RMB") or Hong Kong dollar ("HKD"). The Group's exposure to foreign currency risk regarding these transactions is insignificant.

However, the Group is exposed to foreign currency risk to the extent of intra-group loans when the HKD functional entities raised funding denominated in HKD for operations in PRC which has RMB as their functional currency. The Group has not formulated a policy to hedge the foreign currency risk.

Sensitivity analysis

The Group is exposed to foreign currency exchange rate fluctuations between RMB and HKD.

The Group's sensitivity to an increase and decrease in RMB against the HKD is analysed by using 8% (2007: 5%) sensitivity rate. 8% (2007: 5%) sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. As a result of the volatile financial market in 2008, the management adjusted the sensitivity rate from 5% to 8% for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding HKD denominated monetary items, and adjusts their translation at the year end for a 8% (2007: 5%) change in foreign currency rates. The sensitivity analysis includes internal HKD loans to the PRC operations where the denomination of the loan is in a currency other than the functional currency of the borrower. Where RMB strengthen 8% (2007: 5%) against HKD, the loss for the year would be increased by approximately HK$383,000 (2007: HK$113,000). For a 8% (2007: 5%) weakening of RMB against HKD, there would be an equal and opposite impact on the loss for the year.

Credit risk

As at 31st December, 2008, the maximum exposure of the Group and the Company to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from:

- the cash held in financial institutions;
- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group and the Company as disclosed in note 36.

In order to minimise the credit risk, the management of the Group and the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group and the Company review the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the credit risk of the Group and the Company is significantly reduced.

The Group has concentration of credit risk as approximately HK$53,990,000 (2007:HK$3,901,000) of the other receivables was deposits placed at two financial institutions for the Group's investment in securities business and other receivable from a single counterparty of HK$8,889,000. The management considered the credit risk on such balances held at financial institutions and that counter party is limited because they are with good reputation.

At 31st December, 2008, approximately 66% (2007: 42%) of the Group's trade receivables were due from the five largest customers. The management performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant. The historical experience in the collection of trade receivables from the five largest customers falls within the expectation of the directors. The management currently is seeking new customers base to explore the market in order to reduce the reliance on the several major customers, and also mitigate concentration of credit risk.

The credit risk of the Company on amounts due from subsidiaries is limited because the directors of the Company consider that the recoverable amount exceeds the carrying amount of amounts due from subsidiaries. The recoverable amounts of the amounts due from subsidiaries is determined based on the present value of the future cash flows expected to be derived from the subsidiaries.

The Group's credit risk on the amount due from a subsidiary of an associate at the balance sheet dates was limited because the management regularly reviews the financial performance of the associate.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and the Company and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings.

The following tables detail the remaining contractual maturity of the Group and the Company for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

THE GROUP

Liquidity tables

	Weighted average effective interest rate	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**Over 1 year**	**Total undiscounted cash flows**	**Carrying amount at 31.12.2008**
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008							
Non-derivative financial liabilities							
Trade and other payables	—	62,612	859	2,423	—	65,894	65,894
Amount due to a susbidiary of an associate	—	7,239	—	—	—	7,239	7,239
Loan payables	7.41	68,638	—	—	—	68,638	63,903
Bank borrowings	7.04	—	—	16,383	—	16,383	15,306
Obligations under finance leases	8.44	2	4	21	33	60	57
Convertible notes	10.32	—	—	—	1,008,899	1,008,899	829,001
		138,491	863	18,827	1,008,932	1,167,113	981,400

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2007
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007							
Non-derivative financial liabilities							
Trade and other payables	—	31,728	2,720	1,940	—	36,388	36,388
Amount due to an associate	—	6,686	—	—	—	6,686	6,686
Loans payable	8.11	88,757	—	—	—	88,757	82,100
Bank borrowings	6.50	—	—	19,215	—	19,215	18,042
Obligations under finance leases	5.45	2	4	20	61	87	83
Convertible notes	9.68	—	—	—	146,850	146,850	120,488
		127,173	2,724	21,175	146,911	297,983	263,787

The cash flow of variable interest rate instruments is based on the rate outstanding at the balance sheet date.

THE COMPANY

Liquidity tables

	Weighted average effective interest rate	Less than 1 month	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2008
	%	HK$'000	HK$'000	HK$'000	HK$'000
2008					
Non-derivative financial liabilities					
Other payables	—	3,222	—	3,222	3,222
Amounts due to subsidiaries	—	91,969	—	91,969	91,969
Convertible notes	10.32	—	1,008,899	1,008,899	829,001
		95,191	1,008,899	1,104,090	924,192

	Weighted average effective interest rate	Less than 1 month	Over 1 year	Total undiscounted cash flows	Carrying amount at 31.12.2007
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007					
Non-derivative financial liabilities					
Other payables	—	7,003	—	7,003	7,003
Loan payables	7.38	23,517	—	23,517	21,902
Amounts due to subsidiaries	—	92,053	—	92,053	92,053
Convertible notes	9.68	—	146,850	146,850	120,488
		122,573	146,850	269,423	241,446

The cash flow of variable interest rate instruments is based on the rate outstanding at the balance sheet date.

35d. **Fair value**

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market bid prices; and

- the fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements, except for the convertible notes issued by the Group, approximate their fair values.

36 CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Corporate guarantee given to banks, in respect of banking facilities granted to a subsidiary	—	—	13,500	13,500

During the year ended 31st December, 2008 and 2007, the Company issued guarantee of HK$13,500,000 and indemnity to a bank for the banking facilities granted to a non-wholly owned subsidiary and the amount utilised by that non-wholly owned subsidiary as at 31st December, 2007 and 2008 was approximately HK$3,573,000.

37. OPERATING LEASES

The Group as lessee

The Group made approximately HK$1,109,000 (2007: HK$224,000) minimum lease payments under operating leases during the year in respect of certain of its office premises.

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,688	448	1,512	354
In the second to third years inclusive	1,381	—	1,094	—
	3,069	448	2,606	354

Operating lease payments represented rentals payable by the Group and the Company for certain of its office premises. Leases are negotiated for an average term of one to two years and rentals are fixed for an average of one to two years.

38. COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2008	2007
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	8,218	3,332

39. PLEDGE OF ASSETS

(a) At 31st December, 2008, available-for-sale investments and investments held for trading with a carrying value of approximately HK$6,103,000 (2007: HK$25,270,000) and HK$1,094,000 (2007: HK$7,735,000), respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 31st December, 2008 and 2007, no margin loan facility was utilised by the Group.

(b) At 31st December, 2008, land use right (included in prepaid lease payments) with a carrying value of approximately HK$9,487,000 (2007: HK$9,160,000) was pledged to secure a short-term bank borrowings granted to a subsidiary.

40. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year ended 31st December, 2007, the Group had loan interest income received and receivable of approximately HK$873,000 from Wing On Travel (Holdings) Limited, which ceased to be an associate of a former substantial shareholder of the Company during the year ended 31st December, 2007.

During the year ended 31st December, 2008, the Company granted 20,000,000 share options to its directors, details as set out in note 31.

Other than as set out above, the Group and the Company have no transactions with its related parties during the year ended 31st December, 2008 and 2007.

(ii) Related party balances

Details of the outstanding balances with related parties are set out in the consolidated balance sheet, the balance sheet and the respective notes.

(iii) **Compensation of key management personnel**

The remuneration of directors who are also identified as members of key management during both years is set out in note 12.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

41. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The employees contributes 5% of the relevant payroll costs to the scheme with a maximum amount of HK$1,000 which contribution is matched by the Group.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

The employees in the Group's joint venture subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The joint venture subsidiaries are required to contribute a certain percentage of their payroll costs to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme. The amount of contributions payable to the pension schemes are charged to the income statement.

The total cost charged to income statement of approximately HK$334,000 (2007: HK$346,000) represents contributions payable to these schemes by the Group in respect of the current year.

42. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2008 and 31st December, 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activity
			Directly	Indirectly	
			%	%	
Rich Crown Investments Limited (note a)	Hong Kong	HK$1	—	100%	Investments in securities
Super Energy Battery Industries Limited (note a)	Hong Kong	HK$2,500,000	—	80	Investment holding and trading of battery products
Super Energy Group Limited (note a)	Hong Kong	HK$13,000,000	—	80	Investment holding and trading of battery products
Talent Cosmos Limited (note a)	BVI	US$13,000	—	80	Investment holding
Wealthy Gain Limited (note a)	BVI	US$1	100	—	Investments in securities
台山市超量電池有限公司 (「台山市超量」) (note a)	PRC	RMB9,183,763	—	76 (note b)	Manufacturing of battery products
台山市信威電池有限公司 (note a)	PRC	US$8,655,696	—	80	Manufacturing of battery products

Notes:

a. These companies are limited liability companies incorporated in the respective jurisdiction.

b. 台山市超量 is a 95% subsidiary of Super Energy Battery Industries Limited and the Group holds effective 76% interest in 台山市超量.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the Group's results for the year or formed a substantial portion of the Group's assets and liabilities. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

43. SUBSEQUENT EVENT

The Company redeemed its convertible notes in principal amount of HK$307,560,000 and HK$100,000,000 in January and March 2009 respectively.

3. UNAUDITED INTERIM CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2009

The following is an extract of the unaudited consolidated financial information of the Group from the interim report of the Company for the six months period ended 30th June 2009.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2009

		Six months ended 30 June	
	NOTES	**2009**	**2008**
		HK$'000	*HK$'000*
		(unaudited)	*(unaudited)*
Revenue	3	2,601	15,685
Cost of sales		(2,631)	(15,362)
Gross (loss) profit		(30)	323
Other income	4	8,117	16,090
Distribution costs		(352)	(1,047)
Administrative expenses		(21,381)	(16,716)
Fair value changes on investments held for trading		156,302	(59,801)
Loss on partial redemption of convertible notes		(71,034)	—
Finance costs	5	(27,888)	(48,185)
Profit (loss) before taxation		43,734	(109,336)
Income tax credit	6	4,507	—
Profit (loss) for the period, attributable to owners of the Company	7	48,241	(109,336)
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		1,976	5,419
Fair value changes of available-for-sale investments		5,308	(6,480)
Reclassification adjustments upon disposal of available-for-sale investments		(4,552)	(802)
Other comprehensive income (expense) for the period		2,732	(1,863)
Total comprehensive income (expense) for the period, attributable to owners of the Company		50,973	(111,199)
Earnings (loss) per share	9		
Basic		HK2.4 cents	HK(5.5) cents
Diluted		HK2.4 cents	HK(5.5) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	NOTES	**Six months ended 30 June 2009** *HK$'000* *(unaudited)*	**Year ended 31 December 2008** *HK$'000* *(audited)*
Non-Current Assets			
Property, plant and equipment	10	82,576	87,533
Prepaid lease payments		12,638	12,793
Club debentures		825	825
Available-for-sale investments		4,077	8,138
		100,116	109,289
Current Assets			
Inventories		1,808	2,739
Trade receivables	11	38	1,063
Prepaid lease payments		320	321
Amount due from an associate		7,101	7,101
Other receivables, deposits and prepayments	12	29,032	64,728
Investments held for trading	13	436,530	399,581
Bank balances and cash	14	480,817	777,418
		955,646	1,252,951
Current Liabilities			
Trade payables, other payables and accrued charges	15	25,672	69,353
Amount due to a subsidiary of an associate		7,134	7,239
Loan payables		65,639	63,903
Income tax payable		5,735	5,735
Bank borrowings		15,315	15,306
Obligations under finance leases		26	26
		119,521	161,562
Net Current Assets		836,125	1,091,389
Total Assets less Current Liabilities		936,241	1,200,678

	NOTES	Six months ended 30 June 2009 HK$'000 (unaudited)	Year ended 31 December 2008 HK$'000 (audited)
Capital and Reserves			
Share capital	16	202,880	202,880
Reserves		203,718	145,957
Equity attributable to the owners of the Company		406,598	348,837
Minority interests		261	261
Total Equity		406,859	349,098
Non-Current Liabilities			
Deferred tax liabilities		11,253	22,548
Convertible notes	17	518,111	829,001
Obligations under finance leases		18	31
		529,382	851,580
		936,241	1,200,678

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2009

	Attributable to owners of the Company												
	Share capital	Share premium	Special capital reserve	Share option reserve	Convertible notes reserve	Capital redemption reserve	Investment revaluation reserve	Exchange reserve	Other non-distributable reserves	Retained profits (Accu-mulated losses)	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2008 (audited)	52,880	19,454	1,267	11,392	19,667	233	6,340	1,328	1,943	30,301	144,805	261	145,066
Loss for the period	—	—	—	—	—	—	—	—	—	(109,336)	(109,336)	—	(109,336)
Exchange difference arising on translation	—	—	—	—	—	—	—	5,419	—	—	5,419	—	5,419
Fair value changes of available-for-sale investments	—	—	—	—	—	—	(6,480)	—	—	—	(6,480)	—	(6,480)
Reclassification adjustments upon disposal of available-for-sale investments	—	—	—	—	—	—	(802)	—	—	—	(802)	—	(802)
Total comprehensive income (expense) for the period	—	—	—	—	—	—	(7,282)	5,419	—	(109,336)	(111,199)	—	(111,199)
Issue of shares	150,000	345,000	—	—	—	—	—	—	—	—	495,000	—	495,000
Expenses related to issue of shares	—	(12,375)	—	—	—	—	—	—	—	—	(12,375)	—	(12,375)
Issue of convertible notes	—	—	—	—	275,590	—	—	—	—	—	275,590	—	275,590
Recognition of equity settled share-based payments	—	—	—	2,224	—	—	—	—	—	—	2,224	—	2,224
Share options lapsed	—	—	—	(1,582)	—	—	—	—	—	1,582	—	—	—
Deferred tax liabilities on recognition of equity component of convertible notes	—	—	—	—	(45,472)	—	—	—	—	—	(45,472)	—	(45,472)
At 30th June, 2008 (unaudited)	202,880	352,079	1,267	12,034	249,785	233	(942)	6,747	1,943	(77,453)	748,573	261	748,834

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Special capital reserve HK$'000 (note)	Share option reserve HK$'000	Convertible notes reserve HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Other non-distributable reserves HK$'000	Retained profits (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2009 (audited)	202,880	352,079	1,267	11,397	185,479	233	3,445	9,117	1,943	(419,003)	348,837	261	349,098
Profit for the period	—	—	—	—	—	—	—	—	—	48,241	48,241	—	48,241
Exchange difference arising on translation	—	—	—	—	—	—	—	1,976	—	—	1,976	—	1,976
Fair value changes of available-for-sale investments	—	—	—	—	—	—	5,308	—	—	—	5,308	—	5,308
Reclassification adjustments upon disposal of available-for-sale investments	—	—	—	—	—	—	(4,552)	—	—	—	(4,552)	—	(4,552)
Total comprehensive income for the period	—	—	—	—	—	—	756	1,976	—	48,241	50,973	—	50,973
Redemption of convertible notes	—	—	—	—	(71,034)	—	—	—	—	71,034	—	—	—
Reversal of deferred tax liabilities on partial redemption of convertible notes	—	—	—	—	6,788	—	—	—	—	—	6,788	—	6,788
At 30th June, 2009 (unaudited)	202,880	352,079	1,267	11,397	121,233	233	4,201	11,093	1,943	(299,728)	406,598	261	406,859

Note The special capital reserve of the Group at 1st January, 2008 represented the amount arising from the capital reduction carried out by the Company during the year ended 31st December, 2001.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	**2008**
	HK$'000	*HK$'000*
	(unaudited)	*(unaudited)*
Net cash from (used in) operating activities	98,475	(354,103)
Net cash generated from investing activities:		
Proceeds from disposal of available-for-sale investments	9,369	4,906
Purchase of property, plant and equipment	(52)	(3,362)
Interest received	583	10,974
Dividend income from available-for-sale investments	2,836	1,567
Other investing cash flows	—	(611)
	12,736	13,474
Net cash (used in) from financing activities:		
Net proceeds from issue of shares	—	482,625
Net proceeds from issue of convertible notes	—	1,143,821
(Repayment to) advance from a subsidiary of an associate	(105)	469
Redemption of convertible notes	(407,560)	—
Interest paid	(516)	(771)
Other financing cash flows	(12)	630
	(408,193)	1,626,774
Net (decrease) increase in cash and cash equivalents	(296,982)	1,286,145
Cash and cash equivalents at beginning of the period	777,418	191,617
Effect of foreign exchange rate changes	381	412
Cash and cash equivalents at end of the period	480,817	1,478,174
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	480,817	1,480,240
Bank overdraft	—	(2,066)
	480,817	1,478,174

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2008. In addition, the following accounting policy was adopted in current period.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations issued by the HKICPA, which are effective for the Group's financial year beginning on 1st January, 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives

HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 *Segment Reporting*, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised in 2008)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised in 2008)	Business Combinations[1]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[4]

1 Effective for annual periods beginning on or after 1st July, 2009.

2 Amendments that are effective for annual periods beginning on or after 1st July, 2009 or 1st January, 2010, as appropriate.

3 Effective for annual periods beginning on or after 1st January, 2010.

4 Effective for transfers on or after 1st July, 2009.

The adoption of HKFRS 3 (Revised in 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1st January, 2010. HKAS 27 (Revised in 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1st January, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers, representing the executive directors of the Group, in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard (HKAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

Information reported to the chief operating decision makers, representing the executive directors of the Group, for the purposes of resource allocation and performance assessment focuses on the Group's business operations. The Group's reportable segments under HKFRS 8 are as follows:

1. Investments in securities and advance Ð Investments in and trading of securities and advance of receivables

2. Battery products Ð Manufacturing and trading of battery products and related accessories

The following is an analysis of the Group's revenue and results by operating segments for the periods under review:

	Investments in securities and advance	Battery products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Six months ended 30th June, 2009			
Gross proceeds	432,533	2,601	435,134
REVENUE			
External sales	—	2,601	2,601
RESULT			
Segment profit (loss)	163,690	(3,936)	159,754
Loss on partial redemption of convertible notes			(71,034)
Other income			591
Central administrative costs			(17,689)
Finance costs			(27,888)
Profit before taxation			43,734
Income tax credit			4,507
Profit for the period			48,241

	Investments in securities and advance *HK$'000*	Battery products *HK$'000*	Consolidated *HK$'000*
Six months ended 30th June, 2008			
Gross proceeds	38,501	15,685	54,186
REVENUE			
External sales	—	15,685	15,685
RESULT			
Segment loss	(55,197)	(5,062)	(60,259)
Other income			8,685
Central administrative costs			(9,577)
Finance costs			(48,185)
Loss before taxation			(109,336)
Income tax			—
Loss for the period			(109,336)

Segment profit (loss) represents profit (loss) earned/incurred by each segment and fair value change on investments held for trading without allocation of loss on partial redemption of convertible notes, other income, central administrative costs and finance costs. This is the measure reported to the chief operation decision makers for the purpose of resource allocation and performance assessment.

The following is an analysis of the Group's assets by operating segments:

	Six months ended 30 June 2009 *HK$'000*	Year ended 31 December 2008 *HK$'000*
Investments in securities and advance	468,033	480,917
Battery products	99,811	96,804
Total segment assets	567,844	577,721

4. OTHER INCOME

	Six months ended 30 June	
	2009	**2008**
	HK$'000	*HK$'000*
Interest income	583	12,163
Dividend income from available -for-sale investments	2,836	1,567
Gain on disposal of available -for-sale investments	4,552	802
Exchange gain, net	8	1,026
Others	138	532
	8,117	16,090

5. FINANCE COSTS

	Six months ended 30 June	
	2009	**2008**
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years:		
- bank borrowings	513	767
- loan payables	1,736	2,245
- obligation under finance lease	3	4
Effective interest on convertible notes	25,636	45,169
	27,888	48,185

6. INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Company and its subsidiaries had no assessable profit in both periods.

The income tax credit for the period represents reversal of deferred tax liabilities upon redemption of convertible notes.

7. PROFIT (LOSS) FOR THE PERIOD

Profit (loss) for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2009	**2008**
	HK$'000	*HK$'000*
Amortisation of prepaid lease payments	160	325
Depreciation of property, plant and equipment	4,662	2,157
Written off of property, plant and equipment	535	—
Share based payment expenses	—	2,224

8. DIVIDEND

No dividend were paid or proposed during 2009 nor has any dividend been proposed since balance sheet date (2008: Nil).

9. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the profit for the period attributable to the owners of the Company of approximately HK$48,241,000 (six months ended 30th June, 2008: loss of approximately HK$109,336,000) and the weighted average number of 2,028,797,543 (six months ended 30th June, 2008: 1,979,346,994) ordinary shares in issue during the period.

The computation of diluted earnings (loss) per share for the six months ended 30th June, 2009 and 2008 does not include adjustments for the Company's outstanding convertible notes and share options as they have anti-dilutive effect.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred an expenditure of approximately HK$52,000 (six months ended 30th June, 2008: HK$3,362,000) on property, plant and equipment.

11. TRADE RECEIVABLES

The Group allows its trade customers a credit period normally ranging from 90 days to 180 days. The aged analysis based on the invoice date of the trade receivables at the reporting date is as follows:

	Six months ended 30 June 2009	**Year ended 31 December 2008**
	HK$'000	*HK$'000*
0-90 days	32	914
91-180 days	6	149
	38	1,063

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in the other receivables, deposits and prepayments is an amount of approximately HK$12,558,000 (31st December, 2008: HK$53,999,000) placed with security brokers for securities trading purposes, which are repayable on demand and interest bearing at 0.01% to 0.51% (six months ended 30th June, 2008: 0.7% to 1%).

13. INVESTMENTS HELD FOR TRADING

During the period, the Group has made investments in equity securities listed in Hong Kong of approximately HK$303,811,000 (six months ended 30th June, 2008: HK$285,261,000). The gain from changes in fair value on investments held for trading of approximately HK$156,302,000 have been recognised in the condensed consolidated statement of comprehensive income for the six months ended 30th June, 2009 (six months ended 30th June, 2008: loss of approximately HK$59,801,000).

14. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and bank balances that are interest bearing at prevailing market rate ranging from 0.01% to 1.1% (31.12.2008: 1% to 3%) and have maturity of three months or less.

15. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

At 30th June, 2009, included in trade payables, other payables and accrued charges are trade payables of approximately HK$2,812,000 (31st December, 2008: HK$3,282,000) with the following aged analysis based on invoice date at the reporting date:

	Six months ended 30 June 2009	**Year ended 31 December 2008**
	HK$'000	*HK$'000*
0-90 days	536	859
91-180 days	476	1,641
Over 180 days	1,800	782
	2,812	3,282

16. SHARE CAPITAL

	Number of shares	**Share capital**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st January, 2008, 30th June, 2008, 31st December, 2008 and 30th June, 2009	8,000,000,000	800,000
Issued and fully paid:		
At 1st January, 2008	528,797,543	52,880
Issue of shares (Note)	1,500,000,000	150,000
At 30th June, 2008, 31st December, 2008 and 30th June, 2009	2,028,797,543	202,880

Note:

On 23rd August, 2007, a placing agreement was entered into with an independent placing agent ("Placing Agent"), pursuant to which the Company has appointed the Placing Agent to place 1,500,000,000 ordinary shares of HK$0.10 each ("Placing Shares") in the Company at a price of HK$0.33 per Placing Share. The Placing Shares were issued under the special mandate granted to the Directors of the Company on 2nd October, 2007. The net proceeds of HK$482,625,000 will be used for working capital and possible investment opportunities.

1,500,000,000 Placing Shares were issued under the special mandate granted to the Directors of the Company on 2nd October, 2007. The net proceeds of HK$482,625,000 was initially used for possible investment opportunities. The transaction was completed on 7th January, 2008.

On 7th March, 2008, and 30th October, 2008, the Company announced the change of use of proceeds from the share placing and placing of convertible notes, the net proceeds was to be used for general working capital and/or redemption of existing convertible notes.

17. CONVERTIBLE NOTES

On 23rd August, 2007, the Company entered into convertible notes placing agreement with the independent placing agent for the placement of a maximum aggregate principal amount of HK$1,320,000,000 on a best effort basis.

On 5th November, 2007 and 7th January, 2008, the aggregate principal amounts of HK$146.9 million and HK$1,173.2 million convertible notes ("Convertible Notes") were issued respectively. The Convertible Notes are non-interest bearing and have maturity date of 31st December, 2010.

The Convertible Notes holders have the right, at any time before the maturity date of 31st December, 2010, to convert the whole or part of the outstanding principal amount of the Convertible Notes into ordinary shares in the issued share capital of the Company of HK$0.10 each, by giving prior written notice to the Company. The conversion price, subject to anti-dilutive adjustment, shall be HK$0.33 per share from the date of issue of the convertible notes up to 31st December, 2008, HK$0.36 per share from 1st January, 2009 to 31st December, 2009, and HK$0.39 per share from 1st January, 2010 to the maturity date.

The Company has the right to early redeem the Convertible Notes, at any time before the maturity date on 31st December, 2010, by giving not less than 7 business days' prior written notice to the Convertible Notes holders at the principal amount of the Convertible Notes.

On initial recognition, the fair value of the liability component of the Convertible Notes is determined using the prevailing market interest of similar non-convertible debts at 10.32%. The difference between the gross proceeds of the issue of the Convertible Notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the Convertible Notes into equity, is included in equity (convertible notes reserve).

In January and March 2009, the Company early redeemed Convertible Notes with principal amounts of HK$307,560,000 and HK$100,000,000 respectively.

At 30th June, 2009, the Convertible Notes with the principal amount of HK$601.3 million (31.12.2008: HK$1,008.9 million) remained outstanding.

The movement of the liability component of the Convertible Notes for the six months ended 30th June, 2009 and 2008 is set out below:

	Six months ended 30 June	
	2009	**2008**
	HK$'000	*HK$'000*
At beginning of the period	829,001	120,488
Issue of Convertible Notes	—	868,231
Effective interest expenses	25,636	45,169
Early redemption of Convertible Notes	(336,526)	—
At end of the period	518,111	1,033,888

18. COMMITMENTS

At the reporting date, the Group had the following capital commitments:

	Six months ended 30 June 2009	**Year ended 31 December 2008**
	HK$'000	*HK$'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	—	8,218

19. PLEDGE OF ASSETS

(a) At 30th June, 2009, available-for-sale investments and investments held for trading with a carrying value of approximately HK$1,226,000 (31st December, 2008: HK$6,103,000) and HK$1,000 (31st December, 2008: HK$1,094,000) respectively were pledged to secure margin account credit facilities and banking facilities granted to the Group. As at 30th June, 2009 and 31st December, 2008, no margin loan facility was utilised by the Group.

(b) At 30th June, 2009, prepaid lease payment with a carrying value of approximately HK$9,390,000 (31st December, 2008: HK$9,487,000) was pledged to secure short-term bank loan granted to the Group.

20. EVENTS AFTER THE END OF THE INTERIM REPORTING PERIOD

(a) On 15th July, 2009, the Group has entered into a non-legally binding memorandum of understanding with Primus Financial Holdings Ltd., a private equity fund, to form an acquiring vehicle with a view to submitting a proposal to acquire a controlling interest in an insurance company located in the Greater China region.

In connection with such possible acquisition, the Company and Kingston Securities Limited ("Placing Agent") entered into the conditional placing agreement, pursuant to which the Company has conditionally agreed to place, and the Placing Agent has agreed to act as agent of the Company to procure subscribers for, the convertible notes or, failing which, to subscribe as principal the convertible notes in an aggregate principal amount of HK$7,800,000,000 at a conversion price of HK$0.10 per conversion share.

(b) On 3rd August, 2009 and 4th August, 2009, 100,000,000 and 200,000,000 shares of the Company of HK$0.10 each were issued upon conversion of Convertible Notes with aggregate principal amount of HK$36,000,000 and HK$72,000,000, respectively.

21. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible participants of the Group. During the period, no share options granted had been exercised or lapsed. At 30th June, 2009, the Group has 28,800,000 (31st December, 2008: 28,800,000) number of share option outstanding.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation into this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

27 February 2010

The Directors
China Strategic Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Nan Shan Life Insurance Company, Ltd. ("Nan Shan") set out in Sections I to III below, for inclusion in the circular of China Strategic Holdings Limited (the "Company") dated 27 February 2010 (the "Circular") in connection with the proposed acquisition of 97.57% of the issued and outstanding share capital of Nan Shan by Primus Nan-Shan Holding Company Ltd., a 80% indirectly owned subsidiary of the Company. The Financial Information comprises the balance sheets of Nan Shan as at 30 November 2006, 2007 and 2008 and 31 August 2009, and the income statements, the statements of recognised income and expense and the cash flow statements of Nan Shan for each of the years ended 30 November 2006, 2007 and 2008 and the nine months ended 31 August 2008 and 2009 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes.

Nan Shan was incorporated in Taiwan with limited liability in June 1963.

The Financial Information has been prepared based on the audited financial statements of Nan Shan for each of the years ended 30 November 2006, 2007 and 2008 and the nine months ended 31 August 2009 and the unaudited financial statements of Nan Shan for the nine months ended 31 August 2008, prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), with no adjustment made thereon. The Underlying Financial Statements for each of the years ended 30 November 2006, 2007 and 2008 and the nine months ended 31 August 2009 were audited by PricewaterhouseCoopers, Taiwan (資誠會計師事務所), Certified Public Accountants registered in Taiwan, in accordance with International Standards on Auditing. The Underlying Financial Statements for the nine months ended 31 August 2008 were reviewed by PricewaterhouseCoopers, Taiwan (資誠會計師事務所), Certified Public Accountants registered in Taiwan, in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Directors' responsibility

The management of Nan Shan during the Relevant Periods are responsible for the preparation and the true and fair presentation of the Underlying Financial Statements of Nan Shan in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the financial information for each of the years ended 30 November 2006, 2007 and 2008 and the nine months ended 31 August 2009, the directors of the Company are responsible for the preparation and the true and fair presentation of the financial information in accordance with HKFRS. For the financial information for the nine months ended 31 August 2008, the directors of the Company are responsible for the preparation and the presentation of the financial information in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with HKFRS. This responsibility includes selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Reporting accountant's responsibility

For the financial information for each of the years ended 30 November 2006, 2007 and 2008 and the nine months ended 31 August 2009, our responsibility is to express an opinion on the financial information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements used in preparing the financial information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the financial information for the nine months ended 31 August 2008, our responsibility is to express a conclusion on the financial information based on our review and to report our conclusion to you. We conducted our review on this financial information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", which consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit, and accordingly, we do not express an audit opinion.

Opinion and review conclusion

In our opinion, the financial information for each of the years ended 30 November 2006, 2007 and 2008 and the nine months ended 31 August 2009, for the purpose of this report, gives a true and fair view of the state of affairs of Nan Shan as at 30 November 2006, 2007 and 2008 and 31 August 2009 and of Nan Shan's results and cash flows for the respective years/period then ended.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the financial information for the nine months ended 31 August 2008, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below which are in conformity with HKFRS.

I. FINANCIAL INFORMATION

1. Balance sheet

(All amounts in NT$ millions)

		As at 30 November			As at 31 August
	Note	**2006**	**2007**	**2008**	**2009**
ASSETS					
Property and equipment	5	10,301	10,415	10,718	11,922
Investment properties	6	12,492	16,380	19,100	21,038
Other assets	7	1,509	2,062	1,904	2,171
Financial assets					
Fair value through profit and loss					
— Equity and debt securities	8	8,927	18,036	20,461	45,890
— Derivative financial instruments	8	1,987	1,805	15	937
Available-for-sale financial assets	8	1,012,136	1,063,342	992,811	1,048,228
Loans and receivables	8, 9	121,171	148,736	185,686	171,560
Investment-linked product assets	10	53,551	95,928	76,803	105,281
Deferred acquisition costs	11	102,520	110,975	112,134	106,958
Income tax receivable	12	—	563	3,977	5,806
Accrued investment income		19,093	20,113	21,397	21,264
Cash and cash equivalents	13	5,300	17,007	104,963	164,588
Total assets		1,348,987	1,505,362	1,549,969	1,705,643

	Note	As at 30 November 2006	2007	2008	As at 31 August 2009
LIABILITIES					
Insurance contract liabilities	14	1,042,934	1,176,298	1,258,527	1,340,501
Investment-linked product liabilities	10	53,551	95,928	76,803	105,281
Investment contract liabilities		4	78	70	65
Derivative financial instruments	8	221	269	26,123	990
Deferred income tax liabilities	12	36,553	34,282	6,429	23,030
Income tax payable		195	—	—	—
Policyholder dividend and other insurance payables		11,550	10,792	11,447	12,335
Other payables and accrued expenses	15, 16	11,667	15,114	7,881	8,658
Total liabilities		1,156,675	1,332,761	1,387,280	1,490,860
EQUITY					
Share capital	17	12,000	13,500	78,700	78,700
Retained earnings	18	83,604	98,837	39,513	77,000
Other reserves	18	96,708	60,264	44,476	59,083
Total equity		192,312	172,601	162,689	214,783
Total liabilities and equity		1,348,987	1,505,362	1,549,969	1,705,643

2. **Income statement**

(All amounts in NT$ millions except share data)

	Note	Year ended 30 November 2006	2007	2008	Nine months ended 31 August 2008 *(unaudited)*	2009
Gross premium and fee income		155,083	159,742	165,784	129,475	130,464
Premium ceded to reinsurers		(2,305)	(2,329)	(3,689)	(2,951)	(4,039)
Net premiums and fee income		152,778	157,413	162,095	126,524	126,425
Net investment income	8	47,606	53,697	58,029	44,091	39,463
Net realised gains (losses)	8	(2,772)	7,238	(55,608)	(21,173)	(15,112)
Net gains (losses) on assets at fair value through profit and loss	8	(914)	(406)	(28,487)	(12,979)	26,214
Investment-linked product returns		2,702	8,947	(37,671)	(15,660)	21,056
Other revenues		436	606	1,219	961	275
Total revenues		199,836	227,495	99,577	121,764	198,321
Gross insurance contract benefits		71,417	63,810	82,639	52,723	63,685
Gross change in contract liabilities		86,982	100,616	90,426	82,731	72,429
Insurance contract benefits ceded to reinsurers		(579)	(480)	(2,092)	(1,189)	(2,181)
Net insurance contract benefits		157,820	163,946	170,973	134,265	133,933
Investment-linked product expense (benefit)		2,702	8,947	(37,671)	(15,660)	21,056
Commission and other acquisition costs		17,678	19,143	22,115	15,329	19,742
Other operating expenses		6,247	6,802	7,622	5,319	4,844
Total expenses		184,447	198,838	163,039	139,253	179,575
Profit (loss) before tax		15,389	28,657	(63,462)	(17,489)	18,746
Income tax expense (benefit)	21	3,999	6,660	(14,203)	(6,143)	465
Profit (loss)		11,390	21,997	(49,259)	(11,346)	18,281
Earnings (loss) per share:						
Basic and diluted earnings (loss) per share	22	57.01	110.10	(198.85)	(50.35)	23.23

3. **Statement of recognised income and expense**

(All amounts in NT$ millions)

		Year ended 30 November			Nine months ended 31 August	
	Note	**2006**	**2007**	**2008**	**2008**	**2009**
					(unaudited)	
Unrealised gains (losses) on available-for-sale financial assets, net of tax		3,834	(41,021)	(19,355)	(24,298)	34,047
Actuarial gain (loss) on retirement benefit obligations, net of tax	16	(9)	33	57	32	(234)
Net gains (losses) recognised directly in equity		3,825	(40,988)	(19,298)	(24,266)	33,813
Profit (loss)		11,390	21,997	(49,259)	(11,346)	18,281
Total recognised income and expense		15,215	(18,991)	(68,557)	(35,612)	52,094

4. **Cash flow statement**
(All amounts in NT$ millions)

	Note	Year ended 30 November 2006	2007	2008	Nine months ended 31 August 2008 (unaudited)	2009
Cash generated (used) from operations	23	(41,123)	(38,435)	(25,382)	(21,330)	20,136
Interest and dividends received		45,801	52,149	56,507	39,530	39,121
Interest paid		(126)	(43)	(35)	(27)	(22)
Taxes paid		(2,066)	(637)	(157)	(1,258)	(52)
Net cash provided by operating activities		2,486	13,034	30,933	16,915	59,183
Cash flows from investing activities						
Purchases of property and equipment and intangible assets		(1,069)	(653)	(1,011)	(690)	(122)
Net cash (used in) investing activities		(1,069)	(653)	(1,011)	(690)	(122)
Cash flows from financing activities						
Capital contribution from Parent		—	—	58,720	11,500	—
Cash dividends paid		(1,100)	(720)	(75)	(75)	—
Net cash (used in) provided by financing activities		(1,100)	(720)	58,645	11,425	—
Net increase in cash and cash equivalents		317	11,661	88,567	27,650	59,061
Cash and cash equivalents						
Beginning of period		5,229	5,300	17,007	17,007	104,963
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies at the beginning of the period		(246)	46	(611)	(490)	564
End of period	13	5,300	17,007	104,963	44,167	164,588

II. Notes to the Financial Information

(All amounts in NT$ millions except share data and as otherwise stated)

1. General information

Nan Shan Life Insurance Company, Ltd. (Nan Shan) engages in the business of life and related types of insurance. All of these products are offered to the domestic market in Taiwan. As at 31 August 2009, American International Group, Inc. (AIG) is the indirect beneficial owner of 767,893,139 shares of common stock of Nan Shan, which represents approximately 97.57% of the issued and outstanding share capital of Nan Shan.

Nan Shan is a limited liability company incorporated and domiciled in Taiwan. The address of its registered office is: 168 Zhuang Jing Road, Xinyi District, Taipei City, 11049, Taiwan. Nan Shan's fiscal year is from December 1 to November 30.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

2.1 *Statement of compliance*

The Financial Information has been prepared in accordance with the accounting principles generally accepted in Hong Kong as issued by the Hong Kong Institute of Certified Public Accountants (Hong Kong Financial Reporting Standards — HKFRS).

2.2 *Basis of presentation*

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying its accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 3.

The Financial Information has been prepared using the historical cost convention, except for certain financial assets and liabilities carried at fair value.

Standards, amendments and interpretations to existing standards that are not yet effective

There were no standards or amendments to existing standards that have been published and are mandatory for future accounting periods which Nan Shan has decided to early adopt.

- HKFRS 2 (Amendment), *Share-based payment,* is effective for annual periods beginning on or after 1 January 2009. The amendment clarifies the definition and treatment of non-vesting conditions. It also requires that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Nan Shan will apply HKFRS 2 (Amendment) when it becomes effective, but it is not expected to have a material impact on its financial statements.

- HKFRS 7 (Revised), *Financial instruments: Disclosures,* is effective for annual periods beginning on or after 1 January 2009. The standard requires enhanced disclosures about fair value measurements and liquidity risk and clarifies that an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements and shall present quantitative disclosures. Disclosure of a maturity analysis for financial liabilities that shows the remaining contractual maturities is required. For insurance contracts, the contractual maturity refers to the estimated date when contractually required cash flows will occur. However, HKFRS 4 (Amendment) (effective from 1 January 2009) permits various existing accounting practices for insurance contracts to continue and states that an insurer need not provide the maturity analyses required by HKFRS 7 (Revised) if it discloses an analysis, by estimated timing, of the amounts recognised in the balance sheet. Nan Shan will apply HKFRS 4 and HKFRS 7 when they become effective, but they are not expected to have a material impact on its financial statements.

- HKFRS 8, *Operating segments,* replaces HKAS 14, *Segment reporting*, and is effective for annual periods beginning on or after 1 January 2009, and it requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. Nan Shan will apply this standard when it becomes effective, and is in the process of making an assessment of the impact of the standard.

- HKFRS 9, *Financial instruments,* is effective for annual periods beginning on or after 1 January 1 2013, with early application permitted and addresses classification and measurement of financial assets. HKFRS 9 replaces the existing classification and measurement requirements in HKAS 39 for financial assets. It changes the manner in which entities classify and measure investments in debt and equity securities, loan assets, trade receivables, and derivative financial assets by requiring entities to classify financial assets as being measured at either amortised cost or fair value depending on the entity's business model and the contractual cash flow characteristics of the asset. Nan Shan will apply this standard when it becomes effective, and may choose to early adopt the standard at an earlier date, and is in the process of making an assessment of the impact of the standard.

- HKAS 1 (Revised), *Presentation of financial statements,* is effective for annual periods beginning on or after 1 January 2009. The revised standard will prohibit the presentation of items of income and expenses related to "non-owner changes in equity" in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. Nan Shan will apply HKAS 1 (Revised) when it becomes effective. This revision will result in changes to the presentation of the Statement of changes in equity, but is otherwise not expected to have a material impact to the financial statements.

- HKAS 1 (Amendment), *Presentation of financial statements,* is effective for annual periods beginning on or after 1 January 2009. The amendment clarifies that some, rather than all, financial assets and liabilities classified as held for trading in accordance with HKAS 39, *Financial instruments: Recognition and measurement,* are examples of current assets and liabilities, respectively. Nan Shan will apply the amendment when it becomes effective, but it is not expected to have a material impact on its financial statements.

- HKAS 19 (Amendment), *Employee benefits,* is effective for annual periods beginning on or after 1 January 2009.

  - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, whilst an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after twelve months of employee service being rendered.

  - HKAS 37, *Provisions, contingent liabilities and contingent assets,* requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent in this regard.

  Nan Shan will apply HKAS 19 (Amendment) when it becomes effective, but it is not expected to have a material impact on its financial statements.

- HKAS 24 (Amendment), *Related party disclosures*, is effective for annual periods beginning on or after 1 January 2011; earlier application is permitted. This amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. Nan Shan will apply HKAS 24 (Amendment) when it becomes effective, but it is not expected to have a material impact on its financial statements.

- HKAS 39 (Amendment), *Financial instruments: Recognition and measurement*, is effective for annual periods beginning on or after 1 January 2009. This amendment clarifies that changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the "fair value through profit and loss" classification subsequent to initial recognition. It also removed the reference in HKAS 39 to a "segment" when determining whether an instrument qualifies as a hedge. Further, it requires the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting. Nan Shan will apply HKAS 39 (Amendment) when it becomes effective, but it is not expected to have a material impact on its financial statements.

- HK (IFRIC) 19, *Extinguishing financial liabilities with equity instruments,* is effective for annual periods beginning on or after 1 July 2010. This Interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The interpretation applies retrospectively from the beginning of the earliest comparative period presented. Nan Shan will apply HK (IFRIC) 19 when it becomes effective, but it is not expected to have a material impact on its financial statements.

2.3 *Segment reporting*

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. In accordance with Nan Shan's internal financial reporting structure, Nan Shan has determined that it operates in one business and geographical location.

2.4 *Foreign currency translation*

Nan Shan's functional and presentation currency is the New Taiwan dollar (NT$), the national currency of the Taiwan which is the primary economic environment in which it operates.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Currency translation gains or losses on monetary securities denominated in foreign currency classified as available-for-sale are recognised in the income statement. Translation differences on non-monetary financial assets classified as available-for-sale are included in equity (under the caption "other reserves"). Translation differences on non-monetary financial assets held at fair value through profit and loss are recognised in the income statement.

2.5 ***Property and equipment***

Nan Shan's property and equipment comprise of freehold land and buildings being the offices occupied by Nan Shan. All property and equipment, except for land, is shown at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated.

General repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost (less the residual values) over their estimated useful lives, as follows:

Buildings	50 years
Vehicles	5 years
Furniture, fittings and equipment	3-10 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement under other operating expenses.

2.6 ***Investment properties***

Investment properties are interests in buildings and freehold land that are held to earn rental income rather than for the supply of services or for administrative purposes. Investment properties are initially measured at cost, which is the fair value of the consideration given to acquire them, including transaction costs. Subsequently, buildings are stated at cost less accumulated depreciation and accumulated impairment losses. Freehold land is not depreciated.

Depreciation is calculated using the straight-line method to allocate the cost (less the residual values) over the estimated useful life of 50 years. The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the individual investment properties.

An investment property's carrying amount is written down immediately to its recoverable amount if the property's carrying amount is greater than its estimated recoverable amount. Nan Shan uses the discounted cash flow method, as valued by an internal valuation expert, to determine the fair value of investment property.

2.7 ***Financial assets***

Regular-way purchases and sales of financial assets are recognised on trade date, the date on which Nan Shan commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition except for financial assets at fair value through profit and loss in which case transaction costs are expensed as incurred. Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and Nan Shan has also transferred substantially all risks and rewards of ownership.

Nan Shan classifies its investments into the following categories: financial assets at fair value through profit and loss, available-for-sale financial assets, and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(a) *Financial assets at fair value through profit and loss*

Financial assets at fair value through profit and loss include equity and debt securities and derivative financial instruments. A financial asset is classified into the financial assets at fair value through profit and loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management. Management may designate financial assets at fair value through profit and loss in order to better match insurance and investment contract liabilities linked to the changes of fair value of these assets, if the assets are managed on a fair value basis, or if it is a hybrid contract that contains one or more embedded derivatives that would otherwise need to be separated. Nan Shan's preferred stocks, convertible bonds and structured notes are financial assets that have been designated as fair value through profit and loss. Financial assets at fair value through profit and loss are subsequently carried at fair value.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the income statement in the period in which they arise. Interest on fair value through profit and loss debt securities is recognised in the income statement using the effective interest method. Dividends on fair value through profit and loss equity securities are recognised in the income statement when Nan Shan's right to receive payments is established. Both are included in the net investment income.

(i) Equity and debt securities

Equity and debt securities include listed equity securities, bond funds, preferred stocks, convertible bonds, bond-linked deposits and structured notes which are carried at fair value.

(ii) Derivative financial instruments

Derivatives are classified as held for trading. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. Nan Shan has not applied hedge accounting and therefore designates all derivatives as held for trading. Changes in the fair value of all such derivative instruments are recognised immediately in the income statement under net gains (losses) on assets at fair value through profit and loss. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset in the balance sheet at the date of purchase, representing their fair value at that date.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity, except the foreign exchange gains and losses on available-for-sale monetary assets denominated in a foreign currency which are recognised in the income statement as realised gains (losses).

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as net realised gains (losses).

Interest on available-for-sale debt securities is recognised in the income statement using the effective interest method. Dividends on available-for-sale equity securities are recognised in the income statement when Nan Shan's right to receive payments is established. Both are included in net investment income.

(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 other than those that Nan Shan intends to sell in the short term or that it has designated at fair value through profit and loss or available-for-sale. Receivables arising from insurance and reinsurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Loans and receivables are subsequently carried at amortised cost using the effective interest method, net of provision for impairment in value.

(d) *Securities lending*

Nan Shan conducts securities lending transactions in the Taiwan securities market. Under such transactions, Nan Shan retains economic risks and rewards of ownership over the transferred assets and therefore does not derecognise the assets. The transferred assets are classified as available-for-sale financial assets in line with the appropriate investment classification prior to the investments being included in the securities lending program and are shown in note 8.

In exchange for the transfer, the Taiwan Stock Exchange Corporation (the Broker) will obtain from the borrower of the securities, collateral equal to at least 140% of the market value initially, not to fall below 120% of the market value, which the Broker will hold in trust for Nan Shan. Nan Shan does not take control of the collateral and thus does not recognise the collateral in its financial statements.

If the borrower of securities fails to return the transferred securities by the agreed date, the securities are accounted for as a sale and the Broker will be required to reimburse Nan Shan for the value of the securities using the collateral held in trust.

(e) *Fair valuation of financial assets*

Fair value is defined as the amount at which the financial assets and liabilities could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, rather than in a forced or liquidation sale. When there is an active market, fair values are based on quoted prices or current bid prices. Where quoted or current bid prices in an active market are not readily available, fair values are estimated using prices observed in recent transactions. If the market for a particular security is not active, valuation techniques such as discounted cash flow analysis and option pricing models are used.

2.8 ***Impairment of assets***

(a) *Financial assets carried at fair value*

Nan Shan assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised through the income statement, is removed from equity and recognised in the income statement under net realised gains (losses). Impairment losses recognised in the income statement on equity instruments are not subsequently reversed. For a debt instrument classified as available-for-sale, the impairment loss is reversed through the income statement if in a subsequent period the fair value of that instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised through the income statement.

(b) *Financial assets carried at amortised cost*

Nan Shan assesses at each balance sheet date whether there is objective evidence that its loans and receivables or other financial assets or a group of financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of Nan Shan about the following events:

(i) significant financial difficulty of the issuer or debtor;

(ii) a breach of contract, such as a default or delinquency in payments;

(iii) it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

(iv) the disappearance of an active market for that financial asset because of financial difficulties; or

(v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of issuers or debtors; or

- national or local economic conditions that correlate with defaults on the assets.

Nan Shan first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If Nan Shan determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses yet to be incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(c) *Impairment of non-financial assets*

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested at least annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.9 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.10 *Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

2.11 *Current and deferred income taxes*

The tax expense or benefit for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity in which case the tax is also recognised in equity.

The current income tax expense or benefit is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.12 *Share capital*

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Other reserves include appropriations of retained earnings such as the statutory and special reserves. Additionally, the unrealised gains and losses on available-for-sale investments and the actuarial gains and losses on the retirement benefit obligations are included in other reserves.

2.13 ***Insurance and investment contracts — classification***

Nan Shan issues contracts that transfer insurance risk, financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk; such contracts may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of the contracts contain a discretionary participation feature (DPF). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional non-guaranteed benefits. These contracts are within the scope of HKFRS 4.

2.14 ***Insurance and investment contracts***

(a) *Recognition and measurement*

Recognition and measurement of insurance and investment contracts are classified into three main categories:

(i) Traditional insurance contracts

These contracts insure events associated with life, accident or health and examples include pay life, endowment and long-term health products. Premiums are recognised as revenue when they become due. Benefits are recorded as an expense when they are incurred. For certain types of policy dividends, the policyholders may elect when to receive payment. These policy dividends payable are recorded in the policyholders dividends payable balance.

A liability for contractual benefits that are expected to be incurred in the future is recorded in insurance contract liabilities when the premiums are recognised. The liability is actuarially determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (valuation premiums). The liability is based on key assumptions made with respect to variables such as mortality, morbidity, lapse, expenses and investment returns that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions. For traditional insurance contracts, a "lock-in" principle applies, whereby the assumptions used to calculate the benefit reserves and deferred acquisition costs (DAC) are set when a policy is issued and do not change with changes in actual experience unless a deficiency arises on liability adequacy testing.

Where insurance contracts are single-pay or the premium paying period is shorter than the period benefits are to be provided, the excess of the premiums payable over the valuation premiums is deferred in insurance contract liabilities and recognised as income in line with the unexpired insurance risk of the contracts in-force.

(ii) Investment-type insurance contracts

These investment-type insurance contracts contain both insurance and investment features; however they are accounted for as insurance contracts as the contracts transfer a sufficiently significant amount of insurance risk. Examples include universal life, other investment-type contracts (such as certain short-term endowments) and investment-linked products.

For universal life, the premiums paid contain a portion that covers the insured event and another portion used to accumulate account values available for withdrawal at the option of the policyholder.

The liabilities arising from these contracts comprise the liability for the insured event and the accumulated account value. The liability for the insured risk is determined in a manner similar to the liability for traditional insurance contracts. The liability for the accumulated account value is carried at its account value and increased by credited interest. Both are recorded in insurance contract liabilities.

Revenue is recognised from the portion of the premium covering the insured risk as premium income. Revenue is also recognised as fee income in relation to fees deducted for management and policy administration. Interest credited to the accumulated cash account balances or excess benefit claims incurred in the period are charged as gross insurance contract benefits.

For other investment-type insurance contracts, such as short-term endowments, the premiums paid for these contracts are recorded as deposits.

The liabilities arising from these contracts are accumulated with premium deposits and increased by the credited interest rate at the effective interest rate, which is derived from contractual premium payment and guaranteed benefit payout for the contract period.

Revenue is recognised for the release in liabilities in excess of the surrender benefit payout. Interest is credited to the liabilities based on the effective interest rate or excess benefit claims incurred in the period are charged as insurance contract benefits.

For investment-linked products, premiums paid for these contracts contain a portion that covers the insured event and is accounted for in the same manner as is described for traditional insurance contracts. The other portion related to the investment portion is unbundled from the insurance portion and is accounted for separately in investment-linked product liabilities as described in note 2.15.

Revenue for investment-linked policies is recognised as premium and fee income from the portion of the premium covering the insured event. Revenue is also recognised in relation to fees deducted for management and policy administration, with initial fees recognised over the estimated life of the contracts to which they relate. Revenue and expenses for the investment portion are described in note 2.15.

(iii) Investment contracts

Investment contracts are not considered to be insurance contracts and are accounted for as a financial liability. Examples include variable annuities without significant insurance risks. These investment contracts do not transfer significant insurance risk nor do the contracts have DPF. The investment contract liability is recognised as the accumulation of deposits received, less charges, plus interest credited. Revenue from these contracts consists of various charges (policy fees, management fees and surrender charges) made against the contract for the minimal cost of insurance, expenses and early surrender. Excess charges are deferred as an unearned revenue liability and are recognised as revenue over the life of the contracts.

For contracts with DPF included in traditional insurance and investment-type insurance contracts, local statutory regulations and the terms and conditions of these contracts set out the basis for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which Nan Shan may exercise its discretion as to the amount and timing of its payment to policyholders. At least 70% of the eligible surplus must be attributed to policyholders of Nan Shan (which can include future policyholders), while the amount and timing of the distribution to individual policyholders is at the discretion of Nan Shan, subject to the advice of the Nan Shan's Appointed Actuary and approval by the board of directors.

(b) *Embedded derivatives*

Nan Shan does not separately measure embedded derivatives that meet the definition of an insurance contract or embedded options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate) as they are closely related to the host insurance contract.

(c) *Deferred acquisition costs (DAC)*

Policy acquisition costs, including commissions, premium taxes and other underwriting expenses that vary with and are primarily related to the acquisition of new and renewal business are deferred. All other costs are recognised as expenses when incurred. DAC is subsequently amortised over the life of the contracts as follows:

(i) For insurance contracts, DAC is amortised over the premium paying period using assumptions consistent with those used in calculating future liability for contractual benefits.

(ii) For investment-type insurance contracts and investment contracts, DAC is amortised over the expected total life of the contract as a constant percentage of estimated gross profit margins (including investment returns) or insurance in-force arising from these contracts. The pattern of estimated gross profit margins or insurance in-force is based on historical and anticipated future experience and is updated regularly at the end of each accounting period. Deviations of actual results from estimated experience, resulting in changes to the carrying value of the DAC, are reflected through the income statement.

The DAC for investment-type insurance contracts is also adjusted with respect to estimated gross profits as a result of changes in the net unrealised gains or losses on available-for-sale financial assets. Because fixed income available-for-sale financial assets are carried at aggregate fair value, an adjustment is made to DAC equal to the change in amortisation that would have been recorded if such securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. The change in this adjustment, net of tax, is included with the change in net unrealised gains (losses) on available-for-sale financial assets that is credited or charged directly to equity.

(d) *Liability adequacy test*

At each balance sheet date, a liability adequacy test is performed for traditional insurance contracts and investment-type insurance contracts to ensure the adequacy of the contract liabilities, net of related DAC. In performing this test, Nan Shan discounts all future cash flows and compares this amount to the carrying value of the liability. The assumptions used to perform the test are revised assumptions based on actual and anticipated experience as to mortality, morbidity, lapse, expenses and investment returns. Any deficiency is charged to the income statement initially by writing off DAC, and if any deficiency remains, an additional provision is established for the remaining deficiency.

In the liability adequacy testing for these contracts, the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognised, while a sufficiently significant deterioration in estimates is immediately recognised in the income statement in line with the above liability adequacy test.

(e) *Reinsurance contracts held*

The benefits to which Nan Shan is entitled under the reinsurance contracts held are recognised as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistent with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

To the extent that the assuming reinsurers are unable to meet their obligations, Nan Shan remains liable to its policyholders for the portion reinsured. Nan Shan assesses its reinsurance assets for impairment as at the balance sheet date. If there is objective evidence that the reinsurance asset is impaired, Nan Shan reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement.

2.15 ***Investment-linked products***

Investment-linked products represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the ultimate investment risk. Each account has specific investment objectives, and the assets backing these products are designated at fair value through profit and loss. The assets of each account are separately accounted. The liabilities for these accounts are equal to the account assets carried at fair value. Changes in the unit prices representing changes in the fair value of investment-linked products are recorded as investment-linked product income and corresponding expense.

2.16 ***Employee benefits***

Nan Shan operates various pension schemes including both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which Nan Shan pays fixed contributions into an independently administered pension plan.

Nan Shan operates two defined benefit pension plans, one of which is a post-retirement life insurance plan. The primary pension scheme is funded through payments to trustee-administered funds by the Taiwanese government. The post-retirement life insurance plan is unfunded. The obligations under defined benefit plans are based on participants' length of service and average salaries at the time of retirement, with a benefit ceiling of a specified number of months of salary and are determined by periodic actuarial calculations. The retirement fund balance is not included in the financial statements.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the funded and unfunded benefit obligation at the balance sheet date less the fair value of plan assets. Plan assets exclude any insurance contracts issued by Nan Shan. The defined benefit obligation is calculated at least annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability.

For each defined benefit plan, costs charged to the income statement comprise the current service cost (the increase in pension obligation resulting from employees' service in the current period, together with the plans' administration expenses) with past service cost (resulting from changes to benefits with respect to previous years' service). In addition, the difference between the expected return on plan assets, less investment expenses, and the interest cost of unwinding the discount on the plan liabilities (to reflect the benefits being one period closer to being paid out) is credited to investment income. Nan Shan recognises all actuarial gains and losses, being the difference between the actual and expected returns on plan assets, changes in assumptions underlying the liability calculations and experience gains or losses on the assumptions made at the beginning of the period, in equity through the Statement of recognised income and expense.

For defined contribution plans, contributions to these plans are expensed as incurred. Under these plans, Nan Shan has no legal or constructive obligation for benefits beyond the contributions made.

3. Critical accounting estimates and judgments

Nan Shan makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) ***Estimate of future benefit payments and premiums arising from insurance contracts***

The determination of the liabilities under insurance contracts is dependent on estimates made by Nan Shan. Estimates are made as to the mortality, morbidity, lapse and expense rates for each of the years in which Nan Shan is exposed to risk. Nan Shan bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect Nan Shan's own experience. For the insured events associated with health, Nan Shan bases its estimates mainly on the morbidity table comprised from the published information adjusted to reflect its own experience.

Estimates are also made as to future investment returns arising from the assets backing insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

The assumptions to which the estimation of the liabilities is particularly sensitive are the interest rates used to discount the future cash flows. The rate used to discount the future cash flows is the assumed earned rate, which refers to the best estimate of expected investment returns on policy cash flows and reinvestment income. A detailed explanation of the sensitivities to the assumptions is contained in note 4.1.2 (b).

(b) ***Liability adequacy testing***

At each balance sheet date, the best-estimate assumptions for liability adequacy testing are updated to reflect observed changes in experiences over time for traditional insurance and investment-type insurance contracts. Future results of the liability adequacy testing will involve significant management judgment as to mortality, morbidity, lapse, expenses and investment returns. Adverse changes in these assumptions could accelerate DAC amortisation and require an additional provision.

The liability adequacy test is most sensitive to changes in the new money rate investment return assumption and the current practice permitted by the regulators of offsetting any positive and negative results in the mortality and investment return calculations.

Because of the long term nature of many of Nan Shan's traditional insurance contract liabilities subject to the lock-in principle, small changes in investment return assumption may cause large changes in the degree of liability adequacy. Any significant change in the nature, timing and duration of the investment strategy implemented or yield outlook for individual asset classes from Nan Shan may cause large changes in the degree of liability adequacy. As part of Nan Shan's development of its liability adequacy analysis, it has been assumed that there will be increases in the Taiwan government bond rates to a long-term interest rate that is higher than the current government bond rates. Furthermore, it is assumed that Nan Shan will continue to invest in foreign currency denominated bonds at its current regulatory limit of 35%.

See note 4.1.2 (b) and 4.3 for the estimated sensitivity impact of a basis point change on Nan Shan's assets and liabilities on Nan Shan's profit before tax and equity (without any tax consideration).

It is also assumed that the current practice permitted by the regulators to allow the actual compulsory dividend payout to be calculated based on the net investment return and mortality calculations will continue. This will reduce the actual dividend payout as the negative impact of the investment return calculated in the current economic environment is allowed to be offset by the positive impact of the mortality calculated from any improved mortality experience.

(c) ***Measurement of investments***

Nan Shan's principal investments are debt and equity securities. The critical estimates and judgments are those associated with the determination of fair value and the recognition of any impairment.

Nan Shan considers a wide range of factors in the impairment assessment as described in the policy note. Fair value is defined as the amount at which the financial assets and liabilities could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, rather than in a forced or liquidation sale. The methods and assumptions used by Nan Shan in estimating the fair value of the financial assets are:

- Equity securities: Fair values are based on quoted prices in active markets. Where quoted prices in an active market are not readily available, fair values are estimated using prices observed in recent transactions.

- Debt securities: Fair values are generally based upon current bid prices. Where current bid prices are not readily available, fair values are estimated using prices observed in recent transactions. If the market for a particular security is not active, valuation techniques such as discounted cash flow analysis are used.

- Derivative financial instruments: Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models.

4. **Risk and capital management**

Nan Shan issues contracts that transfer insurance risk, financial risk or both. This section summarises these risks and the way these risks are managed.

4.1 ***Insurance risk***

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty that Nan Shan will have sufficient assets to satisfy the benefits payable under the contract. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The insurance risk for Nan Shan is a combination of underwriting risk, product pricing risk, reserving risk, catastrophe risk and concentration risk, which together would likely expose Nan Shan to financial losses and the consequent inability to have in place adequate reserves. Nan Shan manages its insurance risk through the management of each of these insurance risks.

- ***Underwriting risk*****:** Nan Shan faces various types of underwriting risks including, among others: (i) deviation for assessment of the medical, financial and occupational status of policyholders; (ii) moral hazard on insurable interests through material misrepresentations; and (iii) inappropriate underwriting decisions. To manage such risks, Nan Shan has put in place standards and procedures which investigate, evaluate, and assess potential policyholders' medical factors and circumstances, their potential hazards, their financial risks and also the relevant incentive considerations.

- ***Product pricing risk*****:** Product pricing risk occurs when the claims, costs or investment returns arising from the sale of an insurance product have deviated from the assumptions. To manage its product pricing risks, Nan Shan conducts careful pre-launch pricing analysis. Additionally, Nan Shan performs ongoing actuarial reviews on launched products to monitor and manage product pricing risks.

- ***Reserving risk:*** If the reserves originally established for future policy benefits and obligations prove inadequate, there is a risk that Nan Shan must increase its reserves, which may have a material adverse effect on its business, financial condition and results of operations. Generally, Nan Shan determines its reserves for future policy benefits and obligations based on assumptions and methodologies used in the calculations established upon the issuance of individual policies. Such reserves remain unchanged except where a reserve inadequacy occurs.

- ***Catastrophe risk*****:** Catastrophe risks are the risks of natural disasters, such as hurricanes, earthquakes, pandemic disease, acts of terrorism and other catastrophes which are infrequent events and difficult to reliably predict but can cause substantial financial loss. Nan Shan has put in place measures to mitigate substantial financial loss that results from a catastrophe, including assessing its exposure and purchasing of appropriate excess of loss reinsurance coverage amount per event..

- ***Concentration risk:*** Nan Shan has geographic concentration risk as it operates solely within Taiwan. Concentration risk is primarily managed via the catastrophe coverage described above and reinsurance coverage. Although long-term traditional insurance contracts form a majority of Nan Shan's in-force policy portfolio, it continues to diversify by way of new business offerings which vary in the nature, timing and extent of risk coverage.

4.1.1 *Amount, timing and uncertainty of future cash flows from insurance contracts*

For insurance contracts, Nan Shan is subject to risks such as adverse mortality, morbidity, expense and lapse experience, as well as the uncertainty of future investment returns derived from investments of the insurance premium. By the nature of an insurance contract, those risks are the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. For contracts where death is the insured risk, the most significant factor is when the actual claim and benefit payments exceed the carrying amount of the insurance liabilities. This occurs when the frequency or the severity of claims and benefits exceeds the estimates. In addition, Nan Shan is subject to losses from natural and man-made catastrophic events. The frequency and severity of such events, and the losses associated with them, are inherently unpredictable.

Nan Shan has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories, to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Nan Shan manages its exposure to the life insurance risk through issuing a broad mix of product types. In addition, Nan Shan participates in reinsurance arrangements with reinsurers to control the overall exposure to potential future claims loss. Since 2007 Nan Shan has purchased catastrophe coverage of approximately NT$6,000, in excess of a per occurrence deductible of approximately NT$300.

Insurance risk is also affected by the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely. As a result, the amount of insurance risk is also subject to policyholder behaviour. On the assumption that policyholders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. For example, it is likely that policyholders whose health has deteriorated significantly will be less inclined to terminate contracts insuring death benefits than those policyholders remaining in good health. This results in an increasing trend of expected mortality, as the portfolio of insurance contracts reduces due to voluntary terminations.

4.1.2 *Insurance contracts — assumptions and sensitivity analysis*

(a) Assumptions

For traditional insurance contracts, a "lock-in" principle applies, whereby the assumptions used to calculate the benefit reserves and DAC are set when a policy is issued and do not change with changes in actual experience. These assumptions include a margin for adverse deviation in the event that actual experience might deviate from these assumptions.

For investment-type insurance contracts, the assumptions used to determine the liabilities do not contain margins and are not locked in, but are updated at each reporting date to reflect the latest estimates.

The nature and method of determining the significant assumptions made by Nan Shan when a policy is issued and in the computation of policyholders' liabilities and DAC in subsequent periods are described in the following paragraphs.

- ***Mortality:*** Nan Shan bases its mortality assumptions on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect Nan Shan's own experience.

- ***Morbidity:*** Morbidity assumptions are based on the morbidity table comprised from the published information adjusted to reflect its own experience.

- ***Lapse:*** An investigation into Nan Shan's experience over the most recent years is performed. Lapse rates vary by product type and policy duration. Generally, lapse rates are higher in earlier periods and decrease throughout the life of the policy.

- ***Investment returns:*** Investment returns affect the selection of the appropriate discount rate and the present value of future benefits due to the policyholders. Overall investment return is a weighted average rate of investment return and is derived by combining different proportions of the financial assets in a model portfolio, which is assumed to back the liabilities. These model portfolios are consistent with the long term asset allocation strategies. The investment returns assumption for the in-force portfolio ranges between 2.25% and 7.00%.

- ***Expense:*** Expense assumptions for acquisition of new policies, administration of in-force policies and handling cost of surrender and claims are included. The current level of expenses based on Nan Shan's experience is taken as an appropriate expense base.

(b) Liability adequacy test and sensitivity analysis

The assumptions used to perform the liability adequacy tests at each reporting date are revised assumptions based on actual and anticipated experience as to mortality, morbidity, lapse, expenses and investment returns.

As experience changes over time, the original lock-in assumptions are not updated to reflect observed changes. However, a liability adequacy test is performed to ensure the adequacy of the contract liabilities, net of related DAC. Because of the long term nature of many of Nan Shan's liabilities subject to the lock-in principle, small changes in certain of the assumptions may cause large changes in the degree of reserve adequacy. In particular, changes in estimates of future investment return assumptions have a large effect on the degree of reserve adequacy.

For liabilities under traditional insurance contracts, the carrying amount of the liabilities will only change if the change in assumption is severe enough to result in a deficiency under the liability adequacy test.

For each of the periods presented, if the actual mortality rates, morbidity rates, lapse rates or expenses increase or decrease from revised assumptions by 10%, no deficiency will result in the need to recognise a liability adequacy test adjustment.

However, if there were a reduction in the revised assumption for future investment returns of new money, a liability adequacy test deficiency would result if the rate were to drop by more than the following basis points:

30 November 2006	98 basis points
30 November 2007	128 basis points
30 November 2008	98 basis points
31 August 2009	48 basis points

At the point the liability adequacy test adjustment would be required, the impact on the income statement would increase incrementally based on the magnitude of the decline in revised assumption for the rate of future investment returns of new money. If the revised assumption for the rate of future investment returns of new money at 31 August 2009 (which are between 3.3% and 4.21% per annum at 31 August 2009),were to drop by 50 basis points (i.e. 2 basis points in addition to the drop of 48 basis points shown above), there would be a reduction of NT$3,312 on profit before tax. See note 4.3 for the total estimated net impact on profit (before tax) and equity (before tax) for a change in the earned new money rate.

4.2 ***Financial risk***

Nan Shan is exposed to a range of financial risks and the most important components of this financial risk are credit risk, market risk, and liquidity risk. Nan Shan seeks to maximise the returns of its investment portfolio on the basis of sound asset allocation and effective risk control to appropriately match its investment and related returns to its liability profile.

Nan Shan reviews its investment portfolio periodically and utilises certain derivative instruments to reduce market risks and investment return fluctuations and to comply with regulatory requirements. The utilised derivative instruments, effectiveness ratios and expected costs and benefits are considered together with overall investment strategies and global economic trends to achieve the goal of risk management.

4.2.1 *Credit risk*

Credit risk is the risk of economic loss resulting from the failure of one or more of Nan Shan's obligors or co-obligors to make any payment of principal or interest when due, the failure of one or more of Nan Shan's counterparties to perform their contractual obligations or the deterioration in the credit profile of relevant parties.

Rigorous credit risk management procedures are in place, including the setting of a maximum investment amount for any single bank or company, a maximum settlement amount for any single approved bank or broker, and a maximum mark-to-market limit for any single counterparty engaging in a derivative transaction. For loan operations, Nan Shan has credit approval policies to ensure the debtors' qualifications and adequate collateral are provided to mitigate credit risks. These limits are controlled and monitored via pre-trade checks and routine limit reviews. The credit risk of bond issuers is reviewed by Nan Shan and these review results are communicated to AIG for any amendments to credit limits.

(a) Credit quality

Nan Shan's investments in debt securities mainly comprise Taiwan government bonds and foreign currency denominated corporate bonds. However, the debt security portfolio also includes corporate debenture bonds, financial institutions bonds, other debt securities and loans and receivables. The table below shows the debt security holdings and other assets held by Nan Shan subject to credit risk along with the relative holding percentages:

	As at 30 November						As at 31 August	
	2006		2007		2008		2009	
Government bonds	549,300	50.0%	524,411	45.5%	566,519	44.6%	537,782	39.5%
Government agency bonds	27,586	2.5%	33,014	2.9%	31,968	2.5%	32,335	2.4%
Corporate bonds	5,328	0.5%	7,065	0.6%	7,886	0.6%	9,570	0.7%
Financial institution bonds	5,008	0.5%	9,522	0.8%	23,671	1.9%	25,530	1.9%
Foreign currency denominated bonds	360,829	32.9%	387,528	33.7%	326,053	25.7%	395,786	29.0%
Convertible bonds	291	0.0%	36	0.0%	20	0.0%	8	0.0%
Bond-linked deposit	—	—	—	—	—	—	1,276	0.1%
Structured notes	1,574	0.1%	1,588	0.1%	1,585	0.1%	1,873	0.1%
Loans and receivables	121,171	11.0%	148,736	12.9%	185,686	14.6%	171,560	12.6%
Ceded for unearned premium	611	0.1%	1,048	0.1%	363	0.0%	625	0.0%
Derivative financial instruments	1,987	0.2%	1,805	0.2%	15	0.0%	937	0.1%
Accrued investment income	19,093	1.7%	20,113	1.7%	21,397	1.7%	21,264	1.5%
Cash and cash equivalents	5,300	0.5%	17,007	1.5%	104,963	8.3%	164,588	12.1%
Total	1,098,078	100.0%	1,151,873	100.0%	1,270,126	100.0%	1,363,134	100.0%

In all periods presented, at least 39.5% of Nan Shan's debt investments are sovereign government debt that is not overly exposed to credit risk given the nature of the securities.

(b) Collateral and other credit enhancements

Collateral and other credit enhancements are required depending on an assessment of the risk associated with the type of investment. Policy loans are loans granted policyholders with their insurance policy's cash value as collateral, therefore there is limited credit risk. Secured loans are loans collateralised by chattel and residential real estate. Management performs an impairment valuation when applicable.

It is Nan Shan's policy to dispose of repossessed properties after due process. The proceeds are used to reduce or repay the outstanding balance. In general, Nan Shan does not occupy repossessed properties for its own business use.

(c) Maximum exposure to credit risk

The maximum exposure for Nan Shan's debt securities, loans and receivables, income tax receivables, accrued investment income and cash and cash equivalents is the carrying value presented in the balance sheet. Investment-linked product assets are not considered to be exposed to credit risk as the investment risk is wholly borne by the policyholder.

4.2.2 *Market risk*

Market risk is the risk of potential loss on investment holdings from unfavourable changes in interest rates, foreign currency exchange rates, stock prices and other market risk factors. Nan Shan manages the risk of market-based fluctuations in the value of its investments, as well as liabilities with exposure to market risk.

Nan Shan uses various quantitative measures to assess market risk, including sensitivity analysis, hedge effectiveness testing for economic hedges, and on-going review of investment strategies.

As Nan Shan's investments are mostly fixed rate bonds, their associated fair values generally fluctuate conversely to market interest rates. The market price of these fixed rate debt securities fluctuates with changes in interest rate risk. When interest rates rise, the market value of these fixed rate debt securities generally falls; when interest rates fall, the market value of these securities generally rise. Since Nan Shan's primary investment strategy is to pursue steady and long term profits, short term market interest rate fluctuations are not its major concern.

Fair values of Nan Shan's foreign currency denominated bonds are also subject to foreign currency exchange rate fluctuations, and Nan Shan entered into certain derivative transactions to address exchange risks associated with these investments.

(a) Interest rate risk

Interest rate risk is the risk to the earnings or market value of Nan Shan's investment portfolio due to uncertainty in future interest rates. As an insurance company, the availability of investments with returns that reliably match its insurance policy liabilities is an inherent risk.

In the Taiwan market, the duration of available investments is shorter than the effective maturity of the related policy liabilities. Therefore, there is risk that the reinvestment of the proceeds upon the maturity of the initial investments may be at a yield below that of the interest required for the accretion of the policy liabilities. Additionally, there exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future increasing the policy liability; the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

Nan Shan actively manages the interest rate assumptions and crediting rates used for its new and in-force business. The majority of Nan Shan's in-force policy portfolio is traditional life insurance and endowment insurance products with implicit interest rate guarantees. New business with lower interest rate guarantees or policies where the policyholder bears a significant portion of the investment return risk are gradually reducing the overall interest requirements. However, asset portfolio yields have declined faster due to the prolonged low interest rate environment.

While Nan Shan's largest investment portfolio component is investments in Taiwan government bonds, Nan Shan uses a diverse portfolio of investments, including equities, real estate and foreign currency denominated fixed rate bonds as interest rates in the Taiwan market remain low and of short term durations. This investment strategy has historically helped to increase the yield of the investment portfolio to more closely match the requirements of the policyholder liabilities and DAC recoverability.

Nan Shan's exposure to interest rate changes primarily results from its holdings in debt securities, loans and other interest bearing assets. The table below shows the total holdings of Nan Shan's exposure to interest rate risk:

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Available-for-sale:				
— Government bonds	549,300	524,411	566,519	537,782
— Government agency bonds	27,586	33,014	31,968	32,335
— Corporate bonds	5,328	7,065	7,886	9,570
— Financial institution bonds	5,008	9,522	23,671	25,530
— Foreign currency denominated bonds	360,829	387,528	326,053	395,786
Fair value through profit and loss:				
— Convertible bonds	291	36	20	8
— Bond-linked deposit	—	—	—	1,276
— Structured notes	1,574	1,588	1,585	1,873
Time deposits	1,720	5,457	15,663	43,614
Other cash equivalents	—	8,741	7,132	33,224
Policy loans	60,068	67,078	100,747	89,114
Secured loans	46,980	47,416	50,732	44,170
Total	1,058,684	1,091,856	1,131,976	1,214,282

Nan Shan invests mainly in fixed rate bonds. As at 31 August 2009, 99% of the above bonds, structured deposits and structured notes were at fixed interest rates.

The majority of the policy loans and secured loans are at floating interest rates, therefore the fair value will approximate the current carrying value.

Interest rate risk also arises from Nan Shan's traditional insurance contracts with guaranteed and fixed terms which carry the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable as interest rates rise and fall. For other products, including the investment-linked products, interest rate risk is significantly reduced due to the non-guaranteed nature.

(b) Foreign exchange rate risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the New Taiwan dollar and other currencies in which Nan Shan conducts business may affect its results of operations and financial condition.

Nan Shan invests approximately 35% of its investment portfolio in foreign currency denominated bonds or other investments as part of its investment strategy. Accordingly, Nan Shan will be subject to foreign exchange risks. This is particularly the case as changes in foreign exchange are marked-to-market on a monthly basis and any foreign exchange gains or losses on available-for-sale foreign currency denominated bonds are taken directly to Nan Shan's income statement.

To manage such foreign currency risks, Nan Shan implements direct economic hedges on US dollar to New Taiwan dollar swaps and forward contracts to economically hedge its exposures to such foreign exchange volatilities in compliance with strict guidelines and rules from applicable Taiwanese regulatory authorities. Nan Shan previously also entered into indirect economic proxy hedges which involve entering into derivative instruments that are linked to a basket of products which have high correlation with the New Taiwan dollar. Following the 2008 financial crisis, Nan Shan re-focused its currency risks hedging efforts on ensuring the maintenance of its risk-based capital ratio given the increased volatility of the New Taiwan dollar. For any un-hedged positions, Nan Shan will diversify its foreign currency risks amongst various major currencies to help neutralise the undesirable effects of any foreign-exchange movements.

Nan Shan's foreign exchange positions by major currencies are shown in the following table:

	In original currency in millions					
	US dollar	*Korean Won*	*Australian dollar*	*Euro*	*British Pound*	*Canadian dollar*
30 November 2006						
Cash and cash equivalents	59	—	8	—	1	—
Financial assets	8,412	950,555	1,256	378	109	290
Accrued investment income and other	169	11,218	20	10	3	6
Total foreign currency denominated financial assets	8,640	961,773	1,284	388	113	296
Total foreign currency denominated liabilities	(19)	—	(1)	—	—	—
Net	8,621	961,773	1,283	388	113	296
Derivatives notional amount	5,269	—	—	—	—	—
Net exposure	3,352	961,773	1,283	388	113	296
30 November 2007						
Cash and cash equivalents	160	23	9	1	1	1
Financial assets	8,824	871,668	1,347	384	151	330
Accrued investment income and other	143	11,156	22	11	5	15
Total foreign currency denominated financial assets	9,127	882,847	1,378	396	157	346
Total foreign currency denominated liabilities	(86)	—	—	—	—	—
Net	9,041	882,847	1,378	396	157	346
Derivatives notional amount	4,941	—	—	—	—	—
Net exposure	4,100	882,847	1,378	396	157	346

	In original currency in millions					
	US dollar	*Korean Won*	*Australian dollar*	*Euro*	*British Pound*	*Canadian dollar*
30 November 2008						
Cash and cash equivalents	599	152	19	1	1	1
Financial assets	7,488	861,534	1,158	333	151	329
Accrued investment income and other	157	11,218	19	11	5	6
Total foreign currency denominated financial assets	8,244	872,904	1,196	345	157	336
Total foreign currency denominated liabilities	(2)	—	—	—	—	—
Net	8,242	872,904	1,196	345	157	336
Derivatives notional amount	8,577	—	—	—	—	—
Net exposure	(335)	872,904	1,196	345	157	336
31 August 2009						
Cash and cash equivalents	751	—	1	—	—	—
Financial assets	10,447	—	624	206	163	345
Accrued investment income and other	156	—	12	10	4	5
Total foreign currency denominated financial assets	11,354	—	637	216	167	350
Total foreign currency denominated liabilities	(4)	—	—	—	—	—
Net	11,350	—	637	216	167	350
Derivatives notional amount	10,189	—	—	—	—	—
Net exposure	1,161	—	637	216	167	350

(c) Equity risk

Nan Shan is exposed to the risk of market volatility as a result of its investment in stocks, which may adversely affect its results of operations and net assets. The following are the equity securities or securities in investment funds, which expose it to the risk of changes in equity price:

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Fair value through profit and loss:				
— Listed equity securities	—	—	—	1,520
— Bond funds (unlisted)	4,063	13,626	15,929	38,065
— Preferred stocks (unlisted)	2,999	2,786	2,927	3,148
Available-for-sale:				
— Listed equity securities	56,238	86,233	29,468	45,865
— Mutual funds (unlisted)	7,080	12,665	7,246	1,360
— Securities lending (listed)	767	2,904	—	—
Total equity securities	71,147	118,214	55,570	89,958

A significant proportion of Nan Shan's equity instruments are held to match investment-linked products, of which the investment risk is wholly borne by policyholders thus the exposures are not shown here.

4.3 ***Sensitivity analysis***

Sensitivity analysis to interest rate risk, foreign exchange rate risk and equity risk are set out in the table below to illustrate the potential impact on profit (loss) before tax and equity based on the fluctuation of only a single variable on assets and liabilities before taking into account any tax impact (before tax) based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

	30 November 2006		30 November 2007		30 November 2008		31 August 2009	
	Profit (loss)	Impact on equity	Profit (loss)	Impact on equity	Profit (loss)	Impact on equity	Profit (loss)	Impact on equity
Interest rate risk								
Liability adequacy test adjustment (see note 4.1.2)								
+50 basis point change in new money earned	—	—	—	—	—	—	—	—
-50 basis point change in new money earned	—	—	—	—	—	—	(3,312)	(3,312)
Assets								
+50 basis point shift in yield curve	—	(45,186)	—	(41,986)	—	(39,385)	—	(45,996)
-50 basis point shift in yield curve	—	45,186	—	41,986	—	39,385	—	45,996
Foreign exchange risk								
1% strengthening of foreign currencies relative to NT$	2,220	2,272	2,919	3,004	2,078	2,108	1,965	1,968
1% weakening of foreign currencies relative to NT$	(2,220)	(2,272)	(2,919)	(3,004)	(2,078)	(2,108)	(1,965)	(1,968)
Equity risk								
10% increase in equity prices	706	7,115	1,641	11,821	1,886	5,557	4,273	8,996
10% decrease in equity prices	(706)	(7,115)	(1,641)	(11,821)	(1,886)	(5,557)	(4,273)	(8,996)

The interest rate risk sensitivity analysis excludes the impact of a 50 basis point shift in the yield curve on convertible bonds, bond-linked deposits and structured notes as the impact is considered to be immaterial.

4.4 ***Liquidity risk***

Liquidity risk is the risk of not having access to sufficient funds in a timely manner to meet obligations as they become due. Nan Shan is exposed to liquidity risk on insurance policies that permit surrender, withdrawal or other forms of early termination.

The maturity term of insurance contracts reflects the earlier of death, maturity, or termination. Nan Shan has made assumptions to determine the estimated expected undiscounted cash flows.

The table below shows the maturity profile of the expected undiscounted cash flows for insurance contracts and investment contracts. The amounts are undiscounted and therefore exceed the future policy benefits and policyholders' contract deposits included in the balance sheet. See note 15 for the expected maturity of other payables.

Insurance and investment contract liabilities

	Expected cash outflows (inflows) (undiscounted)		
	Not later than 1 year	Later than 1 year but not later than 10 years	Later than 10 years
As at 30 November 2006	(92,493)	31,040	4,273,109
As at 30 November 2007	(62,567)	146,423	4,383,340
As at 30 November 2008	(36,391)	164,916	4,559,089
As at 31 August 2009	(12,799)	190,428	4,515,601

Insurance and investment contracts liabilities include contractual obligations that (1) the payments are paid upon the occurrence of an insurable event, such as death or disability (2) payments are conditional on survivorship, or (3) payment may occur due to surrender or other non-scheduled event out of Nan Shan's control. Nan Shan has made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits, which assumptions include mortality, morbidity, lapse, expense, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. For the policyholder dividend payable, there are no fixed maturity dates related to these liabilities and they have not been included in the maturity analysis above. The amount and timing of the cash flows are indeterminate due to the uncertainty of future experiences including investment returns and policyholders' behaviour.

A maturity analysis based on the earliest contractual repayment date would present many insurance and investment contract liabilities as falling due in the earliest period in the table because of the ability of the policyholders to exercise surrender options; however, historically most policyholders have not chosen to exercise these options at the earliest possible date.

Investment-linked product liabilities do not bear significant liquidity risk as the payment of these liabilities is based on the investment-linked product assets.

To manage its investments to ensure that it can meet the liabilities associated with the insurance policies that it underwrites, Nan Shan works towards matching as much as possible the duration of the investments with its liabilities. The liabilities of life insurance policies generally have a long maturity; however, there is a general and persistent shortage of supply of long-term Taiwan government bonds.

Nan Shan has tried to reduce the resulting asset-liability duration mismatch by purchasing US dollar denominated bonds which are generally available in longer duration than Taiwan government bonds. See note 4.2.2 (b) for how Nan Shan has addressed the resulting foreign exchange risk with the use of derivatives.

4.5 ***Capital management***

The objective of Nan Shan's capital management is to comply with the insurance capital requirements as stipulated and defined by the Taiwan Financial Supervisory Commission (FSC) on maintaining appropriate capital adequacy ratios. The statutory minimum risk based capital (RBC) ratio is currently set at 200% by the FSC. If the RBC ratio of an insurance company is lower than 200%, the insurance company is not allowed to buy back its own shares or distribute the net profit for the year for which the RBC ratio report was filed.

Nan Shan is also subject to other local capital requirements, such as placing statutory deposits with the government and compulsory appropriation of retained earnings equal to the released amount of special volatility reserve as special reserve. These are discussed in detail under note 8 and note 18, respectively.

To meet those requirements, Nan Shan monitors and evaluates capital adequacy ratios on a regular basis by performing reviews, stress tests and other modelling exercises.

Nan Shan met its capital adequacy requirements by maintaining at least a 200% risk based capital ratio as at 30 November 2006 and 2007. However, during 2008, Nan Shan was affected by the global financial crisis which resulted in, among other things, substantial declines in the global and domestic stock markets. Nan Shan suffered as a result of exposures to factors such as, among other things, volatile equity markets, foreign exchange rates and declining interest rates, which affected its financial condition and led to a decrease in its RBC ratio. As a result, Nan Shan received two capital injections from AIG in 2008 in order to strengthen its solvency capital and enhance its RBC ratio. In addition, Nan Shan adjusted its investment strategy and asset allocation to reflect the market situation at the time by selling domestic equities and significantly increasing foreign exchange hedges. For the period ended 31 August 2009, Nan Shan met its capital adequacy requirements by maintaining at least a 200% capital ratio.

5. **Property and equipment**

For the year ended 30 November:

	Freehold land	Buildings and constructions	Office equipment, furniture and fixtures	Total
Cost				
At 1 December 2005	5,298	4,575	679	10,552
Additions	211	429	512	1,152
Disposals and transfers	—	—	(158)	(158)
At 30 November 2006	5,509	5,004	1,033	11,546
Additions	—	203	258	461
Disposals and transfers	(3)	(7)	(144)	(154)
At 30 November 2007	5,506	5,200	1,147	11,853
Additions	—	218	591	809
Disposals and transfers	(17)	(56)	(171)	(244)
At 30 November 2008	5,489	5,362	1,567	12,418
Accumulated depreciation				
At 1 December 2005		813	307	1,120
Depreciation		93	165	258
Disposals and transfers		—	(133)	(133)
At 30 November 2006		906	339	1,245
Depreciation		106	218	324
Disposals and transfers		—	(131)	(131)
At 30 November 2007		1,012	426	1,438
Depreciation		114	287	401
Disposals and transfers		—	(139)	(139)
At 30 November 2008		1,126	574	1,700

For the nine months ended 31 August 2008 (unaudited):

	Freehold land	Buildings and constructions	Office equipment, furniture and fixtures	Total
Cost				
At 1 December 2007	5,506	5,200	1,147	11,853
Additions	—	178	468	646
Disposals and transfers	(17)	(53)	(82)	(152)
At 31 August 2008	5,489	5,325	1,533	12,347
Accumulated depreciation				
At 1 December 2007		1,012	426	1,438
Depreciation		82	201	283
Disposals and transfers		—	(72)	(72)
At 31 August 2008		1,094	555	1,649

For the nine months ended 31 August 2009:

	Freehold land	Buildings and constructions	Office equipment, furniture and fixtures	Total
Cost				
At 1 December 2008	5,489	5,362	1,567	12,418
Additions	1,037	510	69	1,616
Disposals and transfers	—	—	(236)	(236)
At 31 August 2009	6,526	5,872	1,400	13,798
Accumulated depreciation				
At 1 December 2008		1,126	574	1,700
Depreciation		117	265	382
Disposals and transfers		—	(206)	(206)
At 31 August 2009		1,243	633	1,876

Transfers represent changes in the use of properties owned by Nan Shan during the period to or from investment property to property held for use. However, there were no material transfers during the periods. All freehold land is located in Taiwan.

	As at 30 November			As at 31 August
	2006	2007	2008	2009
Net book value of property and equipment	10,301	10,415	10,718	11,922

Expenses relating the operating lease rental expenses for the periods ending were as follows:

	Year ended 30 November			Nine months ended 31 August	
	2006	2007	2008	2008	2009
				(unaudited)	
Operating lease rental expenses	500	489	549	398	417

6. **Investment properties**

	Year ended 30 November			Nine months ended 31 August	
	2006	2007	2008	2008	2009
				(unaudited)	
Cost					
At beginning of period	7,828	12,664	16,675	16,675	19,554
Additions and transfers	4,836	4,011	2,879	2,846	2,055
At end of period	12,664	16,675	19,554	19,521	21,609
Accumulated depreciation					
At beginning of period	83	172	295	295	454
Depreciation	89	123	159	116	117
At end of period	172	295	454	411	571
Net book value	12,492	16,380	19,100	19,110	21,038
Fair value	13,926	17,778	22,978	22,805	23,491

Transfers represent changes in the use of properties owned by Nan Shan during the period to or from property and equipment to investment property. However, there were no material transfers during the periods. All freehold land is located in Taiwan.

Gross rental income generated from investment properties amounted to NT$573, NT$840 and NT$1,005 for the years ended 30 November 2006, 2007 and 2008, respectively, and NT$752 and NT$767 for the nine months ended 31 August 2008 (unaudited) and 2009, respectively. Direct operating expenses (including repair and maintenance) on investment property that generates rental income amounted to NT$228, NT$317 and NT$363 for the years ended 30 November 2006, 2007 and 2008, respectively, and NT$258 and NT$297 for the nine months ended 31 August 2008 (unaudited) and 2009, respectively.

The future gross minimum operating lease rental income under non-cancellable operating leases that Nan Shan expects to receive in future periods on an undiscounted basis is as follows:

	Due in 1 year or less	**Due in 1 to 5 years**	**Due after 5 years**	**Total**
As at 30 November 2006	518	1,441	3,279	5,238
As at 30 November 2007	756	2,214	5,489	8,459
As at 30 November 2008	761	2,181	5,037	7,979
As at 31 August 2009	911	2,508	5,171	8,590

7. **Other assets**

	As at 30 November			**As at 31 August**
	2006	**2007**	**2008**	**2009**
Ceded for unearned premium	611	1,048	363	625
Repossessed collateral	253	307	372	383
Intangible assets - capitalised software	422	561	699	709
Other assets	223	146	470	454
Total other assets	1,509	2,062	1,904	2,171

8. **Financial instruments and net investment returns**

(a) ***Financial instruments***

Nan Shan's financial instruments are summarised below by measurement category as follows:

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Fair value through profit and loss:				
— Equity and debt securities	8,927	18,036	20,461	45,890
— Derivative financial assets	1,987	1,805	15	937
Available-for-sale financial assets	1,012,136	1,063,342	992,811	1,048,228
Loans and receivables *(note 9)*	121,171	148,736	185,686	171,560
Total financial assets	1,144,221	1,231,919	1,198,973	1,266,615
Derivative financial liabilities	221	269	26,123	990

The current portion of financial assets is NT$88,014, NT$139,146 and NT$77,451 as at 30 November 2006, 2007 and 2008, respectively, and NT$126,430 as at 31 August 2009.

Financial instruments in each of the categories above are detailed further in the tables below.

(1) *Financial assets at fair value through profit and loss*

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Equity securities:				
— Listed equity securities	—	—	—	1,520
— Bond funds (unlisted)	4,063	13,626	15,929	38,065
— Preferred stocks (unlisted)	2,999	2,786	2,927	3,148
Other debt securities (unlisted):				
— Convertible bonds	291	36	20	8
— Bond-linked deposit	—	—	—	1,276
— Structured notes	1,574	1,588	1,585	1,873
Total financial assets at fair value through profit and loss excluding derivative financial instruments	8,927	18,036	20,461	45,890

(2) *Derivative financial instruments*

	Contract/ notional amount	Fair value asset	Fair value liability
	US$000	*NT$*	*NT$*
As at 30 November 2006			
Cross currency and foreign currency swaps	4,769	1,652	221
Non-delivery forwards	500	335	—
Total	5,269	1,987	221
As at 30 November 2007			
Cross currency and foreign currency swaps	3,521	788	44
Non-delivery forwards	1,420	1,017	225
Total	4,941	1,805	269
As at 30 November 2008			
Cross currency and foreign currency swaps	4,539	15	7,857
Non-delivery forwards	3,598	—	18,266
Options	440	—	—
Total	8,577	15	26,123
As at 31 August 2009			
Cross currency and foreign currency swaps	4,682	692	363
Non-delivery forwards	2,408	115	627
Options	3,100	130	—
Total	10,190	937	990

(3) *Available-for-sale financial assets*

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Equity securities:				
— Listed equity securities	56,238	86,233	29,468	45,865
— Mutual funds (unlisted)	7,080	12,665	7,246	1,360
— Securities lending (listed)	767	2,904	—	—
Debt securities (unlisted):				
— Government bonds	549,300	524,411	566,519	537,782
— Government agency bonds	27,586	33,014	31,968	32,335
— Corporate bonds	5,328	7,065	7,886	9,570
— Financial institution bonds	5,008	9,522	23,671	25,530
— Foreign currency denominated bonds	360,829	387,528	326,053	395,786
Total available-for-sale financial assets	1,012,136	1,063,342	992,811	1,048,228

Available-for-sale debt securities include both fixed rate and floating rate instruments with the majority of the instruments being fixed rate.

Statutory deposits are included in government and government agency bonds as Articles 141 and 142 of the Insurance Law require an insurance company to place a statutory deposit with the government equal to 15% of its share capital. The deposit will not be returned until cessation of business and liquidation has been completed. As of 30 November 2006, 2007, and 2008 and 31 August 2009, Nan Shan deposited government bonds with principal value of NT$1,802, NT$2,027, NT$4,724, and NT$11,807 respectively, with the Central Bank of the Taiwan.

As at 31 August 2009, Nan Shan deposited government bonds with a principal value of NT$10 with the Central Bank of the Taiwan as bid bonds to secure a position in bidding for future government bonds to be issued.

(4) *Contractual maturity of financial instruments*

The following table indicates the maturity of financial assets with specified maturity dates based on the assets' fair value which reflect the contractual cash flows on a discounted basis:

	Total	Due in 1 year or less	Due from 1 to 10 years	Due after 10 years
30 November 2006				
Financial assets:				
Available-for-sale debt securities	948,051	3,170	330,030	614,851
Fair value through profit and loss debt securities	1,865	—	1,865	—
Derivative financial assets	1,987	1,987	—	—
Total financial assets	951,903	5,157	331,895	614,851
Derivative financial liabilities	221	221	—	—
30 November 2007				
Financial assets:				
Available-for-sale debt securities	961,540	5,322	376,123	580,095
Fair value through profit and loss debt securities	1,624	—	1,624	—
Derivative financial assets	1,805	1,805	—	—
Total financial assets	964,969	7,127	377,747	580,095
Derivative financial liabilities	269	269	—	—
30 November 2008				
Financial assets:				
Available-for-sale debt securities	956,097	9,197	380,207	566,693
Fair value through profit and loss debt securities	1,605	—	1,605	—
Derivative financial assets	15	15	—	—
Total financial assets	957,717	9,212	381,812	566,693
Derivative financial liabilities	26,123	26,123	—	—

	Total	Due in 1 year or less	Due from 1 to 10 years	Due after 10 years
31 August 2009				
Financial assets:				
Available-for-sale debt securities	1,001,003	17,379	354,069	629,555
Fair value through profit and loss debt securities	3,157	1,276	1,881	—
Derivative financial assets	937	937	—	—
Total financial assets	1,005,097	19,592	355,950	629,555
Derivative financial liabilities	990	990	—	—

(b) ***Net investment returns***

	Year ended 30 November			Nine months ended 31 August	
	2006	2007	2008	2008	2009
				(unaudited)	
Net investment income	47,606	53,697	58,029	44,091	39,463
Net realised gains (losses)					
— Realised gains (losses)	(133)	663	(24,184)	2,858	(9,976)
— Foreign exchange gains (losses)	(2,244)	6,918	(16,144)	(17,405)	5,600
— Impairment losses	(395)	(343)	(15,280)	(6,626)	(10,736)
Total net realised gains (losses)	(2,772)	7,238	(55,608)	(21,173)	(15,112)
Net gains (losses) on assets at fair value through profit and loss	(914)	(406)	(28,487)	(12,979)	26,214
Total net investment returns	43,920	60,529	(26,066)	9,939	50,565

(1) *Net investment income*

	Year ended 30 November			Nine months ended 31 August	
	2006	2007	2008	2008	2009
				(unaudited)	
Interest income from debt securities:					
— Available-for-sale	39,359	42,809	44,261	33,226	31,384
— Carried at fair value through profit and loss	112	213	209	156	162
Dividend income from equity securities:					
— Available-for-sale	3,214	4,503	5,759	5,007	1,811
— Carried at fair value through profit and loss	—	—	—	—	63
Interest income on loans and receivables	5,454	5,781	7,342	5,296	5,596
Provision for loans and receivables	(172)	(134)	(101)	(43)	15
Net rental income from investment properties	345	524	642	493	472
Other investment income (expense), net of fees	(706)	1	(83)	(44)	(40)
Total net investment income	47,606	53,697	58,029	44,091	39,463

(2) *Realised gains (losses)*

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Debt securities:					
— Available-for-sale	143	(1,774)	(3,655)	(1,470)	14,809
— Carried at fair value through profit and loss	—	108	(4)	(3)	2
Equity securities:					
— Available-for-sale	1,699	5,325	(15,030)	920	1,126
— Carried at fair value through profit and loss	150	139	248	185	5
Derivative financial instruments:					
— Carried at fair value through profit and loss	(2,125)	(3,135)	(5,702)	3,226	(25,918)
Other	—	—	(41)	—	—
Total	(133)	663	(24,184)	2,858	(9,976)

(3) *Impairment losses on available-for-sale financial instruments*

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Debt securities	—	—	(7,552)	(5,678)	(2,774)
Equity securities	(395)	(343)	(7,728)	(948)	(7,962)
Total	(395)	(343)	(15,280)	(6,626)	(10,736)

The impairment losses on available-for-sale debt securities resulted mainly from credit events related to the global financial crisis in 2008. The impairment losses on the available-for-sale equity securities resulted mainly from the significant and/or prolonged decline of certain equity securities.

(4) *Net gains (losses) on assets at fair value through profit and loss*

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Debt securities	(36)	11	(616)	(175)	317
Equity securities	(1)	(187)	118	(67)	320
Derivative financial instruments	(877)	(230)	(27,989)	(12,737)	25,577
Total	(914)	(406)	(28,487)	(12,979)	26,214

9. **Loans and receivables**

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Policy loans (net of allowance at NT$0, NT$0, and NT$37 as at 30 November 2006, 2007 and 2008, respectively, and NT$33 as at 31 August 2009)	60,068	67,078	100,747	89,114
Secured loans (net of allowance at NT$180, NT$131, and NT$111 as at 30 November 2006, 2007 and 2008, respectively, and NT$61 as at 31 August 2009)	46,980	47,416	50,732	44,170
Receivables arising from insurance and reinsurance contracts (net of allowance of NT$73, NT$67, and NT$2 as at 30 November 2006, 2007 and 2008, respectively, and NT$0 as at 31 August 2009)	12,072	12,356	14,294	12,811
Other receivables	2,051	3,886	913	965
Structured deposits	—	18,000	19,000	24,500
Total loans and receivables	121,171	148,736	185,686	171,560

Policy loans are loans granted to policyholders with their insurance policy's cash value as collateral. Loans generally are given with variable interest rates and do not have contractual maturity dates but repayment is at the discretion of the policyholder and the amount of cash value of those specific insurance policies. The balance also includes premiums paid for policyholder, which are loans granted to the policyholders to pay the due premium by deducting the policy's cash value.

All loans and receivable balances are short term in nature except for secured loans, structured deposits and the real estate investment trust certificate in other receivables; therefore the carrying value approximates the fair value. Carrying amounts of secured loans also approximate their fair values as the majority of Nan Shan's loan portfolios comprise of floating rate loans. The fair values of structured deposits are obtained from banks by using valuation techniques such as discounted cash flow models and option pricing models. Fair value of structured deposits amounted to NT$0, NT$17,949 and NT$19,305 as at 30 November 2006, 2007 and 2008, respectively, and NT$24,439 as at 31 August 2009.

The following table indicates the contractual timing of cash flows arising from loans and receivables with specified maturity dates:

	Total	Due in one year or less	Due after one year through 10 years	Due after 10 years	No fixed maturity date
30 November 2006					
Policy loans	60,068	—	—	—	60,068
Secured loans	47,160	513	15,813	30,834	—
Receivables arising from insurance and reinsurance contracts	12,145	12,145	—	—	—
Other receivables	2,051	2,051	—	—	—
Total	121,424	14,709	15,813	30,834	60,068
30 November 2007					
Policy loans	67,078	—	—	—	67,078
Secured loans	47,547	432	13,257	33,858	—
Receivables arising from insurance and reinsurance contracts	12,423	12,423	—	—	—
Other receivables	3,886	3,736	150	—	—
Structured deposits	18,000	—	18,000	—	—
Total	148,934	16,591	31,407	33,858	67,078

	Total	Due in one year or less	Due after one year through 10 years	Due after 10 years	No fixed maturity date
30 November 2008					
Policy loans	100,784	—	—	—	100,784
Secured loans	50,843	387	11,872	38,584	—
Receivables arising from insurance and reinsurance contracts	14,296	14,296	—	—	—
Other receivables	913	913	—	—	—
Structured deposits	19,000	—	19,000	—	—
Total	185,836	15,596	30,872	38,584	100,784
31 August 2009					
Policy loans	89,147	—	—	—	89,147
Secured loans	44,231	252	10,202	33,777	—
Receivables arising from insurance and reinsurance contracts	12,811	12,811	—	—	—
Other receivables	965	965	—	—	—
Structured deposits	24,500	6,000	18,500	—	—
Total	171,654	20,028	28,702	33,777	89,147

The contractual maturity dates of policy loans are at the discretion of the policyholders and the amount of cash value of those specific insurance policies.

The table below provides an aging of secured loan balances:

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Current balances	44,913	44,784	47,744	41,513
Secured loans past due but not impaired:				
Less than 30 days	1,249	1,705	1,973	1,712
31 to 90 days	607	756	879	781
More than 90 days	391	302	247	225
Total secured loans past due but not impaired	2,247	2,763	3,099	2,718
Loan loss provision	(180)	(131)	(111)	(61)
Total secured loans	46,980	47,416	50,732	44,170

Secured residential mortgage loans that are past due and impaired more than 90 days have been reclassified into other assets as Nan Shan intends to dispose of the collateral to recover the loan balance. Repossessed assets amounted to NT$253, NT$307, NT$372 as at 30 November 2006, 2007 and 2008, respectively, and NT$383 as at 31 August 2009.

The properties are generally sold at auction in order to settle the indebtedness as soon as practicable.

10. **Investment-linked product assets and liabilities**

Nan Shan's investment-linked product financial assets and liabilities are summarised below:

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Investment-linked product assets				
Cash and cash equivalents	55	96	14	26
Financial assets at fair value through profit and loss	53,496	95,832	76,789	105,255
Total investment-linked product assets	53,551	95,928	76,803	105,281
Investment-linked product liabilities	53,551	95,928	76,803	105,281

The financial assets at fair value through profit and loss within the investment-linked product assets mainly consist of equity interests in third party mutual funds which are not managed by Nan Shan. These mutual funds are not controlled by Nan Shan nor are they subject to Nan Shan's significant influence.

11. **Deferred acquisition costs**

	Year ended 30 November			Nine months ended 31 August	
	2006	2007	2008	2008	2009
				(unaudited)	
As at beginning of period	97,029	102,520	110,975	110,975	112,134
Deferral of acquisition costs	21,937	25,160	20,764	17,288	14,217
Amortisation net of accretion of interest	(16,247)	(17,365)	(20,010)	(13,661)	(18,072)
Effect of net unrealised gain (loss) on security	(199)	660	405	222	(1,321)
As at end of period	102,520	110,975	112,134	114,824	106,958

12. **Deferred income tax**

	As at 30 November			As at 31 August
	2006	2007	2008	2009
Deferred tax assets:				
— to be recovered within 12 months	174	240	9,351	1,055
— to be recovered after more than 12 months	—	—	19,537	7,287
Deferred tax liabilities:				
— to be settled within 12 months	(839)	(1,123)	—	—
— to be settled after more than 12 months	(35,888)	(33,399)	(35,317)	(31,372)
Net deferred income liabilities	(36,553)	(34,282)	(6,429)	(23,030)

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) *Deferred tax assets*

	Unrealised depreciation of investments	Tax credit	Tax loss carry forward	Accruals not currently deductible	Total
At 1 December 2005	36	—	—	167	203
(Charged) credited to the income statement	(36)	—	—	7	(29)
At 30 November 2006	—	—	—	174	174
(Charged) credited to the income statement	—	10	—	56	66
At 30 November 2007	—	10	—	230	240
(Charged) credited to the income statement	12,908	(10)	1,565	(143)	14,320
(Charged) credited to equity (net of transfers to retained earnings)	14,328	—	—	—	14,328
At 30 November 2008	27,236	—	1,565	87	28,888

For the nine months ended 31 August 2008 (unaudited) and 31 August 2009:

	Unrealised depreciation of investments	Tax credit	Tax loss carry forward	Accruals not currently deductible	Total
At 30 November 2007	—	10	—	230	240
(Charged) credited to the income statement	8,889	(10)	—	(64)	8,815
(Charged) credited to equity (net of transfers to retained earnings)	5,863	—	—	—	5,863
At 31 August 2008	14,752	—	—	166	14,918
At 30 November 2008	27,236	—	1,565	87	28,888
(Charged) credited to the income statement	(11,535)	21	5,701	14	(5,799)
(Charged) credited to equity (net of transfers to retained earnings)	(14,747)	—	—	—	(14,747)
At 31 August 2009	954	21	7,266	101	8,342

Under the rules of the Income Tax Law of Taiwan, a company with its tax return certified by a certified public accountant can carryforward its net losses as tax credits for 10 years. Tax related to undistributed earnings do not have an expiry date and may be carried forward indefinitely.

For the year ended 30 November 2008, Nan Shan generated NT$1,565 of undistributed earnings tax loss carryforwards which will not expire. The remaining balance of these carryforward at 31 August 2009 is NT$228. For the nine months ended 31 August 2009, Nan Shan generated tax loss carryforwards of NT$7,038, which expire in 2019. There were no other tax loss carryforwards generated in any of the other periods presented.

(b) *Deferred tax liabilities*

	DAC and reserve	Unrealised appreciation (depreciation) of investments	Due premium and other differences	Total
At 1 December 2005	(22,984)	(9,317)	(686)	(32,987)
(Charged) credited to the income statement	(2,982)	643	(128)	(2,467)
(Charged) credited to equity (net of transfers to retained earnings)	(781)	(495)	3	(1,273)
At 30 November 2006	(26,747)	(9,169)	(811)	(36,727)
(Charged) credited to the income statement	(3,317)	(1,505)	(10)	(4,832)
(Charged) credited to equity (net of transfers to retained earnings)	(2,331)	9,383	(15)	7,037
At 30 November 2007	(32,395)	(1,291)	(836)	(34,522)
(Charged) credited to the income statement	(433)	(82)	(362)	(877)
(Charged) credited to equity (net of transfers to retained earnings)	(1,267)	1,373	(24)	82
At 30 November 2008	(34,095)	—	(1,222)	(35,317)

For the nine months ended 31 August 2008 (unaudited) and 31 August 2009:

	DAC and reserve	Unrealised appreciation (depreciation) of investments	Due premium and other differences	Total
At 30 November 2007	(32,395)	(1,291)	(836)	(34,522)
Charged (credited) to the income statement	(1,992)	(82)	(242)	(2,316)
Charged (credited) to equity (net of transfers to retained earnings)	(1,106)	1,373	(14)	253
At 31 August 2008	(35,493)	—	(1,092)	(36,585)
At 30 November 2008	(34,095)	—	(1,222)	(35,317)
Charged (credited) to the income statement	3,416	1,878	207	5,501
Charged (credited) to equity (net of transfers to retained earnings)	1,406	(3,053)	91	(1,556)
At 31 August 2009	(29,273)	(1,175)	(924)	(31,372)

(c) *Income tax receivable*

	As at 30 November			As at 31 August
	2006	2007	2008	2009
Income tax receivable	—	563	3,977	5,806

The Taiwan Tax Authority (Tax Authority) requires provisional payments during the year. Any excess of instalments over the year-end calculation of the taxes due will only be refunded upon final assessment of the tax return for the fiscal year which can sometimes take more than a year. As at 31 August 2009, the income tax returns have been assessed through fiscal year ended 30 November 2005 and the income tax receivable for 2005 was received.

13. **Cash and cash equivalents**

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Cash on hand	29	30	50	41
Cash at bank	3,551	2,779	82,118	87,709
Time deposits	1,720	5,457	15,663	43,614
Other cash equivalents	—	8,741	7,132	33,224
Total cash and cash equivalents	5,300	17,007	104,963	164,588

Other cash equivalents comprise of investment in treasury bills, negotiable certificates of deposits, commercial papers and resale agreements with original maturities of three months or less. Included in cash and cash equivalents as at 30 November 2006 is NT$300 of restricted cash deposited in an escrow account for the future purchase of an investment property.

14. **Insurance contract liabilities and reinsurance assets**

(a) ***Insurance contract liabilities and reinsurance assets***

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Gross insurance contracts	1,042,934	1,176,298	1,258,527	1,340,501
Claims recoverable from reinsurers	—	(24)	(472)	(458)
Ceded for unearned premium	(611)	(1,048)	(363)	(625)
Net insurance contract liabilities	1,042,323	1,175,226	1,257,692	1,339,418

(b) ***Movements in insurance liabilities***

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Carrying amount at beginning of the period	918,834	1,042,934	1,176,298	1,176,298	1,258,527
Valuation premiums	144,204	146,734	125,595	93,554	104,493
Accretion of interest	50,370	55,310	60,300	45,674	48,831
Benefit paid	(69,996)	(67,045)	(95,895)	(53,823)	(68,706)
Other movements	2,182	4,946	(4,089)	3,421	(6,674)
Effect of net unrealised gain (loss) on security	(2,660)	(6,581)	(3,682)	(3,347)	4,030
Carrying amount at end of period	1,042,934	1,176,298	1,258,527	1,261,777	1,340,501

During the year ended 30 November 2006, 2007 and 2008 and for the nine months ended 31 August 2008 (unaudited) and 2009, the liability adequacy testing did not result in any deficiencies and thus there were no changes in the locked-in assumptions applied on existing in-force policies. Additionally, during these periods, the assumption changes for the investment-type insurance contracts were not material.

15. **Other payables and accrued expenses**

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Payments received in advance	1,919	2,154	991	1,441
Accrued expenses	3,803	4,604	3,064	2,247
Commission payable	1,462	1,533	1,272	1,452
Other accounts payable	2,493	4,697	319	951
Retirement benefit obligations *(note 16)*	1,990	2,126	2,235	2,567
Total other payables and accrued expenses	11,667	15,114	7,881	8,658

The carrying amounts disclosed above reasonably approximate the fair value at balance sheet date due to their short term nature. All amounts are payable within one year, except for retirement benefit obligations.

16. **Retirement benefit obligations**

The amounts recognised in the balance sheet are as follows:

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Present value of funded obligations	1,795	1,940	1,995	2,192
Present value of unfunded obligations	531	569	671	760
Fair value of plan assets	(336)	(383)	(431)	(385)
Retirement benefit obligations	1,990	2,126	2,235	2,567

The movement in the defined benefit obligation is as follows:

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Beginning of period	2,093	2,326	2,509	2,509	2,666
Current service cost	179	188	184	136	123
Interest cost	52	58	69	52	54
Actuarial losses (gains)	13	(46)	(81)	(61)	192
Benefits paid	(11)	(17)	(15)	(16)	(83)
End of period	2,326	2,509	2,666	2,620	2,952

The movement in the fair value of plan assets is as follows:

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Beginning of period	293	336	383	383	431
Expected return on plan assets	8	9	11	8	8
Actuarial gains (losses)	—	1	1	—	—
Employer contributions	46	54	51	40	29
Benefits paid	(11)	(17)	(15)	(16)	(83)
End of period	336	383	431	415	385

The amounts recognised in the income statement are as follows:

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Current service cost	179	188	184	136	123
Interest cost	52	58	69	52	54
Expected return on plan assets	(8)	(9)	(11)	(8)	(8)
Total included in staff costs *(note 20)*	223	237	242	180	169

The actual returns on plan assets were NT$8, NT$10 and NT$12 for the years ended 30 November 2006, 2007 and 2008 respectively, and NT$8 and NT$8 for the nine months ended 31 August 2008 (unaudited) and 2009, respectively.

The principal actuarial assumptions used were as follows:

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Discount rate	2.50%	2.75%	2.75%	2.75%	2.75%
Expected return on plan assets	2.50%	2.75%	2.75%	2.75%	2.75%
Future salary increases	3.50%	3.50%	4.00%	4.00%	4.00%

The investment strategy is in compliance with the Taiwan Labour Standards Act where all cash contributions to the defined benefit plans are deposited under a pension fund account in the Bank of Taiwan, which provides the trust services. The fund assets are managed by the Labour Pension Fund Supervisory Committee (LPFSC), a government organisation supervised by the Council of Labour Affairs of Executive Yuan. The LPFSC is responsible for managing the fund assets, including portfolio management and risk assessment.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy.

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Experience adjustments on plan liabilities	13	87	(239)	(179)	149
Experience adjustments on plan assets	—	(1)	(1)	—	—

17. **Share capital and dividends per share**

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Authorised shares	120,000,000	250,000,000	1,000,000,000	1,000,000,000
Outstanding shares	120,000,000	135,000,000	787,000,000	787,000,000
Cash and share dividends declared	19.09	18.50	60.00	—

The authorised and issued capital consists of ordinary shares with NT$100 par value per share.

During 2008, two new share issuances, at par value were made to existing shareholders (based on the existing respective percentage shareholding as of the recorded dates of subscription) for a total of 587,200,000 shares.

Total equity dividends and cash dividends paid were as follows:

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Equity dividends	1,000	1,500	6,480	6,480	—
Cash dividends	1,100	720	75	75	—

In 2008, prior to the declaration of any dividends, the shareholders controlled by AIG (majority shareholders) legally waived their rights to the cash dividend for 2007. As such, the dividends declared and recorded for 2007 reflect only these dividends to the minority shareholders.

18. **Statement of changes in shareholders' equity**

	Share capital	Retained earnings	Other Reserves: Statutory Reserve	Other Reserves: Special Reserve	Other Reserves: Unrealised gain (loss) of financial instruments	Other Reserves: Actuarial gain (loss) on retirement benefit obligations	Total
Year ended 30 November 2006							
At beginning of year	11,000	77,223	7,328	1,764	80,882	—	178,197
Actuarial gain (loss) on retirement benefit obligations, net of tax	—	—	—	—	—	(9)	(9)
Unrealised gains (losses) on available-for-sale financial assets, net of tax	—	—	—	—	3,834	—	3,834
Profit	—	11,390	—	—	—	—	11,390
Dividends paid	1,000	(2,100)	—	—	—	—	(1,100)
Appropriation to reserve	—	(2,909)	555	2,354	—	—	—
At end of year	12,000	83,604	7,883	4,118	84,716	(9)	192,312
Year ended 30 November 2007							
At beginning of year	12,000	83,604	7,883	4,118	84,716	(9)	192,312
Actuarial gain (loss) on retirement benefit obligations, net of tax	—	—	—	—	—	33	33
Unrealised gains (losses) on available-for-sale financial assets, net of tax	—	—	—	—	(41,021)	—	(41,021)
Profit	—	21,997	—	—	—	—	21,997
Dividends paid	1,500	(2,220)	—	—	—	—	(720)
Appropriation to reserve	—	(4,544)	1,276	3,268	—	—	—
At end of year	13,500	98,837	9,159	7,386	43,695	24	172,601

	Share capital	Retained earnings	Other Reserves: Statutory Reserve	Other Reserves: Special Reserve	Other Reserves: Unrealised gain (loss) of financial instruments	Other Reserves: Actuarial gain (loss) on retirement benefit obligations	Total
Year ended 30 November 2008							
At beginning of year	13,500	98,837	9,159	7,386	43,695	24	172,601
Actuarial gain (loss) on retirement benefit obligations, net of tax	—	—	—	—	—	57	57
Unrealised gains (losses) on available-for-sale financial assets, net of tax	—	—	—	—	(19,355)	—	(19,355)
Loss	—	(49,259)	—	—	—	—	(49,259)
Capital contributions	58,720	—	—	—	—	—	58,720
Dividends paid	6,480	(6,555)	—	—	—	—	(75)
Appropriation to reserve	—	(3,510)		3,510	—	—	—
At end of year	78,700	39,513	9,159	10,896	24,340	81	162,689
Nine months ended 31 August 2008 (unaudited)							
At beginning of period	13,500	98,837	9,159	7,386	43,695	24	172,601
Actuarial gain (loss) on retirement benefit obligations, net of tax	—	—	—	—	—	32	32
Unrealised gains (losses) on available-for-sale financial assets, net of tax	—	—	—	—	(24,298)	—	(24,298)
Loss	—	(11,346)	—	—	—	—	(11,346)
Capital contributions	11,500	—	—	—	—	—	11,500
Dividends paid	6,480	(6,555)	—	—	—	—	(75)
Appropriation to reserve	—	(3,510)		3,510	—	—	—
At end of period	31,480	77,426	9,159	10,896	19,397	56	148,414

	Share capital	Retained earnings	Other Reserves: Statutory Reserve	Other Reserves: Special Reserve	Other Reserves: Unrealised gain (loss) of financial instruments	Other Reserves: Actuarial gain (loss) on retirement benefit obligations	Total
Nine months ended 31 August 2009							
At beginning of year	78,700	39,513	9,159	10,896	24,340	81	162,689
Actuarial gain (loss) on retirement benefit obligations, net of tax	—	—	—	—	—	(234)	(234)
Unrealised gains (losses) on available-for-sale financial assets, net of tax	—	—	—	—	34,047	—	34,047
Profit	—	18,281	—	—	—	—	18,281
Recovery of accumulated deficiency	—	20,055	(9,159)	(10,896)	—	—	—
Appropriation to (from) reserve	—	(849)		849	—	—	—
At end of period	78,700	77,000	—	849	58,387	(153)	214,783

Statutory reserve:

As of 30 November 2008, 20% of the net income after tax under statutory accounting must be appropriated in the statutory reserve (10% for 2006 and 2007). This reserve shall be used to eliminate any accumulated deficit prior to providing any dividend payments to shareholders. When the statutory reserve has reached 50% of the share capital balance, half of the reserve may be transferred share capital. When it has accumulated to 100% of the share capital balance, no further compulsory appropriation is required.

Special reserve:

According to 'Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises', issued by the Ministry of Finance, Nan Shan is required to appropriate an amount equal to such recovery from retained earnings as a special reserve following the resolution adopted at the stockholders' meeting in the subsequent fiscal year. Such special reserve shall neither be distributed as dividends nor used in other ways without prior approval by the regulatory authority. Nan Shan appropriated NT$2,354, NT$3,268 and NT$3,510 for the years ended 30 November 2006, 2007 and 2008, respectively, and NT$3,510 and NT$849 in the nine months ended 31 August 2008 (unaudited) and 2009, respectively. Nan Shan used the special reserve to eliminate the accumulated deficit in 2009 after getting approval from the regulatory authority.

19. **Taiwan statutory audit remuneration**

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Auditor remuneration for Taiwan statutory audit	—	—	36	20	16

Auditor remuneration for the Taiwan statutory audit was paid by AIG in 2006 and 2007 without recharge to Nan Shan.

20. **Employee benefit expense**

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Wages and salaries	3,279	3,576	4,097	2,966	2,523
Employees' insurance	222	234	250	187	178
Pension costs — defined benefit and defined contribution plans	357	365	386	271	146
Other personnel expenses	124	112	90	76	14
Total employee benefit expense	3,982	4,287	4,823	3,500	2,861

21. **Income tax expense (benefit)**

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Current tax	1,503	1,894	(760)	356	167
Deferred tax *(note 12)*	2,496	4,766	(13,443)	(6,499)	298
Total income tax expense (benefit)	3,999	6,660	(14,203)	(6,143)	465

Reconciliation between tax expense (benefit) and the product of accounting profit multiplied by the main applicable tax rate of 25% is as follows:

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Profit (loss) before tax	15,389	28,657	(63,462)	(17,489)	18,746
Tax calculated at domestic tax rate	3,847	7,164	(15,866)	(4,372)	4,687
Effects of:					
— (Income) loss not subject to tax	(1,014)	(2,188)	4,409	(1,390)	(2,284)
— Tax effect of minimum tax	—	288	—	—	—
— Tax on premium amortisation - bonds	479	520	—	—	—
— 10% tax on undistributed earnings	624	690	(2,670)	(310)	1,690
— Effect on change in statutory tax rate	—	—	—	—	(3,759)
— Loss carry forward and other tax credit	(9)	(10)	(20)	(16)	(21)
— Adjustment for prior year's income tax	56	152	(111)	(104)	161
— Other impacts	16	44	55	49	(9)
Tax (benefit) charge for the period	3,999	6,660	(14,203)	(6,143)	465
Weighted average applicable tax rate	26.0%	23.2%	22.4%	35.1%	2.5%

In May 2009, the amendment to Article 5 of the Income Tax Law of the Taiwan was announced. The income tax rate for profit-seeking enterprises will be reduced from 25% to 20% and will be effective starting in 2010. The tax rate change is considered to be substantially enacted during the period ended 31 August 2009 and as such, Nan Shan has recalculated its deferred tax assets and liabilities in accordance with the amended Article. The impact of the change accounted for consistently with the accounting for the transaction itself. Therefore, if the underlying temporary difference and related deferred taxes have been recorded in equity, the portion of any change in a tax law is also recorded in equity. Likewise, if the underlying temporary difference and related deferred taxes have been recorded in the income statement, then the portion of any change in tax law is also recorded in the income statement.

22. **Earnings per share**

Basic and diluted earnings per share are calculated by dividing the profit (loss) for the year by the weighted average number of ordinary shares in issue during the year. Weighted average number of ordinary shares outstanding has been adjusted retrospectively for stock dividends issued. There is no difference between basic and diluted earnings per share for Nan Shan.

	Year ended 30 November			Nine months ended 31 August	
	2006	2007	2008	2008	2009
				(unaudited)	
Profit (loss)	11,390	21,997	(49,259)	(11,346)	18,281
Weighted average number of ordinary shares outstanding	199,800,000	199,800,000	247,717,000	225,356,000	787,000,000
Basic and diluted earnings (loss) per share	57.01	110.10	(198.85)	(50.35)	23.23

23. **Cash generated from operations**

	Year ended 30 November			Nine months ended 31 August	
	2006	2007	2008	2008	2009
				(unaudited)	
Profit (loss) before tax	15,389	28,657	(63,462)	(17,489)	18,746
Adjustments for:					
Dividend and interest income	(47,967)	(53,172)	(57,470)	(43,642)	(39,031)
(Gain) loss on valuation of financial assets and liabilities	914	406	28,487	12,979	(26,214)
Unrealised loss (gain) on foreign exchange	1,638	(6,209)	14,537	15,742	(15,432)
Loss on impairment of financial assets	395	343	15,280	6,626	10,736
(Decrease) increase in provision for loans and receivables	118	(5)	(2)	(18)	(26)
Depreciation and amortisation of property and equipment and intangible assets	391	499	635	454	573

	Year ended 30 November			Nine months ended 31 August	
	2006	2007	2008	2008	2009
				(unaudited)	
Amortisation of investments in bonds	1,917	2,081	2,164	1,610	1,630
Amortisation of deferred acquisition costs	16,247	17,365	20,010	13,661	18,072
Changes in balance sheet items:					
Decrease (increase) in deferred acquisition costs	(21,937)	(25,160)	(20,764)	(17,288)	(14,217)
(Increase) in financial assets designated as fair value through profit and loss	(8,079)	(9,285)	(3,196)	(3,244)	(25,298)
Decrease (increase) in available-for-sale financial assets	(116,688)	(102,780)	1,212	(46,170)	2,891
Acquisition of real estate investments	(4,919)	(4,001)	(2,807)	(2,776)	(3,589)
(Decrease) in repurchase bond	(1,522)	—	—	—	—
(Increase) in investment income / interest due and accrued	561	3	(320)	(344)	62
(Increase) decrease in loan and receivables	(4,373)	(29,228)	(38,889)	(28,165)	11,768
(Increase) decrease in other assets	(16)	(608)	(245)	1,000	243
Provision for insurance reserves — net	126,763	140,019	85,902	88,821	77,939
Increase(decrease) in policyholder dividend and other insurance payables	1,291	(759)	655	919	887
Increase (decrease) in other payables and accrued expenses	(1,246)	3,399	(7,109)	(4,006)	396
Cash generated (used) from operations	(41,123)	(38,435)	(25,382)	(21,330)	20,136

Nan Shan classifies the cash flows for the purchases and disposal of financial assets and real estate investments of investment property in its operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of insurance benefits and claims and investments contract benefits.

24. **Commitments and contingencies**

(a) ***Commitments***

Nan Shan has entered into various rental commitments, construction and improvement contracts and real estate acquisition contracts. Future minimum commitments for non-cancellable operating leases consist of the following:

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Operating lease commitments payable:				
Within one year	351	384	493	345
Between 1 year and 5 years	344	371	658	464
Later than 5 years	—	—	122	47
Total	695	755	1,273	856

Future minimum commitments for real estate purchases or construction contracts consist of the following:

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Real estate purchases or construction contract commitments	2,362	3,144	2,140	6,575

Real estate purchases or construction contract commitments are normally completed within the next twelve month period.

(b) ***Contingencies***

Nan Shan operates in the insurance industry and is subject to legal proceedings in the normal course of business. Management has made a provision for losses that are more likely than not to occur and believes that pending proceedings or litigations that management has not made provisions for will not have a material effect on the financial position or operating result of Nan Shan.

25. **Related-party transactions and Directors' and key management emoluments**

The immediate holders of Nan Shan share capital are Delaware American Life Insurance Company and AIG Life Insurance Company who both hold the shares in trust for American International Reinsurance Company, Limited (AIRCO), a Bermuda company. All of these entities are ultimately controlled by AIG as the ultimate parent company, an insurance and financial services group in the United States of America.

In September 2008, AIG experienced a severe strain on its liquidity which resulted in AIG entering into a US$85 billion revolving credit facility and guarantee and pledge agreement with the Federal Reserve Bank of New York (FRBNY). As further detailed in the executed Credit Agreement of September 2008 (and amended in November 2008 and April 2009), AIG was required to issue convertible preferred stock to a trust for the sole benefit of the United States Department of Treasury (US Treasury). For this purpose the AIG Credit Facility Trust (the Trust) was created by the FRBNY in its agreement with the individual trustees who were selected by the FRBNY in consultation with the US Treasury. The convertible stock that was issued entitles the US Treasury and the Trust to "beneficially own" more than 50 percent of the aggregate voting power of AIG's voting securities.

The existing direct shareholders of Nan Shan have not changed as a result of the actions described above. However a change of control occurred at the level of AIG, the ultimate parent of Nan Shan. Through its ownership, the Trust will own an indirect interest in all domestic and international subsidiaries owned directly or indirectly by AIG, including Nan Shan.

The following transactions were carried out with related parties. Related parties include AIG as the ultimate parent company and all affiliated entities which are entities wholly or jointly controlled by AIG. Transactions and balances with related parties are based on negotiated terms.

(a) ***Transactions with related parties***

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Reinsurance ceded to affiliated entity — net activity	(428)	(183)	(613)	(650)	(399)
Gain from sale of hedge fund investment and other investments to an affiliated entity	—	72	—	—	782
Gain (loss) from settlement of derivatives with affiliated entities	—	881	(5,797)	513	(17,403)
Investment management fee relating to the management of certain foreign government bonds, corporate debentures, financial bills and stocks with affiliated entities	56	132	141	108	93
Premium collection and system service charges with affiliated entities	143	205	257	187	66
Rental and other operating income (expense) with affiliated entities	(108)	19	120	48	88
Donations to charitable foundation managed by an affiliated entity	53	22	20	15	5

(b) ***Balances with related parties***

	As at 30 November			As at 31 August
	2006	**2007**	**2008**	**2009**
Net reinsurance receivables (payables) with affiliated entity	(180)	163	363	386
Hedge fund investment with affiliated entity	1,588	6,374	6,504	466
Net derivative position with affiliated entity	335	792	(18,140)	(76)
Net other related party receivables (payables) with affiliated entities	(32)	(47)	(90)	(43)

(c) ***Directors' and key management emoluments***

The aggregate expense of emoluments for the key management personnel of Nan Shan are as follows:

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Wages, salaries, bonus and allowances	23	21	15	11	13
Post retirement benefits	8	6	5	4	5
Total key management emoluments	31	27	20	15	18

A portion of the remuneration of key management during the periods presented has been borne by the ultimate holding company.

The aggregate expense of emoluments for the directors of Nan Shan are as follows:

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
Wages, salaries, bonus and allowances	4	4	6	5	1

(d) ***Five highest paid individuals***

All five of the highest paid individuals are included in the total aggregate amounts above. The emoluments of the five highest paid individuals fell within the following salary bands:

	Year ended 30 November			Nine months ended 31 August	
	2006	**2007**	**2008**	**2008**	**2009**
				(unaudited)	
NT$11 to NT$13 (equivalent of HK$2,500,000 to HK$3,000,000)	1	1	1	—	—
NT$8 to NT$11 (equivalent of HK$2,000,000 to HK$2,500,000)	—	—	3	1	1
NT$6 to NT$8 (equivalent of HK$1,500,000 to HK$2,000,000)	2	4	1	4	1
NT$4 to NT$6 (equivalent of HK$1,000,000 to HK$1,500,000)	2	—	—	—	3
	5	5	5	5	5

Salary bands have been converted to millions of New Taiwan dollars using the New Taiwan dollar to Hong Kong dollar exchange rate of 4.24 as of 31 August 2009.

26. **Events after the balance sheet date**

On 12 October 2009, AIG, Nan Shan's ultimate parent company entered into an agreement to sell its 97.57 percent share of Nan Shan for approximately US$2.15 billion to a consortium which includes a company listed on the Hong Kong Stock Exchange. The sale is pending certain closing conditions including Taiwanese regulatory approval.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 August 2009. No dividend has been declared, made or paid by the Company in respect of any period subsequent to 31 August 2009.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following is an illustrative and unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information"), including the unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated income statement, the unaudited pro forma consolidated cash flow statement and the unaudited pro forma statement of adjusted net tangible assets, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed acquisition of 97.57% of the issued share capital of Nan Shan Life Insurance Company, Limited ("Nan Shan") (the "Acquisition") by Primus Nan-Shan Holding Company Ltd., a 80% indirectly owned subsidiary of the Company, as if it had taken place on 30 June 2009 for the unaudited pro forma consolidated statement of financial position and the unaudited pro forma statement of adjusted net tangible assets and on 1 January 2008 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, results of operations and cash flows of the Group had the Acquisition been completed as at 30 June 2009 or 1 January 2008, where applicable, or at any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

A. Unaudited pro forma consolidated statement of financial position of the Enlarged Group

	The Group as at 30 June 2009	Nan Shan as at 31 August 2009	Pro forma adjustments: Other pro forma adjustments			Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 3*	*Note 5*	
Assets						
Property, plant and equipment	82,576	2,905,988	1,001,632			3,990,196
Investment properties	—	5,128,013	1,870,250			6,998,263
Investment in subsidiary	—	—		13,416,000	(13,416,000)	—
Prepaid lease payments	12,958	—				12,958
Club debentures	825	—				825
Available-for-sale investments	4,077	255,505,575				255,509,652
Intangible assets	—	—			1,432,197	1,432,197
Other assets	—	529,180	(88,811)			440,369
Inventories	1,808	—				1,808
Financial assets						
Fair value through profit and loss						
- Short term investments	—	11,185,688				11,185,688
- Derivative financial instruments	—	228,394				228,394
Loans and receivables	—	41,817,750				41,817,750
Net investment-linked product assets	—	25,662,244				25,662,244
VOBA	—	—	86,768,720			86,768,720
Deferred acquisition costs	—	26,071,013	(26,071,013)			—
Deferred tax assets	—	—	4,154,383			4,154,383
Accrued investment income	—	5,183,100				5,183,100
Trade receivables	38	—				38
Amount due from an associate	7,101	—				7,101
Other receivables, deposits and prepayments	29,032	1,415,213				1,444,245
Investments held for trading	436,530	—				436,530
Bank balances and cash	480,817	40,118,325		(202,800)		40,396,342
	1,055,762	415,750,483				485,670,803

	The Group as at 30 June 2009	Nan Shan as at 31 August 2009	Pro forma adjustments: Other pro forma adjustments			Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 4*	*Note 3*	*Note 5*	
Liabilities						
Trade payables, other payables and accrued charges	25,672	2,110,388				2,136,060
Amount due to a subsidiary of an associate	7,134	—				7,134
Loan payables	65,639	—				65,639
Income tax payables	5,735	—				5,735
Deferred tax liabilities	11,253	5,613,563	(5,613,563)			11,253
Convertible notes	518,111	—		7,322,421		7,840,532
Insurance contract liabilities	—	326,747,119	109,882,286			436,629,405
Net investment-linked product liabilities	—	25,662,244				25,662,244
Investment contract liabilities	—	15,844				15,844
Derivative financial instruments	—	241,313				241,313
Insurance payables	—	3,006,656				3,006,656
Bank borrowings	15,315	—		4,992,000		5,007,315
Obligations under finance leases	44	—				44
	648,903	363,397,127				480,629,174
Capital and reserves						
Share capital	202,880	19,183,125		2,647,273	(19,183,125)	2,850,153
Reserves	203,718	33,170,231	(36,633,562)	86,066	3,463,331	289,784
Equity attributable to owners of the Company	406,598	52,353,356				3,139,937
Minority Interest/Non-controlling interests	261	—			1,901,431	1,901,692
Total equity	406,859	52,353,356				5,041,629
Total liabilities and equity	1,055,762	415,750,483				485,670,803

B. **Unaudited pro forma consolidated income statement of the Enlarged Group**

	The Group for the year ended 31 December 2008	Nan Shan for the year ended 30 November 2008	Pro forma adjustments: Other pro forma adjustments			Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	
	Note 1	*Note 2*	*Note 6*	*Note 7*	*Note 8*	
Revenue	18,699	—				18,699
Cost of sales	(36,926)	—				(36,926)
Gross loss	(18,227)	—				(18,227)
Net premiums earned and fee income	—	39,510,656				39,510,656
Net investment income	—	14,144,569	(1,186,119)			12,958,450
Net realised losses	—	(13,554,450)				(13,554,450)
Net fair value losses on assets at fair value through profit and loss	—	(6,943,706)				(6,943,706)
Investment -linked product return	—	(9,182,306)				(9,182,306)
Fair value changes on investments held for trading	(326,731)	—				(326,731)
Other income / revenues	29,789	297,131				326,920
Net insurance contract benefits	—	(41,674,669)	4,882,009			(36,792,660)
Investment-linked product expense	—	9,182,306				9,182,306
Commission and other acquisition costs	—	(5,390,531)	(183,862)			(5,574,393)
Amortisation of VOBA	—	—	(4,127,061)			(4,127,061)
Selling and distribution costs	(3,363)	—				(3,363)
Administrative expenses	(28,494)	(1,857,863)	(10,237)			(1,896,594)
Other expenses	(38,494)	—				(38,494)
Finance costs	(102,247)	—				(102,247)
Direct expense on issuance of non-interest bearing convertible redeemable notes	—	—		(190,383)		(190,383)
Gain on partial redemption of convertible notes	19,664	—				19,664
Loss before tax	(468,103)	(15,468,863)				(16,752,619)
Income tax credit/(expenses)	15,738	3,461,981	193,834			3,671,553
Loss for the year	(452,365)	(12,006,882)				(13,081,066)
Attributable to:						
Equity holders of the Company	(452,365)	(12,006,882)	(431,436)	(190,383)	2,729,464	(10,351,602)
Minority Interest/Non-controlling interests	—	—			(2,729,464)	(2,729,464)
	(452,365)	(12,006,882)				(13,081,066)

C. Unaudited pro forma consolidated cash flow statement of the Enlarged Group

		Pro forma adjustments		
	The Group for the year ended 31 December 2008	Nan Shan for the year ended 30 November 2008	Other pro forma adjustments	Pro Forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	
Operating Activities				
Net cash (used in)/from operating activities	(764,545)	7,539,919		6,775,374
Investing Activities				
Repayment of loan and interest receivables	43,372	—		43,372
Interest received	20,407	—		20,407
Proceeds on disposal of available-for-sale investments	4,906	—		4,906
Dividend income received from available-for-sale investments	1,287	—		1,287
Dividend income received from investments held for trading	520	—		520
Advance to an associate	(415)	—		(415)
Purchase of property, plant and equipment	(7,057)	(246,431)		(253,488)
Net cash from/(used in) investing activities	63,020	(246,431)		(183,411)
Cash flows from financing activities				
Net proceeds from issue of convertible notes	1,143,821	—	7,597,200	8,741,021
Net proceeds from issue of shares	482,625	—	2,620,800	3,103,425
Advance from a subsidiary of an associate	553	—		553
Repayment of obligations under finance lease	(26)	—		(26)
Interest paid	(2,810)	—		(2,810)
Capital contribution from Parent	—	14,313,000		14,313,000
Payment of cash dividends	—	(18,281)		(18,281)
Proceeds from bank borrowings	—	—	4,992,000	4,992,000
Cash used in acquisition of a subsidiary, net of cash acquired	—	—	(12,827,344)	(12,827,344)
Repayment of bank borrowings	(3,573)	—		(3,573)
Repayment of loan payables	(22,251)	—		(22,251)
Redemption of convertible notes	(311,101)	—		(311,101)
Net cash from financing activities	1,287,238	14,294,719		17,964,613
Net increase in cash and cash equivalents	585,713	21,588,207		24,556,576
Cash and cash equivalents at beginning of the year	191,617	4,145,456	(4,145,456)	191,617
Effect of foreign exchange rate changes	88	(148,931)		(148,843)
Cash and cash equivalents at end of the year	777,418	25,584,732		24,599,350

D. Unaudited pro forma statement of adjusted net tangible assets of the Enlarged Group

	Unaudited net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2009	Unaudited net tangible assets of the Group per share as at 30 June 2009	Unaudited pro forma adjusted net tangible assets of the Enlarged Group attributable to equity holders of the Company as at 30 June 2009	Unaudited pro form adjusted net tangible assets of the Enlarged Group per share as at 30 June 2009
	HK$'000	*HK$*	*HK$'000*	*HK$*
	Note 1	*Note 9*	*Note 10*	*Note 11*
Net tangible assets attributable to equity holders of the Company	406,598	0.2004	(85,060,979)	(2.9844)

E. **Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group:**

1. The amounts are extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2009 and the audited consolidated income statement and the audited consolidated cash flow statement of the Group for the year ended 31 December 2008, as set out in Appendix I to this Circular, with regrouping of certain figures.

2. The amounts are extracted from the accountant's report of Nan Shan, as set out in Appendix II to this Circular, and converted into Hong Kong dollars using an exchange rate of NT$4.1026 to HK$1.00.

3. The adjustment represents the cash consideration of HK$13,416 million (equivalent of US$1,720 million) for the acquisition of 78.06% effective interest in Nan Shan and the estimated costs of acquisition of approximately HK$162 million shared by the Company, and the extra funding of HK$837 million in the form of shareholder's loan advanced to the Purchaser (80% indirectly owned by the Company and 20% owned by PFH Holdings), to be satisfied by:

   (i) net proceeds of HK$7,597 million from the placing by the Company of HK$7,800 million non-interest bearing convertible redeemable notes due on six months from the date of the issue and convertible into an aggregate of 78,000,000,000 shares of the Company at HK$0.10 each, net of direct expenses of HK$203 million. The non-interest bearing convertible redeemable notes are accounted for as compound financial instruments comprising of a liability component (estimated to be approximately HK$7,322 million) and an equity component for the conversion option (being the balance of HK$275 million);

   (ii) net proceeds of HK$2,621 million from placing by the Company of 26,472,730,000 shares of the Company at HK$0.10 per share, net of direct expenses of HK$26 million. The remaining issuance of 15,527,270,000 shares are not directly attributable to the Acquisition and are related to future events, thus, are not reflected in the Unaudited Pro Forma Financial Information;

   (iii) raising by the Purchaser of HK$4,992 million (equivalent of US$640 million) bank loans from Taiwanese commercial banks of which 80% is attributable to finance the Company's acquisition of Nan Shan; while the remaining 20% is attributable to finance PFH Holding's acquisition of Nan Shan); and

   (iv) remaining balance of HK$203 million from the Company's internal cash resources.

   The above acquisition of 78.06% effective interest in Nan Shan will be effected by Primus Nan-Shan (Taiwan) acquiring 97.57% of the issued and outstanding share capital of Nan Shan. PFH Holdings will acquire 19.51% effective interest in Nan Shan through contribution of HK$1,560 million to the Purchaser and the aforesaid extra funding of HK$837 million in the form of shareholder's loan from the Company to the Purchaser (note: no shareholder's loan is advanced by PFH Holdings to the Purchaser).

4. Upon completion of the Acquisition, the identifiable assets and liabilities of Nan Shan will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard No. 3 (Revised), "Business Combinations". For the purpose of the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the identifiable assets and liabilities of Nan Shan as at 31 August 2009, after taking reference of a valuation report from an independent real estate valuer and a valuation report from an independent actuary (Ernst & Young Advisory Services Limited) engaged by the Company. The real estate valuer's report is included in Appendix IV. The actuarial valuation report issued by the actuary engaged by the Company is included in Appendix V. For the purpose of the Unaudited Pro Forma Financial Information, principal actuarial adjustments were made to the independent actuarial valuation in order to determine the fair values of insurance contract assets and liabilities. These include: (i) increase the risk discount rate from 9.5% to 12% to reflect an acquiror's higher cost of capital, and (ii) increase the assumed minimum RBC ratio from 200% to 250% to reflect a higher margin in excess of the regulatory requirement. The effect of these adjustments is to reduce the embedded value amount shown in the actuarial valuation report as included in Appendix V by HK$5,696 million.

   The excess amount of the consideration over the Group's share of the fair value of the net identifiable assets of Nan Shan is recognised as goodwill.

   The fair value adjustment comprises (i) increase in the carrying amounts of property, plant and equipment of HK$1,002 million, investment property of HK$1,870 million and insurance contract liabilities of HK$109,882 million; (ii) de-recognition of deferred acquisition costs of HK$26,071 million and other assets (sales inducement assets) of HK$89 million, as such amounts would form part of Value of Business Acquired ("VOBA") upon completion of the Acquisition ; (iii) recognition of VOBA of HK$86,769 million; and (iv) the related tax adjustments.

   Since the fair values of the identifiable assets and liabilities of Nan Shan at the Completion date may be substantially different from their fair values used in preparing this Unaudited Pro Forma Financial Information, the amounts of the fair values of the identifiable assets and liabilities, and, accordingly, the amount of goodwill at the Completion date may be different from the amounts presented above and the difference may be significant.

5. The adjustment represents consolidation entries for the elimination of investment costs of the Company and share capital and reserves of Nan Shan, elimination of intercompany balances, the recognition of 21.94% non-controlling interests in Nan Shan, and the recognition of intangible assets (including goodwill).

6. The adjustment represents (i) additional amortisation of net bond premium of HK$1,186 million as a result of the net appreciation of the value of bonds over the holding period of Nan Shan which was charged against reserve by Nan Shan; (ii) reversal of net increase in deferred acquisition costs credited to the income statement of Nan Shan of HK$184 million during the year; (iii) recognition of amortisation of VOBA of HK$4,127 million over the expected useful lives; (iv) additional depreciation expenses on property, plant and equipment of HK$10 million; and (v) net decrease in the provision of insurance contract liabilities of HK$4,882 million during the year and the related tax adjustments, assuming the acquisition was completed on 1 January 2008, as a consequence of the fair value adjustments described in note 4 above.

7. The adjustment represents the recognition of direct expenses of HK$190 million attributable to the liability component relating to the issuance of non-interest bearing convertible redeemable notes, as described in Note 3(i) above.

8. The adjustment represents the recognition of effective 21.94% non-controlling interests in Nan Shan.

9. The number of shares used for the calculation of the unaudited net tangible assets per share of the Group is 2,028,797,543 shares of the Company as at 30 June 2009.

10. The unaudited pro forma adjusted net tangible assets of the Group as at 30 June 2009 are based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group set out in Section A above, being the amount of the unaudited pro forma adjusted net assets attributable to the equity holders of the Enlarged Group as at 30 June 2009 of approximately HK$3,140 million less the amount of intangible assets, comprising VOBA of HK$86,769 million and other intangible assets of HK$1,432 million.

11. The number of shares used for the calculation of the unaudited pro forma adjusted net tangible assets of the Enlarged Group per share as at 30 June 2009 is 28,501,527,543 shares, comprising 2,028,797,543 shares of the Company as at 30 June 2009 and the 26,472,730,000 shares to be issued pursuant to the new shares placing as described in note 3(ii) above but take no account of any shares which may fall to be issued upon exercise of the conversion of non-interest bearing convertible redeemable notes and the remaining 15,527,270,000 shares from the new shares placing as they are not directly attributable to the Acquisition and are related to future events.

12. Other than the above adjustments, no adjustments have been made to the unaudited pro forma consolidated statement of financial position to reflect any trading results or other transactions of the Group and Nan Shan entered into subsequent to 30 June 2009 and 31 August 2009, respectively. In addition, other than the above adjustments, no adjustments have been made to the unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement to reflect any trading results or other transactions of the Group and Nan Shan entered into subsequent to 31 December 2008 and 30 November 2008, respectively.

(B) REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA STRATEGIC HOLDINGS LIMITED

We report on the unaudited pro forma financial information set out on pages III-1 to III-9 under the heading of "Unaudited Pro Forma Financial Information" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 27 February 2010 (the "Circular") of China Strategic Holdings Limited (the "Company"), in connection with the proposed acquisition of 97.57% of the issued share capital of Nan Shan Life Insurance Company, Ltd. (the "Acquisition") by Primus Nan-Shan Holding Company Ltd., an 80% indirectly owned subsidiary of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-1 to III-9 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7, "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300, "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the consolidated statement of financial position of the Group as at 30 June 2009 and the consolidated income statement and consolidated cash flow statement for the year ended 31 December 2008 with the corresponding financial information as set out in Appendix I to this Circular, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group, and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

— the financial position of the Group as at 30 June 2009 or any future date, or

— the results and cash flows of the Group for the year ended 31 December 2008 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 February 2010

The following is the text of a letter, summary of values and valuation certificates, received from Colliers International (Hong Kong) Limited, prepared for the purposes of incorporation into this circular, in connection with its valuation as at 31 December 2009 of the property interests held by China Strategic Holdings Limited after completion of the Sale and Purchase Agreement.

Colliers International (Hong Kong) Ltd
Company Licence No: C-006052
Suite 5701 Central Plaza
18 Harbour Road
Wanchai
Hong Kong
高力國際物業顧問(香港)有限公司
香港灣仔港灣道18號中環廣場5701室
Tel 852 2828 9888
Fax 852 2107 6051
www.colliers.com

The Board of Directors
China Strategic Holdings Limited
Rooms 3206-3210, 32/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

27 February 2010

Dear Sirs,

INSTRUCTIONS, PURPOSE AND DATE OF VALUATION

We refer to your instructions for us to assess the market value of the properties (more particularly set out in the section entitled "Summary of Values" in the following pages and hereinafter referred to as "Property" or "Properties" as the case may be) in which China Strategic Holdings Limited (the "Company") and/or its subsidiary, Nan Shan Life Insurance Co., Ltd. (together referred to as the "Group") have interests in Taiwan. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at 31 December 2009 (the "date of valuation").

BASIS OF VALUATION

Our valuations have been undertaken on the basis of Market Value as defined by The Royal Institution of Chartered Surveyors and endorsed by The International Valuation Standards Council as "the estimated amount for which a Property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

PROPERTY CATEGORISATION

The Properties held by the Group are categorised as follows:

Group I — Properties mostly occupied by the Group

Group II — Investment properties

VALUATION RATIONALE

In valuing the Properties in Group I (Properties Nos. 1 to 14, 16 to 23 in Group I), we have used a combination of the Sales Comparison Approach and the Income Capitalisation Approach. We have assumed that these Properties are capable of being sold in their existing state subject to existing tenancies or otherwise with the benefit of vacant possession and by reference to comparable sales evidence as available in the relevant market. By analysing comparable sales which qualify as 'arms-length' transactions between willing buyers and sellers, adjustments for relevant factors have been made when comparing such sales with the Properties.

In valuing Investment properties (Properties Nos. 24 to 33 in Group II), we have used the Income Capitalisation Approach and cross-checked by the Sales Comparison Approach. Income approach involves capitalising the estimated annual income of the Property by making reference to comparable rentals evidence in the relevant market and have taken into account the operating costs at the date of valuation to derive the Market Value on an open market basis.

In valuing Property No. 15 in Group I, we have used the Cost Approach to derive the Market Value due to no comparable sales and rentals in the relevant market. The Cost Approach have been undertaken to arrive at land value derived from the Sales Comparison Approach by making reference to comparable land sales evidence in the relevant market and the building residual value by deducting the accrued depreciation from the replacement cost based on the date of valuation.

VALUATION ASSUMPTIONS

Unless otherwise stated, we have valued all the Properties in Taiwan on the assumption that the owners have good titles to all the Properties and have free and uninterrupted rights to use and assign each of the Properties. We have also assumed that the Properties are freely disposable and transferable for their existing uses in the open market to purchasers whether as a whole or on strata-title basis.

Our valuations have been made on the assumption that a vendor would dispose of the Properties on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any other arrangement which could affect the Market Value of the Properties as at the date of valuation.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale or maintaining ownership of the Properties. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions or outgoings of an onerous nature which could affect their values.

Measurement of 1 square metre equivalent to 0.3025 ping is adopted in the calculation of area.

VALUATION STANDARDS

In valuing the Properties, we have complied with all the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; The RICS Valuation Standards (6th Edition) published by The Royal Institution of Chartered Surveyors, and effective from 1 January 2008; The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors, effective from 1 January 2005; and the Regulations on Real Estate Appraisal announced by the Ministry of Interior, ROC, effective from 12 June 2006.

TITLE INVESTIGATION

We have not been provided with any title documents. However, we have scrutinized the title transcriptions relating to the Properties issued by Song Shan Land Office of Taipei City to verify the ownership.

SITE INSPECTION

We have inspected the exterior and, where possible, the interior of the Properties. However, we have not carried out investigations on site to determine the suitability of ground conditions and services for future development and we assume no liability on these aspects. Our valuations have been prepared on the assumption that these aspects are satisfactory. Moreover, no structural surveys have been undertaken, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the Properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

SOURCES OF INFORMATION

We have relied to a considerable extent on information provided by the Group, in particular, but not limited to floor plans, occupancy permits, tenure, lease agreements and summaries, operating incomes and expenses, particulars of occupancy, and all other relevant information.

We have not carried out site measurements to verify the correctness of the site areas in respect of the boundaries of the Properties and we have assumed that the site areas shown on the transcriptions issued by Land Office are correct.

We have had no reason to doubt the truth and accuracy of any information provided to us and we have been advised that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

TAX LIABILITY

Based on the Land Tax Act in Taiwan, Properties Nos. 1 to 23 of Group I and Nos. 24 to 33 of Group II either occupied by the Group or held as investments will be subject to Land Value Increment Tax and Profit-seeking Enterprise Income Tax upon disposal, although the likelihood of any tax liability arising is remote as the Group has no intention to dispose of the Properties at present.

According to our established practice, we have neither to verify nor take into account such tax liability in the course of our valuations.

CURRENCY

All monetary sums stated in this report are in New Taiwan Dollars (NT$), unless otherwise stated. The exchange rate adopted in our valuations is HK$1.00=NT$4.13 which is the rounded prevailing rate as at the date of valuation and there have been no significant fluctuations in exchange rates between that date and the date of this letter.

Our valuations are summarised below and the valuation certificates are attached hereto.

Yours faithfully,

For and on behalf of
Colliers International (Hong Kong) Limited

David Faulkner
BSc (Hon) FRICS FHKIS RPS MAE
Regional Director
Consultancy and Valuation - Asia

Roy Ku
Certified Appraiser
Partner
Consultancy and Valuation
Colliers International
Valuation (Taiwan) & Co

Note: David Faulkner is a Chartered Surveyor who has 25 years' experience in the valuation of Properties in the in Hong Kong, Macau, the PRC, Korea, Taiwan and the Asia-Pacific region.

Note: Roy Ku is a National Licensed Appraiser in Taiwan, Partner of Colliers International Valuation (Taiwan) & Co, and a Manager of Colliers International (Taiwan) with over 8 years' property valuation experience in Taiwan.

SUMMARY OF VALUES

GROUP I —PROPERTIES MOSTLY OCCUPIED BY THE GROUP

No.	Property	Market Value in existing state as at 31 Dec. 2009	Interest attributable to the Group after completion of the Sale and Purchase Agreement	Market Value attributable to the Group as at 31 Dec. 2009
		NT$		*NT$*
1	Nan Shan Financial Centre, No. 168, Zhuangjing Rd., Xinyi District, Taipei City 110, Taiwan	6,749,000,000	78.06%	5,268,269,400
2	Nan Shan Building, No. 144, Sec. 2, Minquan E. Rd., Jhongshan District, Taipei City 104, Taiwan	2,647,000,000	78.06%	2,066,248,200
3	Ta An Branch Building, No.137-4, Sec. 1, Xinsheng S. Rd., Daan District, Taipei City 106, Taiwan	626,000,000	78.06%	488,655,600
4	Neihu Warehouse, No.264 & No.266, Ankang Rd., Neihu District, Taipei City 114, Taiwan	179,000,000	78.06%	139,727,400
5	5F, 5F-1, 5F-2, and 5F-3 of No.369, and B2 of No.369 & 375, Po Fu Building, Fuxing N. Rd., Songshan District, Taipei City 105, Taiwan	220,000,000	78.06%	171,732,000
6	8F~10F and B3, Nanking Plaza Tower Building, No.76, Nanjing W. Rd., Datong District, Taipei City 103, Taiwan	317,000,000	78.06%	247,450,200

No.	Property	Market Value in existing state as at 31 Dec. 2009 *NT$*	Interest attributable to the Group after completion of the Sale and Purchase Agreement	Market Value attributable to the Group as at 31 Dec. 2009 *NT$*
7	10F &11F, Kuanta Da Building, No.92, Sec. 2, Dunhua S. Rd., Daan District, Taipei City 106, Taiwan	327,000,000	78.06%	255,256,200
8	11F ~12F of No.192, 192-2, 192-3, & 192-4, and 12F of No. 192-1, Diamond Commercial Building, Sec. 3 Chongyang Rd., Sanchong City, Taipei County, Taiwan	128,000,000	78.06%	99,916,800
9	8F, 8F-1, 8F-2, and 8F-3 of No. 150, and B1 and B2 of No.150 & 152, Min Hwa Building, Fuxing N. Rd., Jhongshan District, Taipei City 104, Taiwan	172,000,000	78.06%	134,263,200
10	11F-1, Min Der Building, No.104, Minquan W. Rd., Datong District, Taipei City 103, Taiwan	132,000,000	78.06%	103,039,200
11	4 ~5F, Chung Jung Building, No.60 & No.64, Sec. 2, Anhe Rd., Daan District, Taipei City 106, Taiwan	369,000,000	78.06%	288,041,400
12	7F-2, 7F and B4, Cher Building, No.270, Sec. 4, Jhongxiao E. Rd., Daan District, Taipei City 106, Taiwan	175,000,000	78.06%	136,605,000

No.	Property	Market Value in existing state as at 31 Dec. 2009 *NT$*	Interest attributable to the Group after completion of the Sale and Purchase Agreement	Market Value attributable to the Group as at 31 Dec. 2009 *NT$*
13	19F and B3, Wall Street Financial Building, No. 270, Jhong Ming S. Rd., Si District, Taichung City 403, Taiwan	29,500,000	78.06%	23,027,700
14	Taichung Branch Building, No. 100, Sec. 2, Wu Quan W. Rd., Nantun District, Taichung City 408, Taiwan	316,000,000	78.06%	246,669,600
15	ETC (Educational Training Centre) Building, No. 300, Cheng Gong W. Rd., Wurih Township 414, Taichung County, Taiwan	669,000,000	78.06%	522,221,400
16	4F-1 and 4F-2, Juen Kuo Building, No. 108, Shan Si Rd., Bei District, Taichung City 404, Taiwan	26,600,000	78.06%	20,763,960
17	Chiayi Branch Building, No. 419, Zong Xiao Rd., Chaiyi City 600, Taiwan	269,000,000	78.06%	209,981,400
18	Tainan Branch Building, No. 192, Cingping Rd., Anping District, Tainan City 708, Taiwan	296,000,000	78.06%	231,057,600
19	Kaohsiung Branch Building, No. 38, Sec. Jhong Jheng 3rd Rd., Sinsing District, Kaohsiung City 800, Taiwan	345,000,000	78.06%	269,307,000

No.	Property	Market Value in existing state as at 31 Dec. 2009 *NT$*	Interest attributable to the Group after completion of the Sale and Purchase Agreement	Market Value attributable to the Group as at 31 Dec. 2009 *NT$*
20	9F, 10F and 11F, Yong Hsin Enterprise Building, No. 183, Liouhe Rd., Kaohsiung City 802, Taiwan	37,300,000	78.06%	29,116,380
21	Hualien Branch Building, No. 12, Nan Shan 1st St., Jian Township, Hualien County 973, Taiwan	29,000,000	78.06%	22,637,400
22	Chungli Branch Building, No. 50, Huan Nan Rd., Pingjhen City, Taoyuan County 324, Taiwan	249,000,000	78.06%	194,369,400
23	3F-1, 3F-2, 4F-1 and 4F-2, I Lan Chung Shan Building, No. 152, Sec. 3, Jhong Shan Rd., Yilan City, Yilan County 260, Taiwan	51,500,000	78.06%	40,200,900
	Group I Sub-total:	14,358,900,000		11,208,557,340

GROUP II — INVESTMENT PROPERTIES

No.	Property	Market Value in existing state as at 31 Dec. 2009 *NT$*	Interest attributable to the Group after completion of the Sale and Purchase Agreement	Market Value attributable to the Group as at 31 Dec. 2009 *NT$*
24	1F~3F, 6F~16F, and B1~B4, Wan Kuo Commercial Building, No.2, Sec. 1, Dunhua S. Rd., Songshan District, Taipei City 105, Taiwan	7,247,000,000	78.06%	5,657,008,200
25	4F, 8F~14F, and B1~B2, HP Building, No.337, Fuxing N. Rd., Songshan District, Taipei City 105, Taiwan	1,707,000,000	78.06%	1,332,484,200
26	1F and etc. of No. 291, 293, 295, and 297, Jhonghe Power Center Sec. 2, Jhongshan Rd., Jhonghe City, Taipei County 235, Taiwan	5,747,000,000	78.06%	4,486,108,200
27	Kaohsiung Costco, No. 656, Jhong Hua 5th Rd., Cianjhen District, Kaohsiung City 806, Taiwan	1,675,000,000	78.06%	1,307,505,000
28	Duran Technology Phase III, No. 176, Sec. 2, Gong Dao 5th Rd., Dong District, Hsinchu City 300, Taiwan	839,000,000	78.06%	654,923,400
29	Duran Technology Phase Ⅴ, No. 25, Pu Ding Rd., Dong District, Hsinchu City 300, Taiwan	1,671,000,000	78.06%	1,304,382,600

No.	Property	Market Value in existing state as at 31 Dec. 2009 *NT$*	Interest attributable to the Group after completion of the Sale and Purchase Agreement	Market Value attributable to the Group as at 31 Dec. 2009 *NT$*
30	1~7F and B1, Neihu Li & Feng Building, No.70, Ruiguang Rd., Neihu District, Taipei City 114, Taiwan	1,731,000,000	78.06%	1,351,218,600
31	Sanchong Carrefour, No.654, Sec. 5, Chongxin Rd., Sanchong City, Taipei County 241, Taiwan	3,131,000,000	78.06%	2,444,058,600
32	1F~17F and B1~B3, Chong Sheng Building, No.4, Sec. 1, Jhongsiao W. Rd., Jhongjheng District, Taipei City 100, Taiwan	5,378,000,000	78.06%	4,198,066,800
33	B1, B3, B4, and 1F~13F of No. 8, and 1F~14F of No.10, Min Sheng Building, Sec. 3, Minsheng E. Rd., Jhongshan District, Taipei City 104, Taiwan	8,248,000,000	78.06%	6,438,388,800
	Group II Sub-total:	37,374,000,000		29,174,144,400
	(Groups I and II) Total:	51,732,900,000		40,382,701,740

GROUP I — PROPERTIES MOSTLY OCCUPIED BY THE GROUP

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
1.	Nan Shan Financial Centre, No. 168, Zhuangjing Rd., Xinyi District, Taipei City 110, Taiwan (the "Property") Land lot No. 43, Subsection 5, Section Xinyi, Xinyi District, Taipei City, Taiwan (the "Lot")	The Property comprises a 17-storey office building (in addition to parking lots on B2 and B3) erected on a freehold site with a registered site area of 3,907 sq.m. (approximately 1,182 ping). The Property has a gross floor area of 28,431.75 sq.m. (approximately 8,601 ping). It was completed in 2006.	The Property is occupied by the owner as offices.	6,749,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 5,268,269,400)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
2.	Nan Shan Building, No. 144, Sec. 2, Minquan E. Rd., Jhongshan District, Taipei City 104, Taiwan (the "Property") Land lot No. 370, Subsection 6, Section Rongxing, Jhongshan Distrcit, Taipei City, Taiwan (the "Lot")	The Property comprises an 11-storey office building (in addition to parking lots on B1 and B2) erected on a freehold site with a registered site area of 2,100 sq.m. (approximately 635 ping). The Property has a gross floor area of 15,226.37 sq.m. (approximately 4,606 ping). It was completed in 1982.	The Property is mostly occupied by the owner as offices. The remaining portions are let under various tenancies for terms of 2.75 to 3 years with the latest expiry date on 30 November 2011, at a total monthly rent of approximately NT$910,000, exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. We are of the opinion that the current rent is in line with the current market.	2,647,000,000 (78.06%Interest attributable to the Group after completion of the Sales and Purchase Agreement: 2,066,248,200)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
3.	Ta An Branch Building, No.137-4, Sec. 1, Xinsheng S. Rd., Daan District 106, Taipei City, Taiwan (the "Property") Land lot No. No.423 Subsection 4, Section Huaisheng, Daan District, Taipei City, Taiwan (the "Lot")	The Property comprises a 8-storey office building (in addition to parking lots on B1~ B3) erected on a freehold site with a registered site area of 468.0 sq.m. (approximately 142 ping). The Property has a gross floor area of 3,572.33 sq.m. (approximately 1,081 ping). It was completed in 1991.	The Property is occupied by the owner as offices.	626,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 488,655,600)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
4.	Neihu Warehouse, No.264 & No.266, Ankang Rd., Neihu District, Taipei City 114, Taiwan (the "Property") Land lot No.245, Subsection 1, Section Tanmei, Neihu District, Taipei City, Taiwan (the "Lot")	The Property comprises a 5-storey warehouse (in addition to parking lots on B1) erected on a freehold site with a registered site area of 1,259 sq.m. (approximately 381 ping). The Property has a gross floor area of 3,440.03 sq. m. (approximately 1,041 ping). It was completed in 1989.	The Property is occupied by the owner for warehouse use.	179,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 139,727,400)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
5.	5F, 5F-1, 5F-2, and 5F-3 of No.369, and B2 of No. 369 & 375, Po Fu Building, Fuxing N. Rd., Songshan District, Taipei City 105, Taiwan (the "Property") Land lot No. 245, Subsection 4, Section Dunhua, Shongshan District, Taipei City (the "Lot")	The Property comprises office units 5F, 5F-1, 5F-2 and 5F-3 on the 5th floor of No. 369 and parking lots on B2 of No. 369 & 375 of a 15-storey office building with 2-level basement erected on a freehold site. The Property has a gross floor area of 1,438.95 sq. m., (approximately 435 ping) and an apportioned site area of 153.46 sq.m. (approximately 46 ping). It was completed in 1984.	The Property is occupied by the owner as offices.	220,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 171,732,000)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
6.	8F~10F. and B3, Nanking Plaza Tower Building, No.76, Nanjing W. Rd., Datong District 103, Taipei City, Taiwan (the "Property") Land lot No. 157, Subsection 1, Section Shifu, Datong District, Taipei City, Taiwan (the "Lot")	The Property comprises office units on the 8th, 9th, and 10th, and parking lots on B3 of a 10-storey office building with 3-level basement erected on a freehold site. The Property has a gross floor area of 2,291.19 sq.m. (approximately 693 ping) and an apportioned site area of 283.18 sq.m. (approximately 86 ping). It was completed in 1995.	The Property is occupied by the owner as offices.	317,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 247,450,200)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
7.	10F &11F, Kuanta Da Building, No.92, Sec. 2, Dunhua S. Rd., Daan District, Taipei City 106, Taiwan (the "Property") Land lot No. No.18&No.19, Subsection 2, Section Daan, Daan District, Taipei City, Taiwan (the "Lot")	The Property comprises office units on 10th and 11th floors and parking lots on B3 of a 12-storey office building with 3-level basement erected on a freehold site. The Property has a gross floor area of 2,035.52 sq.m. (approximately 616 ping) and an apportioned site area of 178.96 sq.m. (approximately 54 ping). It was completed in 1995.	The Property is mostly occupied by the owner as offices. The remaining portions of the Property with a leased area of 168.43 sq.m. (approximately 51 ping) is let under a tenancy for a term commencing from 16 May 2008 and expiring on 15 June 2010 at a monthly rent of NT$89,162 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. The tenant has been notified of an advanced termination of lease term which will expire on 31 March 2010. We are of the opinion that the current rent is in line with the current market.	327,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 255,256,200)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
8.	11F ~12F of No.192, 192-2, 192-3, & 192-4, and 12F of No.192-1, Diamond Commercial Building, Sec. 3 Chongyang Rd., Sanchong City, Taipei County 241, Taiwan (the "Property") Land lot No.842, Section Xinhai, Sanchong City, Taipei County, Taiwan (the "Lot")	The Property comprises office units on the 11th and 12th floors of No. 192, 192-2, 192-3, 192-4 and the 12th floor of No. 192-1 of a 14-storey office building with 3-level basement erected on a freehold site. The Property has a gross floor area of 2,139.04 sq.m. (approximately 647 ping) and an apportioned site area of 202.75 sq.m. (approximately 61 ping). It was completed in 1991.	The Property is occupied by the owner as offices.	128,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 99,916,800)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

3) The B1 is used as office, and B2~B3 is used as parking lots.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
9.	8F, 8F-1, 8F-2, and 8F-3 of No.150, and B1 and B2 of No.150 & 152, Min Hwa Building, Fuxing N. Rd., Jhongshan District, Taipei City 104, Taiwan (the "Property") Land lot No. 761, Subsection 1, Section Changchun, Jhongshan District, Taipei City, Taiwan (the "Lot")	The Property comprises office units 8F, 8F-1, 8F-2, and 8F-3 on the 8th floor of No. 150 and parking lots on B1 and B2 of No. 150 & 152 (with shareholding 10/520) of a 14-storey office building with 2-level basement erected on a freehold site. The Property has a gross floor area of 1,157.27 sq.m. (approximately 350 ping) and an apportioned site area of 111.34 sq.m. (approximately 34 ping). It was completed in 1983.	The Property is occupied by the owner as offices.	172,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 134,263,200)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
10.	11F-1, Min Der Building, No.104, Minquan W. Rd., Datong District, Taipei City 103, Taiwan (the "Property") Land lot No.17&No.17-4, Subsection 2, Section Shuanglian, Datong District, Taipei City, Taiwan (the "Lot")	The Property comprises office units on the 11th floor of a 13-storey office building with 2-level basement erected on a freehold site. The Property has a gross floor area of 993.25 sq.m. (approximately 300 ping) and an apportioned site area of 94.09 sq.m. (approximately 28 ping). It was completed in 1982.	The Property is occupied by the owner as offices.	132,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 103,039,200)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
11.	4~5F, Chung Jung Building, No.60 & No.64, Sec. 2, Anhe Rd., Daan District, Taipei City 106, Taiwan (the "Property") Land lot No.177, Subsection 5, Section Tonghua, Daan District, Taipei City, Taiwan (the "Lot")	The Property comprises office units on the 4th and 5th floors of a 19-storey mixed-use building (residential & commercial) with 2-level basement erected on a freehold site. The Property has a gross floor area of 2,139.50 sq.m. (approximately 647 ping) and an apportioned site area of 207.77 sq.m. (approximately 63 ping). It was completed in 1979.	The Property is occupied by the owner as offices.	369,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 288,041,400)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
12.	7F-2, 7F and B4, Cher Building, No.270, Sec. 4, Jhongxiao E. Rd., Daan District, Taipei City 106, Taiwan (the "Property") Land lot No. 62, Subsection 1, Section Renai, Daan District, Taipei City, Taiwan (the "Lot")	The Property comprises office units of 7F and 7F-1 on the 7th floor and parking lots on B4 of an 18-storey office building with 4-level basement erected on a freehold site. The Property has a gross floor area of 873.84 sq.m. (approximately 264 ping) and an apportioned site area of 65.89sq.m. (approximately 20 ping). It was completed in 1986.	The Property is occupied by the owner as offices.	175,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 136,605,000)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
13.	19F and B3, Wall Street Financial Building, No.270, Jhong Ming S. Rd., Si District, Taichung City 403, Taiwan (the "Property") Land lot No. 73-21, Sec. Tu Ku, Si District, Taichung City, Taiwan (the "Lot")	The Property comprises office units on the 19th floor and parking lots on B3 of a 20-storey office building with 3-level basement erected on a freehold site. The Property has a gross floor area of 1,068.63 sq.m. (approximately 323 ping) and an apportioned site area of 88.87 sq.m. (approximately 27 ping). It was completed in 1990.	The Property is occupied by the owner as offices.	29,500,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 23,027,700)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
14.	Taichung Branch Building, No. 100, Sec. 2, Wu Quan W. Rd., Nantun District, Taichung City 408, Taiwan (the "Property") Land lot No. 828 and 829, Sec. Da Jin, Nantun District, Taichung City, Taiwan (the "Lot")	The Property comprises a 10-storey office building (in addition to parking lots on B1 and B2) erected on a freehold site with a registered site area of 1,220.0 sq.m. (approximately 369 ping). The Property has a gross floor area of 9,431.34 sq.m. (approximately 2,853 ping). It was completed in 1991.	The Property is occupied by the owner as offices.	316,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 246,669,600)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
15.	ETC (Educational Training Centre) Building, No. 300, Cheng Gong W. Rd., Wurih Township 414, Taichung County, Taiwan (the "Property") Land Lot No. 70-1, Sec. Cheng Gong Ling, Wurih Township, Taichung County, Taiwan (the "Lot")	The Property comprises a 4-storey building (in addition to lecture theatre and parking lots on B1, B2 and B3) erected on a freehold site with a registered site area of 9,917.36 sq.m. (approximately 3,000 ping). The Property has a gross floor area of 21,615.17 sq.m. (approximately 6,539 ping). It was completed in 2002.	The Property is occupied by the owner as an education and training centre.	669,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 522,221,400)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
16.	4F-1 and 4F-2, Juen Kuo Building, No.108, Shan Si Rd., Bei District, Taichung City 404, Taiwan (the "Property") Land lot No. 72, Sec. Zhong Qing, Bei District, Taichung City, Taiwan (the "Lot")	The Property comprises office units on the 4th floor of a 15-storey office building with 2-level basement erected on a freehold site. The Property has a gross floor area of 1,203.52 sq. m., (approximately 364 ping) and an apportioned site area of 94.27 sq.m. (approximately 29 ping). It was completed in 1989.	The Property is occupied by the owner as offices.	26,600,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 20,763,960)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
17.	Chiayi Branch Building , No. 419, Zong Xiao Rd., Chaiyi City 600, Taiwan (the "Property") Land lot No. 438-7, 442, and 442-20, Sec. Tai Dou Keng, Chaiyi City, Taiwan (the "Lot")	The Property comprises a 10-storey office building (in addition to parking lots on B1 and B2) erected on a freehold site with a registered site area of 1,388.0 sq.m. (approximately 420 ping). The Property has a gross floor area of 9,433.41 sq.m. (approximately 2,854 ping). It was completed in 1992.	The Property is mostly occupied by the owner as offices. The remaining portions with a leased area of 156.3 sq.m. (approximately 47 ping) is let under a tenancy for a term of 3 years commencing from 1 Dec. 2009 and expiring on 30 Nov. 2012 at a monthly rent of NT$23,309 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. In addition, an annual rental escalation of 2% will be applied starting from 1 December 2010. We are of the opinion that the current rent is in line with the current market.	269,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 209,981,400)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
18.	Tainan Branch Building, No. 192, Cingping Rd., Anping District, Tainan City 708, Taiwan (the "Property") Land lot No. 1-17, Sec. Jin Hua, Anping District, Tainan City, Taiwan (the "Lot")	The Property comprises a 10-storey office building (in addition to parking lots on B1 and B2) erected on a freehold site with a registered site area of 1,133.0 sq.m. (approximately 343 ping). The Property has a gross floor area of 12,293.2 sq.m. (approximately 3,719 ping). It was completed in 1995.	The Property is mostly occupied by the owner as offices. The remaining portions with a leased area of 291.57 sq.m. (approximately 88 ping) is let under a tenancy for a term of 3.3 years commencing from 1 Aug. 2009 and expiring on 30 Nov. 2012 at a monthly rent of NT$37,830 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. In addition, an annual rental escalation of 2% will be applied starting from 1 December 2010. We are of the opinion that the current rent is in line with the current market.	296,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 231,057,600)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
19.	Kaohsiung Branch Building, No.38, Sec. Jhong Jheng 3rd Rd., Sinsing District, Kaohsiung City 800, Taiwan (the "Property") Land lot No. 921 and 921-1, Sec. Sinsing, Sinsing District, Kaohsiung City, Taiwan (the "Lot")	The Property comprises a 10-storey office building (in addition to parking lots on B1, B2 and B3) erected on a freehold site with a registered site area of 1,078.0 sq.m. (approximately 326 ping). The Property has a gross floor area of 10,952.36 sq.m. (approximately 3,313 ping). It was completed in 1990.	The Property is occupied by the owner as offices.	345,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 269,307,000)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
20.	9F, 10F and 11F, Yong Hsin Enterprise Building, No.183, Liouhe Rd., Kaohsiung City 802, Taiwan (the "Property") Land lot No. 1314-2, Sec. Lin De Guan, Linya District, Kaohsiung City, Taiwan (the "Lot")	The Property comprises office units on the 9th, 10th, and 11th floors of a 12-storey office building with 2-level basement erected on a freehold site. The Property has a gross floor area of 1,482.8 sq. m., (approximately 449 ping) and an apportioned site area of 134.03 sq.m. (approximately 41 ping). It was completed in 1990.	The Property is occupied by the owner as offices.	37,300,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 29,116,380)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
21.	Hualien Branch Building, No.12, Nan Shan 1st St., Jian Township, Hualien County 973, Taiwan (the "Property") Land lot No. 493 and 494, Sec. Yi Chang, Jian Township, Hualien County, Taiwan (the "Lot")	The Property comprises a 4-storey office building (in addition to refuge on B1) erected on a freehold site with a registered site area of 603.0 sq.m. (approximately 182 ping). The Property has a gross floor area of 1,644.62 sq.m. (approximately 498 ping). It was completed in 1981.	The Property is occupied by the owner as offices.	29,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 22,637,400)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
22.	Chungli Branch Building, No. 50, Huan Nan Rd., Pingjhen City, Taoyuan County 324, Taiwan (the "Property") Land lot No. 448, 449, 450, 451 and 452, Sec. Guang Pin, Pingjhen City, Taoyuan County, Taiwan (the "Lot")	The Property comprises a 10-storey office building (in addition to parking lots on B1 and B2) erected on a freehold site with a registered site area of 1,047.96 sq.m. (approximately 317 ping). The Property has a gross floor area of 7,686.52 sq.m. (approximately 2,325 ping). It was completed in 1997.	The Property is occupied by the owner as offices.	249,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 194,369,400)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
23.	3F-1, 3F-2, 4F-1 and 4F-2, I Lan Chung Shan Building, No. 152, Sec. 3, Jhong Shan Rd., Yilan City, Yilan County 260, Taiwan (the "Property") Land lot No. 963, Sec. Gen Men, Yilan City, Yilan County, Taiwan (the "Lot")	The Property comprises office units of 3F-1 and 3F-2 on the 3th and 4F-1 and 4F-2 on the 4th floors of a 9-storey office building with 1-level basement erected on a freehold site. The Property has a gross floor area of 1,637.16 sq. m. (approximately 495 ping) and an apportioned site area of 182.91 sq.m. (approximately 55 ping). It was completed in 1999.	The Property is occupied by the owner as offices.	51,500,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 40,200,900)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

GROUP II— INVESTMENT PROPERTIES

VALUATION CERTIFICATE

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
24.	1F~3F, 6F~16F, and B1~B4, Wan Kuo Commercial Building, No.2, Sec. 1, Dunhua S. Rd., Songshan District, Taipei City 105, Taiwan (the "Property") Land lot No.1-2, No.1-6 & No.1-7, Subsection 3, Section Dunhua, Shongshan District, Taipei City, Taiwan (the "Lot")	The Property comprises office units on 1th ~3th floors, 6th ~16th floors, and parking lots on B1~B4F of a 16-storey office building with 4-level basement erected on a freehold site. The Property has a gross floor area of 41,056.6 sq.m. (approximately 12,420 ping) and an apportioned site area of 3,559.59 sq.m. (approximately 1,077 ping). It was completed in 1986.	Most units are let under various tenancies for terms of 0.4 to 5.6 years with the latest expiry date on 31 August 2013, at a total monthly rent of approximately NT$18,840,000 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. In addition, most tenancies are provided with a renewal option. The remaining 5,952.83 sq.m. (approximately 1,801 ping) is vacant. We are of the opinion that the current rent is in line with the current market.	7,247,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 5,657,008,200)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
25.	4F, 8F~14F, and B1~B2, HP Building, No.337, Fuxing N. Rd., Songshan District, Taipei City 105, Taiwan (the "Property") Land lot No. 29, Subsection 5, Dun Hua Section, Songshan District, Taipei City (the "Lot")	The Property comprises office units on the 4th floor, 8th ~14th floors, and parking lots on B1 and B2 of a 14-storey office building with 2-level basement erected on a freehold site. The Property has a gross floor area of 10,356.47 sq.m. (approximately 3,133 ping) and an apportioned site area of 1,152.9 sq.m. (approximately 349 ping). It was completed in 1983.	The 4th floor is occupied by the owner for office use. The remaining portions are let under various tenancies for terms of 0.92 to 5.25 years with the latest expiry date on 31 August 2011, at a total monthly rent of approximately NT$4,640,000 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. In addition, most tenancies are provided with a renewal option. We are of the opinion that the current rent is in line with the current market.	1,707,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 1,332,484,200)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
26.	1F and etc. of No. 291, 293, 295, and 297, Jhonghe Power Center, Sec. 2, Jhongshan Rd., Jhonghe City, Taipei County 235, Taiwan (the "Property") Land lot No. No.13, Section Anbang, Jhonghe City, Taipei County, Taiwan (the "Lot")	The Property comprises retail and office units in an 11-storey building with 6-level basement erected on a freehold site as following:No. 291 (B2, B3, 1F, 2F, 3F, 4F, 5F, 5F-1, 5F-2, 5F-3, 5F-5, 5F-6, 6F, 6F-1, 6F-2, 6F-3, 6F-5, 7F, 8F, 9F, and 10F); No.293 (B3, 1F, 7F, and 10F); No.295 (B3 and 1F); No. 297 (1F, 2F, 3F, and 4F). The Property has a gross floor area of 110,120.05 sq.m. (approximately 33,311 ping) and an apportioned site area of 9,426.62 sq.m. (approximately 2,852 ping). It was completed in 2003.	Most units are let under various tenancies for terms of 1 to 20 years with the latest expiry date on 28 April 2024, at a total monthly rent of approximately NT$18,590,000. Except Carrefour, most rents are exclusive of taxes, management fees, and utility charges, and no disbursements or outgoings from the rents. The remaining 1,423.97 sq.m. (approximately 431 ping) is vacant. We are of the opinion that the current rent is in line with the current market.	5,747,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 4,486,108,200)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
27.	Kaohsiung Costco, No. 656, Jhong Hua 5th Rd., Cianjhen District, Kaohsiung City 806, Taiwan (the "Property") Land lot No. 533, 534 and 535, Subsection 1, Sec. Shi Jia, Cianjhen District, Kaohsiung City, Taiwan (the "Lot")	The Property comprises a 3-storey building (in addition to hypermarket on B1 and parking lots on B2) erected on a freehold site with a registered area of 10,748.68 sq.m. (approximately 3,251 ping). The Property has a gross floor area of 31,728.02 sq.m. (approximately 9,598 ping). It was completed in 1997.	The Property is let under a tenancy with a leased area of 31,728.02 sq.m. (approximately 9,598 ping) for a term of 20 years commencing from 14 June 2006 and expiring on 13 June 2026 at a monthly rent of NT$6,120,000 exclusive of taxes. No disbursements or outgoings from the rent. In addition, a rental escalation schedule of 2% from the second year and a renewal option of 12 months' early notice. We are of the opinion that the current rent is in line with the current market.	1,675,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 1,307,505,000)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
28.	Duran Technology Phase III, No. 176, Sec. 2, Gong Dao 5th Rd., Dong District, Hsinchu City 300, Taiwan (the "Property") Land lot No. 78, Sec. Guang Fu, Hsinchu City, Taiwan (the "Lot")	The Property comprises an 11-storey tech office building (in addition to parking lots on B1, B2 and B3) erected on a freehold site with a registered area of 2,736.0 sq.m. (approximately 828 ping). The Property has a gross floor area of 16,340.6 sq.m. (approximately 4,943 ping). It was completed in 2002.	Most units are let under various tenancies for terms of one to three years with the latest expiry date on 26 April 2012, at a total monthly rent of approximately NT$3,040,000 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. In addition, most tenancies are provided with a renewal option of two months' early notice. The remaining 2,349.16 sq.m. (approximately 711 ping) is vacant. We are of the opinion that the current rent is in line with the current market.	839,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 654,923,400)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
29.	Duran Technology Phase Ⅴ, No. 25, Pu Ding Rd., Dong District, Hsinchu City 300, Taiwan (the "Property") Land lot No. 291, Sec. Guo Dao, Hsinchu City, Taiwan (the "Lot")	The Property comprises a 10-storey tech office building (in addition to parking lots on B1 and B2) erected on a freehold site with a registered site area of 6,252.19 sq.m. (approximately 1,891 ping). The Property has a gross floor area of 28,891.65 sq.m. (approximately 8,740 ping). It was completed in 2003.	Most units are let under various tenancies for terms of one to ten years with the latest expiry date on 19 Sep. 2016, at a total monthly rent of approximately NT$6,460,000 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. In addition, most tenancies are provided with a renewal option of two months' early notice. The remaining 3,668.73 sq.m. (approximately 1,110 ping) is vacant. We are of the opinion that the current rent is in line with the current market.	1,671,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 1,304,382,600)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
30.	1~7F and B1, Neihu Li & Feng Building, No.70, Ruiguang Rd., Neihu District, Taipei City 114, Taiwan (the "Property") Land lot No. 196-1, Subsection 5, WenDe Section, Neihu District, Taipei City, Taiwan (the "Lot")	The Property comprises a 7-storey tech office building (in addition to parking lots on B2~B4) erected on a freehold site with a registered site area of 3,501.21sq.m. (approximately 1,059 ping). The Property has a gross floor area of 20,145.46 sq.m. (approximately 6,094 ping). It was completed in 2006.	The Property is let under a tenancy with a leased area of 13,325.74 sq. m. (approximately 4,031 ping) for a term of 6.5 years commencing from 1 August 2007 and expiring on 31 January 2014 at a monthly rent of NT$4,704,212 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. In addition, a rental escalation schedule of 3% from the second year has been provided. We are of the opinion that the current rent is in line with the current market.	1,731,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 1,351,218,600)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

3) Upon our inspection, we found that portion of the B1 has been remodeled as employee lounge while the registered use of B1 is parking lots. For the purpose of our valuation, we have valued the Property according to its statutory uses.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
31.	Sanchong Carrefour, No.654, Sec. 5, Chongxin Rd., Sanchong City, Taipei County 241, Taiwan (the "Property") Land lot No. 166 and 167, Chongxin Subsection, Section Erchongpu, Sanchong City, Taipei County, Taiwan (the "Lot")	The Property comprises a 6-storey hypermarket (in addition to parking lots on B2) erected on a freehold site with a registered site area of 11,332.0 sq.m. (approximately 3,428 ping) The Property has a gross floor area of 44,923.04 sq.m. (approximately 13,589 ping). It was completed in 2007.	The Property is let under a tenancy with a leased area of 44,923.04 sq.m. (approximately 13,589 ping) for a term of 20 years commencing from 25 July 2007 and expiring on 24 July 2027 at a monthly rent of NT$10,833,333 exclusive of taxes. No disbursements or outgoings from the rent. In addition, a rental escalation schedule of 2% from the third year and a renewal option of 12 months' early notice. We are of the opinion that the current rent is in line with the current market.	3,131,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 2,444,058,600)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009 *NT$*
32.	1F~17F and B1~B3, Chong Sheng Building , No.4, Sec. 1, Jhongsiao W. Rd., Jhongjheng District, Taipei City 100, Taiwan (the "Property") Land lot No. 2 & 3, Subsection 3, Gong-yuan Section, Jhongjheng District, Taipei City, Taiwan (the "Lot")	The Property comprises office units on 1th~17th floors and parking lots on B1~B3 (with shareholding 98/110) of a 19-storey office building with 3-level basement erected on a freehold site. The Property has a gross floor area of 31,443.23 sq.m. (approximately 9,512 ping) and an apportioned site area of 2,065.37 sq.m. (approximately 625 ping). It was completed in 1991.	The 2nd ~6th floors are occupied by the owner as offices. Most of the remaining portion are let under various tenancies for terms of 1 to 10 years with the latest expiry date on 19 July 2019, at a total monthly rent of approximately NT$8,480,000 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. In addition, most tenancies are provided with a renewal option of six months' early notice. The remaining 6,235.61 sq.m. (approximately 1,887 ping) is vacant. We are of the opinion that the current rent is in line with the current market.	5,378,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 4,198,066,800)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

	Property	Description and Tenure	Particulars of Occupancy	Market Value In Existing State as at 31 Dec. 2009I *NT$*
33.	B1, B3, B4, and 1F~13F of No. 8, and 1F~14F of No.10, Min Sheng Building, Sec. 3, Minsheng E. Rd., Jhongshan District, Taipei City 104, Taiwan (the "Property") Land lot No.90&No.173, Subsection 2, Section Changchun, Jhongshan District, Taipei City, Taiwan (the "Lot")	The Property comprises 14-storey office building (in addition to parking lots on B1~B6) erected on a freehold site with a registered site area of 5,090.82 sq.m. (approximately 1,540 ping) The Property has a gross floor area of 47,352.14 sq.m. (approximately 14,324 ping). It was completed in 2005.	Most units are let under various tenancies for terms of 4 to 10 years with the latest expiry date on 31 December 2018, at a total monthly rent of approximately NT$22,810,000 exclusive of taxes, management fees, and utility charges. No disbursements or outgoings from the rent. In addition, most tenancies are provided with a renewal option of six months' early notice. The remaining 1,794.64 sq.m. (approximately 543 ping) is vacant. We are of the opinion that the current rent is in line with the current market.	8,248,000,000 (78.06% Interest attributable to the Group after completion of the Sales and Purchase Agreement: 6,438,388,800)

Notes:

1) Pursuant to the title transcriptions issued by Song Shan Land Office of Taipei City on 21 December 2009, the registered owner of the Property is Nan Shan Life Insurance Co., Ltd, a subsidiary of the Company which has 78.06% interest after completion of the Sale and Purchase Agreement.

2) There are no liens (no mortgages or loans) against the Property according to the transcriptions issued.

3) Upon our inspection, we found that portion of B2 has been leased by banquet hall while the registered use of B2 is parking lots and air-raid refuge. For the purpose of our valuation, we have valued the Property according to its statutory uses.

The following is the text of a report prepared by Ernst & Young for the purpose of incorporation into this circular, in connection with the components of the economic value of Nan Shan as at 31 August 2009.

27 February 2010

The Directors
China Strategic Holdings Limited
China Resources Building,
26 Harbour Road
Wanchai, Hong Kong

Dear Sirs

INDEPENDENT ACTUARIES' REPORT

1. INTRODUCTION

Ernst & Young Advisory Services Limited ("EY" or "we") was engaged by China Strategic Holdings Limited to review and provide a report on the components of economic value of Nan Shan Life Insurance Company Limited ("Nan Shan") for inclusion in the circular of China Strategic Holdings Limited dated 27 February 2010 in connection with, among other things, the very substantial acquisition of Nan Shan (the "Circular").

This report is prepared for inclusion in the Circular and sets out the scope of the work that we have performed and summarises the results of our work. The reader's attention is drawn to Section 8 of this report which sets out the reliances and limitations relating to this report. This report has been prepared solely for the directors of China Strategic Holdings Limited and should not be relied on by any third party.

2. SCOPE OF WORK

The scope of our work was to review and report on the calculation of components of the economic value of Nan Shan:

- Embedded value as at 31 August 2009; and,
- Value of one year's new business in respect of business issued during the 12 months to 31 August 2009.

A review of the adjusted net asset value component was outside the scope of our engagement.

In performing our review, we have carried out a combination of reasonableness checks, analytical reviews and tests of computational accuracy as we considered necessary, in order to provide reasonable assurance that the components of economic value of Nan Shan have been properly determined using reasonable assumptions and methodology, taking into account Nan Shan's recent operating experience and our knowledge of the life insurance industry in Taiwan.

3. VALUATION METHODOLOGY

Nan Shan has adopted a traditional deterministic discounted cash flow methodology to determine the components of economic value. This methodology makes implicit allowance for the time value cost of options and guarantees and other risks associated with the realisation of the expected future distributable earnings through the use of a risk adjusted discount rate and is consistent with the generally accepted traditional embedded value principles and is a common methodology used by life insurance companies in Asia at the current time.

The embedded value of Nan Shan has been determined as the sum of:

- net assets attributable to the shareholders after the adjustment to market value ("adjusted net asset value"); and,

- value of in-force business allowing for the cost of holding solvency capital at the required regulatory minimum level ("the value of in-force business").

Net asset value is defined as the value of assets less policy liabilities and other liabilities, all measured on the Taiwan statutory basis. Adjustments are made to this to derive the adjusted net asset value.

The **value of in-force business** has been calculated as the present value of expected future after-tax distributable earnings for existing business discounted back to the valuation date using a traditional deterministic cash flow discount methodology. Distributable earnings are those profits arising after allowance for policy reserves on the required statutory reserving basis and after allowance for solvency capital at the required regulatory minimum level.

Similarly, the **value of one year's new business** has been calculated as the present value of expected future after-tax distributable earnings for one year's new business discounted back to the point of sale using a traditional deterministic cash flow discounting methodology.

It should be noted that, in assessing the total value of Nan Shan, the value attributable to future new business can be determined using the product of the value of the business issued in one year and a new business multiplier which reflects an allowance for future sales and the risks associated with it at the assumed profit margin. Our work scope did not include providing an opinion on assessment of the total value of future new business of Nan Shan.

In determining the value of in-force business of Nan Shan, the policy databases underlying the life insurance business of Nan Shan as at 31 August 2009 were used. New business volumes and mix were based on the actual business written by Nan Shan in the 12 months to 31 August 2009.

4. VALUATION ASSUMPTIONS

In order to review the embedded value and the value of one year's new business, consideration was given to the experience analyses produced by Nan Shan and whether the assumptions used represent Nan Shan's best estimate.

Non-economic assumptions were checked for their consistency with the latest experience studies, and where appropriate, benchmarked against industry experience for reasonableness. Economic assumptions were also reviewed and benchmarked against the Taiwan market.

The principal bases and assumptions used in the calculations are summarised below. These assumptions have been made on a "going concern" basis, assuming that the current economic and legal environment continues in Taiwan.

Risk Discount Rates

The risk discount rate represents a rate of return commensurate with the risks associated with the realisation of future distributable earning. It is calculated as the sum of the risk-free rate and risk margin to make allowance for the risk that actual future experience may be different to that assumed in this report.

Where the net of tax distributable earnings in a year are positive, values are discounted using a central risk discount rate of 9.5%. Where the net of tax distributable earnings in a year are negative, values are discounted using the assumed investment return for the year.

Values are also illustrated on risk discount rates of 8.5% and 10.5%. The selection of the risk discount rate depends upon a number of objective and subjective factors and the illustrated range is provided to assess the sensitivity of value to changes in the risk discount rate. The range given should not be interpreted to imply an upper or lower bound.

The discount rates appropriate to an investor will depend on objective and subjective considerations including their own requirements, tax position and perception of risks associated with the realisation of future profits.

Investment Returns

Investment returns were derived by considering current and expected future asset allocations and associated investment returns for a range of major asset classes. Assumed future investment returns, net of investment expenses of 0.05% per annum, are as follows:

Year^	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019+**
Rate (%)	3.21	3.53	3.61	3.69	3.77	3.85	3.93	4.01	4.09	4.16	4.24

Notes:

^ 12 months from 1 September

Inflation

Future inflation rate was assumed to be 2% per annum, which is in line with current expectation on long term consumer price inflation.

Mortality

The assumption for mortality rates was derived by taking into consideration Nan Shan's mortality experience from 2001 to 2008, its expectations on current and expected future experience and the overall experience of the Taiwan life insurance market. The mortality assumptions adopted have been based on the standard industry mortality tables as follows:

- Annuity products: 100% of the 1995 Taiwanese Individual Annuity ("95TIA") mortality table was adopted as the portfolio of annuitants is small and there is no credible company experience.

- Non annuity products: the mortality assumptions adopted were between 13% per annum to 47% per annum of the 2002 Taiwanese Standard Ordinary ("02TSO") mortality table. Nan Shan's recent mortality experience shows significant mortality improvement from 2001 to 2008, with an average improvement rate of 4% per annum. Hence, future mortality improvements were assumed to be 3% per annum for the first five years, reducing to 2% per annum for another five years, and ultimately 1% per annum thereafter.

- Dread Disease: the mortality assumption for 2009 was assumed to be 1032% of 02TSO. Future mortality improvement after dread disease was assumed to be 11% per annum in 2009, linearly reducing to 1% per annum by 2019, then remaining at 1% per annum thereafter. This is consistent with the recent company mortality study, which showed a significant mortality improvement after dread disease.

Morbidity

The assumption for morbidity rates were derived by taking into consideration Nan Shan's recent morbidity experience, its expectations on current and expected future experience and the overall morbidity experience of the Taiwan life insurance market. Assumptions were based on a percentage of the incidence tables used in pricing and some benefits allow for future deterioration of morbidity rates.

Persistency

Persistency includes assumptions for policy lapse, premium persistency, premium holidays and partial withdrawals.

The persistency rates were based on Nan Shan's recent persistency experience, its expectations of current and future expected experience and overall knowledge of the Taiwan life insurance market. Persistency assumptions vary by product type and policy duration. Where historic actual experience is not available or not credible due to a small portfolio size, pricing bases was adopted.

Loss Ratios

The loss ratios used to project claims in respect of the short-term business were derived with regards to Nan Shan's recent experience, its expectations of current and future expected experience and overall knowledge of the Taiwan life insurance market.

Operating Expenses

Operating expenses were allowed for based on the most recent experience analysis performed by Nan Shan. Its analysis allocated expenses to the various product lines written by the company and then attributed between initial expenses and maintenance expenses.

Based on this analysis, the expenses assumptions were determined for acquisition and maintenance activities, split by product type, and unit costs expressed as a percentage of premium, sum assured and an amount per policy. The expense assumptions do not make any allowance for anticipated future expense savings as a result of strategic initiatives aimed at improving Nan Shan's operational efficiencies in the future.

Nan Shan has checked that there is no projected expense overrun as a result of using the expense assumptions.

Commission and Other Variable Costs

Commission and other variable cost assumptions were based on the levels currently being paid. These were assumed to continue into the future without change.

Policyholder Dividends

Policyholder dividends were assumed to continue at current levels unaltered into the future. They differ by the following business types:

- Dividends on old compulsory participating business

- Dividends on new true participating business

Dividends on old compulsory participating business consist of interest dividends and mortality dividends. Interest dividends are declared at each policy anniversary based on the excess of an average bank deposit rate over the filing interest rate. The bank deposit rate used is the average of three specified banks' monthly declared two-year time deposit interest rate, averaged over the 12-month period ending on the policy anniversary. Mortality dividends are also declared at each policy anniversary based on the excess of the expected mortality cost calculated from the filing mortality basis over the actual mortality cost, based on the average industry actual five-year experience.

Dividends on new true participating business are based on dividend rates declared by Nan Shan at each policy anniversary. Since the products have been launched, Nan Shan has not deviated from paying the rates illustrated at point of sale. An additional dividend payment is made at maturity to distribute any accumulated surplus remaining.

Taxation

Tax is assumed to be paid on the same basis as is consistent with current business unit tax basis, which is assumed to continue unaltered into the future.

Other Assumptions

- Reinsurance: Nan Shan's current reinsurance arrangements have been assumed to continue unaltered.

- Solvency Capital: Allowance has been made for the cost of solvency margin as prescribed by the regulator. The minimum regulatory requirement in Taiwan is 200% of the risk based capital (RBC), which is calculated using a prescribed formula.

- Reserving Basis: The current methods for calculating Nan Shan's policy reserves on the Taiwan statutory basis and surrender values have been assumed to continue unaltered.

5. SUMMARY OF VALUATION RESULTS

The components of economic value of Nan Shan as at 31 August 2009, using the methodology and assumptions described in Sections 3 and 4 of this report, are set out in Tables 1 and 2 below:

Table 1: Embedded Value as at 31 August 2009 (NT$ Million)

	Risk Discount Rates		
	Low	**Central**	**High**
Adjusted Net Asset Value	129,894	129,894	129,894
Value of In-Force Business before Cost of Capital	(198)	(4,750)	(8,015)
Cost of Solvency Capital	(39,336)	(41,959)	(44,019)
Value of In-Force Business after Cost of Capital	(39,534)	(46,709)	(52,035)
Embedded Value	90,360	83,185	77,859

Table 2: Value of One Year's New Business in the 12 months to 31 August 2009 (NT$ Million)

	Risk Discount Rates		
	Low	**Central**	**High**
Value of One Year's New Business before Cost of Capital	8,301	7,244	6,330
Cost of Solvency Capital	(933)	(963)	(979)
Value of One Year's New Business after Cost of Capital	7,368	6,281	5,352

The net asset value of Nan Shan was NT$133,998 million, as shown in the statutory balance sheet as at 31 August 2009. We have relied on the accuracy of this without independent verification. The following adjustments were made to derive the adjusted net asset value of NT$129,894 million as at 31 August 2009 (as set out in Table 1 above).

- Fair value adjustment for properties held by Nan Shan
- Adjustment relating to unrealised gains attributable to participating policyholders
- Adjustment to allow for expected income tax payments on future taxable interest income from local bonds

6. SENSITIVITY ANALYSIS

Nan Shan has performed sensitivity analyses on the value of in-force business and the value of one year's new business, by independently varying certain assumptions regarding future experience. Specifically, the following changes in assumptions have been considered:

- Sensitivity 1: a 50 basis points ("bps") increase in investment returns
- Sensitivity 2: a 50 bps reduction in investment returns
- Sensitivity 3: a 10% increase in persistency
- Sensitivity 4: a 10% reduction in persistency
- Sensitivity 5: a 10% increase in mortality, morbidity and loss ratios
- Sensitivity 6: a 10% increase in operating expenses
- Sensitivity 7: dividend offset reserve released to policyholders on maturity in line with the run off of the in-force portfolio

Sensitivities 1 to 6 are included to show the impact of changes in key assumptions on the components of economic value. Sensitivity 7 shows the impact of the change in value due to change in methodology pertaining to dividend offset reserve. (In the base case, Nan Shan assumes that on policy maturity, dividend offset reserve is retained as liabilities on book where it is held indefinitely and it is not released either to the policyholders or the shareholders. This is in line with the current regulations which do not specify the treatment of dividend offset reserve on policy maturity.)

The sensitivities were performed by allowing parallel movements to the relevant parameters with respect to the base case.

Tables 3 and 4 show the sensitivity results of the value of in-force business and the value of one year's new business respectively.

Table 3: Sensitivity Results of Value of In-Force Business as at 31 August 2009 (NT$ Million)

	Value of In-Force Business before Cost of Capital			Value of In-Force Business after Cost of Capital		
	Risk Discount Rate			Risk Discount Rate		
	Low	Central	High	Low	Central	High
Base Case	**(198)**	**(4,750)**	**(8,015)**	**(39,534)**	**(46,709)**	**(52,035)**
Sensitivity 1	90,719	76,326	65,078	56,457	39,280	25,831
Sensitivity 2	(127,349)	(128,399)	(129,513)	(157,241)	(158,927)	(160,162)
Sensitivity 3	(37)	(5,024)	(8,589)	(40,004)	(47,613)	(53,228)
Sensitivity 4	165	(4,063)	(7,109)	(38,558)	(45,410)	(50,525)
Sensitivity 5	(14,861)	(17,366)	(19,202)	(53,814)	(58,959)	(63,148)
Sensitivity 6	(4,809)	(9,036)	(12,029)	(44,144)	(50,993)	(56,047)
Sensitivity 7	(19,920)	(19,515)	(19,239)	(56,312)	(58,911)	(61,082)

Table 4: Sensitivity Results of Value of One Year's New Business as at 31 August 2009 (NT$ Million)

	Value of One Year's New Business before Cost of Capital			Value of One Year's New Business after Cost of Capital		
	Risk Discount Rate			Risk Discount Rate		
	Low	Central	High	Low	Central	High
Base Case	**8,301**	**7,244**	**6,330**	**7,368**	**6,281**	**5,352**
Sensitivity 1	10,995	9,465	8,182	10,113	8,544	7,239
Sensitivity 2	4,848	4,261	3,738	3,785	3,173	2,636
Sensitivity 3	8,679	7,572	6,617	7,696	6,560	5,589
Sensitivity 4	7,947	6,937	6,060	7,061	6,020	5,127
Sensitivity 5	7,167	6,228	5,410	6,262	5,289	4,451
Sensitivity 6	7,833	6,812	5,927	6,909	5,856	4,954

Notes: Sensitivity 7 does not apply to new business.

7. OPINION

Based on the scope of our work and the review we have performed, in our opinion:

- The methodology adopted by Nan Shan to determine the components of economic value (embedded value and the value of one year's new business is reasonable and consistent with the generally accepted traditional embedded value principles;

- The assumptions adopted by Nan Shan to assess the value of in-force business, the cost of holding required solvency capital and the value of one year's new business as at 31 August 2009 are reasonable; and,

- The calculations set out in Sections 5 and 6 of this report have been carried out in accordance with the methodology and assumptions described in this report, the sample calculations which we checked were satisfactory and overall results are reasonable.

8. RELIANCES AND LIMITATIONS

In performing our review and producing this report, we have relied without independent verification upon the completeness and accuracy of the data and information supplied by Nan Shan, both orally and in written format. Where possible, we have reviewed some of the information provided for reasonableness and consistency with our knowledge of the Taiwan life insurance industry and with our knowledge of Nan Shan. The accuracy of the results presented in this report is dependent on the accuracy of this information.

Reliance was placed on, but not limited to, the accuracy of the following information:

- historical financial statements and regulatory returns
- value of the shareholders' net assets of Nan Shan as at 31 August 2009
- the cash flow projection results at an aggregate level and at an individual model point level for a number of selected products
- details of policy terms and conditions including surrender values, current and expected future dividend formulae and crediting rates
- reserving basis and methodology as at 31 August 2009 and the reserve factors calculated by Nan Shan.

The estimates of values include provision only for the claims made by policyholders in the normal course of business under the terms of the policies issued to them. We have not attempted to investigate, or make allowance for, the effect upon the value of any other claim by or against Nan Shan. The projections and values developed have been constructed on a "going concern" basis and assume a continuation of the current economic, taxation, legal and regulation environment prevailing in Taiwan. We have not considered possible financial implications arising from the changes in these areas.

The values attributable to the life insurance business are highly dependent on the results of financial projections carried out by Nan Shan. Although the financial projections are developed in conformity with what Nan Shan believes to be the current and proposed operating environments of Nan Shan and Nan Shan's view of the indicative future experience within such environments, it should be recognised that actual future results will vary from those projected. Deviations in the parameters used to reflect the environment could alter the projected results substantially. These parameters include those used to reflect factors such as management direction, insurance regulations, accounting practices, taxation and external economic factors such as inflation rates and available investment yields.

Our opinion is based on data available to us at, or prior to 31 August 2009, and takes no account of developments after that date.

For and on behalf of Ernst & Young Advisory Services Limited

Jonathan Zhao
Actuarial Services Practice Leader

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying shares and debentures of the Company and the shares and debentures of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Hong Kong Stock Exchange were as follows:

Long position in Shares and share options of the Company

Directors	Capacity	No. of Shares	No. of option	Total	Approximate Percentage *(%)* *(Note 1)*
CHAN Ling, Eva	Beneficial Owner	0	4,400,000	4,400,000	0.12
MA Si Hang, Frederick	Beneficiary of a Trust	3,000,000	0	3,000,000	0.08

Note:

1. The percentage shareholding is calculated based on the number of issued shares of the Company as at the Latest Practicable Date.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company and the shares and debentures of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Hong Kong Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS AND PERSONS HAVING 10% OR MORE INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2008, being the date to which the latest audited consolidated financial statements have been made up) or had options in respect of such capital:

(i) **Long position in Shares**

Name	**Capacity**	**Number of Shares and underlying Shares held**	**Approximate percentage of shareholding in the Company** *(%)*
CHU Yuet Wah[1]	Interest of controlled corporation	78,000,000,000	2,108.57
MA Siu Fong[2]	Interest of controlled corporation	78,000,000,000	2,108.57
Kingston Securities Limited	Other	78,000,000,000	2,108.57
CHEUNG Chung Kiu[3]	Interest of controlled corporation	8,000,000,000	216.26
Asian Honour Limited	Beneficial owner	8,000,000,000	216.26
PMA Capital Management Limited[4]	Investment manager	7,000,000,000	189.23
PMA Strategic Investments Fund	Beneficial owner	7,000,000,000	189.23
Get Nice Holdings Limited[5]	Interest of controlled corporation	5,000,000,000	135.16
Get Nice Incorporated[6]	Interest of controlled corporation	5,000,000,000	135.16
Get Nice Securities Limited	Beneficial owner	5,000,000,000	135.16
CHENG Yu Tung[7]	Interest of controlled corporation	4,500,000,000	121.65
Chow Tai Fook Nominee Limited	Beneficial owner	4,500,000,000	121.65
YAM Tak Cheung[8]	Interest of controlled corporation	4,000,000,000	108.13
Integrated Asset Management (Asia) Limited	Beneficial owner	4,000,000,000	108.13
LAM How Mun Peter[9]	Beneficial owner and interest of controlled corporation	3,504,960,000	94.75

Name	Capacity	Number of Shares and underlying Shares held	Approximate percentage of shareholding in the Company (%)
Mighty Kingdom Holdings Limited	Beneficial owner	3,300,000,000	89.21
ZHANG Xingmei[10]	Other	3,500,000,000	94.62
Green Apples Investments Limited	Other	3,500,000,000	94.62
WONG Howard[11]	Beneficial owner and interest of controlled corporation	3,002,000,000	81.15
Business Link Holdings Limited	Beneficial owner	3,000,000,000	81.10
SUEN Cho Hung, Paul[12]	Interest of controlled corporation	2,200,000,000	59.47
Novel Well Limited	Beneficial owner	2,200,000,000	59.47
LEE Yuk Lun[13]	Interest of controlled corporation	2,000,000,000	54.06
Spring Wealth Holdings Limited	Other	2,000,000,000	54.06
MAK Siu Hang Viola[14]	Interest of controlled corporation	1,000,000,000	27.03
VMS Investment Group Limited[15]	Interest of controlled corporation	1,000,000,000	27.03
VMS Private Investment Partners VI Limited (FKS Sino Blaze Limited)	Beneficial owner	1,000,000,000	27.03
ZHANG Yu Tao, Bryant[16]	Interest of controlled corporation	1,000,000,000	27.03
Beta Asset Management Limited	Beneficial owner	1,000,000,000	27.03
CHONG Tin Lung[17]	Interest of controlled corporation	225,000,000	6.08
VMS Capital Limited	Beneficial owner	225,000,000	6.08
LAU Luen Hung	Beneficial owner	4,500,000,000	121.64
CHO Kwai Chee	Beneficial owner and other	4,077,805,000	110.23
NG Leung Ho	Other	4,000,000,000	108.13
TANG Ching Ho	Other	4,000,000,000	108.13
Seekers Master Fund	Beneficial owner	3,800,000,000	102.73
OU Yaping	Beneficial owner	2,500,000,000	67.58
HUI Yick Fu	Beneficial owner	1,200,000,000	32.44
YAN Chi Ping	Beneficial owner	1,200,000,000	32.44
CHAM Wai Ho, Anthony	Beneficial owner	1,175,000,000	31.76
KUK Po Shun	Beneficial owner	1,065,000,000	28.79
KWONG Kai Sing Benny	Beneficial owner	1,000,000,000	27.03
YEUNG Ming Kwong	Beneficial owner	1,000,000,000	27.03
WONG Fung Kwan Daisy	Beneficial owner	200,000,000	5.41

Name	**Capacity**	**Number of Shares and underlying Shares held**	**Approximate percentage of shareholding in the Company** *(%)*
YAP Allan[18]	Interest of controlled corporation	6,800,000,000	183.82
Bingo Wealth Investments Limited	Beneficial owner	6,800,000,000	183.82

Notes:

1 According to the Disclosure of Interests form dated 17 November 2009, CHU Yuet Wah has 51% control over Kingston Securities Limited.

2 According to the Disclosure of Interests form dated 17 November 2009, MA Siu Fong has 49% control over Kingston Securities Limited.

3 According to the Disclosure of Interests form dated 17 November 2009, CHEUNG Chung Kiu has 100% control over Asian Honour Limited.

4 According to the Disclosure of Interests form dated 17 November 2009, PMA Capital Management Limited has 100% control over PMA Strategic Investments Fund.

5 According to the Disclosure of Interests form dated 17 November 2009, Get Nice Holdings Limited has 100% control over both Get Nice Incorporated and Get Nice Securities Limited.

6 According to the Disclosure of Interests form dated 17 November 2009, Get Nice Incorporated has 100% control over Get Nice Securities Limited.

7 According to the Disclosure of Interests form dated 17 November 2009, CHENG Yu Tung has 100% control over Chow Tai Fook Nominees Limited.

8 According to the Disclosure of Interests form dated 17 November 2009, YAM Tak Cheung has 100% control over Integrated Asset Management (Asia) Limited.

9 According to the Disclosure of Interests form dated 17 November 2009, LAM How Mun Peter has 100% control over Mighty Kingdom Holdings Limited.

10 According to the Disclosure of Interests form dated 17 November 2009, ZHANG Xingmei has 100% control over Green Apples Investments Limited.

11 According to the Disclosure of Interests form dated 17 November 2009, WONG Howard has 100% control over Business Link Holdings Limited.

12 According to the Disclosure of Interests form dated 17 November 2009, SUEN Cho Hung, Paul has 100% control over Novel Well Limited.

13 According to the Disclosure of Interests form dated 17 November 2009, LEE Yuk Lun has 100% control over Spring Wealth Holdings Limited.

14 According to the Disclosure of Interests form dated 17 November 2009, MAK Siu Hang Viola has 100% control over both VMS Investment Group Limited and VMS Private Investment Partners VI Limited (FKS Sino Blaze Limited).

15 According to the Disclosure of Interests form dated 17 November 2009, VMS Investment Group Limited has 100% control over VMS Private Investment Partners VI Limited (FKS Sino Blaze Limited).

16 According to the Disclosure of Interests form dated 17 November 2009, ZHANG Yu Tao, Bryant has 100% control over Beta Asset Management Limited.

17 According to the Disclosure of Interests form dated 17 November 2009, CHONG Tin Lung has 100% control over VMS Capital Limited.

18 According to the Disclosure of Interests form dated 12 February 2010, YAP Allan has 100% control over Bingo Wealth Investments Limited.

(ii) **Long position in the shares of other members of the Group**

Name	**Name of Company**	**Number of shares in the capital of the company**	**Approximate percentage of shareholding**
			(%)
Wonder Wealth Limited	Principal Diamond Limited	2	20.00
Happy Trade Limited	Talent Cosmos Limited	1,734	13.34
Happy Trade Limited	Wing Fung Metal And Equipment Company Limited	1,960,000	70.00
Ho Shui Luen	Wing Fung Metal And Equipment Company Limited	280,000	10.00
PFH Holdings Ltd.	Primus Nan-Shan Holding Company Ltd	20	20.00

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, no person (other than a Director or chief executive of the Company) had any interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of the class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which as been agreed or proposed since 31 December 2008, being the date to which the latest audited consolidated financial statements have been made up) or who had any options in respect of such capital.

4. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, save for the Employment Agreements, there was no existing or proposed service contract between any of the Directors or proposed Directors and the Company or any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which as been agreed or proposed since 31 December 2008, being the date to which the latest audited consolidated financial statements have been made up), excluding contracts expiring or determinable by the Group within a year without payment of any compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge of the Directors, none of the Directors or their respective associates (within the meaning defined in the Listing Rules) had any interests in any business which competed or might compete with the business of the Group.

6. INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors or experts named in the section headed "Experts and consents" in this appendix had any direct or indirect interest in the assets which had been, since 31 December 2008, the date to which the latest published audited consolidated financial statements of the Company have been made up, acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the audited consolidated financial statements of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the audited consolidated financial statements of the Company have been made up).

There was no contract or arrangement subsisting as at the Latest Practicable Date in which a Director was materially interested and which was significant in relation to the business of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the audited consolidated financial statements of the Company have been made up).

7. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered or to be entered into by any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition or has been agreed or proposed since 31 December 2008), being the date to which the audited consolidated financial statements of the Company have been made up) within the two years immediately preceding the Latest Practicable Date:

(a) Conditional CN Placing Agreement;

(b) Conditional Share Placing Agreement;

(c) Employment Agreements;

(d) Escrow Agreement;

(e) Management Agreement;

(f) Consortium Letter;

(g) Option Deeds;

(h) Share Purchase Agreement;

(i) Disclosure Letter;

(j) Tax Covenant;

(k) Hold Harmless Letter; and

(l) CSH Facility Agreement.

8. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, no member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the audited consolidated financial statements of the Company have been made up) was engaged in any litigation or arbitration or claim of material importance and the Directors were not aware of any litigation or claims of material importance pending or threatened against any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the audited consolidated financial statements of the Company have been made up).

9. DIVIDEND POLICY

As at the Latest Practicable Date, the Company does not have a dividend policy.

10. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualification
Piper Jaffray Asia Limited	a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities for the purposes of the SFO
PricewaterhouseCoopers	Certified public accountants
Colliers International	Independent property valuer
LCS & Partners	Taiwan legal advisers
Ernst & Young Advisory Services Limited	Actuarial consultant

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report (as the case may be) and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts was beneficially interested in the share capital of any member of the Group, nor did any one of them have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition or which has been agreed or proposed since 31 December 2008, being the date to which the audited consolidated financial statements of the Company have been made up).

11. DUE DILIGENCE PERFORMED BY PROFESSIONAL PARTIES

Financial Adviser

As stated in a letter from the Listing Committee of the Hong Kong Stock Exchange to the Company dated 7 August 2009, the Listing Committee resolved that the Acquisition would not constitute a reverse takeover for the purposes of Rule 14.06(6) of the Listing Rules, subject to satisfaction of two conditions, including the appointment of a compliance adviser acceptable to the Hong Kong Stock Exchange to conduct due diligence over Nan Shan and to fulfill the duties and obligations equivalent to those of a sponsor for a new listing application under the Listing Rules. In this relation, the Company has appointed the Financial Adviser to undertake such role.

Reporting Accountants

The Company has engaged PricewaterhouseCoopers to report the financial information of Nan Shan for the three years ended 30 November 2006, 2007 and 2008 and the nine months ended 31 August 2008 and 2009. Please refer to the Accountant's Report for details.

12. WORKING CAPITAL

The Group

In determining the sufficiency of the working capital of the Group, the Directors have made the assumption that the CN Placing, Share Placing and Debt Financing will be completed and used to finance the Acquisition.

Taking into account the financial resources available to the Group, including the internally generated funds, cash and cash equivalents on hand, the available banking facilities and on the assumption that the CN Placing, Share Placing and Debt Financing will be completed in due course as set out in the preceding paragraph, the Directors are of the opinion that the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this circular.

Nan Shan

Nan Shan is engaged in the provision of insurance services and its capital adequacy and solvency are supervised by Taiwanese regulators. The details of the regulations are set out in the section headed "Part E — Information about Nan Shan — 4. Insurance Regulation in Taiwan — 4.3 Regulation of Insurance Companies" of this circular.

Indebtedness

The Group

As at the close of business on 31 December 2009, being the latest practicable date for the purposes of this statement of indebtedness, the Group had outstanding borrowings of approximately HK$87.7 million which are set out as follows:

	HK$'000
Secured bank loans	22,723
Other loans	64,946
	87,669

As at 31 December 2009, certain available-for-sale investments of approximately HK$4.6 million were pledged to secure margin account credit facilities and banking facilities granted to the Group.

Nan Shan

As at the close of business on 31 December 2009, being the latest practicable date for the purpose of this statement of indebtedness, Nan Shan had no outstanding indebtedness.

Save as disclosed above and apart from intra-group liabilities, as at the close of business on 31 December 2009, the Enlarged Group did not have any outstanding loan capital, bank overdrafts, loans, mortgages, charges or other similar indebtedness, or hire purchase of finance lease commitments, liabilities under acceptances or acceptance credits, guarantees or other material contingent liabilities.

13. EXEMPTIONS AND WAIVERS FROM THE LISTING RULES

The Company has applied to, and has been granted by, the Hong Kong Stock Exchange for an exemption under Rule 8.21A(2) of the Listing Rules and a waiver from strict compliance with Rules 14.66(10), and paragraph 30 of Appendix 1B, on the basis that the Enlarged Group's business, following Acquisition Completion, would substantially be Nan Shan's business, being the provision of life insurance services. In respect of insurance companies, working capital is not a key indicator of solvency as the insurance business model does not involve having sufficient cash to purchase goods and subsequently converting such goods into cash through sales. For insurance companies, its solvency and capital adequacy would be the key indicator of its liquidity. In addition, solvency and capital adequacy of insurance companies in Taiwan, including Nan Shan, is subject to supervision by the FSC. In view of the prudential supervision by the FSC, the inclusion of a working capital statement in the circular is not considered as meaningful and will not provide additional significant information for investors.

14. MISCELLANEOUS

(a) The share registrar of the Company in Hong Kong is Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(b) The secretary of the Company is Chow Kim Hang, a practising solicitor as defined under the Legal Practitioners Ordinance.

(c) Save as otherwise disclosed in this circular:

(i) none of the Directors nor any of the parties listed in the section headed "10. Experts and Consents" in Appendix VI of this circular is interested in the Company's promotion, or in any assets which have, within the two years immediately preceding the issue of this circular, been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(ii) none of the Directors nor any of the parties listed in the section headed "10. Experts and Consents" of Appendix VI of this circular is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the Company's business;

(iii) no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option;

(iv) the Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;

(v) no commission has been paid or payable (except commissions to the underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in the Company within the two years preceding the date of this circular;

(vi) no amount or securities or benefit has been paid or allotted or given within the two years preceding the date of this circular to any of the promoters nor is any such securities or amount or benefit intended to be paid or allotted or given;

(vii) to the best of the Director's knowledge, information and believe having made all reasonable enquiry, the Seller and the ultimate beneficial owner of the Seller are third parties independent of the Company and connected persons of the Company;

(viii) the Directors have confirmed, after performing all due diligence work which they consider appropriate, that there has been no material adverse change in the Company's financial or trading position since 31 December 2008;

(ix) the Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries;

(x) none of the directors or any of the persons whose names are listed in the paragraph headed "Experts and Consents" in this Appendix VI had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of the Company from the Company within the two years preceding the date of this circular; and

(xi) there were no alterations in the capital of any member of the Group within the two years preceding the date of this circular.

(d) The English text of this circular shall prevail over the Chinese text.

1. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company, 3206-3210, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this circular:

- the memorandum and articles of association of the Company;
- the Articles of Incorporation of Nan Shan;
- the letter from Piper Jaffray Asia Limited dated 27 February 2010, the text of which is set out in "Letter from the Independent Financial Adviser" of this circular;
- the annual reports of the Group for the years ended 31 December 2006, 2007 and 2008 and the interim report of the Group for the six months ended 30 June 2009;
- the Accountant's Report, the text of which is set out in Appendix II of this circular;
- the report in relation to unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III of this circular;
- the property valuation report, the text of which is set out in Appendix IV of this circular;
- the Actuarial Report, the text of which is set out in Appendix V of this circular;
- the letter prepared by LCS, the Company's legal counsel on Taiwan law, summarising certain aspects of the Company Act of ROC referred to in the section headed "Part E — Information about Nan Shan — 10. Statutory and General Information on Nan Shan — 10.6 Summary of Taiwanese Company Law";
- the Company Act of ROC;
- the material contracts referred to in the section headed "7. Material Contracts" of Appendix VI of this circular;
- the written consents referred to in the section headed "10. Experts and Consents" of Appendix VI of this circular;
- each circular issued by the Company pursuant to the requirement set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts, being 31 December 2008.

CHINA STRATEGIC HOLDINGS LIMITED
(中策集團有限公司)

(Incorporated in Hong Kong with limited liability)
(Stock Code : 235)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of China Strategic Holdings Limited (the "**Company**") will be held at Mandarin Oriental Hotel Hong Kong, 1/F Peacock-Stork Room, 5 Connaught Road, Central, Hong Kong, Hong Kong, on Tuesday, 16 March 2010 at 10:00 a.m. or any adjournment thereof (as the case may be) for the purpose of considering and, if thought fit, passing, with or without modification, the below resolutions of the Company.

In this regard, an EGM will be held to consider and, if thought fit, approve, among other things, (1) the Conditional CN Placing Agreement, the Conditional Share Placing Agreement, the CN Placing, the Share Placing and the Specific Mandate, (2) the Acquisition and the Share Purchase Agreement, (3) the Increase in Authorised Share Capital, and (4) the sharing of expenses under the Management Agreement, the payment of the Service Fees, the grant of the Share Options under the Option Deeds and the CSH Facility Agreement.

Shareholders should note that the information set out in the section headed "Part E - Information about Nan Shan" in the circular in connection with the below ordinary resolutions of the Company (the "**Circular**") has been provided by Nan Shan Life Insurance Company, Ltd. ("**Nan Shan**"), its directors, supervisors, senior management, employees or affiliates. As Acquisition Completion (as defined in the Circular) has not taken place as at the date of the Circular and therefore Nan Shan is not yet a subsidiary of the Company, there are limitations on the quality and extent of the independent verification which has been carried out on the information, data and statistics contained in this section of the Circular. Shareholders should read carefully the section headed "Part E -Information about Nan Shan - 1. Risk Factors - 1.4 Risks relating to the circular" for further information.

ORDINARY RESOLUTIONS

"**1. THAT**:

(a) the authorised share capital of the Company be and is hereby increased from HK$800 million divided into 8,000 million ordinary shares in the capital of the Company of HK$0.10 each (each a "**Share**") to HK$20,000 million divided into 200,000 million Shares by the creation of 192,000 million additional new Shares ("**Increase in Authorised Share Capital**"); and

(b) any one director of the Company be and is hereby authorised to do all such acts and things as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Increase in Authorised Share Capital."

"**2. THAT**:

(a) the share purchase agreement dated 13 October 2009 (the "**Share Purchase Agreement**") entered into among (i) Primus Nan-Shan Holding Company Ltd, a subsidiary indirectly held as to 80% by the Company (the "**Purchaser**") and (ii) American International Group, Inc. ("**AIG**"), (a copy of which is tabled at this meeting and marked "A" and initialled by the chairman of this meeting for the purpose of identification) and more particularly described in the circular, pursuant to which AIG and the Purchaser agreed that, subject to the satisfaction of the conditions precedent therein, AIG will sell (or cause one or more of its subsidiaries to sell) and the Purchaser will purchase 767,893,139 shares of common stock (the "**Sale Shares**") of Nan Shan Life Insurance Company, Ltd ("**Nan Shan**"), which represent approximately 97.57% of the issued and outstanding share capital of Nan Shan and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed.

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Share Purchase Agreement and the transactions contemplated thereunder and to agree to such variations of the terms of the Share Purchase Agreement and the transaction documents contemplated thereunder as he/she may in his/her absolute discretion consider necessary or desirable."

"**3. THAT**:

(a) the termination of the share placing agreement dated 8 June 2009 entered into between the Company as issuer and Kingston Securities Limited as placing agent be hereby approved, confirmed and ratified;

(b) the conditional convertible note placing agreement (the "**Conditional CN Placing Agreement**") in relation to the placing by the Company through Kingston Securities Limited, as agent of the Company (the "**CN Placing Agent**"), on a fully underwritten basis (that is, the CN Placing Agent agrees to procure subscribers or, failing which, to subscribe as principal non-interest bearing convertible redeemable notes, in a maximum aggregate principal amount up to HK$7,800 million due on its maturity date which are convertible into an aggregate of a maximum of 78,000 million Shares (subject to adjustment) with a conversion price, subject to adjustment, of HK$0.10 per Share in the share capital of the Company (the "**Convertible Notes**")), a copy of which is tabled at this meeting and marked "B" and signed by the chairman of this meeting for the purpose of identification, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(c) the creation and issue by the Company of the Convertible Notes be and is hereby generally and unconditionally approved in all respects;

(d) the directors be and are hereby generally and specifically authorised to allot and issue such number of new ordinary shares (the "**Conversion Shares**") of HK$0.10 in the capital of the Company as may be required to be allotted and issued on and subject to the terms and conditions of the Conditional CN Placing Agreement under resolution numbered 3(b) above upon exercise of conversion of the Convertible Notes (the "**CN Specific Mandate**");

(e) any one director of the Company be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Conditional CN Placing Agreement and the CN Specific Mandate and the transactions contemplated thereunder; and

(f) in the event that completion of the Conditional CN Placing Agreement has not taken place by 12 July 2010 (the "**CN Expiry Date**"), the authorisation and approval granted under this resolution shall be revoked and shall expire by the end of the CN Expiry Date."

"**4. THAT**:

(a) the conditional share placing agreement (the "**Conditional Share Placing Agreement**") in relation to the placing by the Company, through Kingston Securities Limited, as agent of the Company (the "**Share Placing Agent**") on a best efforts basis, of up to a maximum of 40,000 million new Shares at a price of HK$0.10 per Share during the period commencing upon the date of the Conditional Share Placing Agreement and terminating at 5:00pm on the business day prior to the date of completion under the Conditional Share Placing Agreement, unless terminated earlier pursuant to the terms of the Conditional Share Placing Agreement, a copy of which is tabled at this meeting and marked "C" and signed by the chairman of this meeting for the purpose of identification, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;

(b) the directors be and are hereby generally and specifically authorised to allot and issue such number of new ordinary shares (the "**Placing Shares**") of HK$0.10 in the capital of the Company as may be required to be allotted and issued on and subject to the terms and conditions of the Conditional Share Placing Agreement under resolution numbered 4(a) above (the "**Share Specific Mandate**");

(c) any one director of the Company be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Conditional Share Placing Agreement and the Share Specific Mandate and the transactions contemplated thereunder; and

(d) in the event that completion of the Conditional Share Placing Agreement has not taken place by 12 July 2010 (the "**Share Expiry Date**"), the authorisation and approval granted under this resolution shall be revoked and shall expire by the end of the Share Expiry Date."

“**5. THAT**:

(a) the term under the management agreement dated 12 October 2009 between the Company, the Purchaser, PFH Partnership Holdings, L.P. (“**Primus Investor**”), PFH Holdings Ltd. (“**PFH Holdings**”), Mr. Robert Morse and Mr. Ng Wing Fai (a copy of which is tabled at this meeting and marked “D” and initialled by the chairman of this meeting for the purpose of identification more particularly described in the circular) (the “**Management Agreement**”) which require the Company to be responsible (and be reimbursed as appropriate) for its pro rata portion (in accordance with its shareholding in the Purchaser) of all out-of-pocket expenses and fees incurred by PFH Holdings or its affiliates and the Company in connection with the transactions contemplated under all the transaction documents entered into in respect of the acquisition of Nan Shan (the “**Transactions**”), including all professional and legal fees and expenses, which are payable prior to or at completion of the Share Purchase Agreement and the related transactions contemplated thereunder be and are hereby approved, ratified and confirmed (the “**Sharing of Expenses**”); and

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the Sharing of Expenses and the related transactions contemplated thereunder and to agree to such variations of the terms of the Management Agreement in respect of the Sharing of Expenses as he/she may in his/her absolute discretion consider necessary or desirable.”

“**6. THAT**:

(a) the term under the Management Agreement dated 12 October 2009 which requires the Purchaser to pay to Mr. Robert Morse a service fee of US$7.5 million (“**Morse Service Fee**”) on the date that is three months from the date of completion of the Share Purchase Agreement for services performed by Mr. Robert Morse in connection with the Transactions and the preparation of the bid made by Primus Financial Holdings Limited for and on behalf of the Company and Primus Investor in respect of the acquisition of Nan Shan (the “**Bid**”) and the related transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the payment of the Morse Service Fee and the transactions contemplated thereunder and to agree to such variations of the Morse Service Fee as he/she may in his/her absolute discretion consider necessary or desirable.”

"**7. THAT**:

(a) the term under the Management Agreement which requires the Purchaser to pay to Mr. Ng Wing Fai a service fee of US$7.5 million ("**Ng Service Fee**") on the date that is three months from the date of completion of the Share Purchase Agreement for services performed by Mr. Ng Wing Fai in connection with the Transactions and the preparation of the Bid and the related transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the payment of the Ng Service Fee and the transactions contemplated thereunder and to agree to such variations of the Ng Service Fee as he/she may in his/her absolute discretion consider necessary or desirable."

"**8. THAT**:

(a) the option deed dated 26 February 2010 between the Purchaser and Mr. Robert Morse (a copy of which is tabled at this meeting and marked "E" and initialled by the chairman of this meeting for the purpose of identification more particularly described in the circular) (the "**Morse Option Deed**") in respect of the grant of such number of share options representing a maximum of 3,200 million Shares to Mr. Robert Morse and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) the directors be and are hereby generally and specifically authorised to allot and issue such number of new ordinary shares (the "**Morse Option Shares**") of HK$0.10 in the capital of the Company as may be required to be allotted and issued on and subject to the terms and conditions of the Morse Option Deed under resolution numbered 8(a) above upon exercise of share options granted to Mr. Robert Morse under the Morse Option Deed (the "**Morse Specific Mandate**"); and

(c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Morse Option Deed and the transactions contemplated thereunder and to agree to such variations of the terms of the Morse Option Deed as he/she may in his/her absolute discretion consider necessary or desirable."

"**9. THAT**:

(a) the option deed dated 26 February 2010 between the Purchaser and Mr. Ng Wing Fai (a copy of which is tabled at this meeting and marked "F" and initialled by the chairman of this meeting for the purpose of identification more particularly described in the circular) (the "**Ng Option Deed**") in respect of the grant of such number of share options representing a maximum of 3,200 million Shares to Mr. Ng Wing Fai and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) the directors be and are hereby generally and specifically authorised to allot and issue such number of new ordinary shares (the "**Ng Option Shares**") of HK$0.10 in the capital of the Company as may be required to be allotted and issued on and subject to the terms and conditions of the Ng Option Deed under resolution numbered 9(a) above upon exercise of share options granted to Mr. Ng Wing Fai under the Ng Option Deed (the "**Ng Specific Mandate**"); and

(c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Ng Option Deed and the transactions contemplated thereunder and to agree to such variations of the terms of the Ng Option Deed as he/she may in his/her absolute discretion consider necessary or desirable."

"**10. THAT**:

(a) the option deed dated 26 February 2010 between the Purchaser and Mr. Or Ching Fai (a copy of which is tabled at this meeting and marked "G" and initialled by the chairman of this meeting for the purpose of identification more particularly described in the circular) (the "**Or Option Deed**") in respect of the grant of such number of share options representing a maximum of 600 million Shares to Mr. Or Ching Fai and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) the directors be and are hereby generally and specifically authorised to allot and issue such number of new ordinary shares (the "**Or Option Shares**") of HK$0.10 in the capital of the Company as may be required to be allotted and issued on and subject to the terms and conditions of the Or Option Deed under resolution numbered 10(a) above upon exercise of share options granted to Mr. Or Ching Fai under the Or Option Deed (the "**Or Specific Mandate**"); and

(c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Or Option Deed and the transactions contemplated thereunder and to agree to such variations of the terms of the Or Option Deed as he/she may in his/her absolute discretion consider necessary or desirable."

"**11. THAT**:

(a) the option deed dated 26 February 2010 between the Purchaser and Mr. Frederick Ma Si-Hang (a copy of which is tabled at this meeting and marked "H" and initialled by the chairman of this meeting for the purpose of identification more particularly described in the circular) (the "**Ma Option Deed**") in respect of the grant of such number of share options representing a maximum of 100 million Shares to Mr. Frederick Ma Si-Hang and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) the directors be and are hereby generally and specifically authorised to allot and issue such number of new ordinary shares (the "**Ma Option Shares**") of HK$0.10 in the capital of the Company as may be required to be allotted and issued on and subject to the terms and conditions of the Ma Option Deed under resolution numbered 11(a) above upon exercise of share options granted to Mr. Frederick Ma Si-Hang under the Ma Option Deed (the "**Ma Specific Mandate**"); and

(c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the Ma Option Deed and the transactions contemplated thereunder and to agree to such variations of the terms of the Ma Option Deed as he/she may in his/her absolute discretion consider necessary or desirable."

"**12. THAT:**

(a) the facility agreement dated 26 February 2010 between the Company and the Purchaser in respect of the granting of an unsecured facility of an amount up to HK$5,300 million to the Purchaser (a copy of which is tabled at this meeting and marked "I" and initialled by the chairman of this meeting for the purpose of identification more particularly described in the circular) (the "**CSH Facility Agreement**") and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary or desirable for the purpose of and in connection with the implementation of the CSH Facility Agreement and the transactions contemplated thereunder and to agree to such variations of the terms of the CSH Facility Agreement as he/she may in his/her absolute discretion consider necessary or desirable."