ANNUAL REPORT 2006 - 2007

CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY

Financial Statements of

Cayman Islands National Insurance Company Ltd.

June 30, 2007

Cayman Islands

Cayman Islands National Insurance Company Ltd.

CERTIFICATE OF THE AUDITOR GENERAL

To the Board of Directors of the Cayman Islands National Insurance Company Ltd. and the Financial Secretary of the Cayman Islands

I have audited the accompanying financial statements of the Cayman Islands National Insurance Company Ltd. (the "Company"), which comprise the balance sheets as at June 30, 2007, the statements of income and accumulated deficit, statements of cash flows, and statement of changes in shareholder's equity for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 15 in accordance with the provisions of section 60(a) of the *Public Management and Finance Law, (2005 Revision).*

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair representation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing and opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2007, and the results of its operations and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Without qualifying my opinion, I draw attention to the fact that, as discussed in Note 22, as at June 30, 2007 and the date of our report, the Company was in breach of its minimum net worth requirement for regulatory purposes. The Company is dependent upon the financial support of the Government of the Cayman Islands to enable it to meet its regulatory minimum net worth requirements and to continue as a going concern.

In rendering my certificate on the financial statements of the Company, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

Dan Duguay

Dan Duguay, MBA, FCGA
Auditor General

October 31, 2007
Cayman Islands

Cayman Islands National Insurance Company Ltd.

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Cayman Islands National Insurance Company Ltd.

Balance sheets
As at June 30, 2007
Amounts stated in Cayman Islands dollars

	Note	June 30, 2007	*June 30, 2006*
Assets			
Cash at bank	3	3,098,322	*771,253*
Premiums receivable	4	2,570,390	*2,010,451*
Prepaids and other assets	5	1,090,259	*1,355,098*
Fixed assets	6	27,608	*43,621*
Total assets		6,786,579	*4,180,423*
Liabilities			
Accounts payable	7	34,466	*36,636*
Premiums received in advance		65,627	*62,228*
Accruals and other liabilities	8	2,598,188	*2,231,439*
Claims Payable		305,357	*305,873*
Provision for claims incurred	10,11	9,933,274	*5,427,461*
Total liabilities		12,936,912	*8,063,637*
Shareholder's equity			
Share capital	12	1	*1*
Share premium	12	2,999,999	*2,999,999*
Additional paid-in-capital	13	8,935,840	*4,935,840*
Accumulated deficit		(18,086,173)	*(11,819,054)*
Total shareholder's equity	22	(6,150,333)	*(3,883,214)*
Total liabilities and shareholder's equity		6,786,579	*4,180,423*

Sharon Roulstone
Director

10/31/2007
Date

Carlyle McLaughlin
Director

10/31/2007
Date

The accompanying notes form an integral part of these financial statements.

Cayman Islands National Insurance Company Ltd.

Statements of Income and Accumulated Deficit
For the year from July 1, 2006 to June 30, 2007
Amounts stated in Cayman Islands dollars

	Note	June 30, 2007	*June 30, 2006*
Income			
Premium income	14	30,470,108	*23,481,520*
Reinsurance premium	14	(913,827)	*(881,375)*
ASO Fees	15	345,411	*332,424*
Total underwriting income		29,901,692	*22,932,569*
Investment income	18	102,560	*92,445*
Total income		30,004,252	*23,025,014*
Expenses			
Claims paid	9	28,820,269	*25,877,592*
Reinsured claims	10	(234,875)	-
Movement in provision for claims incurred	11	4,505,813	*(1,949,079)*
Contributions to segregated insurance fund	16, 17	533,525	*506,065*
Claims administration and other expenses		1,501,048	*1,471,444*
Total underwriting expenses		35,125,780	*25,906,022*
Administrative expenses	17	1,145,591	*1,020,775*
Total expenses		36,271,371	*26,926,797*
Net loss for the year		(6,267,119)	*(3,901,783)*
Accumulated deficit at beginning of year		(11,819,054)	*(7,917,271)*
Accumulated deficit at end of year		(18,086,173)	*(11,819,054)*

The accompanying notes form an integral part of these financial statements.

Cayman Islands National Insurance Company Ltd.

Statements of Cash Flows
For the year from July 1, 2006 to June 30, 2007
Amounts stated in Cayman Islands dollars

	NOTE	June 30, 2007	June 30, 2006
Cash flows from operating activities			
Net loss for year		(6,267,119)	*(3,901,783)*
Adjustments for non-cash items			
Depreciation	6	31,775	*43,993*
Premiums receivable		(559,939)	*(1,691,543)*
Prepaids and other assets		264,839	*1,455*
Accounts payable		(2,170)	*33,936*
Premiums received in advance		3,399	*27,668*
Accruals and other liabilities		366,749	*2,058,207*
Claims payable		(516)	*305,873*
Loss on disposal of assets		176	*1,070*
Provision for claims incurred		4,505,813	*(1,949,079)*
Net cash flows from operating activities		(1,656,993)	*(5,070,203)*
Cash flows from investing activities			
Disposal of fixed assets		150	-
Purchase of fixed assets	6	(16,088)	*(6,268)*
Net cash flows from investing activities		(15,938)	*(6,268)*
Cash flows from financing activities			
Issue of share capital		-	-
Receipt of additional paid-in-capital	13	4,000,000	-
Net cash flows from financing activities		4,000,000	-
Net cash inflow/(outflow) for year		2,327,069	*(5,076,471)*
Cash and cash equivalents at beginning of year		771,253	*5,847,724*
Cash and cash equivalents at end of year		3,098,322	*771,253*

The accompanying notes form an integral part of these financial statements.

Cayman Islands National Insurance Company Ltd.

Statement of Changes in Shareholder's Equity
For the year from July 1, 2006 to June 30, 2007
Amounts stated in Cayman Islands dollars

	Share capital	Share premium	Additional paid-in-capital	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2005	1	2,999,999	4,935,840	(7,917,271)	18,569
Issuance of shares	-	-	-	-	-
Net loss for year	-	-	-	(3,901,783)	(3,901,783)
Additional paid-in-capital received	-	-	-	-	-
Balance at June 30, 2006	1	2,999,999	4,935,840	(11,819,054)	(3,883,214)
Issuance of shares	-	-	-	-	-
Net loss for year	-	-	-	(6,267,119)	(6,267,119)
Additional paid-in-capital received	-	-	4,000,000	-	4,000,000
Balance at June 30, 2007	1	2,999,999	8,935,840	(18,086,173)	(6,150,333)

The accompanying notes form an integral part of these financial statements.

1 Company information

Cayman Islands National Insurance Company Ltd. ("CINICO" or the "Company") was formed on December 18, 2003 under the Cayman Islands Companies Law and was granted a Class A Insurance Licence under the Insurance Law (2003 Revision) on February 1, 2004. The Company was established and is wholly owned by the Government of the Cayman Islands and the principal activity is the provision of health insurance for Government insureds including civil servants, pensioners, other Government entities, seamen & veterans and their dependents ("Government Insureds"), as well as residents of the Cayman Islands who have low income, impaired health status, or who are elderly ("Privately Insureds"). CINICO employees are also insured by the Company. The Company also provides Administrative Services Only ("ASO") for indigents and advance patients.

The Company has contracted with a Third Party Administrator ("TPA"), CBCA Administrators Inc., to provide claims administration services for local claims. The Company has also contracted with Care Management Network Inc. ("CMN") to provide claims administration and case management services for insureds requiring overseas medical treatment. CINICO's contract with CMN provides it's insureds with access to a large network of facilities throughout the United States and other countries at discounted costs. This agreement came into effect on August 1, 2005. In addition, effective July 1, 2005 CINICO has contracted with Presidio, an underwriting agent of Lloyds of London, to provide specific excess loss reinsurance coverage on a per covered person basis.

The Company's registered office is at the Cayman Centre, George Town, Grand Cayman. Prior to July 20, 2007 the Company's registerd office was at Elizabethan Square, Phase III, 1st Floor, George Town, Grand Cayman. At June 30, 2007, the Company employed 9 people (7 people at June 30, 2006).

2 Accounting policies

These financial statements are prepared on the historical cost basis and in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). It is also stated that these financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). The significant accounting policies are as follows:

<u>Critical accounting estimates and judgements</u>
The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Company's reported assets, liabilities, revenues and expenses. The item which may have the most effect on the Company's financial statements is set out below.

The ultimate liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

The provision for claims incurred is necessarily based on estimates due to the fact that the ultimate disposition of claims incurred prior to the balance sheet date, whether reported or not, is subject to the outcome of events that have not yet occurred. Any estimate of future events, consequently, the amounts recorded in respect of unpaid losses may change significantly in the short term. Management engage independent actuaries to assist them in making such estimates, based on the Company's own loss history and relevant industry data.

<u>Insurance and reinsurance contracts - classification</u>
Insurance and reinsurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

2 Accounting policies (continued)

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on policies issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Company assesses its reinsurance assets for impairment on a regular basis, and if there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount. The impairment loss is recognized in the income statement.

Claims

Claims paid and outstanding claims are recorded based on claims reported to the Company by it's third party administrator and case manager and includes amounts for all losses reported but not settled and loss adjustment expenses. The Company records its estimated liability gross of any amounts recoverable under its own reinsurance. Recoverable amounts if any, under the reinsurance contract are estimated and reported separately as assets. The reinsured portion, if any, of reserves for losses is estimated in a manner consistent with the estimation of reserves for losses on the reinsured policies.

Cash at bank

Cash at bank is comprised of cash and interest bearing deposits with original maturities of three months or less.

Premiums

Premiums are accounted for on a pro-rata basis over the periods covered by the insurance policy. Premiums for privately insured persons are payable monthly in advance on the first day of the month. Premiums for Government insured persons are payable monthly in advance on the last day of the month prior to that being insured. As a result, at the end of any given month, no amounts for unearned premiums are required to be recognized. Premiums received in advance are deferred and included in Premiums received in advance in the balance sheet. Reinsurance premiums ceded are similarly recognized on a pro-rata basis based on the contractual premium rate and number of insureds covered under the reinsurance policy.

It is the Company's policy to lapse any policies where the premiums are unpaid for forty five days after the due date.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over of the period of the lease.

Disclosures about fair value of financial instruments

With the exception of balances in respect of insurance contracts, the carrying amounts of all financial instruments approximate their fair values due to their short-term maturities.

Depreciation

Fixed assets are depreciated on a straight line basis over their expected useful lives. The following depreciation rates have been estimated by management to approximate the expected useful life of each class of assets:

Office Equipment	5 years
Computer and Telecommunications Equipment	3 years
Leasehold Improvements	over the term of the lease

Income taxes

There is presently no taxation imposed on the Company by the Government of the Cayman Islands. As a result, no tax liability or expense has been recorded in the accompanying financial statements.

2 Accounting policies (continued)

Changes in IFRS

In order for these financial statements to comply with IFRS as well as US GAAP, the Company has applied the following new and revised IFRSs and revised International Accounting Standards (IASs) that are effective for the 2007 reporting year:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 7, Financial Instruments: Disclosures
- IAS 39 (Amendment), The Fair Value Option; Cash Flow Hedge Accounting of Forecast IntraCompany Transactions;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;

None of the above changes have a significant effect on the presentation, disclosure or accounting in the Company's financial statements.

In order for future financial statements of the Company to comply with IFRS as well as US GAAP, the Company will need to apply the following standards, interpretations and amendments to published standards that are not yet effective:

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from January 1, 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning July 1, 2007.

3 Cash at bank

	June 30, 2007	*June 30, 2006*
Fixed Deposits	2,001,582	-
Cash at Bank	1,096,724	*545,152*
Deposit in transit	16	*226,101*
	3,098,322	*771,253*

At June 30, 2007 the Company held two fixed deposits with Royal Bank of Canada, with interest earned averaging 4.52% per annum and maturities within 30 days. No fixed deposits were held at June 30, 2006.

4 Premiums receivable

	June 30, 2007	*June 30, 2006*
Premiums receivable from related parties	2,549,593	*2,005,734*
Premiums receivable from unrelated entities	30,460	*15,427*
Less: provisions for bad debts	(9,663)	*(10,710)*
	2,570,390	*2,010,451*

Year to date, bad debts of $103,142 (June 30, 2006 - $62,007) have been written off, of which $10,710 has been provided for in 2005/6. It is management's opinion that a provision for bad debts of $9,663 (June 30, 2006 - $10,710) is required at June 30, 2007. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

5 Prepaids and other assets

	June 30, 2007	*June 30, 2006*
In respect of unrelated entities	682,259	*409,002*
In respect of related parties	408,000	*946,096*
	1,090,259	*1,355,098*

Included in prepaids and other assets in respect of unrelated entities are amounts relating to reinsurance premium refund of $278,195 related to the policy year ending June 30, 2006 (June 30, 2006 - $278,195), claims ceded of $234,875 (June 30, 2006 - $0), prepaid indigent claims of $135,915 (June 30, 2006 - $109,605), TPA fees of $2,817 (June 30, 2006 - $4,917) and other administrative expenses of $30,457 (June 30, 2006 - $16,285).

Included in prepaids and other assets in respect of related parties are amounts relating to ASO fees of $91,152 (June 30, 2006 - $84,699), Segregated Fund receivable (ASO) of $176,639 (June 30, 2006 - $666,249), plus other receivables and prepaids from/to Government and administrative expenses of $140,209 (June 30, 2006 -$195,148).

6 Fixed assets

	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2005	16,855	103,620	13,316	133,791
Additions	877	5,391	-	6,268
Disposals	-	(1,835)	-	(1,835)
Cost at June 30, 2006	17,732	107,176	13,316	138,224
Accumulated depreciation at July 1, 2005	4,034	40,287	7,053	51,374
Depreciation for period	3,411	34,319	6,263	43,993
Disposals	-	(764)	-	(764)
Accumulated depreciation at June 30, 2006	7,445	73,842	13,316	94,603
Carrying value at June 30, 2006	10,287	33,334	-	43,621
Cost at July 1, 2006	17,732	107,176	13,316	138,224
Additions	-	3,947	12,141	16,088
Disposals	-	(1,302)	-	(1,302)
Cost at June 30, 2007	17,732	109,821	25,457	153,010
Accumulated depreciation at July 1, 2006	7,445	73,842	13,316	94,603
Depreciation for period	3,547	28,183	44	31,774
Disposals	-	(975)	-	(975)
Accumulated depreciation at June 30, 2007	10,992	101,050	13,360	125,402
Carrying value at June 30, 2007	6,740	8,771	12,097	27,608

7 Accounts payable

	June 30, 2007	*June 30, 2006*
Payable to unrelated entities	34,466	*36,636*
Payable to related parties	-	-
	34,466	*36,636*

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of $34,466 (June 30, 2006 - $36,636).

8 Accruals and other liabilities

	June 30, 2007	*June 30, 2006*
In respect of related parties	2,379,165	*2,014,582*
In respect of unrelated entities	219,023	*216,857*
	2,598,188	*2,231,439*

Included in accruals and other liabilities in respect of related parties are amounts relating to insurance premiums due of $2,369,926 (June 30, 2006 - $1,999,676) recorded as a receivable and related to future underwriting periods, and administrative expenses of $9,239 (June 30, 2006 - $14,906).

Included in accruals and other liabilities in respect of unrelated entities are reinsurance premiums due of $80,322 (June 30, 2006 - $102,321), and administration expenses and other accruals of $138,701 (June 30, 2006 - $114,536).

9 Claims paid

	June 30, 2007	*June 30, 2006*
Gross US$ claims prior to discount (denominated in KYD$)	12,560,521	*9,557,199*
Net claim savings		
Amount of claim discount realized by CMN	(4,916,106)	*(3,187,420)*
Fees for obtaining discount	667,598	*453,461*
	(4,248,508)	*(2,733,959)*
Net US$ claims (denominated in KYD$)	8,312,013	*6,823,240*
KYD$ claims	20,508,256	*19,054,352*
	28,820,269	*25,877,592*
Less repricing fees	(667,598)	*(453,461)*
Claims paid (net of repricing fees)	28,152,671	*25,424,131*

The contract with Care Management Network Inc. (CMN) guarantees the Company a discount of 30% on United States dollar claims administered by CMN. CMN charges the Company a fee of 15% of the savings realized up to January 31, 2006 and 16% thereafter. These fees are classified as part of claims paid. The increase in the discount fee was offset by a reduction of the fixed care management and network access fees from $4.00 to $2.75 per member per month; this structure results in overall lower fees for the Company. As of June 30, 2007, the Company realized net claim savings of $4,248,508 (June 30, 2006 $2,733,959, savings realized from August 1, 2005 to June 30, 2006).

10 Insurance Risk

The risk under insurance contracts is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The very nature of an insurance contract involves randomness and therefore unpredictability. The principal risk that the Company faces is that the actual claim payments exceed the amount of insurance provisions. This could occur for various reasons; for example, the severity and/or frequency of claims may be higher than anticipated, or unit claim costs could be higher than estimated. Any significant delays in the reporting of claims information from service providers will also lead to increased uncertainty. Claim losses are random and the actual number and amount of claims will vary from year to year from the level established using statistical and actuarial techniques.

The Company uses several techniques to mitigate risk surrounding potential high claim losses. For its largest group (Group 30100 - Civil, Servants, Pensioners and Government Entities), reinsurance has been purchased that covers 90% overseas claim losses which exceed US$609,756, up to $US5,000,000 in respect of any one covered person during the policy year. The Company's Standard Health Insurance Contracts ("SHIC" plans) use a combination of pre-existing conditions, and annual limits to mitigate risk. The Company also employs the services of Care Management Network Inc. ("CMN") to control overseas claim costs. CMN provides case management services with the goal of managing a patients care path in an economical fashion at each step of the way. CMN also has pre negotiated contracts with many overseas providers which would allow the Company to realize significant savings. Furthermore on a monthly basis the Eligibility/Risk Committee meets to discuss large claims and any disputed claims.

11 Provision for claims incurred

Management has estimated a provision for claims which have been incurred but not yet reported (IBNR). While management has estimated IBNR based on all information it has available to it at the time, the ultimate liability may be in excess of, or less than the amounts provided. Management uses acceptable reserving methods to estimate provisions for claims incurred but not reported; these are periodically reviewed by an independent actuary.

A health claim is payable when an event has occurred that gives rise to a claim payment within the benefits of an insured member's policy while in force. The lag between the occurrence of a claim and the final payment is normally short term in nature as providers are required by the Health Insurance Law to submit any claims within 180 days of date of service. Thus any reserve estimates are normally settled within a year.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Company's estimate of total claims outstanding for each year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing on the balance sheet.

Reporting year	2003/4	2004/5	2005/6	2006/7	Total
Estimate of ultimate claims costs:					
At end of reporting year	67,930	21,214,700	23,423,289	32,423,775	
One year later	52,075	21,214,700	22,827,358	n.a.	
Two years later	58,220	21,193,839	n.a.	n.a.	
Current estimate of cumulative claims	58,220	21,193,839	22,827,358	32,423,775	
Cumulative payments to date	58,220	21,193,839	22,788,803	23,645,890	
Gross liability recognized in the balance sheet	-	-	38,555	9,219,093	9,257,648
Allocated loss expenses ("ALE") reserve	-	-	3,321	672,305	675,626
Net liability recognized in the balance sheet	-	-	41,876	9,891,398	9,933,274

11 Provision for claims incurred (continued)

The table below shows the movements in the provisions for claims incurred during the current year to date and the prior financial year.

	June 30, 2007	*June 30, 2006*
Balance at beginning of year	5,427,461	*7,376,540*
Incurred related to:		
Current year	32,864,983	*23,423,289*
Prior year	(616,792)	*-*
	32,248,191	*23,423,289*
Paid related to:		
Current year	23,645,890	*18,275,139*
Prior year	4,513,663	*7,148,993*
	28,159,553	*25,424,132*
ALE Reserve movement	417,175	*51,764*
Balance at end of year	9,933,274	*5,427,461*
Change in reserve	4,505,813	*(1,949,079)*

12 Share capital

	June 30, 2007	*June 30, 2006*
Authorized:		
1,000,000 unclassified shares of CI$1.00 each	1,000,000	*1,000,000*
Issued and fully paid:		
1 share	1	*1*

The unclassified shares hold all voting rights in the Company. During the period ended June 30, 2004, one share was issued to the Cayman Islands Government at a premium of CI$2,999,999.

13 Additional paid-in-capital

	June 30, 2007	*June 30, 2006*
Additional paid in capital received	8,935,840	*4,935,840*
	8,935,840	*4,935,840*

Additional paid-in-capital represents additional capital contributions of the Shareholder not made in connection with the issuance of shares. These capital contributions have the same rights and characteristics as share premium and, accordingly, they can be returned/distributed to the Shareholder solely at the discretion of the Board of Directors.

It is the policy of the Company to operate in a manner designed to maintain capitalization at a minimum of $3 million. On July 11, 2006, and April 16, 2007 the Company received CI$3,000,000 and CI$1,000,000, respectively, in additional paid-in- capital from government to rectify its 2004/5 breach in statutory net worth (see Note 22). Additional paid-in-capital of $4,455,428 was received in the 2004/5 fiscal year in lieu of an increase in premium to various Government entities.

14 Premium Income

Premium income earned by insured type is as follows;

	Year to date June 30, 2007			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	24,922,366	4,152,433	1,395,309	30,470,108
Reinsurance Premium	(913,827)	-	-	(913,827)
Net Premium	24,008,539	4,152,433	1,395,309	29,556,281

	Year to date June 30,2006			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	18,197,461	4,179,155	1,104,904	23,481,520
Reinsurance Premium	(881,375)	-	-	(881,375)
Net Premium	17,316,086	4,179,155	1,104,904	22,600,145

Group 30100 includes insurance coverage for civil servants, pensioners and employees of Government entities. Group 30101 includes coverage for seamen & veterans, and Group 30104 includes coverage for residents who have low income, impaired health status, or who are elderly. With the exception of Group 30104, all plans are to a related party.

Reinsured premium is calculated at CI$ 8.43 (2005/6: CI$11.38) per person per month.

15 Administrative Services Only Fees

The Company accrues income due from the Segregated Insurance Fund and from the Treasury Department in respect of Indigents and Advance Patients, respectively, for third party administrator fees.

16 Contributions to segregated insurance fund

Under Section 5(1) of the Health Insurance Regulations (2005 Revision), each domestic health insurer is required to pay to a Segregated Insurance Fund $5.00 per month per single insured and $10.00 per month per couple or family insured. During the year ended June 30, 2007, the Company accrued contributions totaling $533,525 (year ended June 30, 2006 - $506,065).

17 Related party transactions

Where not otherwise disclosed in these financial statements, the following are related party transactions which the Company has entered into during the period ended June 30, 2007.

	June 30, 2007 Year to date	*June 30, 2006 Year to date*
Administrative expenses	117,234	*83,429*
Contributions to segregated insurance fund	533,525	*506,065*
	650,759	*589,494*

Salaries and other short-term employee benefits for key management (being those executives with the authority to direct the Company's operating policy) of $364,976 (June 30, 2006: $359,961) are included within administrative expenses.

18 Investment income

Investment income represents interest earned from the Cash and Fixed Deposits held at various banks. The Company has received interest on fixed deposits and cash balances of $102,560 (year ended June 30, 2006 - $92,445).

19 Pension costs

The Company participates in a defined contribution pension scheme administered by the Cayman Islands Chamber of Commerce. In addition, two employees were entitled to continue contributing to the Government Pension Plan. The pension expense for the year ended June 30, 2007 is $20,212 (year ended June 30, 2006 - $18,580)

20 Commitments and Contingencies

The Company has entered into an operating leases, as follows:

	Amounts due within 1 year	Amounts due after more than 1 year	Total lease commitments
Lease - premises	55,440	106,260	161,700
	55,440	106,260	161,700

In May 2007 the Company signed a three year lease which would become effective June 1, 2007.

On 13 January 2006 the Company was served with a Writ of Summons by a previous employee for wrongful dismissal. The Writ of Summons sought damages of US$74,250 plus costs. The Company's legal counsel filed an application that the case be dismissed on the grounds that the Plaintiffs' claim has no prospect of success. On May 24th, 2006, this request was rejected by the Grand Court with a recommendation to proceed to trial in January 2007. The hearing was held on January 16 & 17 2007 and a judgement was made in the Company's favor. The judgement awarded the Company 50% of its court costs. Earlier in the proceeding the Company made an application for a summary judgement against the Plaintiff which was unsuccessful. At that hearing the Judge ordered the Company to pay the Plaintiffs costs. Therefore, the Company was awarded 50% of its court costs less the Plaintiff costs from the summary judgement. The net settlement owed to the Company by the Plaintiff is US$22,968 to date the Company has not collected its entitlement under the judgement, nor has it accrued payment.

21 Certain risks and uncertainties

Credit risk:
The Company's cash balances are placed mainly with one financial institution based in the Cayman Islands. Premium receivable is primarily due from the Cayman Islands Government. The Company is subject to credit risk to the extent that the entity may be unable to fulfill their obligations to repay amounts owed. Management is satisfied that the entity does not present a significant credit risk to the Company.

Reinsurance
The Company seeks to reduce the losses that arise under its issued policies by reinsuring certain levels of risk with a third party reinsurer. Reinsurance ceded contracts do not discharge the Company's liability as the primary insurer. The Company remains liable for the portion insured to the extent that the insurer does not meet its obligations to the Company. To mitigate this risk, the Company has chosen a Reinsurer with excellent credit rating, in addition to evaluating the financial condition of the Reinsurer on a regular basis.

22 Net worth for regulatory purposes

The Cayman Islands Monetary Authority ("CIMA") requires the Company to maintain a minimum net worth of CI$3,000,000. Management considers the Company's net worth for regulatory purposes to be comprised as follows:

	June 30, 2007	*June 30, 2006*
Share capital	1	*1*
Share premium	2,999,999	*2,999,999*
Additional paid-in-capital	8,935,840	*4,935,840*
Accumulated deficit	(18,086,173)	*(11,819,054)*
	(6,150,333)	*(3,883,214)*

At June 30, 2007, the Company was in breach of its minimum net worth requirement for regulatory purposes. Net worth is below statutory requirements for three reasons:

(1) Failure of the Shareholder to provide additional paid in capital for losses incurred from the 2005/6 fiscal year. At the end of 2005 and after its 2005/6 budget was finalized, the Company was advised by their primary network provider, the Cayman Islands Health Services Authority ("CIHSA"), that there were additional 2004/5 claims yet to be processed and paid which would have a negative effect on the Company's capital. This discovery not only effected the reserves for the 2004/5 financial year, but also negatively effected the calculation basis for the 2005/6 premiums. Thus the reserves for 2004/5 were understated and the premiums for 2005/6 were underpriced, leading to a loss in that year. On July 11, 2005 and April 16, 2007 the Company received from government $3.0 million and $1.0 million, respectively, in additional paid in capital to fund the 2004/5 loss position. To date no additional paid in capital has been received to fund the 2005/6 loss.

(2) Improvements in the "CIHSA" billing process have manifested new claims, that in the past financial years, would have never been submitted for processing which again, effected the premium calculation bases, leading to underpriced premium in 2006/7. The 2006/7 underpriced premium has contributed to 2006/7 losses.

(3) Adverse loss development in overseas cases.

In the Company's Ownership Agreement it states that "in the Cayman Islands National Insurance Company Ltd. business plan is a commitment that the Company will maintain capitalization at $3 million. The Cayman Islands Government guarantees this commitment."

On July 20, 2007 the Company met with the Financial Secretary and representatives from the Ministry of Health and Human Services. During this meeting the following plan was established to remediate the regulatory net worth deficiency:

- The 2007/8 approved Budget contained a cash equity injection of $500,000 and a $5,000,000 letter of credit. It was agreed that both these equity injection items would be made available once presented to Cabinet.
- The Company would closely monitor its future cash outflows and make a request for additional funding at the next 2007/8 Supplementary Budget.

In addition to the above the Company has increased its 2007/8 premium rates.

In September 2007, the Company's Board of Directors met with representatives of CIMA to discuss the current financial condition of CINICO. CIMA has indicated that they will be writing to the Company to set out CIMA's concerns and the actions the Company and its shareholder need to take in order to correct the current breach of the Company's minimum net worth requirements for regulatory purposes. In light of this, CINICO's management has initiated discussions with representatives of the Cayman Islands Government to seek to address CIMA's requirements. As a result, CINICO's management understand that the issue of CINICO's financial position has been escalated within Government, and a Cabinet meeting would be held at the end of October 2007 to discuss the matter.

23 Comparatives

Certain comparative amounts have been restated to conform to the current year presentation.