

# CIIH

中保國際控股有限公司  
CHINA INSURANCE INTERNATIONAL  
HOLDINGS COMPANY LIMITED

INTERIM REPORT 2001 中期報告



# CIIH

## 中保國際 控股有限公司

CHINA INSURANCE

The Board of directors of China Insurance International Holdings Company Limited (“the Company”) is pleased to announce the unaudited operating results of the Company and its subsidiaries (“the Group”) for the six months ended 30 June 2001 (“the period”) as follows:—

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2001 — unaudited  
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2001	2000
		\$'000	\$'000
			(Note 1)
<b>Turnover</b>	2	<b>410,608</b>	350,007
<b>Reinsurance business</b>			
Amount transferred from/(to) revenue account			
Non-life			
— Non-proportional		<b>4,694</b>	30,781
— Proportional		<b>(1,167)</b>	10,603
Life		<b>(79)</b>	266
		<b>3,448</b>	41,650
<b>Brokerage business</b>		<b>6,555</b>	5,662
<b>Other revenue</b>	3	<b>52,381</b>	40,708
<b>Other net income/(loss)</b>	4	<b>16,227</b>	(23,583)
		<b>78,611</b>	64,437
<b>Expenditure relating to non-underwriting activities</b>			
Administrative expenses		<b>(10,390)</b>	(5,401)
Net exchange losses		<b>(7,850)</b>	(9,784)
		<b>(18,240)</b>	(15,185)
Profit from ordinary activities		<b>60,371</b>	49,252
Share of profit of associate		<b>189</b>	—
<b>Profit from ordinary activities before taxation</b>	5	<b>60,560</b>	49,252
<b>Taxation</b>	6	<b>(3,118)</b>	(2,593)
<b>Profit attributable to shareholders</b>		<b>57,442</b>	46,659
<b>Dividends attributable to the interim period:</b>	7		
Dividend declared during the interim period		—	—
Dividend declared after the interim period end		<b>1.5 cents</b>	—
		<b>1.5 cents</b>	—
<b>Earnings per share</b>	8		
Basic		<b>6.32 cents</b>	6.93 cents
Diluted		<b>6.27 cents</b>	N/A

No separate combined statement of recognised gains and losses has been prepared as the net profit for the period would be the only component of this statement.

The notes on pages 4 to 15 form part of this interim financial report.

**CONDENSED CONSOLIDATED REVENUE ACCOUNT OF NON-LIFE BUSINESS**

For the six months ended 30 June 2001 — unaudited  
 (Expressed in Hong Kong dollars)

	<b>Six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>\$'000</b>	\$'000
		(Note 1)
<b>Gross premiums written</b>	<b>399,921</b>	339,511
Outward retrocession premiums	<u>(84,989)</u>	<u>(94,991)</u>
<b>Net written premiums</b>	<b>314,932</b>	244,520
<b>Insurance funds brought forward</b>	<b>453,463</b>	512,838
<b>Net claims</b>	<b>(147,568)</b>	(118,070)
<b>Net commission</b>	<b>(70,776)</b>	(65,874)
<b>Interest income</b>	<b>670</b>	882
<b>Management expenses</b>	<b>(6,098)</b>	(6,629)
<b>Insurance funds carried forward</b>	<u><b>(541,096)</b></u>	<u>(526,283)</u>
<b>Amount transferred to profit and loss account</b>	<u><b>3,527</b></u>	<u>41,384</u>

The notes on pages 4 to 15 form part of this interim financial report.

**CONDENSED CONSOLIDATED REVENUE ACCOUNT OF LIFE BUSINESS**

For the six months ended 30 June 2001 — unaudited  
 (Expressed in Hong Kong dollars)

	<b>Six months ended 30 June</b>	
	<b>2001</b>	2000
	<b>\$'000</b>	\$'000
		(Note 1)
<b>Gross premiums written</b>	<b>2,827</b>	3,634
Outward retrocession premiums	<u>(435)</u>	<u>(202)</u>
<b>Net written premiums</b>	<b>2,392</b>	3,432
<b>Increase in life assurance fund</b>	<u>(77)</u>	<u>(666)</u>
<b>Net earned premiums</b>	<b>2,315</b>	2,766
<b>Net claims</b>	<b>(2,079)</b>	(1,800)
<b>Net commission</b>	<b>(262)</b>	(631)
<b>Interest income</b>	<b>1</b>	1
<b>Management expenses</b>	<u>(54)</u>	<u>(70)</u>
<b>Amount transferred (from)/to profit and loss account</b>	<u><b>(79)</b></u>	<u>266</u>

The notes on pages 4 to 15 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET

At 30 June 2001

(Expressed in Hong Kong dollars)

	Note	(Unaudited) At 30 June 2001 \$'000	(Audited) At 31 December 2000 \$'000 (Note 1)
<b>Assets</b>			
Fixed assets	9		
— Investment properties		<b>122,870</b>	122,870
— Other property, plant and equipment		<b>65,382</b>	65,262
		<b>188,252</b>	188,132
Interest in associate	10	<b>6,180</b>	—
Investments in securities	11	<b>1,317,125</b>	1,150,093
Amount due from an immediate holding company		<b>8</b>	—
Amount due from a fellow subsidiary		<b>22</b>	—
Trade and other receivables	12	<b>326,618</b>	305,619
Pledged deposits at bank		<b>17,164</b>	17,522
Deposits at bank with original maturity more than three months		<b>452</b>	467
Cash and cash equivalents	13	<b>399,696</b>	439,553
		<b>2,255,517</b>	2,101,386
<b>Liabilities</b>			
Insurance funds		<b>541,096</b>	453,463
Life assurance fund		<b>1,931</b>	1,854
Amount due to an immediate holding company		—	4
Amount due to a related party		—	8
Amount due to a shareholder		<b>1,169</b>	—
Provision for outstanding claims		<b>581,157</b>	633,199
Trade and other payables	14	<b>53,747</b>	44,025
Taxation		<b>15,110</b>	13,224
Deferred taxation		<b>316</b>	316
		<b>1,194,526</b>	1,146,093
<b>Net assets</b>		<b>1,060,991</b>	955,293
<b>Capital and reserves</b>			
Share capital	16	<b>47,336</b>	44,687
Reserves	17	<b>1,013,655</b>	910,606
		<b>1,060,991</b>	955,293

The notes on pages 4 to 15 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2001 — unaudited  
(Expressed in Hong Kong dollars)

	<b>\$'000</b>
<b>Net cash inflow from operating activities</b>	<b>28,712</b>
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>14,242</b>
<b>Tax paid</b>	<b>(1,169)</b>
<b>Net cash outflow from investing activities</b>	<b>(165,879)</b>
<b>Net cash outflow before financing</b>	<b>(124,094)</b>
<b>Net cash inflow from financing</b>	<b>84,237</b>
<b>Decrease in cash and cash equivalents</b>	<b>(39,857)</b>
<b>Cash and cash equivalents at 1 January 2001</b>	<b>439,553</b>
<b>Cash and cash equivalents at 30 June 2001</b>	<b>399,696</b>

The notes on pages 4 to 15 form part of this interim financial report.

## NOTES ON THE INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

### 1. Basis of preparation

The Company was incorporated on 18 February 2000 and the Company became the holding company of the Group on 26 May 2000 pursuant to a group reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("The Stock Exchange") on 29 June 2000. Details of the Group's reorganisation are set out in the Company's Placing and Public Offer document dated 20 June 2000.

The Group resulting from the reorganisation is regarded as a continuing entity and accordingly, the interim results of the Group have been presented as if the Company has been the holding company of the Group since 1 January 2000.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 16.

The interim financial report has been prepared in accordance with the Rules Governing the Listing of Securities on The Stock Exchange ("the Main Board Listing Rules"), including compliance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the HKSA except that comparative figures for the cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 9 April 2001.

The same accounting policies and methods of computation adopted in the 2000 annual accounts have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2000 annual accounts.

## 2. Segmental information

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area for the financial period is as follows:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>Group turnover</b>		<b>Contribution to profit</b>	
	<b>Six months</b>		<b>from operating activities</b>	
	<b>ended 30 June</b>		<b>Six months</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
		(Note 1)		(Note 1)
<b>By principal activity:</b>				
Reinsurance business	<b>402,748</b>	343,145	<b>3,448</b>	41,650
Brokerage business	<b>7,860</b>	6,862	<b>6,555</b>	5,662
	<b><u>410,608</u></b>	<b><u>350,007</u></b>	<b><u>10,003</u></b>	<b><u>47,312</u></b>
Other group income, net of expenses			<b><u>50,557</u></b>	<u>1,940</u>
			<b><u><u>60,560</u></u></b>	<u><u>49,252</u></u>
<b>By geographical area:</b>				
			<b>(Unaudited)</b>	
			<b>Group turnover</b>	
			<b>Six months</b>	
			<b>ended 30 June</b>	
			<b>2001</b>	<b>2000</b>
			<b>\$'000</b>	<b>\$'000</b>
				(Note 1)
Hong Kong and Macau			<b>166,113</b>	145,365
The People's Republic of China (the "PRC") (other than Hong Kong and Macau)			<b>34,782</b>	26,337
Japan			<b>30,295</b>	34,045
Rest of Asia			<b>89,817</b>	70,000
Sub-total for Asia			<b>321,007</b>	275,747
Europe			<b>62,943</b>	53,190
North America			<b>14,572</b>	9,895
South America			<b>8,416</b>	8,083
Australia			<b>2,692</b>	2,168
Africa			<b>978</b>	924
			<b><u>410,608</u></b>	<u>350,007</u>

### 3. Other revenue

	(Unaudited) Six months ended 30 June	
	2001	2000
	\$'000	\$'000
	(Note 1)	
Dividend income from listed securities	2,280	2,725
Dividend income from unlisted securities	242	406
Interest income from listed securities	27,056	21,199
Interest income from unlisted securities	7,861	4,599
Other interest income	12,786	8,498
Rental income	1,675	1,423
Bad debts recovered	444	—
Others	37	1,858
	<u>52,381</u>	<u>40,708</u>

### 4. Other net income/(loss)

	(Unaudited) Six months ended 30 June	
	2001	2000
	\$'000	\$'000
	(Note 1)	
Losses on disposal of fixed assets	(16)	—
Net realized and unrealized gains/(losses) on listed securities	10,986	(29,825)
Gains on disposal of unlisted securities	51	1,098
Amortisation of discounts of dated debt securities	5,546	5,141
Others	(340)	3
	<u>16,227</u>	<u>(23,583)</u>

### 5. Profit from ordinary activities before taxation

The Group's profit from ordinary activities is arrived at after charging:

	(Unaudited) Six months ended 30 June	
	2001	2000
	\$'000	\$'000
	(Note 1)	
Staff costs	10,499	9,015
Auditors' remuneration	287	250
Depreciation	1,384	798
Operating lease charges: minimum lease payments — hire of properties	893	97
	<u>13,063</u>	<u>10,160</u>

## 6. Taxation

Taxation in the consolidated profit and loss account represents:

	<b>(Unaudited)</b> <b>Six months</b> <b>ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
		(Note 1)
Provision for Hong Kong Profits Tax for the period	<b>2,813</b>	2,307
Taxation outside Hong Kong	<b>243</b>	286
	<b>3,056</b>	2,593
Share of associate's taxation	<b>62</b>	—
	<b>3,118</b>	2,593

The provision for Hong Kong Profits Tax represents the Group's estimated Profits Tax liability calculated at the standard tax rate of 16% (2000: 16%) on its assessable profits from the life and other insurance businesses except for its assessable profits derived from the business of reinsurance of offshore risks, which is calculated at one-half of the standard tax rate of 8% (2000: 8%).

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

## 7. Dividends

(a) *Dividends attributable to the interim period*

	<b>(Unaudited)</b> <b>Six months</b> <b>ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
		(Note 1)
Interim dividend declared after the interim period end of 1.5 cents per share (2000: Nil)	<b>14,201</b>	—

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

(b) *Dividends attributable to the previous financial year, approved and paid during the interim period*

	<b>(Unaudited)</b> <b>Six months</b> <b>ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>\$'000</b>	<b>\$'000</b>
		(Note 1)
Final dividends in respect of the previous financial year, approved and paid during the interim period, of 4 cents per share (2000: Nil)	<b>35,982</b>	—



## 8. Earnings per share

### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the unaudited profit attributable to shareholders of \$57,442,000 (2000: \$46,659,000) and the weighted average of 908,545,383 ordinary shares (2000: 672,823,400) in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2001 is based on the unaudited profit attributable to ordinary shareholders of \$57,442,000 and the weighted average number of ordinary shares of 915,570,245 shares after adjusting for the effects of all dilutive potential ordinary shares. There were no potential dilutive ordinary shares in issue for the six months ended 30 June 2000.

### (c) Reconciliations

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2001</b> <b>No. of shares</b>
Weighted average number of shares used in calculating basic earnings per share	<b>908,545,383</b>
Deemed issue of shares for no consideration arising from share options	<b>7,024,862</b>
Weighted average number of shares used in calculating diluted earnings per share	<b><u>915,570,245</u></b>

## 9. Fixed assets

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to five years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are reviewed upon renewal of the leases to reflect market rentals. None of the leases includes contingent rentals. The gross carrying amounts of investment properties of the Group held for use in operating leases were \$82,300,000 (2000: \$82,300,000).

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

	<b>(Unaudited)</b> <b>At 30</b> <b>June</b> <b>2001</b> <b>\$'000</b>	(Audited) At 31 December 2000 \$'000 (Note 1)
Within 1 year	<b>3,411</b>	3,878
After 1 but within 5 years	<b>750</b>	1,981
	<b><u>4,161</u></b>	<b><u>5,859</u></b>

## 10. Interest in associate

Pursuant to a sale and purchase agreement dated 25 April 2001 with The Ming An Insurance Company (Hong Kong), Limited ("Ming An"), a shareholder of the Company, the Company acquired from Ming An a 25% equity interest in Huatai Insurance Agency & Consultant Service Ltd. ("Huatai"), a company established in the PRC which is engaged in the provision of agency and consultancy services to clients involved in marine and other insurance activities in the PRC. The total consideration for the transaction was RMB1,250,000. Huatai became an associate of the Company. Subsequently, the Company injected a further sum of RMB5,250,000 to the equity of Huatai.

## 11. Investments in securities

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
<b>At 30 June 2001</b>						
<b>(Unaudited)</b>						
<b>Held-to-maturity debt securities, at amortised cost</b>						
Listed:						
— in Hong Kong	11,691	—	85,519	—	—	97,210
— outside Hong Kong	<u>54,431</u>	<u>15,099</u>	<u>157,857</u>	<u>358,188</u>	<u>21,289</u>	<u>606,864</u>
	66,122	15,099	243,376	358,188	21,289	704,074
Less: Provision for diminution in value	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,087)</u>	<u>—</u>	<u>(1,087)</u>
	66,122	15,099	243,376	357,101	21,289	702,987
Unlisted	<u>51,354</u>	<u>14,983</u>	<u>80,180</u>	<u>74,941</u>	<u>—</u>	<u>221,458</u>
	<u>117,476</u>	<u>30,082</u>	<u>323,556</u>	<u>432,042</u>	<u>21,289</u>	<u>924,445</u>
<b>Other investments</b>						
Listed debt securities, at market value						
— outside Hong Kong	1,868	34,125	29,700	89,905	—	155,598
Unlisted debt securities, at fair value	—	—	27,777	—	—	27,777
Listed equity securities, at market value						
— in Hong Kong	—	2,675	8,595	136,979	9,735	157,984
— outside Hong Kong	—	—	4,139	19,321	—	23,460
Unlisted equity securities, at fair value	—	—	—	9,568	—	9,568
Listed unit trusts and mutual funds, at market value						
— in Hong Kong	—	—	—	—	—	—
— outside Hong Kong	<u>—</u>	<u>—</u>	<u>—</u>	<u>18,293</u>	<u>—</u>	<u>18,293</u>
	<u>1,868</u>	<u>36,800</u>	<u>70,211</u>	<u>274,066</u>	<u>9,735</u>	<u>392,680</u>
	<u>119,344</u>	<u>66,882</u>	<u>393,767</u>	<u>706,108</u>	<u>31,024</u>	<u>1,317,125</u>
<b>Market value of listed securities</b>	<u>70,235</u>	<u>52,207</u>	<u>282,720</u>	<u>620,235</u>	<u>30,645</u>	<u>1,056,042</u>
<b>Held-to-maturity debt securities maturing within one year</b>	<u>—</u>	<u>—</u>	<u>73,774</u>	<u>64,329</u>	<u>—</u>	<u>138,103</u>

## 11. Investments in securities (continued)

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
<b>At 31 December 2000</b>						
<b>(Note 1)</b>						
<b>(Audited)</b>						
<b>Held-to-maturity debt securities, at amortised cost</b>						
Listed:						
— in Hong Kong	11,690	—	82,259	8,500	—	102,449
— outside Hong Kong	46,759	15,210	130,223	359,179	6,052	557,423
	58,449	15,210	212,482	367,679	6,052	659,872
Less: Provision for diminution in value	—	—	—	(1,087)	—	(1,087)
	58,449	15,210	212,482	366,592	6,052	658,785
Unlisted	51,337	—	50,735	61,812	—	163,884
	<u>109,786</u>	<u>15,210</u>	<u>263,217</u>	<u>428,404</u>	<u>6,052</u>	<u>822,669</u>
<b>Other investments</b>						
Listed debt securities, at market value						
— outside Hong Kong	—	19,968	30,473	60,840	—	111,281
Unlisted debt securities, at fair value	—	—	—	—	—	—
Listed equity securities, at market value						
— in Hong Kong	—	—	5,369	134,002	15,655	155,026
— outside Hong Kong	—	—	2,117	25,968	—	28,085
Unlisted equity securities, at fair value	—	—	—	9,568	—	9,568
Listed unit trusts and mutual funds, at market value						
— in Hong Kong	—	—	—	—	—	—
— outside Hong Kong	—	—	—	23,464	—	23,464
	<u>—</u>	<u>19,968</u>	<u>37,959</u>	<u>253,842</u>	<u>15,655</u>	<u>327,424</u>
	<u>109,786</u>	<u>35,178</u>	<u>301,176</u>	<u>682,246</u>	<u>21,707</u>	<u>1,150,093</u>
<b>Market value of listed securities</b>	<u>60,358</u>	<u>35,134</u>	<u>245,944</u>	<u>630,566</u>	<u>21,344</u>	<u>993,346</u>
<b>Held-to-maturity debt securities maturing within one year</b>	<u>—</u>	<u>—</u>	<u>59,070</u>	<u>38,288</u>	<u>—</u>	<u>97,358</u>

The unlisted held-to-maturity dated debt securities include bonds with amortised cost of \$16,077,000 (2000: \$12,170,000) issued by entities with AAA rating as assigned by Standard and Poor's as at 30 June 2001.

## 12. Trade and other receivables

Included in trade and other receivables are trade debtors with the following ageing analysis:

	(Unaudited) At 30 June 2001 \$'000	(Audited) At 31 December 2000 \$'000 (Note 1)
Current	122,155	60,496
Less than 3 months	14,089	18,954
More than 3 months but less than 12 months	15,154	7,330
More than 12 months	11,073	9,796
Total trade debtors	<u>162,471</u>	<u>96,576</u>
Prepayments, deposits, other debtors and deposits retained by cedants	119,895	164,345
Loans and advances	44,252	44,698
	<u><u>326,618</u></u>	<u><u>305,619</u></u>

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

## 13. Cash and cash equivalents

	(Unaudited) At 30 June 2001 \$'000	(Audited) At 31 December 2000 \$'000 (Note 1)
Deposits with banks and other financial institutions with original maturity less than three months	277,163	350,437
Cash at bank and in hand	122,533	89,116
	<u><u>399,696</u></u>	<u><u>439,553</u></u>

## 14. Trade and other payables

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

	(Unaudited) At 30 June 2001 \$'000	(Audited) At 31 December 2000 \$'000 (Note 1)
Current	25,617	11,497
Less than 3 months	1,951	815
More than 3 months but less than 12 months	4,838	7,045
More than 12 months	2,354	1,730
Total trade payable	<u>34,760</u>	<u>21,087</u>
Accrued charges, temporary receipts and deposits retained from retrocessionaires	18,987	22,938
	<u><u>53,747</u></u>	<u><u>44,025</u></u>

## 15. Maturity profile

	Repayable on demand \$'000	3 months or less \$'000	1 year or less but over 3 months \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Undated \$'000	Total \$'000
<b>At 30 June 2001</b>							
<b>(Unaudited)</b>							
<b>Assets</b>							
Deposits at banks with original maturity more than 3 months	—	452	—	—	—	—	452
Deposits at banks and other financial institutions with original maturity less than 3 months	2,000	275,163	—	—	—	—	277,163
Certificates of deposit held	—	15,011	—	—	10,000	—	25,011
Debt securities (under held-to-maturity)	—	21,627	101,466	344,280	432,061	—	899,434
Debt securities (under other investments in securities)	—	—	—	19,597	79,243	84,535	183,375
	<u>2,000</u>	<u>312,253</u>	<u>101,466</u>	<u>363,877</u>	<u>521,304</u>	<u>84,535</u>	<u>1,385,435</u>
<b>At 31 December 2000</b>							
<b>(Note 1)</b>							
<b>(Audited)</b>							
<b>Assets</b>							
Deposits at banks with original maturity more than 3 months	—	467	—	—	—	—	467
Deposits at banks and other financial institutions with original maturity less than 3 months	3,012	347,425	—	—	—	—	350,437
Certificates of deposit held	—	—	15,039	—	—	—	15,039
Debt securities (under held-to-maturity)	—	31,479	73,190	417,415	285,546	—	807,630
Debt securities (under other investments in securities)	—	—	—	8,151	19,968	83,162	111,281
	<u>3,012</u>	<u>379,371</u>	<u>88,229</u>	<u>425,566</u>	<u>305,514</u>	<u>83,162</u>	<u>1,284,854</u>

## 16. Share capital

	(Unaudited)	
	No. of shares '000	\$'000
<b>Authorised:</b>		
Ordinary shares of \$0.05 each	<u>2,000,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>		
At 1 January 2001	893,748	44,687
Shares issued (a)	47,000	2,350
Shares issued under share option scheme (b)	<u>5,965</u>	<u>299</u>
At 30 June 2001	<u>946,713</u>	<u>47,336</u>

### (a) Issuance of shares

Pursuant to a meeting of directors on 2 May 2001, the Company allotted and issued an aggregate of 47,000,000 shares of \$0.05 each at \$1.68 per share to an independent third party. The amount in excess of the par value of the shares issued net of related expenses was credited to the share premium account.

### (b) Share option scheme

Pursuant to a shareholders' resolution of the Company on 24 May 2000, a share option scheme for employees was approved and the directors may, at their discretion, invite any employee or director of the Group to take up options to subscribe for shares of the Company at a price to be determined by the board, which will not be less than 80 per cent of the average closing prices of the shares of the Company on The Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company may not (when aggregated with shares subject to any other employee share option scheme) exceed in nominal amount 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose any shares which have been duly allotted and issued pursuant to the scheme.

During the period, options were exercised to subscribe for 5,965,000 ordinary shares in the Company at a total consideration of \$6,017,150, of which \$298,250 was credited to share capital and the balance of \$5,718,900 was credited to the share premium account. At 30 June 2001, the outstanding options were as follows:

Date option granted	Period during which options exercisable	Exercise price	Number of options outstanding at the period end
September 2000	September 2000 to September 2010	\$1.11	18,010,000
February 2001	February 2001 to February 2011	\$0.95	2,286,000

## 17. Reserves

	Share premium \$'000	Retained (losses)/ profits \$'000	Total \$'000
<b>(Audited)</b>			
At 1 January 2000	—	(57,154)	(57,154)
Shares issued	282,571	—	282,571
Acquisition of subsidiaries	567,459	—	567,459
Profit for the year	—	117,730	117,730
	<u>850,030</u>	<u>60,576</u>	<u>910,606</u>
<b>(Unaudited)</b>			
At 1 January 2001	850,030	60,576	910,606
Shares issued	81,589	—	81,589
Profit for the period	—	57,442	57,442
Dividends approved and paid in respect of the previous financial years (note 7(b))	—	(35,982)	(35,982)
	<u>931,619</u>	<u>82,036</u>	<u>1,013,655</u>

## 18. Commitments

At 30 June 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>(Unaudited)</b> <b>At 30</b> <b>June</b> <b>2001</b> <b>\$'000</b>	(Audited) At 31 December 2000 \$'000 (Note 1)
Within 1 year	<b>1,878</b>	1,878
After 1 year but within 5 years	<b>389</b>	1,328
	<u><b>2,267</b></u>	<u>3,206</u>

The Group leases a number of properties under operating leases which run for an initial period of two years, with an option to renew the leases when all terms are renegotiated. Lease payments are reviewed upon renewal of the leases to reflect market rentals. None of the leases includes contingent rentals.

## 19. Contingent liabilities

As at 30 June 2001, there was no outstanding litigation, other than in respect of the Group's reinsurance business.

## 20. Connected transactions

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

	Note	(Unaudited) Six months ended 30 June	
		2001 \$'000	2000 \$'000 (Note 1)
Business ceded by fellow subsidiaries:			
Gross premiums written	(i)	<b>78,597</b>	66,105
Commission expenses	(i)	<b>21,216</b>	15,830
Business retroceded to fellow subsidiaries:			
Outward retrocession premiums	(ii)	<b>118</b>	1,494
Commission income	(ii)	<b>48</b>	1,006
Acquisition of associate	(iii)	<b>1,164</b>	—

Notes:

- (i) China International Reinsurance Company Limited ("CIRe"), a subsidiary of the Company, received reinsurance inward premiums net of related commission expenses from various fellow subsidiaries of the Group during the period in the ordinary course of the CIRe's business.
- (ii) CIRe paid retrocession outward premiums net of related commission income to various fellow subsidiaries of the Company during the period in the normal course of CIRe's business.
- (iii) As disclosed in Note 10, the Group has acquired a 25% equity interest in Huatai, from a shareholder of the Company, Ming An, at a consideration of RMB1,250,000.
- (iv) During the period, certain fellow subsidiaries of the Group provided various services such as security brokerage, travel agency and leasing of property to the Group. The total amount involved is not material to the profits of the Group during the periods.

Apart from the above, there were no other material connected transactions entered into by the Group during the period.

In the opinion of the executive directors, the above transactions with the related parties were conducted on normal commercial terms and in the ordinary course of business.

## 21. Post balance sheet event

On 30 July 2001, the Company announced that the immediate holding company, China Insurance H.K. (Holdings) Company Limited, had agreed to place, through Cazenove Asia Limited as the bookrunner and lead manager, 80,000,000 existing shares of \$0.05 each at a price of \$2.75 per share to independent third parties and to subscribe for 80,000,000 new shares of \$0.05 each at a price equal to the price per placing share. The offer was fully subscribed by the independent third parties and additional shares were issued and allotted to the immediate holding company.

The net proceeds from the subscription were approximately \$214 million. It is the Company's intention to use such proceeds for the acquisition of a 62.5% equity interest in The Tai Ping Life Insurance Company, Limited, a life insurance company established in the PRC which is wholly owned by China Insurance Company, Limited, the ultimate holding company of the Company.

If the Company does not proceed with the above acquisition, such net proceeds will be used as general working capital of the Company or for future acquisition of investment purpose.





## **Independent review report to the board of directors of China Insurance International Holdings Company Limited**

*(incorporated in Hong Kong with limited liability)*

We have been instructed by the Company to review the interim financial report set out on pages 1 to 15.

### **DIRECTORS' RESPONSIBILITIES**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

### **REVIEW WORK PERFORMED**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **REVIEW CONCLUSION**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2001.

**KPMG**

*Certified Public Accountants*

Hong Kong, 4 September 2001

## Financial Results

The Company is pleased to announce the unaudited operating results for the six months ended 30 June 2001 (the "period").

During the period, total turnover for the Group was HK\$410.6 million (2000: HK\$350.0 million) and net profit attributed to shareholders of the Group amounted to HK\$57.4 million (2000: HK\$46.7 million), representing an increase of 17.3% and 23.1% respectively compared with the same period of 2000. Basic earnings per share was HK6.32 cents (2000: HK6.93 cents) and diluted earnings per share was HK6.27 cents (2000: N/A).

The directors have declared an interim dividend of HK1.5 cents per ordinary share for the period (2000: Nil) payable on 10 October 2001 to shareholders whose names appeared on the Register of Members on 25 September 2001.

## Operational Review

During the first half of 2001, the Company continued to operate mainly through its wholly-owned subsidiaries, China International Reinsurance Company Ltd. ("CIRe") and SINO-RE Reinsurance Brokers Ltd. ("SINO-RE"), which engaged in reinsurance underwriting and reinsurance broking respectively.

### *Reinsurance Underwriting — CIRe*

Reinsurance underwritten by CIRe remained to be the core business of the Group during the period. Gross reinsurance premium income registered by CIRe during the period has increased by 17.4% to HK\$402.7 million (2000: HK\$343.1 million) compared to the previous period. This reflected the recovery of the overall market conditions which were advantageous to reinsurance providers such as CIRe, which is a well recognized reinsurer in Hong Kong and the Asian markets.

The Non-life Non-proportional reinsurance premium income showed an impressive growth of 36.5%. The increase was mainly due to further increases in premium rates on most classes of insurance contracts and also greater demand in the catastrophic reinsurance. Premium growth was also seen in the Non-life Proportional reinsurance, which reflected improvement in the pricing of the primary insurance business in Hong Kong and some Asian insurance markets. However, due to the adoption of the three-year fund accounting policy in the Non-life reinsurance business, the improvement on trading terms of the first six months was not yet reflected in the revenue account of CIRe during the period.

Geographically, CIRe enjoyed growth in premium income in the Asian markets and in other parts of the world. The favourable growth was due to increases in business volume and improved premium rates in general.

The underwriting profit of Non-life reinsurance business reported for the period was HK\$3.5 million (2000: HK\$41.4 million), which was lower than that of the previous period. The decrease in underwriting profit was mainly attributed to less saving in claims settlement versus claims reserves during the period whereas in the previous period, the saving in claims settlement versus claims reserves were much more significant.

The total gross premium in life business was less than 1% of the total reinsurance premium in CIRE. Life premium income recorded during the accounting period was HK\$2.8 million, which was less than HK\$3.6 million of the previous period. The reduction was mainly due to timing difference in recording premium income and therefore should not cause any concern. Due to relatively larger number of claims in death benefit were paid out during the period, a small underwriting loss of HK\$79,000 (2000: profit of HK\$266,000) was registered.

#### *Reinsurance Broking — SINO-RE*

The broking turnover in SINO-RE continued to grow during the period and recorded an increase of 14.5% to HK\$7.9 million (2000: HK\$6.9 million). The profit contribution of HK\$6.6 million (2000: HK\$5.7 million) also increased by 15.8% compared with the previous period. The satisfactory growth on both broking income and net profit were attributed to the increase in price on the Non-proportional reinsurance contracts that SINO-RE placed as well as increases in business volume.

#### *Investment Portfolio and Investment Income*

The total investment portfolio held as at 30 June 2001 amounted to HK\$1,907.7 million, which represented 84.6% of the total assets of the Group. The composition of the investment portfolio were:

	At 30 June, 2001 HK\$'000	% of Total	At 31 December, 2000 HK\$'000	% of Total
Bonds & Fixed Income Securities	1,107,820	58.1%	933,950	52.6%
Cash & Bank Deposits	417,312	21.9%	457,542	25.8%
Listed Equities	181,444	9.5%	183,111	10.3%
Listed Unit Trusts	18,293	1.0%	23,464	1.3%
Investment Properties	122,870	6.4%	122,870	6.9%
Interest in Associate	6,180	0.3%	—	0.0%
Unlisted Equities	9,568	0.5%	9,568	0.6%
Loan	44,252	2.3%	44,698	2.5%
	<u>1,907,739</u>	<u>100%</u>	<u>1,775,203</u>	<u>100%</u>

The investment activities carried out during the period resulted in investment profit of HK\$68.6 million (2000: HK\$17.1 million), a remarkable improvement over the previous period. The investment income represents an annualized yield of 7.5% on the average investment fund employed in the period. The increase in investments in bonds and fixed income securities for long-term holding enabled the Group to receive steady cash flow despite the rapid interest rate cuts in both US Dollars and Hong Kong Dollars since the beginning of the year (which reduced interest income from bank deposits). Due to uncertainties in the stock markets, the Group continued to hold a high proportion of cash to allow for flexibility and to cater for good investment opportunities.

Due to US Dollars and Hong Kong Dollars against other foreign currencies having been strengthened, net exchange loss of HK\$7.9 million (2000: HK\$9.8 million) was recorded in translating foreign currencies denominated assets and liabilities into Hong Kong dollars during the period. It is the Group's policy to maintain adequate foreign currencies denominated assets to match with corresponding liabilities.

#### *Liquidity and Financial Resources*

The Group's cash and bank deposits as at 30 June 2001 amounted to HK\$417.3 million (2000: HK\$457.5 million). There was no bank borrowing during the period.

#### *Operating Cost*

The number of employees employed by the Company and its subsidiaries was 72 as at 30 June 2001 compared to 62 as at end of June 2000. The consolidated operating costs of the Group amounted to HK\$16.5 million (2000: HK\$12.1 million), an increase of 36.7% over the previous period. The increase in number of employees and in operating cost were mainly due to additional expenses incurred at the Company level as the Company became a public company listed on the main board of The Stock Exchange of Hong Kong Limited. The setting up and maintaining of a representative office in Shanghai during the period also accounted for part of the increase as well. Nevertheless, the Group continued to exercise the expense control program and maintained its efficient expense to total turnover ratio at 4.0% (2000: 3.5%) in the period.

#### *Capital Structure*

During the period, 47,000,000 new shares of HK\$0.05 each were allotted and issued at HK\$1.68 per share to Guangdong Development Bank, Macau Branch (further details are discussed under the section "Major Events during the period"). Furthermore, certain employees with share options granted under the share option scheme had exercised their options to subscribe for shares of the Company. Total number of shares allotted and issued to such employees was 5,965,000 ordinary shares. The aggregate consideration amounted to HK\$6,017,150, of which HK\$298,250 was credited to share capital and the balance of HK\$5,718,900 was credited to the share premium account. As at 30 June 2001, the total issued share capital of the Company was 946,713,000 shares.

#### **Major Events During the Period**

1. The Company opened a representative office in Shanghai in February 2001 to enhance better services to the clients of CIRe and SINO-RE in the People's Republic of China (the "PRC").
2. On 25 April 2001, the Company acquired from The Ming An Insurance Company (Hong Kong), Limited ("Ming An"), a shareholder of the Company, its entire 25% equity interest in Huatai Insurance Agency & Consultant Service Ltd. ("Huatai") for a total consideration of RMB1.25 million. Huatai became an associated company of the Company. Huatai is principally engaged in agency and consultancy services to clients involved in marine and other insurance activities in the PRC. Subsequently, Huatai increased its capital and the Company injected a further sum of RMB5.25 million to the equity of Huatai. The remaining 75% equity interest of Huatai is being held by China Reinsurance Company, a PRC state-owned company established in the PRC.

3. On 3 May 2001, the Company allotted and issued 47,000,000 new shares of HK\$0.05 each at HK\$1.68 per share to Guangdong Development Bank, Macau Branch (the "Placement"), an independent third party and a member of Guangdong Development Bank ("GDB"). The net proceeds of this Placement were approximately HK\$78 million. This Placement increased the capital base of the Company and enhanced the solid foundation for the Group to develop its existing business and to expand into the domestic insurance market in the PRC. GDB is a well-known commercial bank in the PRC with its head office located at Guangzhou, the PRC and has established branches and representative offices across the PRC, Macau and Hong Kong. Given the well established business networks and resources of GDB and its quality assets, this placement enables the Group to enhance its relationship with GDB, and through such strategic relationship, the Group can utilise GDB's extensive network to develop the Group's businesses in the PRC.

### **Events After The Balance Sheet Date**

1. On 30 July 2001, the Company announced that its immediate holding company, China Insurance H.K. (Holdings) Company Limited ("CIHK") had placed 80,000,000 existing shares of HK\$0.05 each in the Company at a price of HK\$2.75 per share to independent institutional and professional investors. CIHK had simultaneously undertaken to subscribe for 80,000,000 new shares of HK\$0.05 each at a price equal to the placing price per share from the Company. The subscription of new shares completed on 13 August 2001. Net proceeds from the subscription were approximately HK\$214 million. The Company intends to use such proceeds together with cash from internal resources and to issue additional new shares of the Company for the proposed acquisition of The Tai Ping Life Insurance Company, Limited ("Tai Ping Life") (further details are discussed under the section "Prospect").
2. On 4 September 2001, the Company entered into the reorganisation and share transfer agreement with its ultimate holding company, China Insurance Company, Limited ("CICL") and Tai Ping Life, pursuant to which the Company has conditionally agreed, among other things, to acquire a 62.5% equity interest in Tai Ping Life from CICL (further details are discussed under the section "Prospect").

### **Prospect**

With the solid foundation laid down in the first six months of 2001, the Group is confident that its reinsurance underwriting and reinsurance broking business will continue to perform well for the second half year in 2001. The Group also looks forward to achieving a satisfactory operating result for the year 2001. The Group will take advantage of the prevailing favourable reinsurance market conditions to expand its business and to improve the terms of the reinsurance contracts for 2002 as they come up for renewal. Nevertheless, the Group's strict underwriting disciplines will continue to be applied to any such business expansions.

The prevailing uncertain equity market conditions and low interest rate environment present a challenge for the Group's investment team. The Group will continue to apply its prudent investment philosophy with a focus on asset quality and stable returns on investment. However, as a major proportion of the Group's investments is in long term fixed income bonds which are held to maturity, the uncertain capital market should not have a significant impact on the Group's investment performance for the remaining months in the year 2001.

Expansion in the Chinese domestic insurance market on both life and general insurances has been considered as a top priority project in the strategic plans of the Company. The Company is pleased to report that substantial progress had been made in this respect in that on 4 September 2001, the Company had entered into an agreement with CICL and Tai Ping Life whereby 62.5% interest in Tai Ping Life, a company established in the PRC with a nationwide life insurance license, is to be transferred to the Company. Details of this transaction are as follows:

On 4 September 2001, the Company entered into the Reorganisation and Share Transfer Agreement with CICL and Tai Ping Life, pursuant to which the Company has conditionally agreed, among other things, to acquire, and/or to nominate a wholly-owned subsidiary or subsidiaries established outside the PRC and Hong Kong to acquire, in aggregate 62.5% interest in Tai Ping Life from CICL for a total consideration of approximately HK\$522.4 million. Approximately HK\$242.4 million of the consideration for the Proposed Share Transfer will be satisfied by the issuance and allotment of the Consideration Shares to CIHK at the direction of CICL and the balance of HK\$280 million will be satisfied by the payment of a cash amount which will be funded by the net proceeds of approximately HK\$214 million raised from the placing and subscription announced by the Company on 30 July 2001 and from the Company's internal resources.

Subject to the terms and conditions of the Reorganisation and Share Transfer Agreement, the Company has also agreed that on CICL's instruction which may be given at any time after Completion, it will, together with CICL, transfer or procure the Designated Subsidiary to transfer the Strategic Investor Interest to the Strategic Investor (or the SI Subsidiary) at such time and for such consideration (provided that it shall not be less than the relevant consideration paid by the Company to CICL) as CICL considers appropriate. It is currently intended that the proceeds received by the Company or its Designated Subsidiary from the disposal of the Strategic Investor Interest (if any) will be used for long term investment purpose. The Company will comply with the Listing Rules and will make a further announcement regarding such transfer of Strategic Investor Interest as and when required under the Listing Rules.

Tai Ping Life was established in the PRC and is owned as to 100% by CICL. The resumption of Tai Ping Life's personal insurance businesses (including life insurance) throughout the PRC was approved by the China Insurance Regulatory Commission on 22 May 2001 with the consent of the State Council of the PRC. At present, there are only five nationwide insurance companies in the PRC carrying on life insurance business throughout the PRC.

As CICL owns a 100% interest in CIHK (of which a 20% interest is held through Tai Ping Insurance Company, Limited ("TPI") and China Life Insurance Company, Limited), and CIHK is a controlling shareholder of the Company, CICL is an associate of CIHK and the Proposed Share Transfer therefore constitutes a connected transaction of the Company for the purpose of the Listing Rules. As the 100% value of Tai Ping Life exceeds 50% of the consolidated net tangible asset value of the Company as disclosed in its latest published annual report adjusted to take into account of the net proceeds from the issues of Shares as announced on 2 May 2001 and 30 July 2001 and the unaudited net profit of the Company for the 6 months ended 30 June 2001, the Proposed Share Transfer also constitutes a major transaction for the Company for the purpose of the Listing Rules.

The Proposed Share Transfer is subject to, among other things, the approval of the Independent Shareholders. In view of the interest of CICL in the Proposed Share Transfer, CIHK and its associates will abstain from voting at the Extraordinary General Meeting of the Company in this regard. A circular containing, among other things, information on the Proposed Share Transfer, the relevant accountants report of Tai Ping Life, the letter from the independent financial adviser and the recommendation of the Independent Board Committee in relation to the Proposed Share Transfer will be dispatched to the Shareholders as soon as practicable.

Cazenove Asia Limited has been appointed as the financial adviser to advise the Company on this transaction and an independent financial adviser will be retained to advise the Independent Board Committee.

The Company is also actively looking into the means of investing in TPI, a general insurance company established in the PRC, currently owned by CICL. TPI has been granted the resumption of general insurance underwriting license in the PRC. The Company will make further announcements as and when it is appropriate.

With the proposed acquisition of Tai Ping Life and the intended investment in TPI, the Company has taken major forward steps towards its goal of becoming an insurance conglomerate that has diversified operations in global reinsurance underwriting, insurance and reinsurance broking as well as insurance underwriting in the PRC on life and general insurance.

#### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the period except the allotment of the Company's listed securities of 47,000,000 shares and the issue of 5,965,000 shares under the share option scheme as disclosed in Note 16 to accounts.

#### DIRECTORS' INTEREST IN SHARES

The directors of the Company who held office at 30 June 2001 had the following interests in the issued share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) at that date as recorded in the register of directors' share interests:

	Ordinary shares of \$0.05 each			
	Personal interests	Family interests	Corporate interests	Other interests
Beneficial Interests				
China Insurance International Holdings Company Limited				
Yang Chao	1,330,000	—	—	—
Zhang Xiaoshu	1,100,000	—	—	—
Miao Jianmin	860,000	—	—	—
Zheng Changyong	500,000	—	—	—

As at 30 June 2001, the directors and their associates of the Company had the following personal interests in options to subscribe for shares of the Company (market value per share is \$2.65 at the balance sheet date) granted under a share option scheme of the Company as recorded in the register required under section 29 of the SDI Ordinance. Each option gives the holder the right to subscribe for one share.

	No. of options outstanding at the period end	Date granted	Period during which options exercisable	Consideration paid for the share option granted	No. of shares acquired on exercise of options during the period	Price per share to be paid on exercise of options	Market value per share at date of grant of options
Yang Chao	2,670,000	26 September 2000	26 September 2000 to 25 September 2010	\$1.00	330,000	\$1.11	\$1.37
	—	12 February 2001	12 February 2001 to 11 February 2011	\$1.00	1,000,000	\$0.95	\$1.33
Zhang Xiaoshu	2,200,000	28 September 2000	28 September 2000 to 27 September 2010	\$1.00	300,000	\$1.11	\$1.41
	—	12 February 2001	12 February 2001 to 11 February 2011	\$1.00	800,000	\$0.95	\$1.33
Miao Jianmin	1,740,000	26 September 2000	26 September 2000 to 25 September 2010	\$1.00	260,000	\$1.11	\$1.37
	—	12 February 2001	12 February 2001 to 11 February 2011	\$1.00	600,000	\$0.95	\$1.33
Ng Yu Lam Kenneth	1,800,000	28 September 2000	28 September 2000 to 27 September 2010	\$1.00	—	\$1.11	\$1.41
	500,000	12 February 2001	12 February 2001 to 11 February 2011	\$1.00	—	\$0.95	\$1.33
Dong Ming	1,500,000	27 September 2000	27 September 2000 to 26 September 2010	\$1.00	—	\$1.11	\$1.40
	400,000	12 February 2001	12 February 2001 to 11 February 2011	\$1.00	—	\$0.95	\$1.33
Lau Siu Mun Sammy	1,500,000	27 September 2000	27 September 2000 to 26 September 2010	\$1.00	—	\$1.11	\$1.40
	400,000	12 February 2001	12 February 2001 to 11 February 2011	\$1.00	—	\$0.95	\$1.33



	No. of options outstanding at the period end	Date granted	Period during which options exercisable	Consideration paid for the share option granted	No. of shares acquired on exercise of options during the period	Price per share to be paid on exercise of options	Market value per share at date of grant of options
Zheng Changyong	1,000,000	28 September 2000	28 September 2000 to 27 September 2010	\$1.00	200,000	\$1.11	\$1.41
	—	12 February 2001	12 February 2001 to 11 February 2011	\$1.00	300,000	\$0.95	\$1.33

Apart from the foregoing, at no time during the period was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

#### SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2001, according to the Register of Members maintained by the Company under Section 16(1) of the SDI Ordinance, the shareholders who had or were deemed to have interest in 10% or more of the ordinary shares in issue were as follows:

	Ordinary shares held	Percentage of total issued shares
CICL	555,872,000 ( <i>note 1</i> )	58.72%
CIHK	555,872,000 ( <i>note 2</i> )	58.72%

Notes:

1. CICL's beneficial interest in the Company is held by CIHK and Ming An, both of which are wholly-owned subsidiaries of CICL.
2. 82,794,000 shares are held by Ming An, a wholly-owned subsidiary of CIHK.

Save as disclosed above, there was no person known to the directors who at 30 June 2001 was directly or indirectly interested in 10% or more of the ordinary shares in issue of the Company.

The Group has adopted prudent strategies and techniques which aim to effectively identify, evaluate and manage risks for both reinsurance underwriting and investments.

(i) Underwriting activities

The Group's reinsurance portfolio is made up of a mix of business spread across different geographic regions and classes, with emphasis towards Asian countries and non-marine property damage, marine cargo and hull and miscellaneous non-marine classes. In addition to diversifying its portfolio, the Group does not actively seek acceptance of any liability reinsurance business from customers operating outside of the Asia Pacific region, in particular, the United States of America. In the Asia Pacific region, where there are core-markets of the Group, liability reinsurance for motor, workers' compensation and general third party liability are written on a limited scale in order to provide customers with comprehensive reinsurance services.

(ii) Retrocession

The Group purchases retrocession facilities in order to increase its acceptance capacity, to diversify its risk exposure and to harmonize its net retention exposure to avoid any significant adverse impact to its financial performance which may be caused by single or multiple catastrophic losses. The retrocessionaires are chosen after careful consideration of their reputation and credit worthiness. In assessing the credit worthiness of retrocessionaires, the Group takes into account, among other factors, ratings and evaluation by recognized credit rating agencies and brokers, their claims-paying and underwriting track record, as well as the Group's past transaction experience with them. The Group also spreads out the credit risk by reinsuring with a number of retrocessionaires who are domiciled in many different countries.

(iii) Catastrophe exposure

The Group closely monitors its aggregate exposure to natural catastrophic perils around the world, and record down major catastrophic losses in a historical database. Aggregate exposure is reviewed and analyzed on a regular basis. The catastrophic exposure of the Group is protected by means of various excess of loss retrocession facilities which limits the Group's maximum net retained loss to a tolerable level.

(iv) Reserve adequacy

The Group is required under the Hong Kong Insurance Companies Ordinances to maintain reserves to cover its estimated claims liability and the related settlement expenses. The Group exercises great care and effort in setting up the reserves. The reserves are estimated by the Group, using actuarial methods such as loss development methods and/or Bornhuetter-Ferguson method. The adequacy of the reserves is regularly reviewed.

(v) Foreign currency

The Group underwrites business originating from many parts of the world. It is potentially subject to currency fluctuation when claims are to be paid. The Group hedged the currency risk by holding deposits in a number of currencies and by premium income generated from the underwriting in the relevant foreign currency. The transfer of foreign currency exposure through appropriate retrocession also provides the Group with additional hedging against such currency fluctuation risk. Members of the senior management are dedicated to monitor the book of foreign currencies held by the Group.

(vi) Investments

The Group's investment policy emphasizes asset quality and liquidity. However, its investments are subject to various exposures including market risks and credit risks, as well as interest rate risk. Prudent risk management procedures are in place with an aim to manage those risks. Market risks are the risks that changes in interest rates, foreign exchange rates or equity and commodity prices will affect the prices of monetary assets taken or held by the Group. The adoption of held to maturity approach of the fixed income securities has provided the Group with steady income and the composition of the investment portfolio is geared towards stable recurrent income.

#### AUDIT COMMITTEE

The Company has set up an Audit Committee to assist the directors in providing an independent review on the completeness, accuracy and fairness of the financial statements of the Company, as well as the efficiency and effectiveness of the Company's operations and internal controls. In addition, the Audit Committee has reviewed with management the accounting policies and practice adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the period ended 30 June 2001.

#### CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Main Board Listing Rules, at any time during the six months ended 30 June 2001 with the exception that the non-executive directors were not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Articles of Association.

By Order of the Board  
**YANG Chao**  
*Chairman*

Hong Kong, 4 September 2001