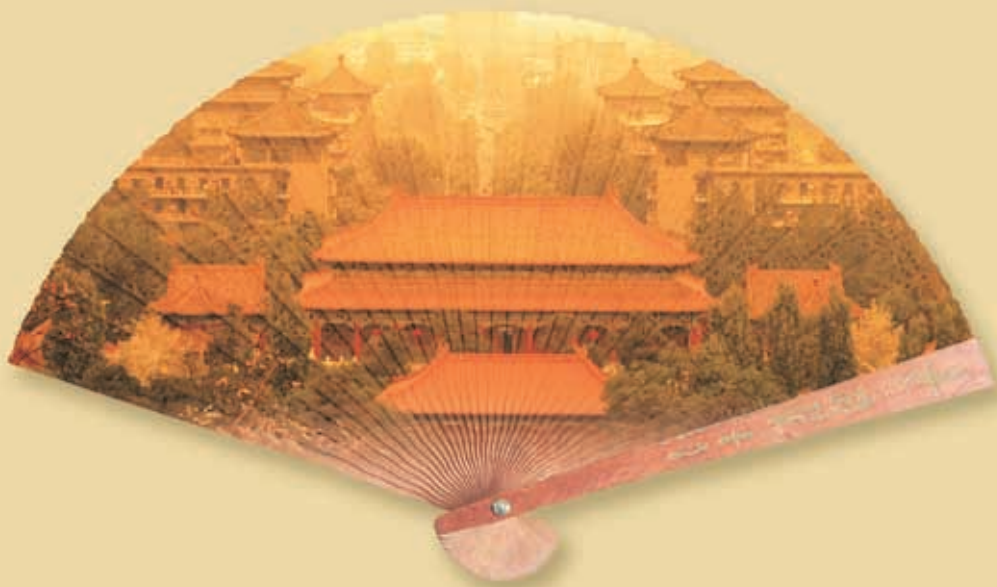


CIH

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



中國保險集團成員
A Member of The China Insurance Group



INTERIM REPORT 2003 中期報告

DEFINITIONS

In this Interim Report, the following expressions shall have the following meanings unless the context requires otherwise:

“CIGAML”	China Insurance Group Assets Management Limited
“CIHC”	China Insurance (Holdings) Company, Limited
“CIHK”	China Insurance H.K. (Holdings) Company Limited
“CIRe”	China International Reinsurance Company Limited
“Directors”	the directors of the Company, including the independent non-executive directors of the Company
“Golden Win”	Golden Win Development Limited
“Grantee”	A person who has been granted the right to accept the Company’s offer of share option
“HKSA”	Hong Kong Society of Accountants
“last period”	The period ended 30 June 2002
“last year”	The year ended 31 December 2002
“ICBC”	The Industrial and Commercial Bank of China
“ICBC (Asia)”	Industrial and Commercial Bank of China (Asia) Limited
“Listing Rules”	The Rules Governing the Listing of Securities on the Main Board of the Stock Exchange
“SARS”	Severe Acute Respiratory Syndrome
“SFO”	Securities and Futures Ordinance
“Share(s)”	Share(s) of HK\$0.05 each in the capital of the Company

DEFINITIONS *(continued)*

“SINO-RE”	SINO-RE Reinsurance Brokers Limited
“SSAP”	Hong Kong Statements of Standard Accounting Practice
“the Stock Exchange”	The Stock Exchange of Hong Kong Limited
“the Company” or “CIIH”	China Insurance International Holdings Company Limited
“the Group”	CIIH and its subsidiaries
“the Period”	The period ended 30 June 2003
“the PRC”	The People’s Republic of China
“Toplap”	Toplap Investments Limited
“TPI”	The Tai Ping Insurance Company, Limited
“TPL”	Tai Ping Life Insurance Company, Limited
“the Old Scheme”	Share option scheme of the Company adopted on 24 May 2000 and terminated on 7 January 2003
“the New Scheme”	Share option scheme of the Company adopted on 7 January 2003

The Board of Directors of China Insurance International Holdings Company Limited is pleased to announce the unaudited operating results of the Company and its subsidiaries for the six months ended 30 June 2003 as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003 - unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2003 \$'000	2002 \$'000 (Restated)
Turnover	3	2,358,314	1,188,289
Amount transferred from/(to) revenue account			
Reinsurance business		32,398	55,620
Life insurance business		(24,011)	(13,111)
		8,387	42,509
Income from asset management business		22,616	—
Income from insurance intermediaries business		8,574	5,655
Other revenue	4	113,598	62,934
Other net income	5	36,252	5,984
		189,427	117,082
Expenditure relating to non-underwriting activities			
Administrative expenses		(96,289)	(41,251)
Net exchange gains		9,240	5,054
		(87,049)	(36,197)

CONSOLIDATED INCOME STATEMENT *(continued)*

For the six months ended 30 June 2003 — unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	2003 \$'000	2002 \$'000 (Restated)
Profit from operations		102,378	80,885
Share of (losses) less profits of associates		(16,685)	(10,958)
Finance costs	6(a)	<u>(2,040)</u>	<u>(1)</u>
Profit from ordinary activities before taxation	6	83,653	69,926
Taxation	7	<u>(11,200)</u>	<u>31,488</u>
Profit from ordinary activities after taxation		72,453	101,414
Minority interests		<u>17,040</u>	<u>15,867</u>
Profit attributable to shareholders		<u>89,493</u>	<u>117,281</u>
Dividends attributable to the interim period:	8		
Dividend declared after the interim period end		<u>15,935</u>	<u>19,876</u>
		<u>15,935</u>	<u>19,876</u>
Earnings per share	9		
Basic		<u>6.75 cents</u>	<u>9.21 cents</u>
Diluted		<u>6.68 cents</u>	<u>9.11 cents</u>

The notes on pages 10 to 32 form part of this interim financial report.

CONDENSED CONSOLIDATED REVENUE ACCOUNT OF REINSURANCE BUSINESS

For the six months ended 30 June 2003 — unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
		(Restated)
Gross premiums written	930,607	908,219
Outward retrocession premiums	<u>(188,396)</u>	<u>(176,522)</u>
Net premiums written	742,211	731,697
Increase in insurance funds	<u>(179,327)</u>	<u>(235,706)</u>
Net premiums earned	562,884	495,991
Net claims	(371,253)	(278,184)
Net commission	(152,740)	(156,779)
Interest income	963	754
Management expenses	<u>(7,456)</u>	<u>(6,162)</u>
Amount transferred to income statement	<u>32,398</u>	<u>55,620</u>

The notes on pages 10 to 32 form part of this interim financial report.

CONDENSED CONSOLIDATED REVENUE ACCOUNT OF LIFE INSURANCE BUSINESS

For the six months ended 30 June 2003 — unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Gross premiums written	1,395,044	272,895
Outward reinsurance premiums	<u>(7,818)</u>	<u>(5,854)</u>
Net premiums written	1,387,226	267,041
Life insurance funds brought forward	1,407,706	70
Net claims	(38,876)	(1,307)
Net commission	(73,261)	(11,783)
Management expenses	(53,503)	(24,013)
Life insurance funds carried forward	<u>(2,653,303)</u>	<u>(243,119)</u>
Amount transferred from income statement	<u>(24,011)</u>	<u>(13,111)</u>

The notes on pages 10 to 32 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2003 — unaudited

(Expressed in Hong Kong Dollars)

	Note	At 30 June 2003 \$'000	At 31 December 2002 \$'000 (Restated)
Assets			
Fixed assets	10		
— Investment properties		110,358	110,358
— Other property, plant and equipment		187,903	169,211
		<u>298,261</u>	<u>279,569</u>
Goodwill		519,836	533,719
Interest in associates		171,530	188,253
Deferred tax assets		3,603	3,458
Investments in securities	11	3,728,675	2,583,385
Securities purchased under resale agreement		120,993	448,797
Amount due from group companies		18,489	6,368
Trade and other receivables	12	799,276	555,434
Pledged deposits at bank		66,044	65,558
Deposits at bank with original maturity more than three months	13	724,853	666,872
Cash and cash equivalents	14	1,293,040	1,111,620
		<u>7,744,600</u>	<u>6,443,033</u>
Liabilities			
Deferred tax liabilities		510	505
Insurance funds		525,301	345,974
Life insurance funds		2,653,303	1,407,706
Amount due to group companies		134,817	173,896
Provision for outstanding claims		1,322,631	1,169,810
Securities sold under repurchase agreement		94,680	380,782
Trade and other payables	15	179,758	191,875
Tax payable		20,094	12,560
Insurance protection fund		499	242
		<u>4,931,593</u>	<u>3,683,350</u>
Minority interests		162,117	179,157
		<u>5,093,710</u>	<u>3,862,507</u>
Net assets		<u>2,650,890</u>	<u>2,580,526</u>
Capital and reserves			
Share capital	17	66,300	66,267
Reserves	18	2,584,590	2,514,259
		<u>2,650,890</u>	<u>2,580,526</u>

The notes on pages 10 to 32 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2003 — unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2003 \$'000	2002 \$'000 (Restated)
Shareholders' equity at 1 January			
As previously reported		2,556,114	2,298,301
Prior period adjustments arising from changes in accounting policies for:	2 & 18		
— recognition of underwriting results		21,459	(43,824)
— income taxes		2,953	3,269
As restated		<u>2,580,526</u>	<u>2,257,746</u>
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong		—	1,218
Net gains not recognised in the income statement		—	1,218
Profit for the Period			
As previously reported	2 & 18		80,689
Prior period adjustments arising from changes in accounting policies for:			
— recognition of underwriting results			36,870
— income taxes			(278)
Profit for the Period (2002: as restated)		<u>89,493</u>	<u>117,281</u>
Dividends approved during the Period	8	<u>(19,889)</u>	<u>(44,566)</u>
Movements in share capital			
Shares issued under share option scheme	17	33	50
Net share premium received	18	727	1,021
Net increase in shareholders' equity arising from capital transactions with shareholders		<u>760</u>	<u>1,071</u>
Shareholders' equity at 30 June		<u>2,650,890</u>	<u>2,332,750</u>

The notes on pages 10 to 32 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2003 — unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Net cash from operating activities	1,237,190	242,977
Net cash used in investing activities	(1,034,601)	(578,158)
Net cash (used in)/from financing activities	<u>(21,169)</u>	<u>1,071</u>
Net increase/(decrease) in cash and cash equivalents	181,420	(334,110)
Cash and cash equivalents at 1 January	<u>1,111,620</u>	<u>1,314,913</u>
Cash and cash equivalents at 30 June	<u><u>1,293,040</u></u>	<u><u>980,803</u></u>

The notes on pages 10 to 32 form part of this interim financial report.

NOTES ON THE INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Basis of preparation

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 HKSA. KPMG’s independent review report to the board of directors is set out in page 33.

The interim financial report has been prepared in accordance with the requirements of the Listing Rules, including compliance with SSAP 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2003.

2 Change of accounting policies

The accounting policies and methods of computation adopted in the 2002 annual financial statements have been applied consistently to the interim financial report, with the exception of the following:

(i) Recognition of underwriting results

During 2003, the Group changed its accounting policy in respect of recognition of underwriting results.

In prior years, the revenue accounts for the non-life reinsurance business were prepared on the fund accounting basis, under which premiums, claims and expenses were carried forward and profit recognition was delayed until the end of the third accounting year. Any underwriting losses were recognised as soon as they were foreseen.

With effect from 1 January 2003, the Group has adopted the annual accounting basis for its non-life reinsurance business. Under the annual accounting basis, the revenue account for each underwriting year is closed at the end of each accounting year and the underwriting result is transferred to the income statement. The Directors believe that this change of policy will allow the Group to conform with the best practice of the industry and international standards.

2 Change of accounting policies *(continued)*

(i) Recognition of underwriting results *(continued)*

This change in accounting policy has been accounted for retrospectively. Certain comparative figures have been adjusted to reflect the changes in accounting policy. As a result of the adoption of the new accounting policy, the Group's profit for the six months ended 30 June 2003 decreased by \$2,385,000 and that for the six months ended 30 June 2002 increased by \$36,870,000; the opening balance of retained earnings brought forward as at 1 January 2002 decreased by \$43,824,000 and the balance as at 1 January 2003 increased by \$21,459,000.

(ii) Income taxes

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

With effect from 1 January 2003, in order to comply with SSAP 12 (revised) "Income taxes" issued by the HKSA, the Group adopted a new policy for deferred tax.

The change in accounting policy has been accounted for retrospectively. Certain comparative figures have been adjusted to reflect the changes in accounting policy. The effect of the change for the Period is an increase in the Group's profit of \$140,000 and a decrease in the Group's profit of \$278,000 for the last period. The opening balance of retained earnings brought forward as at 1 January 2002 increased by \$3,269,000 and the balance as at 1 January 2003 increased by \$2,953,000.

3 Segment reporting

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

3 Segment reporting (continued)

(a) By business activity:

For the six months ended 30 June 2003

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter-segment elimination \$'000	Unallocated \$'000	Total \$'000
Turnover							
Revenue from external customers	930,607	1,395,044	22,617	10,046	—	—	2,358,314
Inter-segment revenue	—	—	732	1,584	(2,316)	—	—
	<u>930,607</u>	<u>1,395,044</u>	<u>23,349</u>	<u>11,630</u>	<u>(2,316)</u>	<u>—</u>	<u>2,358,314</u>
Business segment result							
Profit/(loss) attributable from segment	30,161	(24,011)	23,348	10,158	—	—	39,656
Inter-segment transactions	2,237	—	(732)	(1,584)	—	—	(79)
	<u>32,398</u>	<u>(24,011)</u>	<u>22,616</u>	<u>8,574</u>	<u>—</u>	<u>—</u>	<u>39,577</u>
Other revenue							
Dividend income	4,783	—	9	219	—	934	5,945
Interest income from debt securities	38,112	30,548	6,896	—	—	7,086	82,642
Others	7,118	15,649	360	497	—	4,477	28,101
	<u>50,013</u>	<u>46,197</u>	<u>7,265</u>	<u>716</u>	<u>—</u>	<u>12,497</u>	<u>116,688</u>
Inter-segment transactions	(150)	—	—	—	—	(2,940)	(3,090)
	<u>49,863</u>	<u>46,197</u>	<u>7,265</u>	<u>716</u>	<u>—</u>	<u>9,557</u>	<u>113,598</u>
Other net income/(loss)							
Net realised and unrealised gains/(losses) from equity investments, unit trusts and mutual funds	15,720	5,901	(108)	164	—	2,678	24,355
Net realised and unrealised gains/(losses) from debt securities	8,162	2,598	(4,838)	—	—	5,367	11,289
Others	608	—	—	—	—	—	608
	<u>24,490</u>	<u>8,499</u>	<u>(4,946)</u>	<u>164</u>	<u>—</u>	<u>8,045</u>	<u>36,252</u>

3 Segment reporting (continued)

(a) By business activity: (continued)

For the six months ended 30 June 2003 (continued)

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter-segment elimination \$'000	Unallocated \$'000	Total \$'000
Expenditure relating to non-underwriting activities							
Administrative expenses	(6,708)	(69,477)	(12,667)	(454)		(8,319)	(97,625)
Net exchange gains/(losses)	9,061	31	(11)	69		90	9,240
	2,353	(69,446)	(12,678)	(385)		(8,229)	(88,385)
Inter-segment transactions	454	—	—	150		732	1,336
	2,807	(69,446)	(12,678)	(235)		(7,497)	(87,049)
Profit/(loss) from operations	109,558	(38,761)	12,257	9,219		10,105	102,378
Share of (losses) less profits of associates	—	—	—	105		(16,790)	(16,685)
Finance costs	—	—	(2,040)	—		—	(2,040)
Profit/(loss) from ordinary activities before taxation	109,558	(38,761)	10,217	9,324		(6,685)	83,653
Taxation	(6,114)	—	(3,465)	(1,621)		—	(11,200)
Profit/(loss) from ordinary activities after taxation	103,444	(38,761)	6,752	7,703		(6,685)	72,453
Minority interests	—	17,040	—	—		—	17,040
Profit/(loss) attributable to shareholders	103,444	(21,721)	6,752	7,703		(6,685)	89,493
Depreciation and amortisation for the Period	1,561	(8,877)	(10,409)	(73)		(3,555)	(21,353)
Significant non-cash income/(expenses) (other than depreciation and amortisation)	18,106	3,760	(699)	42		9,511	30,720

3 Segment reporting *(continued)*

(a) By business activity: *(continued)*

As at 30 June 2003

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter-segment elimination \$'000	Unallocated \$'000	Total \$'000
Equity investments, unit trusts and mutual funds	249,045	100,447	3,103	6,379		10,510	369,484
Debt securities	1,153,018	1,916,490	86,698	—		202,985	3,359,191
Other segment assets	1,694,073	1,307,351	483,151	34,590		325,230	3,844,395
Interest in associates	—	—	—	6,550		164,980	171,530
Total assets	<u>3,096,136</u>	<u>3,324,288</u>	<u>572,952</u>	<u>47,519</u>		<u>703,705</u>	<u>7,744,600</u>
Total liabilities	<u>(1,953,456)</u>	<u>(2,830,795)</u>	<u>(144,522)</u>	<u>(2,498)</u>		<u>(322)</u>	<u>(4,931,593)</u>
Capital expenditure incurred during the Period	<u>847</u>	<u>24,355</u>	<u>29</u>	<u>238</u>		<u>27</u>	<u>25,496</u>

3 Segment reporting (continued)

(a) By business activity: (continued)

For the six months ended 30 June 2002 (restated)

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter-segment elimination \$'000	Unallocated \$'000	Total \$'000
Turnover							
Revenue from external customers	908,219	272,895	—	7,175	—	—	1,188,289
Inter-segment revenue	—	—	—	1,075	(1,075)	—	—
	<u>908,219</u>	<u>272,895</u>	<u>—</u>	<u>8,250</u>	<u>(1,075)</u>	<u>—</u>	<u>1,188,289</u>
Business segment result							
Profit/(loss) attributable from segment	53,892	(13,111)	—	6,730	—	—	47,511
Inter-segment transactions	1,728	—	—	(1,075)	—	—	653
	<u>55,620</u>	<u>(13,111)</u>	<u>—</u>	<u>5,655</u>	<u>—</u>	<u>—</u>	<u>48,164</u>
Other revenue							
Dividend income	2,832	—	—	91	—	129	3,052
Interest income from debt securities	38,087	86	—	—	—	4,337	42,510
Others	7,022	5,990	—	365	—	5,251	18,628
	<u>47,941</u>	<u>6,076</u>	<u>—</u>	<u>456</u>	<u>—</u>	<u>9,717</u>	<u>64,190</u>
Inter-segment transactions	(150)	—	—	—	—	(1,106)	(1,256)
	<u>47,791</u>	<u>6,076</u>	<u>—</u>	<u>456</u>	<u>—</u>	<u>8,611</u>	<u>62,934</u>
Other net income/(loss)							
Net realised and unrealised gains/(losses) from equity investments, unit trusts and mutual funds	(4,950)	—	—	97	—	1,170	(3,683)
Net realised and unrealised gains/(losses) from debt securities	5,095	—	—	—	—	2,939	8,034
Others	1,675	(17)	—	—	—	(25)	1,633
	<u>1,820</u>	<u>(17)</u>	<u>—</u>	<u>97</u>	<u>—</u>	<u>4,084</u>	<u>5,984</u>

3 Segment reporting (continued)

(a) By business activity: (continued)

For the six months ended 30 June 2002 (restated) (continued)

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter-segment elimination \$'000	Unallocated \$'000	Total \$'000
Expenditure relating to non-underwriting activities							
Administrative expenses	(4,971)	(29,371)	—	(400)		(7,113)	(41,855)
Net exchange gains	4,779	11	—	36		228	5,054
	(192)	(29,360)	—	(364)		(6,885)	(36,801)
Inter-segment transactions	454	—	—	150		—	604
	262	(29,360)	—	(214)		(6,885)	(36,197)
Profit/(loss) from operations	105,493	(36,412)	—	5,994		5,810	80,885
Share of (losses) less profits of associates	—	—	—	226		(11,184)	(10,958)
Finance costs	—	—	—	—		(1)	(1)
Profit/(loss) from ordinary activities before taxation	105,493	(36,412)	—	6,220		(5,375)	69,926
Taxation	(1,100)	—	—	(905)		33,493	31,488
Profit/(loss) from ordinary activities after taxation	104,393	(36,412)	—	5,315		28,118	101,414
Minority interests	—	15,867	—	—		—	15,867
Profit/(loss) attributable to shareholders	104,393	(20,545)	—	5,315		28,118	117,281
Depreciation and amortisation for the Period	4,337	(6,272)	—	(57)		(3,180)	(5,172)
Significant non-cash income/(expenses) (other than depreciation and amortisation)	(5,853)	11	—	43		2,121	(3,678)

3 Segment reporting (continued)

(a) By business activity: (continued)

As at 31 December 2002 (restated)

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter-segment elimination \$'000	Unallocated \$'000	Total \$'000
Equity investments, unit trusts and mutual funds	205,361	50,788	1,143	8,503		34,440	300,235
Debt securities	1,093,827	831,032	161,174	—		197,117	2,283,150
Other segment assets	1,337,563	1,553,116	442,544	20,689		317,483	3,671,395
Interest in associates	—	—	—	6,483		181,770	188,253
Total assets	<u>2,636,751</u>	<u>2,434,936</u>	<u>604,861</u>	<u>35,675</u>		<u>730,810</u>	<u>6,443,033</u>
Total liabilities	<u>(1,593,583)</u>	<u>(1,902,764)</u>	<u>(183,886)</u>	<u>(1,105)</u>		<u>(2,012)</u>	<u>(3,683,350)</u>
Capital expenditure incurred during the year	585	99,197	1,607	43		209	101,641

Due to the special feature of the reinsurance operation, a substantial proportion of premium income is written in the first half of each year. Turnover from other business segments is generated relatively evenly throughout the year.

(b) By geographical area:

For the six months ended 30 June 2003

	Hong Kong and Macau \$'000	PRC (other than Hong Kong and Macau) \$'000	Japan \$'000	Rest of Asia \$'000	Europe \$'000	Rest of the world \$'000	Total \$'000
Revenue from external customers	<u>386,879</u>	<u>1,502,353</u>	<u>63,540</u>	<u>223,189</u>	<u>150,823</u>	<u>31,530</u>	<u>2,358,314</u>

For the six months ended 30 June 2002 (restated)

	Hong Kong and Macau \$'000	PRC (other than Hong Kong and Macau) \$'000	Japan \$'000	Rest of Asia \$'000	Europe \$'000	Rest of the world \$'000	Total \$'000
Revenue from external customers	<u>379,219</u>	<u>342,280</u>	<u>63,015</u>	<u>204,073</u>	<u>156,125</u>	<u>43,577</u>	<u>1,188,289</u>

4 Other revenue

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Dividend income from listed securities	5,460	2,855
Dividend income from unlisted securities	485	197
Interest income from listed securities	69,767	33,576
Interest income from unlisted securities	12,875	8,934
Other interest income	22,366	15,801
Rentals receivable from operating leases	2,198	1,534
Others	447	37
	<u>113,598</u>	<u>62,934</u>

5 Other net income

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Net loss on sale of fixed assets	(12)	(42)
Net realised and unrealised gains on listed securities	42,761	317
Net realised and unrealised gains/(losses) on unlisted securities	80	(807)
Amortisation of discounts of dated debt securities	1,166	4,841
Provision for diminution in value of listed securities	(8,363)	—
Write back of provision for bad and doubtful debts	620	1,675
	<u>36,252</u>	<u>5,984</u>

6 Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
(a) Finance costs:		
Interest on other loans	<u>2,040</u>	<u>1</u>
(b) Staff costs:		
Contributions to defined contribution retirement plan	2,741	937
Salaries, wages and other benefits	<u>62,049</u>	<u>30,126</u>
	<u>64,790</u>	<u>31,063</u>
(c) Other items		
Auditors' remuneration	446	408
Depreciation	6,771	3,493
Operating lease charges:		
minimum lease payments in respect of properties	14,545	8,180
Amortization of goodwill	13,884	4,647
Amortization of goodwill included in share of losses less profits of associates	<u>1,865</u>	<u>1,873</u>

7 Taxation

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
		(Restated)
Current tax - Provision for Hong Kong Profits Tax	11,249	(31,847)
Current tax - Overseas	53	—
Deferred taxation	(140)	278
Share of associate's taxation	38	81
Total income tax expense	<u>11,200</u>	<u>(31,488)</u>

The provision for Hong Kong Profits Tax represents the Group's estimated Profits Tax liability calculated at the standard tax rate of 17.5% (2002: 16%) on its assessable profits from reinsurance, asset management and insurance intermediaries businesses except for its assessable profits from the business of reinsurance of offshore risks, which is calculated at 8.75% (2002: 8%), one-half of the standard tax rate.

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

The Group has unrecognised deferred tax assets of \$3,626,000 (31 December 2002 restated: \$3,809,000) which represent tax effect of timing differences due to tax losses available to set off against future assessable profits under Hong Kong Profits Tax.

The Group also has unrecognised deferred tax assets of \$48,325,000 (31 December 2002 restated: \$37,068,000) which represent the maximum tax benefit from unutilised tax losses which can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits in the respective jurisdiction outside Hong Kong.

The above deferred tax assets have not been recognised as it is not probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised in the foreseeable future.

8 Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Interim dividend declared after the interim period end of 1.2 cents (2002: 1.5 cents) per share	<u>15,935</u>	<u>19,876</u>

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

	Six months ended 30 June	
	2003	2002
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 1.5 cents (2002: 3.5 cents) per share	<u>19,889</u>	<u>44,566</u>

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the Period is based on the profit attributable to shareholders of \$89,493,000 (2002 restated: \$117,281,000) divided by the weighted average number of 1,325,579,092 (2002: 1,272,963,316) shares in issue during the Period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the Period is based on the profit attributable to shareholders of \$89,493,000 (2002 restated: \$117,281,000) divided by the weighted average number of 1,339,761,198 (2002: 1,286,937,307) shares after adjusting for the effects of all dilutive potential shares.

9 Earnings per share *(continued)*

(c) Reconciliations

	No. of shares At 30 June	
	2003	2002
Weighted average number of shares used in calculating basic earnings per share	1,325,579,092	1,272,963,316
Deemed issue of shares for no consideration arising from share options	<u>14,182,106</u>	<u>13,973,991</u>
Weighted average number of shares used in calculating diluted earnings per share	<u>1,339,761,198</u>	<u>1,286,937,307</u>

10 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 usually reviewed annually 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 \$70,750,000 (2002: \$73,140,000).

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

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Within 1 year	4,139	3,242
After 1 but within 5 years	<u>2,433</u>	<u>1,307</u>
	<u>6,572</u>	<u>4,549</u>

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
At 30 June 2003						
Held-to-maturity debt securities						
Listed:						
— in Hong Kong	—	3,879	35,920	—	—	39,799
— outside Hong Kong	371,033	132,566	1,601,616	636,427	8,881	2,750,523
	371,033	136,445	1,637,536	636,427	8,881	2,790,322
Unlisted	66,136	7,555	45,555	101,765	—	221,011
	<u>437,169</u>	<u>144,000</u>	<u>1,683,091</u>	<u>738,192</u>	<u>8,881</u>	<u>3,011,333</u>
Other investments						
Listed debt securities						
— outside Hong Kong	44,417	23,932	141,950	114,225	—	324,524
Listed equity securities						
— in Hong Kong	—	—	35,288	107,086	6,510	148,884
— outside Hong Kong	—	—	4,221	86,701	—	90,922
Listed unit trusts and mutual funds						
— outside Hong Kong	—	—	—	118,455	—	118,455
Unlisted debt securities	—	—	23,334	—	—	23,334
Unlisted equity securities	—	—	—	11,223	—	11,223
	<u>44,417</u>	<u>23,932</u>	<u>204,793</u>	<u>437,690</u>	<u>6,510</u>	<u>717,342</u>
	<u>481,586</u>	<u>167,932</u>	<u>1,887,884</u>	<u>1,175,882</u>	<u>15,391</u>	<u>3,728,675</u>
Market value of listed securities (including listed held-to-maturity securities maturing within one year as of 30 June 2003)	<u>504,747</u>	<u>188,908</u>	<u>1,877,198</u>	<u>1,101,813</u>	<u>15,712</u>	<u>3,688,378</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
At 31 December 2002						
Held-to-maturity debt securities						
Listed:						
— in Hong Kong	—	3,878	35,837	—	—	39,715
— outside Hong Kong	777,477	172,736	363,686	385,550	7,132	1,706,581
	777,477	176,614	399,523	385,550	7,132	1,746,296
Unlisted	65,636	77,247	45,464	78,142	—	266,489
	843,113	253,861	444,987	463,692	7,132	2,012,785
Other investments						
Listed debt securities						
— outside Hong Kong	5,922	22,732	113,259	105,509	—	247,422
Listed equity securities						
— in Hong Kong	—	248	39,386	130,160	6,336	176,130
— outside Hong Kong	—	—	6,601	37,528	—	44,129
Listed unit trusts and mutual funds						
— outside Hong Kong	—	—	—	68,758	—	68,758
Unlisted debt securities	—	—	22,942	—	—	22,942
Unlisted equity securities	—	—	—	11,219	—	11,219
	5,922	22,980	182,188	353,174	6,336	570,600
	849,035	276,841	627,175	816,866	13,468	2,583,385
Market value of listed securities (including listed held-to-maturity securities maturing within one year as of 31 December 2002)	792,297	214,344	578,522	742,156	13,728	2,341,047

The held-to-maturity debt securities include an amount of \$120,400,000 (31 December 2002: \$94,458,000) which is maturing within one year.

The held-to-maturity debt securities include an amount of \$94,200,000 (31 December 2002: \$380,333,000) which is used as a pledge of securities sold under repurchase agreements.

12 Trade and other receivables

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

	At 30 June 2003 \$'000	At 31 December 2002 \$'000 (Restated)
Not yet due	412,871	218,176
Current	146,754	75,156
More than 3 months but less than 12 months	4,496	26,931
More than 12 months	11,399	3,081
Total trade debtors	575,520	323,344
Prepayments, deposits, other debtors and deposits retained by cedants	197,704	207,234
Loans and advances	26,052	24,856
	799,276	555,434

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

13 Deposits at bank with original maturity more than three months

A subsidiary of the Group has placed \$100,162,000 (2002: \$100,162,000) with banks as a capital guarantee fund, pursuant to the relevant PRC insurance rules and regulations. The fund can only be used with the prior approval of the relevant authorities in the event that the PRC subsidiary cannot meet the statutory solvency requirements or goes into liquidation.

14 Cash and cash equivalents

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Deposits with banks and other financial institutions with original maturity less than three months	950,929	845,321
Call deposits	72,800	5,451
Cash at bank and in hand	269,311	260,848
	1,293,040	1,111,620

15 Trade and other payables

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

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Current	12,769	34,261
More than 3 months but less than 12 months	49,676	11,428
More than 12 months	5,918	5,261
Total trade payables	68,363	50,950
Accrued charges, temporary receipts and deposits retained from retrocessionaires	111,395	140,925
	179,758	191,875

16 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
At 30 June 2003							
Assets							
Deposits at banks with original maturity more than 3 months	—	—	18,265	666,900	39,688	—	724,853
Deposits at banks and other financial institutions with original maturity less than 3 months (including call deposits)	—	1,023,729	—	—	—	—	1,023,729
Certificates of deposit (under held-to-maturity)	—	—	—	14,743	10,000	—	24,743
Pledged deposits at bank	—	—	38,958	27,086	—	—	66,044
Securities purchased under resale agreement	—	120,993	—	—	—	—	120,993
Debt securities (under held-to-maturity)	—	7,970	112,430	301,202	2,564,988	—	2,986,590
Debt securities (under other investments in securities)	—	—	—	12,209	323,774	11,875	347,858
	<u>—</u>	<u>1,152,692</u>	<u>169,653</u>	<u>1,022,140</u>	<u>2,938,450</u>	<u>11,875</u>	<u>5,294,810</u>

16 Maturity profile (continued)

	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
At 31 December 2002							
Assets							
Deposits at banks with original maturity more than 3 months	—	—	—	666,872	—	—	666,872
Deposits at banks and other financial institutions with original maturity less than 3 months (including call deposits)	4,503	846,269	—	—	—	—	850,772
Certificates of deposit (under held-to-maturity)	—	—	—	14,714	10,000	—	24,714
Pledged deposits at bank	—	65,558	—	—	—	—	65,558
Securities purchased under resale agreement	—	448,797	—	—	—	—	448,797
Debt securities (under held-to-maturity)	—	23,492	70,966	441,860	1,428,413	23,340	1,988,071
Debt securities (under other investments in securities)	—	—	—	22,142	133,274	114,948	270,364
	<u>4,503</u>	<u>1,384,116</u>	<u>70,966</u>	<u>1,145,588</u>	<u>1,571,687</u>	<u>138,288</u>	<u>4,315,148</u>

17 Share capital

	At 30 June 2003		At 31 December 2002	
	No. of shares '000	\$'000	No. of shares '000	\$'000
Authorised:				
Ordinary shares of \$0.05 each	<u>2,000,000</u>	<u>100,000</u>	<u>2,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At 1 January	1,325,332	66,267	1,272,373	63,619
Shares issued	—	—	51,620	2,581
Shares issued under share option scheme	<u>670</u>	<u>33</u>	<u>1,339</u>	<u>67</u>
	<u>1,326,002</u>	<u>66,300</u>	<u>1,325,332</u>	<u>66,267</u>

17 Share capital (continued)

Share option scheme

At the extraordinary general meeting of the Company held on 7 January 2003, the shareholders of the Company approved the adoption of the New Scheme and the termination of the Old Scheme. The New Scheme is in line with the prevailing requirements of Chapter 17 of the Listing Rules in relation to share option schemes. No further options can be, or have been, granted under the Old Scheme. All options granted under the Old Scheme shall continue to be valid and exercisable in accordance with the terms of the Old Scheme. No options have been granted under the New Scheme.

During the Period, options under the Old Scheme were exercised to subscribe for 670,000 ordinary shares in the Company at a total consideration of \$760,000 of which \$33,000 was credited to share capital and the remaining balance of \$727,000 was credited to the share premium account. At 30 June 2003, the outstanding options under the Old Scheme were as follows:

Date options granted	Period during which options exercisable	Exercise price	Number of options outstanding at the Period end
26 September 2000	26 September 2000 to 27 September 2010 *	\$1.110	15,040,000
12 February 2001	12 February 2001 to 11 February 2011 *	\$0.950	1,774,000
12 September 2002	12 September 2002 to 22 September 2012 *	\$3.225	8,670,000
7 January 2003	7 January 2003 to 6 January 2013	\$3.975	156,000

* The offer of the Company's share options to certain Directors and employees of the Company is subject to the following conditions:

- (i) After the Grantee accepts the offer, the Grantee may subscribe Shares up to a maximum of one-third of the total share options accepted by the Grantee during the first year commencing from the date of the acceptance of the offer.
- (ii) The Grantee may exercise up to a maximum of another one-third of the total share options accepted by the Grantee to subscribe Shares during the second year.
- (iii) From the commencement of the third year up to the end of the tenth year, the Grantee may exercise the remaining balance that the Grantee has not exercised in the previous two years.

18 Reserves

	Capital reserve \$'000	Share premium \$'000	Exchange reserves \$'000	Retained profits \$'000	Total \$'000
(Restated)					
At 1 January 2002					
— as previously reported	567,459	1,429,912	(2,101)	239,412	2,234,682
— prior period adjustments in respect of:					
— recognition of underwriting results	—	—	—	(43,824)	(43,824)
— income taxes	—	—	—	3,269	3,269
As restated	567,459	1,429,912	(2,101)	198,857	2,194,127
Dividends approved in respect of the previous year (<i>note 8(b)</i>)	—	—	—	(44,566)	(44,566)
Shares issued	—	200,073	—	—	200,073
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong	—	—	4,111	—	4,111
Profit for the year (<i>as restated</i>)	—	—	—	180,390	180,390
Dividends declared in respect of the current year (<i>note 8(a)</i>)	—	—	—	(19,876)	(19,876)
At 31 December 2002	<u>567,459</u>	<u>1,629,985</u>	<u>2,010</u>	<u>314,805</u>	<u>2,514,259</u>
At 1 January 2003					
— as previously report	567,459	1,629,985	2,010	290,393	2,489,847
— prior period adjustments in respect of:					
— recognition of underwriting results	—	—	—	21,459	21,459
— income taxes	—	—	—	2,953	2,953
As restated	567,459	1,629,985	2,010	314,805	2,514,259
Shares issued	—	727	—	—	727
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong	—	—	—	—	—
Profit for the Period	—	—	—	89,493	89,493
Dividends approved and paid in respect of the previous financial year (<i>note 8(b)</i>)	—	—	—	(19,889)	(19,889)
At 30 June 2003	<u>567,459</u>	<u>1,630,712</u>	<u>2,010</u>	<u>384,409</u>	<u>2,584,590</u>

19 Commitments

At 30 June 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2003 \$'000	At 31 December 2002 \$'000
Within 1 year	29,371	23,940
After 1 year but within 5 years	32,653	24,763
	<u>62,024</u>	<u>48,703</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 usually reviewed annually to reflect market rentals. None of the leases includes contingent rentals.

20 Material related party transactions

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

		Six months ended 30 June	
	<i>Note</i>	2003 \$'000	2002 \$'000 (Restated)
Business ceded by related companies:	<i>(i)</i>		
Gross premiums written		136,096	183,553
Commission expenses paid		33,955	49,884
Business retroceded to related companies:	<i>(ii)</i>		
Outward retrocession premiums		119	90
Commission income received		46	28
Investment management fee and redemption income	<i>(iii)</i>	22,617	—
Interest income received on			
Premium deposits placed	<i>(iv)</i>	197	178
Funds in an insurance pool	<i>(v)</i>	381	556
Securities brokerage fee paid	<i>(vi)</i>	329	326
Contributions to retirement schemes	<i>(vii)</i>	1,097	829
Travel agency services fee paid	<i>(viii)</i>	110	24
Insurance expenses covering business risk	<i>(ix)</i>	343	259
Finance costs paid	<i>(x)</i>	2,040	—
Rental and management fee paid	<i>(xi)</i>	905	308

20 Material related party transactions (continued)*Notes:*

- (i) Certain fellow subsidiaries of the Group and certain branches of the ultimate holding company ceded business to and received commission from a subsidiary of the Company.
- (ii) A subsidiary of the Company retroceded business to and received commission from certain fellow subsidiaries of the Group.
- (iii) A subsidiary of the Company provided investment consultancy services to and received investment management fee and redemption income from certain fellow subsidiaries of the Group.
- (iv) A subsidiary of the Company placed premium deposits in certain fellow subsidiaries of the Group and certain branches of the ultimate holding company and received interest income from them.
- (v) A fellow subsidiary of the Group ceded their Employees' Compensation and Employer's Liability business under an excess-of-loss reinsurance treaty to an insurance pool ("the Pool") in which a subsidiary of the Company has a 15% participation on a quota share basis. The subsidiary has also been appointed as the administrator of the Pool and receives a service fee of 1% of the inward reinsurance premiums written by the Pool. The Pool arrangement ceased with effect from 1 April 2000 and is in the process of being run off.
- (vi) The Company and certain subsidiaries of the Group has entered into agreements with a fellow subsidiary of the Group, in relation to securities broking services provided. Securities broking fees are charged at a fixed rate of 0.25% of the securities value.
- (vii) Employees of the Company and certain subsidiaries of the Group participated in a defined contribution retirement scheme and Mandatory Provident Funds scheme managed by a fellow subsidiary of the Group.
- (viii) A fellow subsidiary of the Company provided travel agency services to the Company and certain subsidiaries of the Group and charged fees for services rendered.
- (ix) The Company and certain subsidiaries of the Group entered into a number of insurance policies with certain fellow subsidiaries of the Group to cover their business risks in relation to fire, motor vehicle, personal accident, workmen compensation, group life and medical electronic equipment and professional indemnity.
- (x) A subsidiary of the Group has borrowed a loan from a fellow subsidiary which bears interest at LIBOR plus 0.6%. The loan is unsecured and repayable on demand.
- (xi) During the Period, the Company and a subsidiary of the Group leased office premises and car park spaces from and paid rent and building management fees to a fellow subsidiary of the Group.

21 Post balance sheet event

In order to support further expansion and business development, in May 2003, the board of TPL passed a resolution to increase TPL's registered capital from the existing RMB500 million to RMB1 billion. CIH holds a 50.05% interest in TPL, and its share of the new capital is RMB250,250,000. The Board of CIH agreed that the increase of registered capital at TPL was in accordance with CIH's strategy and business plan for PRC and passed a resolution on 9 September 2003, in favour of injecting RMB250,250,000 into TPL. CIH will remit the capital into TPL before the end of September 2003.



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

(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 3 to 32.

Respective responsibilities of directors and auditors

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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statements 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 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 tests 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 2003.

KPMG

Certified Public Accountants

Hong Kong, 9 September 2003

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

During the Period, total turnover for the Group was HK\$2,358.31 million (2002 restated: HK\$1,188.29 million) and profit attributable to shareholders of the Group amounted to HK\$89.49 million (2002 restated: HK\$117.28 million), representing an increase of 98.5% and decrease of 23.7% respectively compared with last period. Basic earnings per share was HK6.75 cents (2002 restated: HK9.21 cents) and diluted earnings per share was HK6.68 cents (2002 restated: HK9.11 cents).

The Directors have declared an interim dividend of HK1.2 cents per ordinary share for the Period (2002: HK1.5 cents) payable on 24 October 2003 to shareholders whose names appear on the Register of Members on 17 October 2003.

Operational Review

Reinsurance Underwriting — CIRE

CIRE's core reinsurance markets continued to experience attractive and firm rating and pricing conditions in respect of the reinsurance contracts underwritten during the Period.

As previously disclosed, for the underwriting results of its general reinsurance business, CIRE has completed on schedule a change in accounting policy from the previous 3-year fund accounting basis to an annual accrual accounting basis. This change aligns CIRE more along international standards of best practice, as the annual accrual accounting basis is by far the most prevalent standard among reinsurers globally. For comparison purposes, the results for last period have also been restated on the basis of annual accrual accounting principles. Under the annual accrual accounting basis, the general reinsurance premiums for the Period totalled HK\$928.63 million. The underwriting profit for the Period amounted to HK\$29.00 million.

Under the new accounting basis, CIRE's total general and life reinsurance premiums grew by 2.5% to HK\$930.61 million during the Period (2002 restated: HK\$908.22 million). With the current favorable reinsurance market conditions, CIRE believes that now is the opportune time to improve its reinsurance portfolio quality through careful and thorough risk selection. Although there is ample room for further premium expansion, CIRE has chosen to maintain its steady and conservative underwriting practice by continuing to focus on the Asian markets and reinsurance products which it has the best knowledge and most access.

In terms of geographical breakdown, premiums written from Hong Kong and Macau constituted 38.5% of the total, China (including Taiwan) 11.2%, Japan 6.8%, and rest of Asia 23.9%. Of the total premiums, 80.4% came from Asian markets, with the rest coming from Europe and other parts of the world. General reinsurance premiums represented 99.8% of the total premiums written, with the rest coming from life reinsurance.

The underwriting profit for the Period was HK\$32.40 million (2002 restated: HK\$55.62 million) after taking into account the provisions for unearned premiums and outstanding claims. The fall in the underwriting result for the Period is mainly attributable to a special contingent claims provision set aside for the potential claims arising from the unexpected impact of SARS under reinsurance contracts to a number of Asian markets. Due to difficulties and complexities in interpreting insurance policy scope of coverage and in quantifying the insured losses due to SARS, it will take considerable time before a clearer picture emerges on CIRE's actual losses on SARS-related insurance claims. Otherwise, there was no major loss incidence reported during the Period which had a material impact on the underwriting result.

With both equity and bond markets performing well towards the latter months of the Period (especially with SARS abating), CIRE's investment income, being the sum of other revenue and other net income, increased to HK\$74.35 million (2002: HK\$49.61 million). The overall operating profit of the reinsurance operation before taxation was HK\$109.56 million (2002 restated: HK\$105.49 million).

Insurance Intermediaries — SINO-RE

Brokerage turnover at SINO-RE during the Period was HK\$10.05 million (2002: HK\$7.18 million), an increase of 40.0%. The increase of brokerage income was attributed to the earlier closing of a few major excess of loss reinsurance contracts in the Period, whilst the corresponding accounts of last year were concluded during the second half year. SINO-RE's profit contribution for the Period was HK\$9.22 million (2002: HK\$5.99 million). It is expected that the full year earnings of SINO-RE will be in line with that of last year.

Insurance Operations in Mainland China

Life Insurance Business — TPL

TPL's life insurance operations continued to grow impressively during the Period, notwithstanding the adverse influence and surprise of SARS. Although business slowed significantly during the months when Mainland China was under the influence of SARS, the performance year-to-date has been strong. Total gross premiums written for the Period amounted to HK\$1,395.04 million (2002: HK\$272.90 million), representing an increase of 411.2%. The market share of TPL in Shanghai also increased from 2.0% for the last period to 4.9% for this Period. Such impressive growth was due to an outstanding sales team for all product ranges, along with strong support from the bank distribution channel. Approximately 80.5% (2002: 63.0%) of TPL's premium income was derived from the bancassurance channel during the Period.

TPL focuses on the highest standards of customer service as well as product innovation in order to promote growth. TPL was the first insurance company in the PRC to launch products covering the SARS epidemic. While top-line, premium growth is an important goal of TPL, the top priority is a rigorous focus on profitability. The net operating loss for the Period was HK\$38.76 million (2002: loss of HK\$36.41 million). The loss attributable to the Group amounted to HK\$21.72 million (2002: loss of HK\$20.55 million).

TPL opened 10 new branches during the Period. The locations of the new branches are as follows: Shijiazhuang, Zhengzhou, Nanjing, Jinan, Qingdao, Hangzhou, Ningbo, Chenyang, Dalian, and Shenzhen. As at 30 June 2003, TPL has 14 branches throughout the PRC, with a total life insurance market share of approximately 0.9%.

General Insurance — TPI

TPI continues to expand its business satisfactorily. Premium income for the Period increased to HK\$214.79 million from the HK\$64.89 million recorded last period, representing an impressive increase of 231.0%. TPI opened 3 new branches in Tianjin, Wuhan and Dalian during the Period. TPI has obtained regulatory approval to open more branches and sub-branches in various provinces in the PRC. More new offices will commence operations in the next few months.

The net operating result of TPI for the Period was a loss of HK\$49.67 million (2002: loss of HK\$34.15 million). The loss attributable to the Group amounted to HK\$16.79 million (2002: loss of HK\$11.18 million).

Asset Management — CIGAML

The Company acquired all of the issued capital of CIGAML in July 2002. The management fee of CIGAML attributable to the Group during the Period amounted to HK\$22.62 million. Net profit attributable to the Group for the Period amounted to HK\$6.75 million. During the Period, there was interest income of HK\$6.90 million derived from investments in fixed interest rate securities. The assets under the management of CIGAML amounted to HK\$4,276.05 million as at 30 June 2003.

INVESTMENT PORTFOLIO AND INVESTMENT INCOME

The total investment portfolio held as at 30 June 2003 amounted to HK\$6,241.54 million, which represented 80.6% of the total assets of the Group. The composition of the investment portfolio was as follows:

	At 30 June 2003 HK\$million	% of Total	At 31 December 2002 HK\$million	% of Total
Bonds & fixed income securities	3,359.19	53.8	2,283.15	43.9
Cash & bank deposits	2,083.94	33.4	1,844.05	35.5
Listed equities	239.81	3.8	220.26	4.2
Listed mutual funds and unit trusts	118.45	1.9	68.76	1.3
Securities purchased under resale agreement	120.99	1.9	448.80	8.7
Investment properties	110.36	1.8	110.36	2.1
Interest in associates	171.53	2.8	188.25	3.6
Unlisted equities	11.22	0.2	11.22	0.2
Loan	26.05	0.4	24.86	0.5
Total	<u>6,241.54</u>	<u>100.0</u>	<u>5,199.71</u>	<u>100.0</u>

By business segment as at 30 June 2003

	Reinsurance HK\$million	Life insurance HK\$million	Asset management HK\$million	Insurance intermediaries HK\$million	Unallocated HK\$million	Total HK\$million
Bonds & fixed income securities	1,153.02	1,916.48	86.70	—	202.99	3,359.19
Cash & bank deposits	*857.76	820.21	111.53	30.75	263.69	2,083.94
Listed equities	219.81	—	3.10	6.38	10.52	239.81
Listed mutual funds and unit trusts	18.01	100.44	—	—	—	118.45
Securities purchased under resale agreement	—	120.99	—	—	—	120.99
Investment properties	110.36	—	—	—	—	110.36
Interest in associates	—	—	—	6.55	164.98	171.53
Unlisted equities	11.22	—	—	—	—	11.22
Loan	24.71	1.34	—	—	—	26.05
Total	<u>2,394.89</u>	<u>2,959.46</u>	<u>201.33</u>	<u>43.68</u>	<u>642.18</u>	<u>6,241.54</u>

During the Period, total investment income (being the sum of other revenue and other net income) amounted to HK\$149.85 million (2002: HK\$68.92 million), a substantial increase of 117.4% from last year. The prudent investment strategy adopted by the Group continues to provide steady cash flows for the Period under review.

- * There were pledged deposits at bank amounting to HK\$66.04 million (2002: HK\$65.56 million) as lien for letters of credit issued to certain ceding companies to stand for the unearned premium reserve and/or outstanding loss reserve under the terms of certain assumed reinsurance contracts. Included in the amount of deposits pledged with banks is also a letter of credit for STG2.09 million issued to the Corporation of Lloyd's to back up CIRE's investment in a corporate vehicle specially established to participate in a Lloyd's Underwriting Syndicate solely for the underwriting years of 2002 and 2003.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank deposits as at 30 June 2003 amounted to HK\$2,083.94 million (2002: HK\$1,844.05 million). There was no bank borrowing during the Period except for certain temporary bank overdraft for insignificant amounts.

CAPITAL STRUCTURE

During the Period, the Company issued 670,000 new shares for cash under the Company's share option scheme. Net proceeds received in aggregate amounted to HK\$760,400 (2002: HK\$1,070,650).

STAFF AND STAFF REMUNERATION

As at 30 June 2003, the Group had a total of 1,300 employees (2002: 659 employees), an increase of 641 employees. Total remuneration amounted to HK\$64.79 million (2002: HK\$31.06 million), an increase of 108.6%. Bonuses are linked to both the performance of the Group as well as individual performance.

CONTINGENT LIABILITIES

A claim has been made by the liquidator of an Australian reinsurance company against CIRE in relation to a commutation payment of US\$3.00 million received on a reinsurance claim plus premium liability of US\$0.14 million which in aggregate amounted to US\$3.14 million. The liquidator alleges that the payment was an unfair preference within the meaning of Australian insolvency law. Based on the legal opinion given by an Australia-based law firm on information currently available to them, the Directors consider that CIRE has good prospects of successfully defending the claim. Therefore no provision has been made. The proceedings to recover the payment remain at an early stage and the Australia-based law firm is continuing to investigate the basis for the claim and will provide advice on relevant developments.

EVENTS AFTER THE BALANCE SHEET DATE

In order to support further expansion and business development, in May 2003, the board of TPL passed a resolution increasing the company's registered capital from the existing RMB500 million to RMB1 billion. CIIH holds a 50.05% interest in TPL and its share of new capital is RMB250,250,000. The Board of CIIH was convinced that the increase in registered capital by TPL was in line with CIIH's strategy and business plan and passed a resolution on 9 September 2003 in favour of the injection of RMB250,250,000 into TPL. CIIH will remit the capital into TPL before the end of September 2003.

PROSPECTS

Due to the new annual accrual accounting basis and the particular nature of the reinsurance portfolio written by CIRE, most of CIRE's premiums this year have been registered during the first six months of the year, leaving a small portion to be written in the second half of the year. In view of the improved underwriting margin (although affected by the SARS-related claims provision) and the conservative investment strategy adopted by CIRE, it is expected that the full year operating result of the reinsurance operations will be satisfactory, provided that no abnormal, major claims occur during the remaining part of the year.

With Mainland China now completely free of SARS, it is expected that TPL and TPI will both continue their strong growth in the country's insurance sector. Premium growth has recovered to pre-SARS levels in recent months. Despite the short-term, sharply negative effect the SARS episode had on the industry, the impact of the disease has also emphasized to the entire population the importance of insurance. Long-term, insurance is becoming an increasingly important part of the lives of the Chinese people. The growth of the entire insurance sector in Mainland China is thus likely to continue for the foreseeable future.

With U.S. interest rates now appearing to trend upwards after reaching historical lows in June, the fixed income bull market of recent years has probably ended. With U.S. economic numbers showing promising developments, interest rates over the next one to two year time period will probably not decrease significantly, and may rise progressively over the medium term. The Group will properly risk manage its fixed income portfolio and continue to search for prudent investments within this difficult fixed income environment. Because equity markets have already registered sharp gains in the first part of this year, the Group does not expect substantial increases in stock counters in the second half. However, the Group does believe that with economic fundamentals improving throughout the world, the equity markets over the medium term may register more positive performance relative to recent years. The Group, however, does not intend to significantly change its current asset allocation and will continue its existing prudent and conservative investment policy.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 16 October 2003 to 17 October 2003, both days inclusive. During this period, no transfer of shares will be effected and registered. In order to qualify for the entitlement of the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Hong Kong Registrars Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 15 October 2003.

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 issue of 670,000 shares under the Old Scheme as disclosed in Note 17 to the interim financial report.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2003, the Directors of the Company had the following personal interests in the shares and share options of the Company as recorded in the register kept under section 352 of the SFO:

(i) Shares of the Company

	Personal interests	Family interests	Corporate interests	Other interests
Beneficial Interests				
Ng Yu Lam, Kenneth	466,000	—	—	—
Lau Siu Mun, Sammy	350,000	—	—	—

(ii) Share options

Details of Directors' interests under the Company's share option scheme are set out in the section "Share Option Scheme" below.

Save as disclosed above:

- A. none of the Directors of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and
- B. during the Period, no Directors of the Company nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEME

At the extraordinary general meeting of the Company held on 7 January 2003, the shareholders of the Company approved the adoption of the New Scheme and the termination of the Old Scheme. The New Scheme is in line with the prevailing requirements of Chapter 17 of the Listing Rules in relation to share option schemes. No further options can be, or have been, granted under the Old Scheme. All options granted under the Old Scheme shall continue to be valid and exercisable in accordance with the terms of the Old Scheme. During the Period, no options have been granted under the New Scheme.

As at 30 June 2003, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2003 was HK\$3.75) granted at nominal consideration under the Old Scheme. Each option gives the holder the right to subscribe for one share.

At the date of offer or the date of grant, no employee benefit cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

Directors	No. of options outstanding at the beginning of the Period	No. of options outstanding at the Period end	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired on exercise of options during the Period	No. of options cancelled during the Period	Price per share to be paid on exercise of options	Market value per share at date of grant of options	Market value per share at date of exercise of options
Yang Chao	2,670,000	2,670,000	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.37	—
	1,300,000	1,300,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Zhang Xiaoshu	2,200,000	2,200,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.41	—
	1,100,000	1,100,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Miao Jianmin	1,740,000	1,740,000	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.37	—
	900,000	900,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Ng Yu Lam, Kenneth	1,300,000	1,300,000	28 September 2000	28 September 2000 to 27 September 2010 *	HK\$1.00	—	—	HK\$1.11	HK\$1.41	—
	500,000	500,000	12 February 2001	12 February 2001 to 11 February 2011 *	HK\$1.00	—	—	HK\$0.95	HK\$1.33	—
	400,000	400,000	12 September 2002	12 September 2002 to 11 September 2012 *	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Dong Ming	1,500,000	1,500,000	27 September 2000	27 September 2000 to 26 September 2010 *	HK\$1.00	—	—	HK\$1.11	HK\$1.40	—
	400,000	400,000	12 February 2001	12 February 2001 to 11 February 2011 *	HK\$1.00	—	—	HK\$0.95	HK\$1.33	—
	400,000	400,000	12 September 2002	12 September 2002 to 11 September 2012 *	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Lau Siu Mun, Sammy	1,100,000	1,100,000	27 September 2000	27 September 2000 to 26 September 2010 *	HK\$1.00	—	—	HK\$1.11	HK\$1.40	—
	400,000	400,000	12 February 2001	12 February 2001 to 11 February 2011 *	HK\$1.00	—	—	HK\$0.95	HK\$1.33	—
	300,000	300,000	12 September 2002	12 September 2002 to 11 September 2012 *	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Zheng Changyong	1,000,000	1,000,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.41	—
	500,000	500,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—

Directors	No. of options outstanding at the beginning of the Period	No. of options outstanding at the Period end	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired on exercise of options during the Period	No. of options cancelled during the Period	Price per share to be paid on exercise of options	Market value per share at date of grant of options	Market value per share at date of exercise of options
Shen Koping Michael	1,500,000	1,500,000	12 September 2002	12 September 2002 to 11 September 2012 *	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
	—	156,000	7 January 2003	7 January 2003 to 6 January 2013	HK\$1.00	—	—	HK\$3.975	HK\$4.085	—
Employees	4,020,000	3,530,000	26 September 2000	26 September 2000 to 27 September 2010 *	HK\$1.00	490,000	—	HK\$1.11	HK\$1.40	HK\$3.85
	634,000	474,000	12 February 2001	12 February 2001 to 11 February 2011 *	HK\$1.00	160,000	—	HK\$0.95	HK\$1.33	HK\$4.06
	2,290,000	2,270,000	12 September 2002	12 September 2002 to 22 September 2012 *	HK\$1.00	20,000	—	HK\$3.225	HK\$3.235	HK\$4.25

* The offer of the Company's share options is subject to the following conditions:

- (i) After the Grantee accepts the offer, the Grantee may subscribe the Shares up to a maximum of one-third of the total share options accepted by the Grantee during the first year commencing from the date of the acceptance of the offer.
- (ii) The Grantee may exercise up to a maximum of another one-third of the total share options accepted by the Grantee to subscribe the Shares during the second year.
- (iii) From the commencement of the third year up to the end of the tenth year, the Grantee may exercise the remaining balance that the Grantee has not exercised in the previous two years.

The share options granted are not recognised in the financial statements until they are exercised.

The weighted average value per option granted in 2000, 2001, 2002 and 2003 estimated at the date of grant using Black-Scholes pricing model was HK\$0.45, HK\$0.29, HK\$0.75 and HK\$1.02 respectively. The weighted average assumptions used are as follows:

	2003	2002	2001	2000
Risk-free interest rate	0.5%	1.0%	2.0%	5.0%
Expected life (in years)	10	10	10	10
Volatility	20.0%	20.0%	20.0%	20.0%
Expected dividend per share	HK\$0.02	HK\$0.03	HK\$0.05	HK\$0.04

The Black-Scholes option pricing model was developed for use in estimating the fair value of trade options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options and the changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 30 June 2003 amounting to 5% or more of the ordinary shares in issue:

	Ordinary shares held	Percentage of total issued shares
CIHC	726,389,705 <i>(note 1)</i>	54.8%
CIHK	726,389,705 <i>(note 2)</i>	54.8%
ICBC	125,964,887 <i>(note 3)</i>	9.5%
ICBC (Asia)	125,964,887	9.5%
J. P. Morgan Chase & Co.	67,495,000 <i>(note 4)</i>	5.1%

Notes:

1. CIHC's interest in the Company is held by CIHK, Golden Win and Toplap, all of which are wholly owned subsidiaries of CIHC.
2. 82,794,000 shares are held by Golden Win and 170,000 shares are held by Toplap.
3. ICBC's interest in the Company is held by ICBC (Asia), a subsidiary of ICBC.
4. 43,048,000 shares were held by J.P. Morgan Chase & Co. as investment manager, and 24,447,000 shares as an approved lending agent pursuant to the Securities and Futures (Disclosure of Interests — Securities Borrowing and Lending) Rules.

Apart from the aforesaid, no other party has an interest or a short position in the share capital of the Company, as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT OF RISKS

The Group has adopted prudent strategies and techniques which aim to effectively identify, evaluate and manage risks for its reinsurance underwriting, life insurance 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 property damage, marine cargo and hull and miscellaneous non-marine classes. In addition to diversifying its underwriting 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 in the region with comprehensive reinsurance services.

The Group focuses its life insurance business towards the PRC's life insurance market, offering a wide range of insurance products covering different types of individual and group life insurance, health insurance, accident insurance and annuity. With regard to the control of quality of the insurance policies underwritten, the Group has formulated strict operational procedures on underwriting and claims settlement to control risks on insurance underwriting.

(ii) Reinsurance protection

The Group purchases reinsurance protections 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 reinsurance protections are chosen after careful consideration of their reputation and credit worthiness. In assessing the credit worthiness of reinsurance protection acceptees, the Group takes into account, among other factors, ratings and evaluation by recognized credit rating agencies, 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 reinsurance protection acceptees 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 records 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 reinsurance protection facilities which limit the Group's maximum net retained loss to a tolerable level.

(iv) *Reserve adequacy*

The Group exercises great care and effort in setting up the reserves for its reinsurance business. 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.

The computation of the Group's reserves for its life insurance business is in accordance with Hong Kong generally accepted accounting principles. The determination of annual reserves to be made are based on a conservative estimated death rate, actual return of investment and after prudently adjusted interest rate forecast to ensure the adequacy of the reserves.

(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 reinsurance protection 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 rate securities has provided the Group with steady income and the composition of the investment portfolio is geared towards stable recurrent income.

CORPORATE GOVERNANCE

The interim report for the Period have been reviewed by the audit committee of the Board of Directors of the Company.

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 Listing Rules, at any time during the six months ended 30 June 2003 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, 9 September 2003

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