

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of CIIH is investment holding. The principal activities of the Company and its subsidiaries are the underwriting of all classes of non-life and life reinsurance business, and direct life insurance business. The Group also carries on asset management and insurance intermediaries businesses and, to support its insurance activities, holds money market, fixed income, equity and property investments. The principal activities and other particulars of the subsidiaries are set out in note 15 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and the subsidiaries during the financial year are set out in note 12 on the financial statements.

The only information the Group has maintained relating to operating results by geographic area is geographical analysis of turnover. The directors believe that profit contributions from each geographic area is not required for a proper appraisal of its business.

MAJOR INSURANCE CUSTOMERS AND SUPPLIERS

The information in respect of the Group's gross premiums written and outward premiums ceded attributable to the major insurance customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Gross premiums written	Outward premiums ceded
The largest insurance customer	2.8%	—
Five largest insurance customers in aggregate	7.5%	—
The largest insurance supplier	—	11.1%
Five largest insurance suppliers in aggregate	—	34.5%

The largest insurance customer is a related party. The directors confirm that this insurance customer is under the common control of CIHC which is the ultimate holding company of the Company.

Apart from the above, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors own more than 5.0% of the Company's share capital) had any interest in these major insurance customers and suppliers.



REPORT OF THE DIRECTORS

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2003 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 38 to 111.

An interim dividend of HK1.2 cents (2002: HK1.5 cents) per ordinary share was paid on 24 October 2003. The directors now recommend the payment of a final dividend of HK1.2 cents (2002: HK1.5 cents) per ordinary share in respect of the year ended 31 December 2003.

FIXED ASSETS

Details of the movements in fixed assets are set out in note 13 on the financial statements.

SHARE CAPITAL

Shares were issued during the year upon exercise of options under the Company's share option scheme. Details of the movements in share capital of the Company during the year are set out in note 35 on the financial statements.

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

During the year neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of the movements in reserves of the Company and the Group during the year are set out in note 36 on the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$116.69 million (2002: HK\$112.69 million). In addition, the Company's share premium account of HK\$1,633.31 million (2002: HK\$1,629.99 million) as at 31 December 2003 may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

DIRECTORS

The directors during the financial year were:

Executive directors

Yang Chao
Zhang Xiaoshu (resigned on 4 February 2004)
Miao Jianmin
Ng Yu Lam Kenneth
Dong Ming
Shen Koping Michael
Lau Siu Mun Sammy

Non-Executive directors

Zheng Changyong
Wu Jiesi *
Lau Wai Kit *

* *Independent*

In accordance with Articles 96 to 100 of the Company's articles of association, Mr. Wu Jiesi shall retire from office and, being eligible, offer himself for re-election at the forthcoming Annual General Meeting.

The biographical details of directors and company secretary are set out in pages 18 to 20.

DIRECTORS' SERVICE CONTRACTS

Messrs Yang Chao, Zhang Xiaoshu, Miao Jianmin, Ng Yu Lam Kenneth, Dong Ming and Lau Siu Mun Sammy have entered into service contracts with the Company on 29 May 2000 for an initial period of three years commencing from 1 April 2000. Mr. Shen Koping Michael has entered into a service contract with the Company on 23 July 2002 for an initial period of two years commencing from 15 July 2002. The respective contracts shall continue after their respective initial period unless and until terminated by either party to such contracts by giving three months' written notice to the other party.

Mr. Wu Jiesi is due to retire by rotation. He is proposed to be re-elected as an independent non-executive director of the Company at the forthcoming Annual General Meeting. The proposed appointment will not have a specific term, but is subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's articles of association. Subject to approval of the shareholders at the Company's Annual General Meeting, the emoluments of the independent non-executive directors are determined by the Directors at the Board meeting.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS *(Continued)*

No director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests or short positions of the director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:—

Long Positions in shares and underlying shares of the Company:

Name of Directors	Personal Interests (held as beneficial owner)	Underlying shares pursuant to share options	Total Interests	Percentage of Issued Share Capital (%)
Yang Chao	—	3,970,000 <i>(Note)</i>	3,970,000	0.3
Zhang Xiaoshu	—	3,300,000 <i>(Note)</i>	3,300,000	0.2
Miao Jianmin	—	2,640,000 <i>(Note)</i>	2,640,000	0.2
Ng Yu Lam, Kenneth	366,000	2,200,000 <i>(Note)</i>	2,566,000	0.2
Dong Ming	—	2,300,000 <i>(Note)</i>	2,300,000	0.2
Shen Koping, Michael	—	1,656,000 <i>(Note)</i>	1,656,000	0.1
Lau Siu Mun, Sammy	350,000	1,800,000 <i>(Note)</i>	2,150,000	0.2
Zheng Changyong	—	1,500,000 <i>(Note)</i>	1,500,000	0.1

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Note:—

These represents interests of options granted to the directors under the Share Option Scheme to acquire for shares of the Company, further details of which are set out in the section "Share Option Scheme".

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 year, no Directors of the Company nor any of their spouses or children under the age of 18 years held any rights to subscribe for equity or debt securities of the Company nor had there been any exercise of any such rights by any of them,

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 24 May 2000 ("the Old Scheme") whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and would not be less than the nominal value of the shares or 80% of the average of the closing prices of the shares on the Stock Exchange for the five business days immediately preceding the date on which an option is offered. The options are exercisable for a period of ten years commencing from the date on which an option is accepted.

No employee shall be granted an option, which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued to him under all options previously granted to him which have been exercised and issuable to him under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of shares for the time being issued and issuable under the Old Scheme.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

The maximum number of shares in respect of which options may be granted under the Old Scheme may not (when aggregated with shares subject to any other employee share option scheme) exceed in nominal 10% 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 Old Scheme.

At the extraordinary general meeting of the Company held on 7 January 2003, the shareholders of the Company approved the adoption of a new share option scheme ("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. All options granted under the Old Scheme shall continue to be valid and exercisable in accordance with the terms of the Old Scheme.

The purpose of the New Scheme is for the Company to attract, retain and motivate Participants to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as may approve from time to time.

The New Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further options will be granted but in respect of all options which remain exercisable at the end of the period, the provisions of the New Scheme shall remain in full force and effect. The remaining life of the New Scheme as at 31 December 2003 was 9 years.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the Adoption Date, which was 132,533,159 Shares. As at the date of this report, a total of 126,423,159 Shares (representing approximately 9.5% of the issued share capital of the Company as at the adoption date) are available for issue.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share options schemes of the Company must not exceed 30% of the total number of Shares in issue from time to time (or such higher percentage as may be allowed under the Listing Rules.)

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(Continued)*

The total number of shares issued and to be issued upon exercise of the options granted to each Participant in any 12-month period up to and including the Grant Date shall not exceed 1% of the total number of Shares in issue. Where any further grant of options to a Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such Participant and his associates abstaining from voting.

The period under which an option may be exercised will be determined by the Board of Directors at its discretion, save that the period shall commence on the date of grant and expire not later than 10 years after the date of grant. The amount payable on acceptance of an option is HK\$1.00. The full amount of Subscription Price has to be paid on exercise of an option.

The Subscription Price in respect of each Share issued pursuant to the exercise of options granted under the New Scheme shall be determined by the Board with a price at least the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date, which must be a Business Day;
- (b) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days immediately preceding the Offer Date, and
- (c) the nominal value of a Share.

At 31 December 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 31 December 2003 was HK\$3.95) granted at nominal consideration under the Old Scheme and the New Scheme respectively. Each option gives the holder the right to subscribe for one share.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

Directors	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired on exercise of options during the year	No. of options cancelled during the year	Price per share to be paid on exercise of options	Price of shares	
									for options granted	for options exercised
Yang Chao	2,670,000	2,670,000	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	—	—	HK\$1.11	—	—
	1,300,000	1,300,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
Zhang Xiaoshu	2,200,000	2,200,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	—	—	HK\$1.11	—	—
	1,100,000	1,100,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
Miao Jianmin	1,740,000	1,740,000	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	—	—	HK\$1.11	—	—
	900,000	900,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
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	—	—
	500,000	500,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.95	—	—
	400,000	400,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
Dong Ming	1,500,000	1,500,000	27 September 2000	27 September 2000 to 26 September 2010	HK\$1.00	—	—	HK\$1.11	—	—
	400,000	400,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.95	—	—
	400,000	400,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
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	—	—
	—	156,000	7 January 2003	7 January 2003 to 6 January 2013	HK\$1.00	—	—	HK\$3.975	HK\$3.875	—
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	—	—
	400,000	400,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.95	—	—
	300,000	300,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
Zheng Changyong	1,000,000	1,000,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	—	—	HK\$1.11	—	—
	500,000	500,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
Employees	4,020,000	1,710,000	26 September 2000	26 September 2000 to 27 September 2010	HK\$1.00	2,310,000	—	HK\$1.11	—	HK\$4.010
	634,000	330,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	304,000	—	HK\$0.95	—	HK\$4.198
	2,290,000	2,102,000	12 September 2002	12 September 2002 to 22 September 2012	HK\$1.00	188,000	—	HK\$3.225	—	HK\$4.329

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

The price of the shares disclosed for the grant of options is the closing price quoted on the Stock Exchange immediately before the date of the options granted during the year. The price of shares disclosed for the exercise of options is the weighted average of the closing price quoted on the Stock Exchange immediately before the date of options exercised during the year.

The share options granted are not recognised in the financial statements until they are exercised. The weighted average value per option granted at the date of grant using the Black-Scholes pricing model and the weighted average assumptions used are as follows:

	2003	2002	2001	2000
Weighted average value				
per option granted	HK\$0.92	HK\$0.75	HK\$0.29	HK\$0.45
Risk-free interest rate	0.01%	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\$0.024	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 traded 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.

Apart from the foregoing, at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or chief executives 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.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of SFO were as follows:

Long Positions in shares of the Company:

Substantial shareholders	Capacity	Number of Ordinary Shares (Corporate Interests)	Percentage of Issued Share Capital
CIHC	Interest of controlled corporation	726,389,705 (Note 1)	54.7
CIHK	Beneficial owner & Interest of controlled corporation	726,389,705 (Note 2)	54.7
ICBC	Interest of controlled corporation	125,964,887 (Note 3)	9.5
ICBC (Asia)	Beneficial owner	125,964,887	9.5
J.P. Morgan Chase & Co.	70,620,000 shares as investment manager and 37,058,000 shares as approved lending agent	107,678,000 (Note 4)	8.1

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. 70,620,000 shares were held by J.P. Morgan Chase & Co. as investment manager and 37,058,000 shares as an approved lending agent pursuant to the Securities and Futures (Disclosure of Interests - Securities Borrowing and Lending) Rules.

Save as disclosed above, the register required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2003.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN CONTRACTS

No contract of significance to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, the Group has entered into various connected transactions with CIHC and its subsidiaries ("CIHC Group").

Details of connected transactions under Chapter 14 of the Listing Rules between the Group and the CIHC Group are as follows:

	Note	2003 HK\$'000	2002 HK\$'000
Recurring transactions			
Business ceded by related companies:	(i)		
Gross premiums written		161,817	247,372
Commission expenses paid		40,499	66,842
Business retroceded to related companies:	(ii)		
Outward retroceded premiums		62	64
Commission income received		29	—
Interest income received on			
Premium deposits placed with related parties		264	310
Funds in an insurance pool	(iii)	814	287
Insurance brokerage income	(iv)	—	62
Securities brokerage fee paid	(v)	1,087	478
Service fee income received from insurance pool	(iii)	146	28
IT consultation service income received	(vi)	72	262
Contributions to retirement schemes managed			
by a related party	(vii)	2,183	1,844
Travel agency services fee paid	(viii)	480	335
Insurance expenses covering business risk	(ix)	370	299
Investment management fee and redemption income	(x)	56,168	27,622
Rental and management fee paid	(xi)	1,791	1,138
Finance costs paid	(xii)	3,929	2,543
Non-recurring transactions			
Acquisition of a subsidiary	(xiii)	—	403,200

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

Notes:

- (i) During the year, Ming An, China Insurance Co. (Singapore) Pte. Ltd, China Insurance (Macau) Company Limited, P.T. China Insurance Indonesia, CICUK, CLICL, fellow subsidiaries of the Company, and certain branches of CIHC, the ultimate holding company, ceded business to and received commission from CIRe, a wholly owned subsidiary of the Company, in the normal course of CIRe's reinsurance business.
- (ii) During the year, CIRe retroceded business to and received commission from China Insurance Company, Macau, China America Insurance, HK Branch, Ming An and CICUK, fellow subsidiaries of the Company, in the normal course of CIRe's reinsurance business.
- (iii) Ming An ceded their Employees' Compensation and Employer's Liability business under an excess-of-loss reinsurance treaty to an insurance pool (the "Pool") in which CIRe has a 15% participation on a quota share basis. CIRe has 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 has ceased and was in run off with effect from 1 April 2000.
- (iv) During the year, SINO-RE, a wholly owned subsidiary of the Company, provided reinsurance broking services to and received brokerage fees for the services rendered to TPI, an associate of the Company.
- (v) The Group has entered into agreements with CIGSL, a fellow subsidiary of the Company, in relation to securities broking services provided. Securities broking fees are charged at 0.2% to 0.25% of the securities value.
- (vi) During the year, CIRe provided IT consultation services to and received service fees. China Insurance Group Investment Company Limited, a fellow subsidiary of the Company. Last year CIRe received similar service fees from CIHK, the immediate holding company as well.
- (vii) Employees of the Group participated in a defined contribution retirement scheme and Mandatory Provident Funds scheme managed by CLTL, a fellow subsidiary of the Company (prior to 23 December 2003), which charges a management fee for the services rendered.
- (viii) During the year, Henry International (C.I.) Travel Limited, a fellow subsidiary of the Company, provided travel agency services to the Group on a regular basis and charged a fee for the services rendered.
- (ix) During the year, the Group entered into a number of insurance policies with CLICL, Hong Kong Branch, and Ming An, 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) During the year, CIGAML, a wholly owned subsidiary of the Company, provided investment consultancy services to and received investment management fees and redemption incomes from CLTL and C.I.G (Nominee), fellow subsidiaries of the Company.
- (xi) During the year, the Company and CIGAML leased office premises and car park spaces from and paid rent and building management fees to Jacton Limited and Charter Firm Limited, respectively, which are fellow subsidiaries of the Company.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

Notes: (Continued)

- (xii) 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.

A subsidiary of the Company received a loan from a fellow subsidiary which bore interest at 0.95%. The loan was unsecured and repaid before the balance sheet date.

- (xiii) On 8 July 2002, the Company entered into a sale and purchase agreement with CIHK, pursuant to which the Company agreed to acquire all the issued shares of CIGAML from CIHK for a total consideration of HK\$403.20 million. The consideration comprised of a cash payment of HK\$201.62 million and the issuance and allotment of 51,620,000 new shares of HK\$0.05 each of the Company at price of HK\$3.905 per share to CIHK credited as fully paid. The transaction was completed on 9 September 2002.
- (xiv) CIRe and CIHK established Dragon Jade, a wholly foreign-owned joint venture enterprise pursuant to the relevant rules and regulations of the PRC applicable to enterprises with foreign investment to develop and operate an industrial property complex in Shenzhen, the PRC in 1992 in which CIRe has a 20.0% equity interest.
- (xv) CIHK, the immediate holding company, is the current owner of the China Insurance logo. Pursuant to a non-exclusive licence agreement entered into between CIHK and the Group, the Group has obtained the right to use such logo for an indefinite term at no consideration.
- (xvi) CIRe made an unsecured loan to Sanlink Investments Limited which was jointly established by certain related parties of the Group. The loan is interest-free and for an indefinite period. The outstanding balance as at 31 December 2003 was HK\$4.83 million (2002: HK\$4.83 million).

Connected transactions between the Group and CIHC Group

A conditional waiver for disclosure and shareholders' approval requirements for connected transactions between the Group and CIHC Group under the Listing Rules was granted by the Stock Exchange in August 2000.

The independent non-executive directors have reviewed and confirmed that the connected transactions to which the conditional waiver has been granted by the Stock Exchange were conducted in the following manner:

- (i) entered into by the Group in the ordinary and usual course of its business;
- (ii) entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) entered into on normal commercial terms and either:
- (1) in accordance with the terms of the agreements governing such transactions; or
 - (2) if there is no such agreement, on terms no less favourable than terms available to third parties; and
- (iv) entered into within the proposed limits as laid down by the Stock Exchange in the waiver.



REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

Connected transactions between the Group and CIHC Group *(Continued)*

A letter dated 24 March 2004 was received from the auditors of the Company confirming that (i) the connected transactions received the approval of the Company's board of directors; and (ii) the connected transactions to which the conditional waiver has been granted by the Stock Exchange have been conducted in the manner as stated in (iii) and (iv) above.

The conditional waiver which was originally effective for financial periods up to 31 December 2002 has been renewed in January, 2003. The new waiver granted by the Stock Exchange will be effective for the three financial years ending 31 December 2005.

Connected transactions between CIGAML and CIHC Group

A conditional waiver for disclosure requirements for connected transactions between CIGAML and CIHC Group under the Listing Rules was granted by the Stock Exchange in July 2002.

The independent non-executive directors have reviewed and confirmed that the connected transactions to which the conditional waiver has been granted by the Stock Exchange were conducted in the following manner:

- (i) entered into the ordinary and usual course of business of the Group;
- (ii) conducted either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties;
- (iii) entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iv) entered into within the proposed limit as laid down by the Stock Exchange in the waiver.

A letter dated 24 March 2004 was received from the auditors of the Company confirming that the connected transactions to which the conditional waiver has been granted by the Stock Exchange have been conducted in the manner as stated in (ii) and (iv) above.



REPORT OF THE DIRECTORS

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2003 are set out in note 24 on the financial statements.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 112.

RETIREMENT SCHEMES

In Hong Kong, the Group operates a defined contribution staff provident fund scheme (“the Scheme”) for its employees who joined the Group before 1 December 2000 whereby the Group contributes to the Scheme at a rate ranging from 5.0% to 15.0% of the monthly salary of the eligible employees. The applicable rate of contribution depends on the completed years of service of the respective employees with the Group. For any forfeited amount due to resignation prior to the vesting of the benefits, the amount will be used to reduce the contributions made in that corresponding financial year.

As from 1 December 2000, the Group also operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the Scheme. The MPF scheme is a defined contribution retirement scheme administered by related trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5.0% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000.

In the PRC, pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group’s PRC staff are to be made monthly to a government agency based on a certain percentage of the standard salary set by the PRC provincial government, of which 22.5% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement.

The Group has no further obligations for the payment of pension benefits or any other post retirement benefits beyond the defined contribution described above.

Aggregate contributions to retirement schemes are charged to the income statement as and when incurred. Contributions amounted to HK\$15.63 million for the year ended 31 December 2003 (2002: HK\$4.09 million).



REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The annual results for the year have been reviewed by the audit committee of the board of directors of the Company.

During the year under review, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The exception was 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.

AUDIT COMMITTEE

The audit committee comprises two independent non-executive directors and a non-executive director, and reports to the board of directors of the Company. The audit committee meets with the Group's senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual results of the Group.

AUDITORS

KPMG shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Yang Chao
Chairman

Hong Kong, 24 March 2004