

# CIH

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

Interim Report 2004 中期報告





## DEFINITIONS

In this Interim Financial 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
“CIRC”	China Insurance Regulatory Commission
“CIRe”	China International Reinsurance Company Limited
“Directors”	the directors of the Company, including the independent non-executive directors of the Company
“EGM”	The extraordinary general meeting of the Company held at 24/F., Ming An Plaza Phase II, 8 Sunning Road, Causeway Bay, Hong Kong on Wednesday, 25 August 2004 at 11:00a.m.
“Fortis”	Fortis International N.V.
“Golden Win”	Golden Win Development Limited
“Grantee”	A person who has been granted the right to accept the Company’s offer of share option
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Huatai”	Huatai Insurance Agency & Consultant Service Limited
“Last Period”	The period ended 30 June 2003
“Last Year”	The year ended 31 December 2003
“ICBC”	The Industrial and Commercial Bank of China
“ICBC (Asia)”	Industrial and Commercial Bank of China (Asia) Limited

## DEFINITIONS *(continued)*

"Independent shareholders"	Shareholder(s) other than CIHC, ICBC (Asia) and their respective associates
"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
"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 "CIH"	China Insurance International Holdings Company Limited
"the Group"	CIH and its subsidiaries
"the Period"	The period ended 30 June 2004
"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
"TPP"	Tai Ping Pension 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
"USA"	United States of America
"WTO"	World Trade Organization

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 2004 as follows, which should be read in conjunction with the Management Discussion and Analysis set out below:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004 – unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2004 \$'000	2003 \$'000
<b>Turnover</b>	3	<b><u>3,374,596</u></b>	<u>2,358,314</u>
<b>Amount transferred from/(to) revenue account</b>			
Reinsurance business		<b>65,279</b>	32,398
Life insurance business		<b>94,265</b>	(24,011)
		<b><u>159,544</u></b>	<u>8,387</u>
<b>Income from asset management business</b>		<b>21,674</b>	22,616
<b>Income from insurance intermediaries business</b>		<b>6,574</b>	8,574
<b>Other revenue</b>	4	<b>197,229</b>	113,598
<b>Other net (loss)/ income</b>	5	<b>(50,679)</b>	36,252
		<b><u>334,342</u></b>	<u>189,427</u>
<b>Expenditure relating to non-underwriting activities</b>			
Administrative expenses		<b>(138,847)</b>	(96,289)
Net exchange (losses)/gains		<b>(826)</b>	9,240
		<b><u>(139,673)</u></b>	<u>(87,049)</u>

## CONDENSED CONSOLIDATED INCOME STATEMENT *(continued)*

For the six months ended 30 June 2004 – unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	2004 \$'000	2003 \$'000
<b>Profit from operations</b>		<b>194,669</b>	102,378
<b>Share of (losses) less profits of associates</b>		<b>(15,615)</b>	(16,685)
<b>Finance costs</b>	6(a)	<b>(42,244)</b>	(2,040)
<b>Profit from ordinary activities before taxation</b>	6	<b>136,810</b>	83,653
Income tax	7	<b>(13,564)</b>	(11,200)
<b>Profit from ordinary activities after taxation</b>		<b>123,246</b>	72,453
<b>Minority interests</b>		<b>(19,191)</b>	17,040
<b>Profit attributable to shareholders</b>		<b>104,055</b>	89,493
<b>Dividends attributable to the interim period:</b>	8		
Dividend declared after the interim period end		<b>—</b>	15,935
<b>Earnings per share</b>	9		
Basic		<b>7.82 cents</b>	6.75 cents
Diluted		<b>7.76 cents</b>	6.68 cents

The notes on pages 10 to 31 form part of this interim financial report.

## CONDENSED CONSOLIDATED REVENUE ACCOUNT OF REINSURANCE BUSINESS

For the six months ended 30 June 2004 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
<b>Gross premiums written</b>	<b>961,636</b>	930,607
Outward retrocession premiums	<b>(154,307)</b>	(188,396)
<b>Net premiums written</b>	<b>807,329</b>	742,211
Increase in insurance funds	<b>(292,793)</b>	(179,327)
<b>Net premiums earned</b>	<b>514,536</b>	562,884
<b>Net claims</b>	<b>(244,496)</b>	(371,253)
<b>Net commission</b>	<b>(197,819)</b>	(152,740)
<b>Interest income</b>	<b>700</b>	963
<b>Management expenses</b>	<b>(7,642)</b>	(7,456)
<b>Amount transferred to income statement</b>	<b>65,279</b>	32,398

The notes on pages 10 to 31 form part of this interim financial report.

## CONDENSED CONSOLIDATED REVENUE ACCOUNT OF LIFE INSURANCE BUSINESS

For the six months ended 30 June 2004 – unaudited

(Expressed in Hong Kong dollars)

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
<b>Gross premiums written</b>	<b>2,384,712</b>	1,395,044
Outward reinsurance premiums	<u>(13,599)</u>	<u>(7,818)</u>
<b>Net premiums written</b>	<b>2,371,113</b>	1,387,226
<b>Life insurance funds brought forward</b>	<b>4,118,385</b>	1,407,706
<b>Net claims</b>	<b>(24,108)</b>	(9,758)
<b>Surrenders</b>	<b>(109,843)</b>	(29,118)
<b>Net commission</b>	<b>(131,452)</b>	(73,261)
<b>Management expenses</b>	<b>(108,396)</b>	(53,503)
<b>Life insurance funds carried forward</b>	<b>(6,021,434)</b>	<u>(2,653,303)</u>
<b>Amount transferred to/(from) income statement</b>	<b><u>94,265</u></b>	<u>(24,011)</u>

The notes on pages 10 to 31 form part of this interim financial report.

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004 – unaudited

(Expressed in Hong Kong Dollars)

	Note	At 30 June 2004 \$'000	At 31 December 2003 \$'000
<b>Assets</b>			
Fixed assets	10		
— Investment properties		<b>116,787</b>	104,835
— Other property, plant and equipment		<b>281,365</b>	202,037
		<b>398,152</b>	306,872
Goodwill		<b>492,070</b>	505,952
Interest in associates		<b>135,298</b>	127,678
Deferred tax assets		<b>3,357</b>	3,524
Investments in securities	11	<b>8,591,135</b>	6,638,675
Securities purchased under resale agreements		<b>17,918</b>	148,277
Amounts due from group companies		<b>2,979</b>	3,493
Trade and other receivables	12	<b>1,040,701</b>	556,556
Pledged deposits at bank		<b>69,889</b>	70,603
Deposits at bank with original maturity more than three months	13	<b>881,675</b>	681,148
Cash and cash equivalents	14	<b>1,342,650</b>	1,641,465
		<b>12,975,824</b>	10,684,243
<b>Liabilities</b>			
Insurance funds		<b>597,532</b>	304,739
Life insurance funds	15	<b>6,021,434</b>	4,118,385
Deferred tax liabilities		<b>550</b>	460
Interest-bearing notes		<b>1,355,458</b>	1,348,577
Amounts due to group companies		<b>128,576</b>	129,520
Provision for outstanding claims		<b>1,426,540</b>	1,394,740
Trade and other payables	16	<b>298,858</b>	368,546
Current taxation		<b>28,096</b>	16,900
Insurance protection fund		<b>1,684</b>	1,003
		<b>9,858,728</b>	7,682,870
Minority interests		<b>343,045</b>	322,773
		<b>10,201,773</b>	8,005,643
Net assets		<b>2,774,051</b>	2,678,600
<b>Capital and reserves</b>			
Share capital	18	<b>66,585</b>	66,407
Reserves	19	<b>2,707,466</b>	2,612,193
		<b>2,774,051</b>	2,678,600

The notes on pages 10 to 31 form part of this interim financial report.



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004 – unaudited

(Expressed in Hong Kong dollars)

		<b>Six months ended 30 June</b>	
	Note	<b>2004</b>	2003
		<b>\$'000</b>	\$'000
<b>Shareholders' equity at 1 January</b>		<b>2,678,600</b>	2,580,526
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong		<b>1,083</b>	—
<b>Net gains not recognised in the income statement</b>		<b>1,083</b>	—
<b>Profit for the Period</b>		<b>104,055</b>	89,493
Dividends approved during the Period	8	<b>(15,980)</b>	(19,889)
<b>Movements in share capital</b>			
Shares issued under share option scheme	18	<b>178</b>	33
Net share premium received	19	<b>6,115</b>	727
<b>Net increase in shareholders' equity arising from capital transactions with shareholders</b>		<b>6,293</b>	760
<b>Shareholders' equity at 30 June</b>		<b>2,774,051</b>	2,650,890

The notes on pages 10 to 31 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004 – unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Net cash from operating activities	1,795,811	1,237,190
Net cash used in investing activities	(2,084,938)	(1,034,601)
Net cash used in financing activities	(9,688)	(21,169)
Net (decrease)/increase in cash and cash equivalents	(298,815)	181,420
Cash and cash equivalents at 1 January	1,641,465	1,111,620
Cash and cash equivalents at 30 June	<u>1,342,650</u>	<u>1,293,040</u>

The notes on pages 10 to 31 form part of this interim financial report.

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# 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 the Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the HKICPA. KPMG’s independent review report to the board of directors is set out on page 32.

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 HKICPA.

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2004.

## **2 Accounting policies**

The accounting policies and methods of computation adopted in the 2003 annual financial statements have been applied consistently to the interim financial report. During the Period, the Group changed its basis of estimate in respect of its life insurance funds. The detail is set out in note 15 of the interim financial report.

## **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 2004

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter-segment elimination \$'000	Unallocated \$'000	Total \$'000
<b>Turnover</b>							
Revenue from external customers	961,636	2,384,712	21,674	6,574	—	—	3,374,596
Intersegment revenue	—	—	2,553	1,181	(3,734)	—	—
	<u>961,636</u>	<u>2,384,712</u>	<u>24,227</u>	<u>7,755</u>	<u>(3,734)</u>	<u>—</u>	<u>3,374,596</u>
<b>Business segment result</b>							
Profit/(loss) attributable from segment	63,445	94,265	24,227	7,755	—	—	189,692
Intersegment transactions	1,834	—	(2,553)	(1,181)	—	—	(1,900)
	<u>65,279</u>	<u>94,265</u>	<u>21,674</u>	<u>6,574</u>	<u>—</u>	<u>—</u>	<u>187,792</u>
<b>Other revenue</b>							
Dividend income	4,841	18,545	1,526	108	—	4,804	29,824
Interest income from debt securities	42,834	73,570	7,041	—	—	16,401	139,846
Others	5,234	20,642	205	219	—	4,382	30,682
	<u>52,909</u>	<u>112,757</u>	<u>8,772</u>	<u>327</u>	<u>—</u>	<u>25,587</u>	<u>200,352</u>
Intersegment transactions	(150)	—	—	—	—	(2,973)	(3,123)
	<u>52,759</u>	<u>112,757</u>	<u>8,772</u>	<u>327</u>	<u>—</u>	<u>22,614</u>	<u>197,229</u>
<b>Other net (loss)/income</b>							
Net realised and unrealised (losses)/gains from investments	(16,977)	(62,472)	4,043	(520)	—	6,062	(69,864)
Others	16,609	3,159	(50)	(22)	—	(511)	19,185
	<u>(368)</u>	<u>(59,313)</u>	<u>3,993</u>	<u>(542)</u>	<u>—</u>	<u>5,551</u>	<u>(50,679)</u>

### 3 Segment reporting (continued)

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

For the six months ended 30 June 2004 (continued)

	Reinsurance \$'000	Life insurance \$'000	Asset management \$'000	Insurance intermediaries business \$'000	Inter-segment elimination \$'000	Unallocated \$'000	Total \$'000
<b>Expenditure relating to non-underwriting activities</b>							
Administrative expenses	(6,676)	(111,394)	(13,023)	(1,919)		(8,538)	(141,550)
Net exchange gains/(losses)	5,189	(1,771)	(169)	344		(4,419)	(826)
	(1,487)	(113,165)	(13,192)	(1,575)		(12,957)	(142,376)
Intersegment transactions	—	—	—	150		2,553	2,703
	(1,487)	(113,165)	(13,192)	(1,425)		(10,404)	(139,673)
<b>Profit/(loss) from operations</b>	116,183	34,544	21,247	4,934		17,761	194,669
Share of (losses) less profits of associates	—	—	—	168		(15,783)	(15,615)
<b>Finance costs</b>	—	(959)	(1,885)	—		(39,400)	(42,244)
<b>Profit/(loss) from ordinary activities before taxation</b>	116,183	33,585	19,362	5,102		(37,422)	136,810
<b>Income tax</b>	(8,639)	—	(4,128)	(797)		—	(13,564)
<b>Profit/(loss) from ordinary activities after taxation</b>	107,544	33,585	15,234	4,305		(37,422)	123,246
<b>Minority interests</b>	—	(19,191)	—	—		—	(19,191)
<b>Profit/(loss) attributable to shareholders</b>	107,544	14,394	15,234	4,305		(37,422)	104,055

### 3 Segment reporting *(continued)*

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

As at 30 June 2004

	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	358,250	814,347	77,507	13,643		358,721	1,622,468
Debt securities	1,615,332	4,583,899	146,847	9,728		612,861	6,968,667
Other segment assets	1,442,960	1,649,689	387,186	24,929		744,627	4,249,391
Interest in associates	—	—	—	6,541		128,757	135,298
<b>Total assets</b>	<u>3,416,542</u>	<u>7,047,935</u>	<u>611,540</u>	<u>54,841</u>		<u>1,844,966</u>	<u>12,975,824</u>
<b>Total liabilities</b>	<u>(2,127,232)</u>	<u>(6,201,783)</u>	<u>(140,396)</u>	<u>(3,534)</u>		<u>(1,385,783)</u>	<u>(9,858,728)</u>

### 3 Segment reporting (continued)

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

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
<b>Turnover</b>							
Revenue from external customers	930,607	1,395,044	22,617	10,046	—	—	2,358,314
Intersegment 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>
<b>Business segment result</b>							
Profit/(loss) attributable from segment	30,161	(24,011)	23,348	10,158	—	—	39,656
Intersegment 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>
<b>Other revenue</b>							
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>
Intersegment 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>
<b>Other net (loss)/income</b>							
Net realised and unrealised gains/ (losses) from investments	23,882	8,499	(4,946)	164	—	8,045	35,644
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
<b>Expenditure relating to non-underwriting activities</b>							
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)
Intersegment transactions	454	—	—	150		732	1,336
	2,807	(69,446)	(12,678)	(235)		(7,497)	(87,049)
<b>Profit/(loss) from operations</b>	109,558	(38,761)	12,257	9,219		10,105	102,378
Share of (losses) less profits of associates	—	—	—	105		(16,790)	(16,685)
<b>Finance costs</b>	—	—	(2,040)	—		—	(2,040)
<b>Profit/(loss) from ordinary activities before taxation</b>	109,558	(38,761)	10,217	9,324		(6,685)	83,653
Income tax	(6,114)	—	(3,465)	(1,621)		—	(11,200)
<b>Profit/(loss) from ordinary activities after taxation</b>	103,444	(38,761)	6,752	7,703		(6,685)	72,453
<b>Minority interests</b>	—	17,040	—	—		—	17,040
<b>Profit/(loss) attributable to shareholders</b>	103,444	(21,721)	6,752	7,703		(6,685)	89,493



### 3 Segment reporting (continued)

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

As at 31 December 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	210,080	330,460	195,681	2,515		141,747	880,483
Debt securities	1,500,634	2,862,600	1,378,424	–		16,534	5,758,192
Other segment assets	1,339,608	1,936,176	369,929	38,648		233,529	3,917,890
Interest in associates	–	–	–	6,626		121,052	127,678
<b>Total assets</b>	<u>3,050,322</u>	<u>5,129,236</u>	<u>1,944,034</u>	<u>47,789</u>		<u>512,862</u>	<u>10,684,243</u>
<b>Total liabilities</b>	<u>(1,799,132)</u>	<u>(4,318,827)</u>	<u>(132,719)</u>	<u>(1,620)</u>		<u>(1,430,572)</u>	<u>(7,682,870)</u>

Due to the special nature of the reinsurance operations, a substantial proportion of reinsurance premium income is written in the first half of each year.

#### (b) By geographical area:

For the six months ended 30 June 2004

	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>302,858</u>	<u>2,535,182</u>	<u>69,073</u>	<u>268,708</u>	<u>153,009</u>	<u>45,766</u>	<u>3,374,596</u>

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>

#### 4 Other revenue

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Dividend income from listed securities	<b>29,612</b>	5,460
Dividend income from unlisted securities	<b>212</b>	485
Interest income from listed securities	<b>112,076</b>	69,767
Interest income from unlisted securities	<b>27,770</b>	12,875
Other interest income	<b>23,465</b>	22,366
Rentals receivable from operating leases	<b>2,295</b>	2,198
Others	<b>1,799</b>	447
	<b><u>197,229</u></b>	<u>113,598</u>

#### 5 Other net (loss)/income

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Net loss on sale of fixed assets	<b>(8)</b>	(12)
Net realised and unrealised (losses)/gains on investments	<b>(69,864)</b>	42,841
Amortisation of discounts of dated debt securities	<b>3,451</b>	1,166
Surplus on revaluation of investment properties	<b>11,952</b>	—
Decrease/(increase) in provision for diminution in value of listed securities	<b>4,709</b>	(8,363)
(Increase)/decrease in provision for bad and doubtful debts	<b>(919)</b>	620
	<b><u>(50,679)</u></b>	<u>36,252</u>

## 6 Profit from ordinary activities before taxation

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

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
<b>(a) Finance costs:</b>		
Interest on other loans	<b>42,244</b>	2,040
<b>(b) Staff costs:</b>		
Contributions to defined contribution retirement plan	<b>8,001</b>	2,741
Salaries, wages and other benefits	<b>122,902</b>	62,049
	<b>130,903</b>	64,790
<b>(c) Other items:</b>		
Auditors' remuneration	<b>450</b>	446
Depreciation	<b>12,547</b>	6,771
Operating lease charges:		
minimum lease payments in respect of properties	<b>29,328</b>	14,545
Amortisation of goodwill	<b>13,884</b>	13,884
Amortisation of goodwill included in share of losses less profits of associates	<b>1,873</b>	1,865

## 7 Income tax

Income tax in the condensed consolidated income statement represents:

	<b>Six months ended 30 June</b>	
	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
Current tax — Provision for Hong Kong Profits Tax	<b>12,746</b>	11,249
Current tax — Overseas	<b>506</b>	53
Deferred taxation	<b>257</b>	(140)
Share of associate's taxation	<b>55</b>	38
Total income tax expense	<b>13,564</b>	11,200

The provision for Hong Kong Profits Tax represents the Group's estimated Profits Tax liability calculated at the standard tax rate of 17.5% (2003: 17.5%) 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% (2003: 8.75%), one-half of the standard tax rate.

## 7 Income tax (continued)

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

The Group also has unrecognised deferred tax assets of \$63,431,000 (2003: \$73,016,000) 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 unutilised in the foreseeable future.

## 8 Dividends

### (a) Dividends attributable to the interim period

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Interim dividend declared after the interim period end of nil (2003: 1.2 cents per share)	—	15,935
	<u>          </u>	<u>          </u>

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

	Six months ended 30 June	
	2004	2003
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period of 1.2 cents (2003: 1.5 cents) per share	15,980	19,889
	<u>          </u>	<u>          </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 \$104,055,000 (2003: \$89,493,000) divided by the weighted average number of 1,330,930,592 (2003: 1,325,579,092) 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 \$104,055,000 (2003: \$89,493,000) divided by the weighted average number of 1,341,503,081 (2003: 1,339,761,198) shares after adjusting for the effects of all dilutive potential shares under the Company's share option scheme.

## 9 Earnings per share (continued)

### (c) Reconciliations

	No. of shares At 30 June	
	2004	2003
Weighted average number of shares used in calculating basic earnings per share	<b>1,330,930,592</b>	1,325,579,092
Deemed issue of shares for no consideration arising from share options	<b>10,572,489</b>	14,182,106
	<b><u>1,341,503,081</u></b>	<u>1,339,761,198</u>
Weighted average number of shares used in calculating diluted earnings per share	<b>1,341,503,081</b>	1,339,761,198

## 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 \$79,730,000 (2003: \$67,520,000).

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

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Within 1 year	<b>3,701</b>	4,013
After 1 but within 5 years	<b>2,679</b>	3,558
	<b><u>6,380</u></b>	<u>7,571</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
<b>At 30 June 2004</b>						
<b>Held-to-maturity debt securities</b>						
Listed — outside Hong Kong	2,304,655	158,151	1,599,335	1,308,315	25,459	5,395,915
Unlisted	89,970	7,587	76,205	476,475	—	650,237
	<u>2,394,625</u>	<u>165,738</u>	<u>1,675,540</u>	<u>1,784,790</u>	<u>25,459</u>	<u>6,046,152</u>
<b>Other investments</b>						
Listed debt securities — outside Hong Kong	365	—	133,346	153,029	—	286,740
Listed equity securities — in Hong Kong	—	17,798	29,452	365,806	1,928	414,984
— outside Hong Kong	—	2,235	122,507	244,861	—	369,603
Listed unit trusts and mutual funds — outside Hong Kong	—	—	—	12,299	814,347	826,646
Unlisted debt securities	—	—	635,775	—	—	635,775
Unlisted equity securities	—	—	—	11,235	—	11,235
	<u>365</u>	<u>20,033</u>	<u>921,080</u>	<u>787,230</u>	<u>816,275</u>	<u>2,544,983</u>
	<u>2,394,990</u>	<u>185,771</u>	<u>2,596,620</u>	<u>2,572,020</u>	<u>841,734</u>	<u>8,591,135</u>
Market value of listed securities (including listed held-to-maturity securities maturing within one year as of 30 June 2004)	<u>2,216,975</u>	<u>185,141</u>	<u>1,897,948</u>	<u>1,990,110</u>	<u>841,399</u>	<u>7,131,573</u>

## 11 Investments in securities (continued)

	Central governments and central banks \$'000	Public sector entities \$'000	Banks and other financial institutions \$'000	Corporate entities \$'000	Others \$'000	Total \$'000
<b>At 31 December 2003</b>						
<b>Held-to-maturity debt securities</b>						
Listed outside Hong Kong	802,587	97,123	1,831,658	1,236,094	10,172	3,977,634
Unlisted	113,184	7,535	674,468	344,463	–	1,139,650
	<u>915,771</u>	<u>104,658</u>	<u>2,506,126</u>	<u>1,580,557</u>	<u>10,172</u>	<u>5,117,284</u>
<b>Other investments</b>						
Listed debt securities						
– outside Hong Kong	–	–	216,367	175,691	–	392,058
Listed equity securities						
– in Hong Kong	–	23,053	45,715	317,418	3,239	389,425
– outside Hong Kong	–	–	26,043	105,372	–	131,415
Listed unit trusts and mutual funds						
– outside Hong Kong	–	–	–	17,951	330,460	348,411
Unlisted debt securities	–	–	31,052	217,798	–	248,850
Unlisted equity securities	–	–	–	11,232	–	11,232
	<u>–</u>	<u>23,053</u>	<u>319,177</u>	<u>845,462</u>	<u>333,699</u>	<u>1,521,391</u>
	<u>915,771</u>	<u>127,711</u>	<u>2,825,303</u>	<u>2,426,019</u>	<u>343,871</u>	<u>6,638,675</u>
Market value of listed securities (including listed held-to-maturity securities maturing within one year as of 31 December 2003)	<u>804,604</u>	<u>130,586</u>	<u>2,138,121</u>	<u>1,851,398</u>	<u>343,567</u>	<u>5,268,276</u>

The held-to-maturity debt securities include an amount of \$85,865,000 (31 December 2003: \$106,222,000) which is maturing within one year.

During the period, held-to-maturity securities with an amortised cost of \$297,868,000 (31 December 2003: \$73,748,000) and \$620,855,000 (31 December 2003: Nil) were disposed of and reclassified as other investments respectively as a result of the review on Group's investment strategy and the Group's assets and liabilities matching.

## 12 Trade and other receivables

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

	<b>At 30 June 2004 \$'000</b>	At 31 December 2003 \$'000
Not yet due	<b>350,325</b>	180,260
Current	<b>198,410</b>	83,818
More than 3 months but less than 12 months	<b>24,135</b>	14,677
More than 12 months	<b>4,315</b>	12,515
	<hr/>	<hr/>
Total trade debtors	<b>577,185</b>	291,270
Prepayments, deposits, other debtors and deposits retained by cedants	<b>435,337</b>	236,289
Loans and advances	<b>28,179</b>	28,997
	<hr/>	<hr/>
	<b><u>1,040,701</u></b>	<b><u>556,556</u></b>

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 \$197,394,000 (2003: \$197,007,000) with banks as a capital guarantee fund, pursuant to 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

	<b>At 30 June 2004 \$'000</b>	At 31 December 2003 \$'000
Deposits with banks and other financial institutions with original maturity less than three months	<b>941,510</b>	763,563
Cash at bank and in hand	<b>401,140</b>	877,902
	<hr/>	<hr/>
	<b><u>1,342,650</u></b>	<b><u>1,641,465</u></b>



## 15 Life insurance funds

During 2004, a subsidiary of the Group changed its basis of estimate in respect of its life insurance funds. Effective from 1 January 2004, the Group's appointed actuary has adopted the Net Level Premium approach, in which the assumptions used in assessing the actuarial valuation of future insurance liabilities reflect management's assessments of the most likely outcome of future policy cash flows subject to reasonable and prudent allowances, and a deferral approach on the acquisition costs related to the acquisition of new business, including but not limited to commissions, underwriting, marketing and policy issue expenses, in so far as there are sufficient margins in the future premiums of the new policies to fund the amortisation of the acquisition costs over the life time of the policies. In prior years, the insurance liabilities were determined based on an insurance solvency basis prescribed by statute which allowed an implicit credit for acquisition costs subject to limits prescribed by statute. Under the new approach, profits are expected to emerge on a level basis over the life of the insurance contracts. The Directors consider that the change of basis of estimate will allow the Group to conform with approaches adopted by major international and PRC insurance companies. The adoption of the revised basis of estimate is non-retroactive. The new basis of estimate will be consistently applied in future years. As a result of the changes in basis of estimate being taken up in the Period, the Group's profit for the Period increased by HK\$94,000,000.

## 16 Trade and other payables

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

	<b>At 30 June 2004 \$'000</b>	At 31 December 2003 \$'000
Current	<b>27,110</b>	19,769
More than 3 months but less than 12 months	<b>18,139</b>	25,039
More than 12 months	<b>9,401</b>	8,247
	<hr/>	<hr/>
Total trade payables	<b>54,650</b>	53,055
Accrued charges, temporary receipts and deposits retained from retrocessionaires	<b>244,208</b>	315,491
	<hr/>	<hr/>
	<b>298,858</b>	368,546
	<hr/>	<hr/>

## 17 Maturity profile

	Repayable on demand \$'000	3 months or less \$'000	1 year or less but over 3 months \$'000	5 years or less but over 1 year \$'000	After 5 years \$'000	Undated \$'000	Total \$'000
<b>At 30 June 2004</b>							
<b>Assets</b>							
Deposits at banks with original maturity more than 3 months	—	—	47,100	665,985	168,590	—	881,675
Deposits at banks and other financial institutions with original maturity less than 3 months (including call deposits)	12,635	928,875	—	—	—	—	941,510
Certificates of deposit (under held-to-maturity)	—	5,006	—	9,798	10,000	—	24,804
Pledged deposits at bank	—	—	40,294	29,595	—	—	69,889
Securities purchased under resale agreements	—	16,973	945	—	—	—	17,918
Debt securities (under held-to-maturity)	—	21,241	59,618	718,503	5,221,986	—	6,021,348
Debt securities (under other investments in securities)	2,289	—	—	722,178	70,031	128,017	922,515
	<u>14,924</u>	<u>972,095</u>	<u>147,957</u>	<u>2,146,059</u>	<u>5,470,607</u>	<u>128,017</u>	<u>8,879,659</u>

	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
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### At 31 December 2003

#### Assets

Deposits at bank with original maturity more than 3 months	—	—	48,996	592,636	39,516	—	681,148
Deposits at banks and other financial institutions with original maturity less than 3 months	297,736	465,827	—	—	—	—	763,563
Certificates of deposit (under held-to-maturity)	—	—	5,020	9,754	10,000	—	24,774
Pledged deposits at bank	—	41,552	—	29,051	—	—	70,603
Securities purchased under resale agreements	—	148,277	—	—	—	—	148,277
Debt securities (under held-to-maturity)	—	52,733	48,469	1,330,030	3,661,278	—	5,092,510
Debt securities (under other investments in securities)	—	—	232,755	125,147	202,302	80,704	640,908
	<u>297,736</u>	<u>708,389</u>	<u>335,240</u>	<u>2,086,618</u>	<u>3,913,096</u>	<u>80,704</u>	<u>7,421,783</u>

## 18 Share capital

	At 30 June 2004		At 31 December 2003	
	No. of shares '000	\$'000	No. of shares '000	\$'000
<b>Authorised:</b>				
Ordinary shares of \$0.05 each	<b><u>2,000,000</u></b>	<b><u>100,000</u></b>	<u>2,000,000</u>	<u>100,000</u>
<b>Issued and fully paid:</b>				
At 1 January	<b>1,328,134</b>	<b>66,407</b>	1,325,332	66,267
Shares issued under share option scheme	<b><u>3,558</u></b>	<b><u>178</u></b>	<u>2,802</u>	<u>140</u>
	<b><u><u>1,331,692</u></u></b>	<b><u><u>66,585</u></u></b>	<u><u>1,328,134</u></u>	<u><u>66,407</u></u>

### 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, options under the Old Scheme were exercised to subscribe for 3,558,000 ordinary shares in the Company at a total consideration of \$6,293,000 of which \$178,000 was credited to share capital and the remaining balance of \$6,115,000 was credited to the share premium account. At 30 June 2004, the outstanding options under the Old Scheme and the New 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	10,770,000
12 February 2001	12 February 2001 to 11 February 2011 *	\$0.950	1,630,000
12 September 2002	12 September 2002 to 22 September 2012 *	\$3.225	7,394,000
7 January 2003	7 January 2003 to 6 January 2013	\$3.975	156,000
5 January 2004	5 January 2004 to 4 January 2014	\$3.980	350,000

## 18 Share capital *(continued)*

- \* 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 to 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 to 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.

## 19 Reserves

	Capital reserve \$'000	Share premium \$'000	Exchange reserves \$'000	Retained profits \$'000	Total \$'000
At 1 January 2004	567,458	1,633,305	(8,304)	419,734	2,612,193
Shares issued	—	6,115	—	—	6,115
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong	—	—	1,083	—	1,083
Profit for the period	—	—	—	104,055	104,055
Dividends approved and paid in respect of the previous financial year <i>(note 8(b))</i>	—	—	—	(15,980)	(15,980)
	<u>567,458</u>	<u>1,639,420</u>	<u>(7,221)</u>	<u>507,809</u>	<u>2,707,466</u>
At 30 June 2004	<u>567,458</u>	<u>1,639,420</u>	<u>(7,221)</u>	<u>507,809</u>	<u>2,707,466</u>
At 1 January 2003	567,458	1,629,986	2,010	314,805	2,514,259
Shares issued	—	3,319	—	—	3,319
Exchange differences on translation of financial statements of a subsidiary outside Hong Kong	—	—	(10,314)	—	(10,314)
Profit for the Period	—	—	—	140,753	140,753
Dividends declared in respect of the current financial year <i>(note 8(a))</i>	—	—	—	(15,935)	(15,935)
Dividends approved and paid in respect of the previous financial year <i>(note 8(b))</i>	—	—	—	(19,889)	(19,889)
	<u>567,458</u>	<u>1,633,305</u>	<u>(8,304)</u>	<u>419,734</u>	<u>2,612,193</u>
At 31 December 2003	<u>567,458</u>	<u>1,633,305</u>	<u>(8,304)</u>	<u>419,734</u>	<u>2,612,193</u>

## 20 Commitments

At 30 June 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June 2004 \$'000</b>	At 31 December 2003 \$'000
Within 1 year	<b>47,401</b>	42,990
After 1 year but within 5 years	<b>53,080</b>	61,960
	<b><u>100,481</u></b>	<u>104,950</u>

The Group leases a number of properties under operating leases which run for an initial period of 1 to 6 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.

## 21 Material related party transactions

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

	<i>Note</i>	<b>Six months ended 30 June 2004 \$'000</b>	2003 \$'000
Business ceded by related companies:	<i>(i)</i>		
Gross premiums written		<b>124,530</b>	136,096
Commission expenses paid		<b>31,927</b>	33,955
Business retroceded to related companies:	<i>(ii)</i>		
Outward retrocession premiums		<b>2</b>	119
Commission income received		<b>40</b>	46
Investment management fee and redemption income	<i>(iii)</i>	<b>19,513</b>	22,617
Interest income received on			
Premium deposits placed	<i>(iv)</i>	<b>117</b>	197
Funds in an insurance pool	<i>(v)</i>	<b>—</b>	381
Securities brokerage fee paid	<i>(vi)</i>	<b>562</b>	329
IT consultation service income received	<i>(vii)</i>	<b>160</b>	—
Contributions to retirement schemes	<i>(viii)</i>	<b>—</b>	1,097
Travel agency services fee paid	<i>(ix)</i>	<b>172</b>	110
Insurance expenses covering			
business risk	<i>(x)</i>	<b>87</b>	343
Finance costs paid	<i>(xi)</i>	<b>1,885</b>	2,040
Rental and management fee paid	<i>(xii)</i>	<b>890</b>	905
		<b><u>890</u></b>	<u>905</u>

## 21 Material related party transactions *(continued)*

Notes:

- (i) Certain fellow subsidiaries of the Group 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 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 0.2% of the securities value.
- (vii) A subsidiary of the Company provided IT consultation services to and received service fees from a fellow subsidiary of the Group.
- (viii) During Last Period, 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 former fellow subsidiary of the Group.
- (ix) 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.
- (x) 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, workmens' compensation, electronic equipment and professional indemnity.
- (xi) A subsidiary of the Group has borrowed a loan from a fellow subsidiary which bears interest at LIBOR plus 1.8%. The loan is unsecured and repayable on demand.
- (xii) 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 fellow subsidiaries of the Group.

## 22 Off-balance sheet exposures

At 30 June 2004, the notional amounts of significant derivative transactions entered into by the Group were as follows:

	<b>At 30 June 2004 \$'000</b>	At 31 December 2003 \$'000
Exchange rate forward contracts	<b>390,000</b>	698,724
Exchange rate option contracts	<b>780,000</b>	—
	<b><u>1,170,000</u></b>	<b><u>698,724</u></b>

Off-balance sheet exposures arise from forward contracts and option contracts transactions undertaken by the Group in foreign exchange markets. The contractual and notional amounts of these financial instruments indicate the value of transactions outstanding at the balance sheet date; they do not express amounts at risk.

## 23 Post balance sheet event

### a. Formation of TPP

Subsequent to the balance sheet date, on 9 July 2004, the Company (through its subsidiaries TPL and CIGAML) entered into a conditional shareholders' agreement (the "Shareholders' Agreement") with TPI, Fortis and CIHC to form a new joint stock limited company, named TPP in the PRC. TPP will focus exclusively on the supplementary corporate pension business and other related pension business in the PRC.

The registered capital of TPP shall be RMB200,000,000, of which:

- (a) 60% (being RMB120,000,000) shall be contributed in cash by TPL;
- (b) 14% (being RMB28,000,000) shall be contributed in cash by CIGAML;
- (c) 12% (being RMB24,000,000) shall be contributed in cash by TPI;
- (d) 10% (being RMB20,000,000) shall be contributed in cash by Fortis;
- (e) 4% (being RMB8,000,000) shall be contributed in cash by CIHC.

The percentage shareholding of each of the parties in TPP will be in the same proportion as their respective capital contribution of registered capital in TPP as shown above. Upon its establishment, TPP will become a subsidiary of the Company.

The formation of TPP under the Shareholders' Agreement is subject to, among other things, the approvals of the relevant PRC authorities and of independent shareholders at an EGM. On 25 August 2004, the independent shareholders approved the Shareholders' Agreement at an EGM through an ordinary resolution of the Company. Approval for the establishment of TPP was also obtained from the relevant PRC authorities.



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## **23 Post balance sheet event** *(continued)*

### **b. Increase of Capital Contribution in Huatai**

The equity shareholders of Huatai approved an increase in paid-up capital from RMB23,281,000 to RMB30,000,000, an increase of RMB6,719,000. The additional capital will be contributed by the existing equity shareholders of Huatai by reference to their respective equity interests in Huatai.

The Company has a 25% equity interest in Huatai. The Company's share of the capital contribution will be RMB1,679,750. After taking into account the capitalization of the reserves and the unappropriated profits of Huatai as at 30 June 2004 and the offset of dividend payable to the Company, the net cash contribution payable by the Company will be RMB257,078. The Board approved the capital increase in Huatai and the Company remitted its share of cash contribution to Huatai on 17 August 2004.





## **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 31.

### **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 Institute of Certified Public 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 Institute of Certified Public 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 2004.

### **KPMG**

*Certified Public Accountants*

Hong Kong, 14 September 2004

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

During the Period, total turnover for the Group was HK\$3,374.60 million (2003: HK\$2,358.31 million) and profit attributable to shareholders of the Group amounted to HK\$104.05 million (2003: HK\$89.49 million), representing an increase of 43.1% and an increase of 16.3%, respectively, compared with Last Period. Basic earnings per share was HK7.82 cents (2003: HK6.75 cents) and diluted earnings per share was HK7.76 cents (2003: HK6.68 cents).

### Interim Dividend

The Directors resolved not to recommend any interim dividend for the Period (2003: HK1.2 cents per share).

### Operational Review

#### **Reinsurance Underwriting – CIRE**

The reinsurance underwriting operations conducted by CIRE during the Period produced steady growth and satisfactory operating results which were better than Last Period.

Gross premium written for the Period increased by 3.3% and amounted to HK\$961.64 million (2003: HK\$930.61 million). In order to more efficiently utilize CIRE's capital and surplus, CIRE decided to increase its net retained premium written instead of solely seeking the expansion of gross premium. Net retained premium written thereby increased by a faster rate, by 8.8%, to HK\$807.33 million (2003: HK\$742.21 million). Because a softening trend in reinsurance pricing has developed in many of CIRE's primary markets over different lines of insurance business, CIRE's top management has decided to proactively exclude from underwriting a selection of proportional business which did not meet with CIRE's internal targets for potential profit margin. As a result of this planned adjustment in business strategy, premium from non-proportional business has increased to 31.9% of total premium written from 31.5% of Last Period.

The geographic distribution of CIRE's reinsurance portfolio varied slightly from Last Period, with 28.9% of total premium written from Hong Kong and Macau (2003: 38.5%), 15.5% from China (including Taiwan but excluding Hong Kong and Macau) (2003: 11.2%) and 35.0% from the rest of Asia (2003: 30.8%). Gross premium written from Asian markets constituted 79.4% (2003: 80.5%) of the total portfolio. Life reinsurance premium income for the Period was still below 1.0% of the total premium written.

The loss experience for the Period was satisfactory, as no major catastrophe, contagion or other adverse event occurred during the Period. The combined ratio on earned premium for the net retained business was 87.7% for the Period (2003: 94.7%), which represented a significant improvement over Last Period (the unprecedented outbreak of SARS-related claims in Hong Kong and some other Asian markets significantly increased the loss experience during Last Period). The underwriting profit for the Period was HK\$65.28 million (2003: HK\$32.40 million), increasing by 101.5% compared to Last Period.

The investment performance of CIRe during the Period was not as strong as Last Period. The persistence of historically-low interest rates and a period of consolidation following the sharp equity-share appreciations of Last Year have lowered investment returns. Other revenue and other net income for the Period was HK\$52.39 million (2003: HK\$74.35 million), representing a decrease of 29.5% compared to Last Period.

CIRe's operating profit before taxation for the Period was HK\$116.18 million (2003: HK\$109.56 million), which was a 6.0% increase over Last Period.

### **Insurance Intermediaries – SINO-RE**

The reinsurance brokerage income of SINO-RE for the Period amounted to HK\$6.57 million (2003: HK\$10.05 million), which was 34.6% less than Last Period. The reduction in revenue was caused mainly by the reorganization of certain non-proportional reinsurance contracts of a major client which resulted in higher net retention and less reinsurance premium payout. Since SINO-RE's brokerage income is based on the payout of reinsurance premium, its brokerage income was thereby reduced.

SINO-RE's profit attributable to the Group for the Period amounted to HK\$4.13 million (2003: HK\$7.60 million), representing a decrease of 45.7% over Last Period.

### **Insurance Operations in Mainland China**

#### **Life Insurance Business – TPL**

During the Period, TPL continued to expand its life insurance business in the PRC and generated premium income of HK\$2,384.71 million (2003: HK\$1,395.04 million), representing an increase of 70.9% over Last Period. The sales of individual life policies and group life policies amounted to HK\$204 million (2003: HK\$78 million) and HK\$547 million (2003: HK\$195 million), respectively, and the sales of individual life policies through bancassurance was HK\$1,634 million (2003: HK\$1,123 million). These three life insurance product lines registered growth rates of 162%, 181% and 46%, respectively, over Last Period. Overall, TPL continued to make strong inroads into the PRC life insurance market, in which TPL's market share increased to 1.4% from 0.9% of Last Period. Such performance and operational results were truly impressive and represented growth rates substantially higher than that of the rest of the industry.

During the Period, TPL changed its basis of estimate in respect of its life insurance funds. Under the new basis of estimate, the appointed actuary has adopted the Net Level Premium approach and Deferral approach. Under the new approach, profits are expected to emerge on a level basis over the life of the insurance contracts. These changes in estimate provide a clearer presentation of the results and financial position of TPL and that of the Group and are more comparable with those adopted by major international and PRC insurance companies. The changes in the basis of estimate is non-retroactive. As a result of the changes in basis of estimate being taken up in the Period, the share of operating profit attributable to the Group for the period increased by HK\$94 million. In the event that the new basis of estimate is accounted for retrospectively, the share of operating profit attributable to the Group for the Period, the year ended 31 December 2003 and the year ended 31 December 2002 would increase by HK\$31.5 million, HK\$36.5 million and HK\$26 million, respectively.

TPL's net profit for the Period amounted to HK\$38.23 million (2003: loss of HK\$38.76 million). The share of net profit attributable to the Group for the Period was HK\$14.39 million (2003: loss of HK\$21.72 million). If the new basis of estimate is accounted for retrospectively, the net loss of TPL attributable to the Group and the net profit of the Group for the Period, the year ended 31 December 2003 and the year ended December 2002 retrospectively would be as follows:

	<b>Net Loss of TPL attributable to the Group</b> <i>HK\$' million</i>	<b>Net Profit of the Group</b> <i>HK\$' million</i>
Six months ended 30 June 2004	48	42
Year ended 31 December 2003	54	178
Year ended 31 December 2002	29	206

### **General Insurance – TPI**

During the Period, TPI achieved remarkable growth in its general insurance business in the PRC. TPI's premium income increased by 100.5% to HK\$430.75 million (2003: HK\$214.79 million). In addition to the strong top-line growth in premium income, TPI's bottom-line results also showed improvements. TPI's combined ratio of cost to net premium written improved from 153.4% of Last Period to 128.0% this Period. The claims ratio for motor vehicle insurance also improved, as the net claims to premium earned ratio fell from Last Period's 68.9% to 62.7% this Period.

During the Period, TPI recorded a net operating loss of HK\$46.20 million (2003: loss of HK\$49.67 million). The operating losses at TPI were expected, and were due to TPI's early stage of development. The loss attributable to the Group was HK\$15.78 million.

## **Assets Management – CIGAML**

During the Period, CIGAML produced management fee of HK\$21.67 million (2003: HK\$22.62 million). Interest income derived from investments in debt securities amounted to HK\$7.04 million (2003: HK\$6.90 million). The assets under the management of CIGAML amounted to HK\$2,330.30 million (2003: HK\$4,276.05 million). The reduction in assets under management was due to larger client withdrawals which took place during the Period. CIGAML's profits attributable to the Group for the period was HK\$15.23 million (2003: HK\$6.75 million).

## **BUSINESS REVIEW**

### **CIRe**

The global reinsurance industry has undertaken major restructurings over the past several years, with fewer but stronger players remaining in the marketplace. The current stringent underwriting policies adopted by the major players are expected to continue. Moreover, with reinsurance buyers continuing to be concerned with the financial strength and solvency of reinsurers, reinsurance players with strong capitalization and good credit ratings are well-placed and should benefit from the current industry trends. Since its establishment back in 1980, CIRe has decided not to participate in any long-tail, liability reinsurance contracts from outside of Asia. Therefore, the continuous and gradual emergence of under-reserving issues prevalent in the global reinsurance industry today, such as from U.S. liability insurance business lines, has not had any effect on CIRe over the years. Such strong underwriting discipline and risk management at CIRe has allowed it to emerge relatively unscathed from many of the current difficulties facing the rest of the industry.

The investment climate in 2004 has been difficult and volatile. Interest rates remain at historically-low levels, while global equity markets have suffered from geopolitical instability in the Middle East, the threat of terrorism, rising crude oil prices, and general uncertainty over the strength of the economic recovery, particularly in the United States. CIRe continues to adopt a conservative investment strategy, and holds the majority of its investments in investment-grade debt securities. Many of these fixed income investments are made with the intention of holding to maturity. The relatively large cash holdings at CIRe resulting from its continued satisfactory cash inflows from its underwriting business and investment portfolio enables senior management to adopt a defensive posture on the investment markets. CIRe's strong cash position also allows it to be ready to take advantage of any opportunities which may arise in the capital markets.

## **TPL**

During the Period, TPL continued its strategy of controlled expansion across the PRC. As of the end of 2003, TPL had 14 branches across the country. In 2004, TPL began preparatory work to add six new branches in Harbin, Nanchang, Hefei, Tianjin, Fuzhou and Wuhan. These new branches are expected to commence operations by October 2004. In addition, TPL obtained approval from the CIRC to set up a branch office in Suzhou and to upgrade its Foshan sub-branch into a branch office. Upon completion of these initiatives, TPL will have a total of 22 branches in the most wealthy and populous provinces in the PRC. Such an expansion of TPL's branch network will ensure that the strong growth momentum of TPL's life insurance business is sustained.

During the Period, TPL implemented several important measures to further bolster its operations. TPL has obtained approval from the CIRC to establish TPP, which will engage in supplementary corporate pension business and other related pension businesses. The registered capital of TPP is RMB200 million (approximately HK\$189 million), of which RMB120 million (approximately HK\$113 million) will be contributed in cash by TPL. TPL will have a 60% equity interest in TPP. TPP is a strategic priority of TPL, as the corporate retirement market is a largely untapped market in the PRC and holds vast potential.

TPL has also undertaken significant efforts to strengthen its marketing and distribution networks in its areas of operation. TPL is seeking to expand its sales point coverage through cooperation ventures with property insurance companies within the PRC. Such distribution agreements will further TPL's efforts to penetrate its target markets, while providing mutually beneficial arrangements with TPL's partners. TPL is also seeking to improve its brand image throughout the PRC. TPL has standardized its brand-building management and promotion strategies. Apart from increasing its annual advertising campaigns, selected TPL advertisements have been broadcast during prime time television programs to enhance TPL's brand name and image.

## **TPI**

During the Period, TPI continued executing its plan to expand into the most wealthy and populous provinces of the PRC. As of the end of 2003, TPI had 12 branch offices. In 2004, TPI has been approved by the CIRC to set up branches in Hunan, Qingdao and Chongqing. In addition to these new branches, TPI plans to establish another two or three new branches. TPI also increased its business breadth in 2004 by investing RMB24 million (equivalent to approximately HK\$23 million) into TPP. The equity interest to be held by TPI will be 12%.

In its core general insurance business, TPI continued to refine its product offerings with an emphasis on lowering costs and increasing profitability. TPI's major product lines are as follows:

*Motor vehicle insurance.* TPI has further divided its motor vehicle insurance markets into different insurance classes and different regions in order to allow management to implement appropriate controls. TPI has been focusing on improving claims administration, particularly for its motor vehicle policies, in order to reduce its claims ratios and to improve underwriting results.

*Non-marine insurance.* TPI has focused its non-marine insurance business development on promoting profitable product lines, such as accident insurance and health insurance. While the house mortgage insurance business is expected to be regulated, TPI will continue to promote different kinds of professional liability insurance, such as medical liability insurance, accountants liability insurance and valuation liability insurance.

*Marine insurance.* TPI remains focused on expanding its marine cargo insurance business.

*Intermediary business.* TPI intends to strengthen and diversify its distribution channels. Concurrently with developing the bank channel and the use of other intermediary agencies, TPI will pursue cross-selling opportunities with other financial intermediaries.

## INVESTMENT PORTFOLIO AND INVESTMENT INCOME

The total investment portfolio held as at 30 June 2004 amounted to HK\$11,184 million, which represented 84.0% of the total assets of the Group. The composition of the investment portfolio was as follows:

	<b>At 30 June 2004</b>	<b>% of Total</b>	At 31 December 2003	% of Total
	<b>HK\$million</b>		HK\$million	
Bonds & fixed income securities	<b>6,968</b>	<b>62.3</b>	5,758	61.0
Cash & bank deposits	<b>2,294</b>	<b>20.5</b>	2,393	25.3
Listed equities	<b>785</b>	<b>7.0</b>	521	5.5
Listed mutual funds and unit trusts	<b>827</b>	<b>7.4</b>	348	3.7
Securities purchased under resale agreements	<b>18</b>	<b>0.2</b>	148	1.6
Investment properties	<b>117</b>	<b>1.0</b>	105	1.1
Interest in associates	<b>135</b>	<b>1.2</b>	128	1.4
Unlisted equities	<b>12</b>	<b>0.1</b>	11	0.1
Loan	<b>28</b>	<b>0.3</b>	29	0.3
Total	<b><u>11,184</u></b>	<b><u>100.0</u></b>	<u>9,441</u>	<u>100.0</u>

## By business segment as at 30 June 2004

	<b>Reinsurance</b>	<b>Life insurance</b>	<b>Asset management</b>	<b>Insurance intermediaries</b>	<b>Unallocated</b>	<b>Total</b>
	HK\$million	HK\$million	HK\$million	HK\$million	HK\$million	HK\$million
Bonds & fixed income securities	1,615	4,584	147	9	613	6,968
Cash & bank deposits	*604	**979	17	21	673	2,294
Listed equities	335	—	78	14	358	785
Listed mutual funds and unit trusts	12	815	—	—	—	827
Securities purchased under resale agreements	—	18	—	—	—	18
Investment properties	117	—	—	—	—	117
Interest in associates	—	—	—	7	128	135
Unlisted equities	12	—	—	—	—	12
Loan	22	6	—	—	—	28
<b>Total</b>	<b>2,717</b>	<b>6,402</b>	<b>242</b>	<b>51</b>	<b>1,772</b>	<b>11,184</b>

During the Period, total investment income (being the sum of other revenue and other net income) amounted to HK\$146.55 million (2003: HK\$149.85 million), a decrease of 2.2% from Last Period. The conservative and 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\$69.90 million (2003: HK\$70.60 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.
- \* \* A subsidiary of the Group has placed \$197.39 million (2003: \$197.01 million) 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.



## LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank deposits as at 30 June 2004 amounted to HK\$2,294,21 million (2003: HK\$2,393.22 million). There was no bank borrowing during the Period except for certain temporary bank overdrafts for insignificant amounts. The interest-bearing notes as at 30 June 2004 amounted to HK\$1,355.46 million (2003: HK\$1,348.58 million). The gearing ratio, which represents interest-bearing notes issued divided by the total assets of the Group, was 10.5% as at 30 June 2004 (2003:12.6%).

## CAPITAL STRUCTURE

During the Period, the Company issued 3,558,000 new shares for cash under the Company's share option scheme. Net proceeds received in aggregate amounted to HK\$6,293,000 (2003: HK\$760,400).

## STAFF AND STAFF REMUNERATION

As at 30 June 2004, the Group had a total of 3,468 employees (2003: 1,300 employees), an increase of 2,168 employees. Total remuneration amounted to HK\$130.90 million (2003: HK\$64.79 million), an increase of 102.0%. 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 for repayment of an amount received to commute a policy of US\$3.00 million (equivalent to approximately HK\$23.40 million) plus interest. The liquidator alleges that the payment was an unfair preference within the meaning of Australian insolvency law. Based on a recently updated legal opinion given by an Australia-based law firm (on information then available to the lawyers), the Directors consider that CIRE's prospects of successfully defending the claim are evenly balanced and no provision has been made.

## EVENTS AFTER THE BALANCE SHEET DATE

### a. Formation of TPP

Subsequent to the balance sheet date, on 9 July 2004, the Company (through its subsidiaries TPL and CIGAML) entered into a conditional shareholders' agreement (the "Shareholders' Agreement") with TPI, Fortis and CIHC to form a new joint stock limited company, named TPP in the PRC. TPP will focus exclusively on the supplementary corporate pension business and other related pension business in the PRC.

The registered capital of TPP shall be RMB200,000,000, of which:

- (a) 60% (being RMB120,000,000) shall be contributed in cash by TPL;
- (b) 14% (being RMB28,000,000) shall be contributed in cash by CIGAML;
- (c) 12% (being RMB24,000,000) shall be contributed in cash by TPI;
- (d) 10% (being RMB20,000,000) shall be contributed in cash by Fortis;
- (e) 4% (being RMB8,000,000) shall be contributed in cash by CIHC.

The percentage shareholding of each of the parties in TPP will be in the same proportion as their respective capital contribution of registered capital in TPP as shown above. Upon its establishment, TPP will become a subsidiary of the Company.

The formation of TPP under the Shareholders' Agreement is subject to, among other things, the approvals of the relevant PRC authorities and of independent shareholders at an EGM. On 25 August 2004, the independent shareholders approved the Shareholders' Agreement at an EGM through an ordinary resolution of the Company. Approval for the establishment of TPP was also obtained from the relevant PRC authorities.

## **b. Increase of Capital Contribution in Huatai**

The equity shareholders of Huatai approved an increase in paid-up capital from RMB23,281,000 to RMB30,000,000, an increase of RMB6,719,000. The additional capital will be contributed by the existing equity shareholders of Huatai by reference to their respective equity interests in Huatai.

The Company has a 25% equity interest in Huatai. The Company's share of the capital contribution will be RMB1,679,750. After taking into account the capitalization of the reserves and the unappropriated profits of Huatai as at 30 June 2004 and the offset of dividend payable to the Company, the net cash contribution payable by the Company will be RMB257,078. The Board approved the capital increase in Huatai and the Company remitted its share of cash contribution to Huatai on 17 August 2004.

## **PROSPECTS**

Upon entering into the windstorm season, a number of typhoons and hurricanes have taken place since July 2004, such as Typhoon Ranim, Chaba and Aeres in Asia and hurricanes Charley and Frances in Florida, U.S.A. and the Caribbean. These typhoons and hurricanes have caused widespread economic damage. However, CIRE is not expected to suffer major losses from these and other catastrophic events based on its current knowledge and also because of the extensive reinsurance protection CIRE already has in place to hedge the potential impact to a tolerable level.

Due to the nature of the reinsurance business written by CIRE, such that the majority of reinsurance business is written in the first half of the year, the new premium income written in the second half of 2004 will be a small proportion of the entire year's total written premium. Because currently there are signs of peaking in reinsurance prices and symptoms of softening in reinsurance market terms and conditions, especially in the property classes of reinsurance, CIRE believes that its underwriting discipline will allow it to maintain profitability even when the reinsurance cycle begins to turn downwards.

TPL and TPI are expected to continue their controlled expansion into the PRC life and general insurance industries, respectively. With the recent initial public offerings of several major PRC insurance players, the overall PRC insurance industry has benefited from an increased focus on profitability, risk management and transparency among all players. The gradual easing of investment restrictions for insurance companies in China will further enhance the profitability of the entire industry. Both TPL and TPI are currently reviewing the recent changes in investment regulations, and will consider making investments into overseas fixed income instruments to improve the overall investment yields of their respective portfolios. Overall, the management of TPL and TPI are highly confident of the long-term prospects of both companies in China. Both TPL and TPI intend to raise additional capital in 2004 — from existing shareholders on a pro rata basis — to continue funding their business initiatives.

The global investment climate is not expected to change substantially during the second half of the year. In the prevailing uncertain investment environments, the Group will re-emphasize its conservative strategy for its investment portfolio. Asset allocation will focus heavily on cash and fixed income instruments. A portion of funds will continue to be invested in equities, but it is expected that any gains in the equity indices this year will likely be modest in nature. The Group's relatively high percentage of cash holdings will serve as a defensive hedge for the entire portfolio, and could also be utilized should attractively valued investment opportunities appear.

## **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 issuance of 3,558,000 shares under the Old Scheme as disclosed in Note 18 to the interim financial report.

## **DIRECTORS' INTERESTS IN SHARES**

As at 30 June 2004, 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**

	<b>Personal interests</b>	<b>Family interests</b>	<b>Corporate interests</b>	<b>Other interests</b>
Beneficial Interests				
Ng Yu Lam, Kenneth	366,000	—	—	—
Lau Siu Mun, Sammy	600,000	—	—	—

## (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 exercise 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.

As at 30 June 2004, 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 2004 was HK\$3.45) 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	—	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	2,200,000	—	HK\$1.11	HK\$1.41	HK\$3.925
	1,100,000	—	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	1,100,000	—	HK\$3.225	HK\$3.235	HK\$3.900
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	850,000	27 September 2000	27 September 2000 to 26 September 2010 *	HK\$1.00	250,000	—	HK\$1.11	HK\$1.40	HK\$3.800
	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	—

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
Zheng Changyang	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	–
Shen Kaping 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	156,000	7 January 2003	7 January 2003 to 6 January 2013	HK\$1.00	–	–	HK\$3.975	HK\$4.085	–
	–	350,000	5 January 2004	5 January 2004 to 4 January 2014	HK\$1.00	–	–	HK\$3.98	HK\$3.975	–
Employees	1,710,000	1,710,000	26 September 2000	26 September 2000 to 27 September 2010 *	HK\$1.00	–	–	HK\$1.11	HK\$1.40	–
	330,000	330,000	12 February 2001	12 February 2001 to 11 February 2011 *	HK\$1.00	–	–	HK\$0.95	HK\$1.33	–
	2,102,000	2,094,000	12 September 2002	12 September 2002 to 22 September 2012 *	HK\$1.00	8,000	–	HK\$3.225	HK\$3.875	HK\$3.875

\* 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 to 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 to 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.

\*\* Resigned as Director on 4 February 2004 due to retirement.

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

The weighted average value per option granted in 2001, 2002, 2003 and 2004 estimated at the date of grant using Black-Scholes pricing model was HK\$0.29, HK\$0.75, HK\$1.02 and HK\$1.93 respectively. The weighted average assumptions used are as follows:

	<b>2004</b>	2003	2002	2001
Risk-free interest rate	<b>0.01%</b>	0.5%	1.0%	2.0%
Expected life (in years)	<b>10</b>	10	10	10
Volatility	<b>20.0%</b>	20.0%	20.0%	20.0%
Expected dividend per share	—	HK\$0.02	HK\$0.03	HK\$0.05

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**

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The Company has been notified of the following interests in the Company's issued shares at 30 June 2004 amounting to 5% or more of the ordinary shares in issue:

	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
CIHC	726,389,705 <i>(note 1)</i>	54.6%
CIHK	726,389,705 <i>(note 2)</i>	54.6%
ICBC	125,964,887 <i>(note 3)</i>	9.5%
ICBC (Asia)	125,964,887	9.5%
Lloyd George Investment Management Ltd	75,842,000 <i>(note 4)</i>	5.7%
JP Morgan Chase & Co.	79,622,000 <i>(note 5)</i>	6.0%



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. 75,842,000 shares were held by Lloyd George Investment Management Ltd as investment manager.
5. 30,770,000 shares were held by JP Morgan Chase & Co. as investment manager, and 48,852,000 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

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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 an emphasis towards Asian countries and 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, in which the core markets of the Group are located, 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 on 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 annuities. 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.



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### **(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 the reinsurer's 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.

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### **(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 the 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 but realistic assumptions on mortality and morbidity rates, return on investment, persistency rates and policy maintenance expenses after reasonable and prudent adjustments for adverse deviations to ensure the adequacy of the reserves on a going concern basis.

### **(v) Foreign currency**

The Group underwrites business originating from many parts of the world. It is potentially subject to currency fluctuations when claims are to be paid. The Group hedges its currency risks 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 risks. Members of the senior management are dedicated to monitoring 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 arise from potential changes in interest rates, foreign exchange rates or equity and commodity prices which may affect the prices of monetary assets taken or held by the Group. The adoption of hold-to-maturity approaches for certain fixed rate securities has provided the Group with steady income. Overall, the composition of the investment portfolio is geared towards stable recurrent income.

## **CORPORATE GOVERNANCE**

The interim financial report for the Period has 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 2004, 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, 14 September 2004

