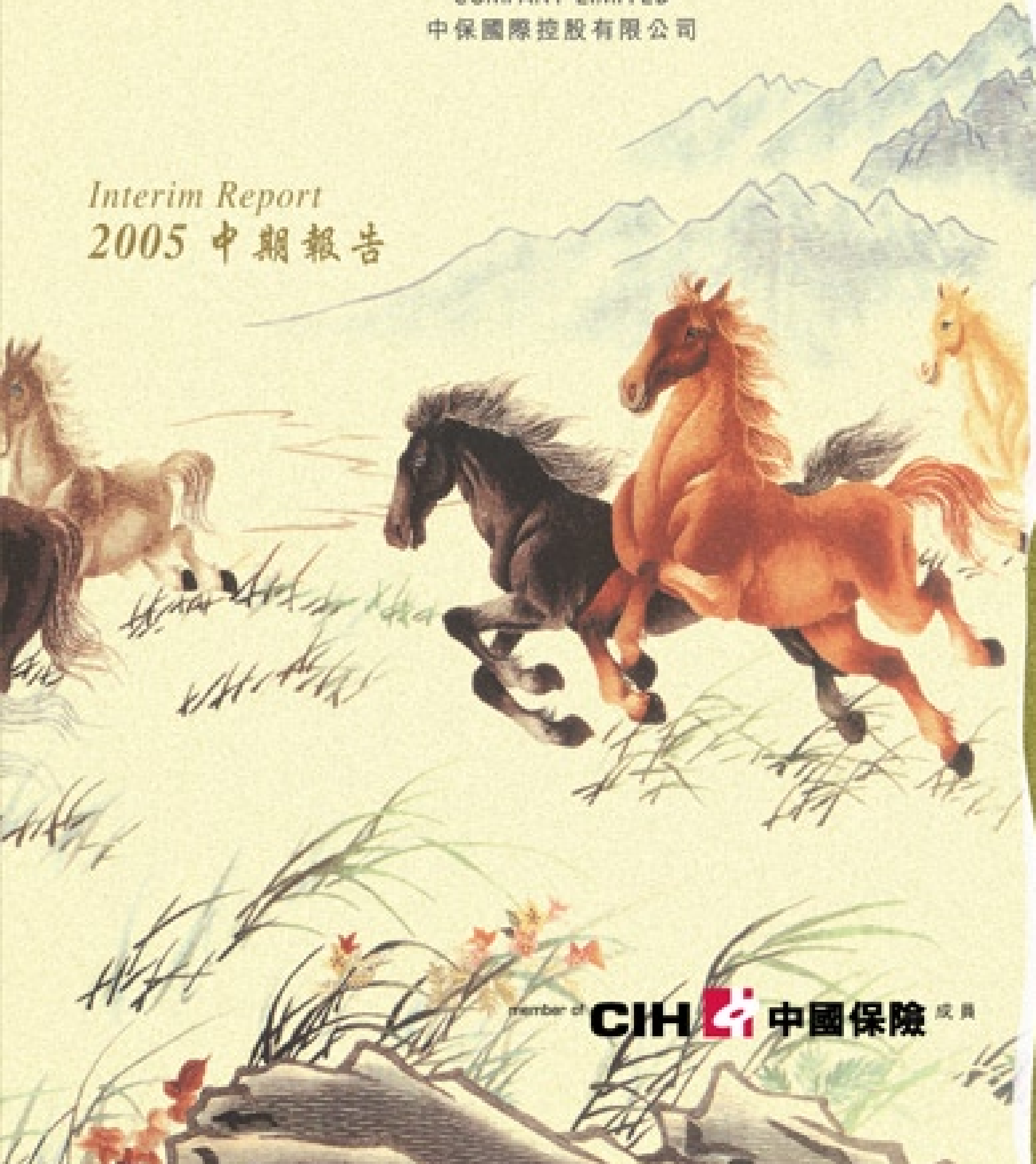
CIIH

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

Interim Report
2005 中期報告



member of CIH 中國保險 成員

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
"CIRe"	China International Reinsurance Company Limited
"Directors"	The directors of the Company, including the independent non-executive directors of the Company
"Golden Win"	Golden Win Development Limited
"HKAS"	Hong Kong Accounting Standard
"HKFRS"	Hong Kong Financial Reporting Standard
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Last Period"	The six months ended 30 June 2004
"ICBC"	The Industrial and Commercial Bank of China
"ICBC (Asia)"	Industrial and Commercial Bank of China (Asia) Limited
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"SFO"	Securities and Futures Ordinance

DEFINITIONS *(continued)*

"Share(s)"	Share(s) of HK$0.05 each in the capital of the Company
"SINO-RE"	SINO-RE Reinsurance Brokers Limited
"the Stock Exchange"	The Stock Exchange of Hong Kong Limited
"the Company" or "CIIH"	China Insurance International Holdings Company Limited
"the Group"	CIIH and its subsidiaries
"the Period"	The six months ended 30 June 2005
"the PRC"	The People's Republic of China
"Toplap"	Toplap Investments Limited
"TPI"	The Tai Ping Insurance Company, Limited
"TPL"	Tai Ping Life Insurance Company, Limited
"the Old Scheme"	Share option scheme of the Company adopted on 24 May 2000 and terminated on 7 January 2003
"the New Scheme"	Share option scheme of the Company adopted on 7 January 2003

The Board of Directors of China Insurance International Holdings Company Limited is pleased to announce the unaudited operating results of the Company and its subsidiaries for the six months ended 30 June 2005 as follows, which should be read in conjunction with the Management Discussion and Analysis set out below:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005 — unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	**2005**	2004
			Restated
		$'000	*$'000*
Turnover	*4*	**3,308,001**	2,983,584
Other revenue			
Investment income and net gain/(loss)	*5(a)*	**210,549**	137,362
Other net income	*5(b)*	**3,640**	2,081
		214,189	139,443
Operating expenses			
Reinsurance premiums		**(180,399)**	(167,906)
Policyholders' benefits	*6*	**(444,154)**	(313,052)
Net commission expenses		**(480,659)**	(329,271)
Administrative and other expenses		**(426,521)**	(243,177)
Goodwill amortisation		**—**	(13,884)
		(1,531,733)	(1,067,290)
Change in insurance reserves, net of reinsurance		**(2,130,926)**	(1,860,559)
(Loss)/profit from operations		**(140,469)**	195,178
Share of losses less profits of associates		**(12,013)**	(15,670)
Finance costs	*7(a)*	**(47,596)**	(42,753)
(Loss)/profit before taxation	*7*	**(200,078)**	136,755
Income tax credit/(charge)	*8*	**71,106**	(13,509)
(Loss)/profit after taxation		**(128,972)**	123,246

CONSOLIDATED INCOME STATEMENT *(continued)*

For the six months ended 30 June 2005 — unaudited

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	**2005**	2004
			Restated
		$'000	*$'000*
Attributable to:			
Equity holders of the Company		**(43,768)**	104,055
Minority interests		**(85,204)**	19,191
		(128,972)	123,246
		cents	*cents*
(Loss)/earnings per share attributable to the equity holders of the Company	*10*		
Basic		**(3.3)**	7.8
Diluted		**(3.3)**	7.8

The notes on pages 10 to 38 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2005 — unaudited

(Expressed in Hong Kong Dollars)

	Note	At 30 June 2005	At 31 December 2004 Restated
		$'000	$'000
Assets			
Fixed assets	11		
— Investment properties		**109,260**	118,895
— Other property, plant and equipment		**431,734**	381,704
		540,994	500,599
Goodwill		**478,185**	478,185
Interest in associates		**344,485**	351,595
Deferred tax assets		**53,732**	72,624
Investments in securities:			
— Held-to-maturity	12(a)	**1,221,037**	8,990,535
— Available-for-sale	12(b)	**10,174,379**	—
— Held-for-trading	12(c)	**3,073,021**	—
— Other investments	12(d)	**—**	2,259,146
Amounts due from group companies		**25,136**	555
Insurance debtors	13	**619,172**	298,811
Reinsurance assets	14	**491,154**	485,516
Other debtors		**466,788**	389,972
Tax recoverable		**4,913**	6,378
Pledged deposits at bank		**58,756**	76,533
Deposits at bank with original maturity more than three months	15	**1,450,669**	1,204,336
Cash and cash equivalents	16	**2,896,684**	2,224,591
		21,899,105	17,339,376

CONSOLIDATED BALANCE SHEET *(continued)*

At 30 June 2005 — unaudited

(Expressed in Hong Kong Dollars)

	Note	At 30 June 2005 $'000	At 31 December 2004 Restated $'000
Liabilities			
Insurance funds		**675,449**	352,225
Life insurance funds		**10,111,296**	8,259,679
Provision for outstanding claims		**2,004,746**	2,010,007
Investment contract liabilities		**1,714,004**	1,245,117
Securities sold under repurchase agreements		**1,998,379**	—
Deferred tax liabilities		**480**	381
Interest-bearing notes		**1,350,888**	1,350,980
Amounts due to group companies		**129,256**	129,479
Insurance creditors	*17*	**155,751**	309,157
Accrued charges and other creditors		**189,406**	245,966
Current taxation		**15,115**	10,344
Insurance protection fund		**4,603**	2,734
		18,349,373	13,916,069
Net assets		**3,549,732**	3,423,307
Capital and reserves attributable to the Company's equity holders			
Share capital	*18*	**66,590**	66,585
Reserves	*19*	**2,638,557**	2,575,875
		2,705,147	2,642,460
Minority interests		**844,585**	780,847
Total equity		**3,549,732**	3,423,307

The notes on pages 10 to 38 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005 — unaudited

(Expressed in Hong Kong dollars)

	Total equity attributable to:		
	Equity holders of the Company *$'000*	Minority interests *$'000*	Total *$'000*
Balance at 1 January 2005, as previously reported as equity holders' interest	2,642,460	—	2,642,460
Balance at 1 January 2005, as previously presented separately as minority interests	—	780,847	780,847
Prior period adjustment arising from changes in accounting policies under HKAS 39 *(note 2(iii))*	(136,290)	(136,017)	(272,307)
Balance at 1 January 2005, as restated	2,506,170	644,830	3,151,000
Exchange differences on translation of the financial statements of a subsidiary outside Hong Kong	264	493	757
Surplus on revaluation of available-for-sale securities, net of deferred tax	242,086	235,774	477,860
Net income recognised directly in equity	242,350	236,267	478,617
Loss for the Period	(43,768)	(85,204)	(128,972)
Total recognised income for the Period	198,582	151,063	349,645
Capital contribution	—	48,692	48,692
Movements in equity holders' equity arising from capital transactions with equity holders:			
— Shares issued under share option scheme	5	—	5
— Net share premium received	106	—	106
Equity settled share-based transactions, net of tax	284	—	284
Balance at 30 June 2005	2,705,147	844,585	3,549,732

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the six months ended 30 June 2005 — unaudited

(Expressed in Hong Kong dollars)

	Total equity attributable to:		
	Equity holders of the Company	Minority interests	Total
	$'000	*$'000*	*$'000*
Balance at 1 January 2004, as previously reported as equity holders' interest	2,678,600	—	2,678,600
Balance at 1 January 2004, as previously presented separately as minority interests	—	322,773	322,773
Balance at 1 January 2004, as restated	2,678,600	322,773	3,001,373
Exchange differences on translation of the financial statements of a subsidiary outside Hong Kong	1,083	1,081	2,164
Net income recognised directly in equity	1,083	1,081	2,164
Profit for the Period	104,055	19,191	123,246
Total recognised income for the Period	105,138	20,272	125,410
Movements in equity holders' equity arising from capital transactions with equity holders:			
— Shares issued under share option scheme	178	—	178
— Net share premium received	6,115	—	6,115
Dividends approved during the Period	(15,980)	—	(15,980)
Balance at 30 June 2004	2,774,051	343,045	3,117,096

The notes on pages 10 to 38 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005 — unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2005	2004
	$'000	*$'000*
Net cash from operating activities	**2,448,830**	1,795,811
Net cash used in investing activities	**(3,776,323)**	(2,084,938)
Net cash from/(used in) financing activities	**1,999,586**	(9,688)
Net increase/(decrease) in cash and cash equivalents	**672,093**	(298,815)
Cash and cash equivalents at 1 January	**2,224,591**	1,641,465
Cash and cash equivalents at 30 June	**2,896,684**	1,342,650

The notes on pages 10 to 38 form part of this interim financial report.

NOTES ON THE INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Basis of preparation

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with 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 39.

The interim financial report has been prepared in accordance with the applicable requirements of the Listing Rules, including compliance with HKAS 34 “Interim financial reporting” issued by the HKICPA. It was authorised for issuance on 9 September, 2005.

The financial information relating to the financial year ended 31 December 2004 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 2004 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2005.

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the year ended 31 December 2004 except where the Group has changed certain accounting policies following its adoption of new and revised HKFRSs and HKASs which are effective for accounting periods commencing on or after 1 January 2005. These new HKFRSs and HKASs are expected to be reflected in the 2005 annual financial statements.

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out in note 2 below.

2 Adoption of new HKFRSs

In 2005, the Group adopted the new HKFRSs below, which are relevant to its operations and have resulted in changes to the Group’s accounting policies that have affected the amounts reported for the current and prior periods. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issuance of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group’s financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

2 Adoption of new HKFRSs *(continued)*

- HKAS 1 Presentation of Financial Statements
- HKAS 17 Leases
- HKAS 27 Consolidated and Separate Financial Statements
- HKAS 32 Financial Instruments: Disclosure and Presentation
- HKAS 36 Impairment of Assets
- HKAS 39 Financial Instruments: Recognition and Measurement
- HKAS 40 Investment Property
- HKFRS 2 Share-Based Payment
- HKFRS 3 Business Combinations
- HKFRS 4 Insurance Contracts

(i) The adoption of HKAS 1 has resulted in a change in the presentation of minority interests. In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit or loss attributable to equity holders.

Following the adoption of HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Minority interests in the results of the Group for the Period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the Period between the minority interests and equity holders of the Company. HKAS 1 requires a retrospective application and therefore comparative information for 2004 is restated in this interim financial report.

The presentation of minority interests in the consolidated balance sheet, the consolidated income statement and the consolidated statement of changes in equity for the comparative period have been restated accordingly.

(ii) The adoption of HKAS 17 has resulted in a change in the accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and impairment loss.

Following the adoption of HKAS 17, a lease of land and building should be split into a lease of the land and a lease of the building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at its inception. The land lease prepayment is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and impairment loss.

Whilst HKAS 17 prescribes the lease accounting for land use rights, it does not provide guidance on how to derive the lease amount when the rights are acquired together with a building erected on the land. Thus, if the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease. This guidance is considered relevant to the Group because the payment for the land use rights and that for the buildings cannot be separately identified, as lump sums were paid to purchase both the land and buildings as a whole. Therefore, no comparative amounts have been restated.

2 Adoption of new HKFRSs *(continued)*

(iii) The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy for the recognition, measurement, derecognition and disclosure of financial instruments.

In prior years, the financial instruments of the Group were classified into either held-to-maturity securities or other investments in accordance with the benchmark treatment under Hong Kong Statement of Standard Accounting Practice 24. Held-to-maturity securities were stated in the consolidated balance sheet at amortised cost less provision for diminution in value and other investments were carried at fair value. The classification depends on the intention for which the investments are initially recognised.

With effect from 1 January 2005, financial instruments are classified into held-to-maturity securities, available-for-sale securities, securities held for trading and loans and receivables in accordance with HKAS 32 and 39.

As a result of the increased categories under which the Group can classify its financial instruments with reference to the new HKAS 32 and 39, certain financial instruments were reclassified as at 1 January 2005. The Group has taken advantage of the transitional provisions of HKAS 39 in respect of redesignation of investments. The Group has reviewed the intention for which the investments were held at 1 January 2005. The review of intention has resulted in certain securities previously classified as held-to-maturity securities being reclassified as available-for-sale securities. Changes in fair value are recognised in the investment revaluation reserve until the investments are sold or impaired. In addition, other investments were reclassified as securities held for trading and securities available-for-sale.

The reclassification of certain financial instruments as available-for-sale securities also gives rise to the recognition of deferred tax liabilities/(assets) on unrealised gains/(losses) of these securities as of the balance sheet date.

There are no changes in the accounting policies for financial liabilities, and they are carried at amortised cost in the current and prior years.

This change was adopted by way of an adjustment to the opening balance of retained earnings as at 1 January 2005 as shown in note 2 (viii). Comparative amounts have not been restated as this is prohibited by the transitional provisions of HKAS 39.

(iv) The adoption of HKAS 40 has resulted in a change in the accounting policy for investment property. In prior years, changes in the value of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

2 Adoption of new HKFRSs *(continued)*

With effect from 1 January 2005, in accordance with HKAS 40, any changes in the value of investment properties are dealt with in the income statement under the fair value model and there should be no investment property revaluation reserve available to offset against revaluation deficits. The new accounting policies have been adopted retrospectively, with the opening balances of retained earnings and the investment property revaluation reserve and the comparative information adjusted for the amounts relating to prior periods.

The change in accounting policy has no effect on the comparative figures as there was no investment properties revaluation reserve as at 31 December 2004.

(v) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. In prior years, the provision of share options to employees did not result in an expense in the income statements. If the employees chose to exercise the options, the nominal amount of the share capital and the share premium were credited only to the extent of the options' exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of the options granted as an expense in the income statement with a corresponding increase in a capital reserve within equity. The fair value is measured at the date of grant and is spread over the period during which the options become vested. If the employee chooses to exercise the options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is directly transferred to retained earnings.

In accordance with the transitional provisions of HKFRS 2, these new recognition and measurement policies have been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested to employees as at 1 January 2005. No prior year adjustment is required as no options were granted during the period from 7 November 2002 to 31 December 2004 which were unvested as at 1 January 2005. Therefore, HKFRS 2 applies only to share options granted on or after 1 January 2005. The amount charged to the income statement for the six months ended 30 June 2005, with the corresponding amount credited to the capital reserve as a result of this new policy, is shown in note 2 (viii).

(vi) The adoption of HKFRS 3 and HKAS 36 has resulted in a change in the accounting policy for goodwill. In prior years, goodwill arising from the acquisition of subsidiaries and associates was amortised in the income statement on a straight-line basis over its estimated useful life.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group ceased the amortisation of goodwill. Such goodwill is tested at each balance sheet date for impairment, as well as when there is an indication of impairment.

The new policy has been applied prospectively in accordance with the transitional provisions of HKFRS 3. As a result, comparative amounts have not been restated, the accumulated amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the Period.

2 Adoption of new HKFRSs *(continued)*

(vii) The adoption of HKFRS 4 has resulted in the reclassification of certain insurance contracts as investment contracts and hence the application of HKAS 39 to these contracts.

Insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. For insurance contracts with or without discretionary participating features ("DPF"), the accounting policy adopted is consistent with that for the prior period, including the recognition of premiums as income.

Some insurance contracts comprise an insurance component and a deposit component. Under HKFRS 4, an insurer is required to unbundle the deposit component if the insurer can measure the deposit component (including any embedded surrender options) separately and its accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component. The Group chose not to unbundle the deposit component of all of its insurance contracts as its accounting policies require it to recognise all obligations and rights arising from the deposit component, though the Group can measure the deposit component separately. The accounting treatment is specifically permitted under HKFRS 4.

Liabilities in respect of insurance contracts are tested for adequacy by discounting the current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in income for the Period.

The Group chose not to unbundle the present value of future profit margins. The accounting treatment is permitted under HKFRS 4.

Investment contracts

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

Investment contracts without DPF, previously classified as insurance contracts, are now classified as investment contracts and are accounted for under HKAS 39. As a result, the life insurance funds related to these investment contracts were reclassified as investment contract liabilities on 1 January 2005. Investment contract liabilities now comprise policyholders' benefits, the premiums received from these contracts and the related investment income generated. Policy administration fees are now recognised as income in the consolidated income statement.

For investment contracts with DPF, an insurer may, but is not required to, recognise the guaranteed element separately from the DPF. However, the Group chose to recognise all proceeds received as policy administration fee income without separating the guaranteed element from the DPF.

2 Adoption of new HKFRSs *(continued)*

In prior years, insurance liabilities are net of reinsurance assets in the balance sheet. In accordance with HKFRS 4, reinsurance assets are separately disclosed in the balance sheet and do not offset against the related insurance liabilities.

The change in policy had no effect on the profit or loss of the Group. Under the transition provisions of HKFRS 4, an entity need not restate the comparative amounts that relates to annual periods before 1 January 2005. However, the Directors consider that the restatement as shown in note 2(viii) and (ix) below will result in a better presentation of the financial statements. Therefore, certain items in the consolidated income statement and the consolidated balance sheet were restated accordingly.

(viii) Effects of changes in the above accounting policies on the consolidated income statement are as follows:

	Effect of adopting					Total effect on adoption of new HKFRSs
	HKAS 1	HKAS 32 & 39	HKFRS 2	HKFRS 3	HKFRS 4	
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
For the six months ended 30 June 2005						
(Decrease)/increase in turnover						
— gross premiums written-life insurance					(497,842)	(497,842)
— policy administration income					11,322	11,322
Decrease in investment income and other net gains		(6,170)			(63,702)	(69,872)
Decrease in reinsurance expenses					1,402	1,402
Decrease in policyholders' benefits					76,276	76,276
Decrease in goodwill amortisation				15,757		15,757
Increase in staff costs			(284)			(284)
Decrease in other expenses					3,076	3,076
Decrease in insurance reserves					469,468	469,468
Total increase/(decrease) in profit	—	(6,170)	(284)	15,757	—	9,303
Increase/(decrease) in basic earnings per share	—	(0.46%)	0.02%	1.18%	—	0.70%
For the six months ended 30 June 2004						
(Decrease)/increase in turnover						
— gross premiums written-life insurance					(396,629)	(396,629)
— policy administration income					5,617	5,617
Decrease in investment income						—
and other net gains					(7,490)	(7,490)
Decrease in policyholders' benefits					65,927	65,927
Increase in other expenses					(2,708)	(2,708)
Decrease in insurance reserves					335,283	335,283
Total increase/(decrease) in profit	—	—	—	—	—	—
Increase/(decrease) in basic earnings per share	—	—	—	—	—	—

2 Adoption of new HKFRSs *(continued)*

(ix) Effects of changes in the above accounting policies on the consolidated balance sheet are as follows:

	Previous accounting policies $'000	Effect of adopting HKAS 1 $'000	HKAS 32 & 39 $'000	HKFRS 2 $'000	HKFRS 3 $'000	HKFRS 4 $'000	Total effect on adoption of new HKFRSs $'000	New accounting policies $'000
At 30 June 2005								
Increase/(decrease) in assets								
Investments in securities								
— held-to-maturity	10,717,817		(9,496,780)				(9,496,780)	1,221,037
— available-for-sale	—		10,174,379				10,174,379	10,174,379
— held-for-trading	—		3,073,021				3,073,021	3,073,021
— other investments	3,455,481		(3,455,481)				(3,455,481)	—
Deferred tax	150,585		(96,853)				(96,853)	53,732
Goodwill	464,301				13,884		13,884	478,185
Goodwill included in interest in associates	100,319				1,873		1,873	102,192
Reinsurance assets	—					491,154	491,154	491,154
Increase/(decrease) in liabilities								
Insurance funds	605,652					69,797	69,797	675,449
Life insurance funds	11,802,351					(1,691,055)	(1,691,055)	10,111,296
Investment contract liabilities	—					1,714,004	1,714,004	1,714,004
Provision for outstanding claims	1,606,338					398,408	398,408	2,004,746
Increase/(decrease) in equity								
— Retained profits	315,408		(130,120)	(284)	15,757		(114,647)	200,761
— Investment revaluation reserve	—		242,086				242,086	242,086
— Employee share-based compensation reserve	—			284			284	284
— Minority interests	(944,342)		99,757				99,757	(844,585)
At 31 December 2004								
Increase/(decrease) in assets								
Reinsurance assets	—					485,516	485,516	485,516
Increase/(decrease) in liabilities								
Insurance funds	312,122					40,103	40,103	352,225
Life insurance funds	9,487,424					(1,227,745)	(1,227,745)	8,259,679
Investment contract liabilities	—					1,245,117	1,245,117	1,245,117
Provision for outstanding claims	1,581,966					428,041	428,041	2,010,007

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.

(a) By business activity:

For the six months ended 30 June 2005

	Reinsurance $'000	Life insurance $'000	Asset management $'000	Insurance intermediary business $'000	Unallocated $'000	Total $'000
Turnover	**999,608**	**2,300,757**	**6,680**	**6,940**	**—**	**3,313,985**
Inter-segment revenue	**—**	**—**	**(4,534)**	**(1,450)**	**—**	**(5,984)**
	999,608	**2,300,757**	**2,146**	**5,490**	**—**	**3,308,001**
Other revenue						
Investment income and net gain	**38,550**	**146,157**	**10,717**	**1,251**	**14,980**	**211,655**
Other net income/(loss)	**3,426**	**(300)**	**—**	**—**	**914**	**4,040**
Inter-segment transactions	**(150)**	**—**	**—**	**—**	**(1,356)**	**(1,506)**
	41,826	**145,857**	**10,717**	**1,251**	**14,538**	**214,189**
Operating expenses						
Reinsurance premiums	**(154,894)**	**(25,505)**	**—**	**—**	**—**	**(180,399)**
Policyholders' benefits	**(284,464)**	**(159,690)**	**—**	**—**	**—**	**(444,154)**
Claims	(257,971)	(52,631)	—	—	—	(310,602)
Surrenders	—	(105,322)	—	—	—	(105,322)
Annuity and maturity payments	—	(1,794)	—	—	—	(1,794)
Policy dividends	—	(2,064)	—	—	—	(2,064)
Change in provision for outstanding claims	(26,493)	2,121	—	—	—	(24,372)
Net commission expenses	**(213,035)**	**(267,624)**	**—**	**—**	**—**	**(480,659)**
Administrative and other expenses	**(19,214)**	**(399,181)**	**(4,343)**	**(2,428)**	**(8,845)**	**(434,011)**
Inter-segment transactions	**5,720**	**—**	**—**	**229**	**1,541**	**7,490**
	(665,887)	**(852,000)**	**(4,343)**	**(2,199)**	**(7,304)**	**(1,531,733)**
Change in insurance reserves, net of reinsurance	**(293,530)**	**(1,837,396)**	**—**	**—**	**—**	**(2,130,926)**
Profit/(loss) from operations	**82,017**	**(242,782)**	**8,520**	**4,542**	**7,234**	**(140,469)**
Share of profits/(losses) of associates	**—**	**—**	**—**	**470**	**(12,483)**	**(12,013)**
Finance costs	**—**	**(4,763)**	**(2,885)**	**—**	**(39,948)**	**(47,596)**
Profit/(loss) before taxation	**82,017**	**(247,545)**	**5,635**	**5,012**	**(45,197)**	**(200,078)**
Income tax (charge)/credit	**(5,262)**	**78,467**	**(1,431)**	**(668)**	**—**	**71,106**
Profit/(loss) after taxation	**76,755**	**(169,078)**	**4,204**	**4,344**	**(45,197)**	**(128,972)**
Minority interests	**—**	**85,204**	**—**	**—**	**—**	**85,204**
Profit/(loss) attributable to equity holders	**76,755**	**(83,874)**	**4,204**	**4,344**	**(45,197)**	**(43,768)**
Net premium earned	**551,184**	**2,154,855**	**—**	**—**	**—**	**2,706,039**
Underwriting profit/(loss)	**47,175**	**(203,930)**	**—**	**—**	**—**	**(156,755)**

3 Segment reporting *(continued)*

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

As at 30 June 2005

	Reinsurance	Life insurance	Asset management	Insurance intermediary business	Unallocated	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Equity investments, unit trusts and mutual funds	359,345	1,969,393	54,125	14,050	190,521	2,587,434
Debt investments	1,545,942	9,812,128	144,377	9,557	368,999	11,881,003
Other segment assets	2,231,633	4,139,374	479,010	19,988	216,178	7,086,183
Interest in associates	128	4,695	—	8,484	331,178	344,485
Total assets	4,137,048	15,925,590	677,512	52,079	1,106,876	21,899,105
Total liabilities	(2,743,676)	(14,102,642)	(129,264)	(1,178)	(1,372,613)	(18,349,373)

3 Segment reporting *(continued)*

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

For the six months ended 30 June 2004 (Restated)

	Reinsurance $'000	Life insurance $'000	Asset management $'000	Insurance intermediary business $'000	Unallocated $'000	Total $'000
Turnover	961,636	1,993,700	24,227	7,755	—	2,987,318
Inter-segment revenue	—	—	(2,553)	(1,181)	—	(3,734)
	961,636	1,993,700	21,674	6,574	—	2,983,584
Other revenue						
Investment income and net gain	58,496	40,109	12,646	301	28,783	140,335
Other net income/(loss)	86	2,219	(50)	(22)	(2)	2,231
Inter-segment transactions	(150)	—	—	—	(2,973)	(3,123)
	58,432	42,328	12,596	279	25,808	139,443
Operating expenses						
Reinsurance premiums	(154,307)	(13,599)	—	—	—	(167,906)
Policyholders' benefits	(244,496)	(68,556)	—	—	—	(313,052)
Claims	(212,931)	(23,206)	—	—	—	(236,137)
Surrenders	—	(44,372)	—	—	—	(44,372)
Annuity and maturity payments	—	(212)	—	—	—	(212)
Policy dividends	—	(531)	—	—	—	(531)
Change in provision for outstanding claims	(31,565)	(235)	—	—	—	(31,800)
Net commission expenses	(197,819)	(131,452)	—	—	—	(329,271)
Administrative and other expenses	(16,304)	(215,463)	(3,787)	(2,069)	(12,411)	(250,034)
Goodwill amortisation	—	(4,648)	(9,236)	—	—	(13,884)
Inter-segment transactions	1,834	—	—	150	4,873	6,857
	(611,092)	(433,718)	(13,023)	(1,919)	(7,538)	(1,067,290)
Change in insurance reserves, net of reinsurance	(292,793)	(1,567,766)	—	—	—	(1,860,559)
Profit from operations	116,183	34,544	21,247	4,934	18,270	195,178
Share of profits/(losses) of associates	—	—	—	113	(15,783)	(15,670)
Finance costs	—	(959)	(1,885)	—	(39,909)	(42,753)
Profit/(loss) before taxation	116,183	33,585	19,362	5,047	(37,422)	136,755
Income tax charge	(8,639)	—	(4,128)	(742)	—	(13,509)
Profit/(loss) after taxation	107,544	33,585	15,234	4,305	(37,422)	123,246
Minority interests	—	(19,191)	—	—	—	(19,191)
Profit/(loss) attributable to equity holders	107,544	14,394	15,234	4,305	(37,422)	104,055
Net premium earned	514,536	2,352,548	—	—	—	2,867,084
Underwriting profit	65,279	94,265	—	—	—	159,544

3 Segment reporting *(continued)*

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

As at 31 December 2004 (Restated)

	Reinsurance $'000	Life insurance $'000	Asset management $'000	Insurance intermediary business $'000	Unallocated $'000	Total $'000
Equity investments, unit trusts and mutual funds	296,673	894,173	48,426	9,059	218,493	1,466,824
Debt investments	1,497,872	7,647,223	257,338	9,634	370,790	9,782,857
Other segment assets	2,008,952	3,154,511	408,915	24,337	141,385	5,738,100
Interest in associates	—	—	—	8,014	343,581	351,595
Total assets	3,803,497	11,695,907	714,679	51,044	1,074,249	17,339,376
Total liabilities	(2,428,837)	(9,979,132)	(130,856)	(1,628)	(1,375,616)	(13,916,069)

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 2005

	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	**269,450**	**2,473,578**	**74,822**	**281,985**	**165,988**	**42,178**	**3,308,001**

For the six months ended 30 June 2004 (Restated)

	Hong Kong and Macau $'000	PRC (other than Hong Kong and Macau) $'000	Japan $'000	Rest of Asia $'000	Europe $'000	Rest of the world $'000	Total $'000
Revenue from external customers	302,858	2,144,170	69,073	268,708	153,009	45,766	2,983,584

4 Turnover

The principal activities of the Group are the underwriting of non-life reinsurance and life insurance business. The Group also carries on asset management business, insurance intermediary business and, to support its reinsurance and life insurance activities, holds securities, money market investments and property investments.

Turnover represents gross premiums written and income from asset management, policy administration and insurance intermediary businesses. The amount of each significant category of revenue recognised in the turnover during the Period is as follows:

	Six months ended 30 June	
	2005	2004
		Restated
	$'000	*$'000*
Gross premiums written		
Reinsurance business	**999,608**	961,636
Life insurance business	**2,289,434**	1,988,083
	3,289,042	2,949,719
Income from policy administration business	**11,323**	5,617
Income from asset management business	**2,146**	21,674
Income from insurance intermediary business	**5,490**	6,574
	3,308,001	2,983,584

5 Other revenue

(a) Investment income and net gain/(loss)

	Six months ended 30 June	
	2005	2004
		Restated
	$'000	*$'000*
Investment income		
Dividend income from listed securities	**20,673**	26,888
Dividend income from unlisted securities	**916**	212
Interest income from listed securities	**149,032**	105,815
Interest income from unlisted securities	**27,999**	26,207
Other interest income	**46,244**	20,534
Rentals receivable from operating leases	**1,923**	2,295
	246,787	181,951
Net gain/(loss)		
Net realised and unrealised gains/(losses) on listed securities	**9,464**	(55,482)
Net realised and unrealised losses on unlisted securities	**(12,800)**	(5,202)
Net exchange losses	**(46,711)**	(566)
Surplus on revaluation of investment properties	**13,365**	11,952
Write back of provision for diminution in value of listed securities	**—**	4,709
Write back of provision for diminution in value of unlisted securities	**444**	—
	(36,238)	(44,589)
Total	**210,549**	137,362

(b) Other net income

	Six months ended 30 June	
	2005	2004
		Restated
	$'000	*$'000*
Net loss on sale of fixed assets	**(36)**	(8)
Provision for bad and doubtful debts	**(342)**	(919)
Others	**4,018**	3,008
	3,640	2,081

6 Policyholders' benefits

	Six months ended 30 June	
	2005	2004
		Restated
	$'000	*$'000*
Claims	**310,602**	236,137
Surrenders	**105,322**	44,372
Annuity and maturity payments	**1,794**	212
Policy dividends	**2,064**	531
Change in provision for outstanding claims	**24,372**	31,800
	444,154	313,052

7 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2005	2004
		Restated
	$'000	*$'000*
(a) Finance costs:		
Interest on interest-bearing notes	**39,948**	39,909
Interest on other loans	**7,648**	2,844
	47,596	42,753
(b) Staff costs:		
Salaries, wages and other benefits	**197,522**	122,902
Contributions to defined contribution plan	**27,581**	8,001
	225,103	130,903
(c) Other items:		
Amortisation of goodwill		
— subsidiaries	**—**	13,884
— associate	**—**	1,873
Auditors' remuneration	**441**	450
Depreciation	**17,514**	12,547
Operating lease charges in respect of properties	**38,077**	29,328

8 Income tax (credit)/charge

Income tax (credit)/charge in the consolidated income statement represents:

	Six months ended 30 June	
	2005	2004
		Restated
	$'000	*$'000*
Current tax — Provision for Hong Kong Profits Tax	**7,091**	12,746
Current tax — Outside Hong Kong	**—**	506
Deferred taxation *(note)*	**(78,197)**	257
Total income tax (credit)/charge	**(71,106)**	13,509

Note: Deferred taxation mainly represents deferred tax assets recognised in respect of tax losses incurred by a subsidiary of the Group outside Hong Kong during the Period.

The provision for Hong Kong Profits Tax represents the Group's estimated Profits Tax liability calculated at the standard tax rate of 17.5% (2004: 17.5%) on its assessable profits from reinsurance, asset management and insurance intermediary businesses except for its assessable profits from the business of reinsurance of offshore risks, which is calculated at 8.75% (2004: 8.75%), one-half of the standard tax rate.

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

The Group also has unrecognised deferred tax assets of $73,016,000 (2004: $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 utilised in the foreseeable future.

9 Dividends

Dividends attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2005	2004
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the interim period of nil (2004: 1.2 cents) per share	—	15,980

10 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company of $43,768,000 (2004: profit of $104,055,000) and the weighted average of 1,331,776,925 ordinary shares (2004: 1,330,930,592 shares) in issue during the Period.

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the loss attributable to equity holders of the Company of $43,768,000 (2004: profit of $104,055,000) and the weighted average number of 1,339,769,387 ordinary shares (2004: 1,341,503,081 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

(c) Reconciliations

	No. of shares At 30 June	
	2005	2004
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	**1,331,776,925**	1,330,930,592
Deemed issue of ordinary shares for no consideration	**7,992,462**	10,572,489
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	**1,339,769,387**	1,341,503,081

11 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 $109,030,000 (2004: $85,737,000).

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

	At 30 June 2005 **$'000**	At 31 December 2004 $'000
Within 1 year	**3,128**	3,135
After 1 but within 5 years	**1,281**	1,630
	4,409	4,765

12 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
(a) Held-to-maturity						
At 30 June 2005						
Debt securities						
— Listed outside Hong Kong	**52,223**	**126,613**	**267,032**	**429,547**	**11,154**	**886,569**
— Unlisted	**67,902**	**7,592**	**124,223**	**134,751**	**—**	**334,468**
	120,125	**134,205**	**391,255**	**564,298**	**11,154**	**1,221,037**
Market value of listed securities	**57,944**	**133,561**	**278,074**	**456,551**	**11,045**	**937,175**
At 31 December 2004						
Debt securities						
— Listed outside Hong Kong	4,844,946	134,294	1,658,761	1,816,293	26,830	8,481,124
— Unlisted	74,941	7,576	79,059	347,835	—	509,411
	4,919,887	141,870	1,737,820	2,164,128	26,830	8,990,535
Market value of listed securities	4,675,727	143,034	1,663,321	1,625,718	26,731	8,134,531

12 Investments in securities *(continued)*

The held-to-maturity debt securities include an amount of $216,330,000 (31 December 2004: $127,620,000) which is maturing within one year.

Following the adoption of HKAS 39 (note 2(iii)), held-to-maturity securities with an amortised cost of $7,893,331,000 at 31 December 2004 were redesignated as available-for-sale securities on 1 January 2005. These changes resulted in the decrease of $272,307,000 in the opening balance of retained earnings as at 1 January 2005. There was no such redesignation in 2004 as retrospective application of HKAS 39 is not permitted.

During the Period, held-to-maturity securities with an amortised cost of nil (31 December 2004: $553,724,000) and nil (31 December 2004: $364,889,000) were disposed of and reclassified as other investments respectively as a result of the review of the Group's investment strategy and the Group's assets and liabilities matching.

		Central governments and central banks	Public sector entities	Banks and other financial institutions	Corporate entities	Others	Total
		$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
(b)	**Available-for-sale**						
	At 30 June 2005						
	Listed debt securities						
	outside Hong Kong	5,947,920	7,663	1,447,104	2,534,034	42,971	9,979,692
	Listed equity securities						
	— in Hong Kong	—	7,641	37,417	63,239	—	108,297
	— outside Hong Kong	—	—	6,845	1,943	—	8,788
	Listed unit trusts and mutual funds						
	outside Hong Kong	—	—	—	12,100	—	12,100
	Unlisted debt securities	7,676	—	23,357	23,377	—	54,410
	Unlisted equity securities	—	—	—	11,092	—	11,092
		5,955,596	15,304	1,514,723	2,645,785	42,971	10,174,379
	Market value of listed securities	5,947,920	15,304	1,491,366	2,611,316	42,971	10,108,877
	At 31 December 2004	—	—	—	—	—	—
(c)	**Held-for-trading**						
	At 30 June 2005						
	Listed debt securities						
	outside Hong Kong	—	—	66,824	160,847	—	227,671
	Listed equity securities						
	— in Hong Kong	—	2,292	38,488	283,329	397	324,506
	— outside Hong Kong	—	—	65,016	87,969	273	153,258
	Listed unit trusts and mutual funds						
	outside Hong Kong	—	—	—	—	1,969,393	1,969,393
	Unlisted debt securities	—	—	398,193	—	—	398,193
		—	2,292	568,521	532,145	1,970,063	3,073,021
	Market value of listed securities	—	2,292	170,328	532,145	1,970,063	2,674,828
	At 31 December 2004	—	—	—	—	—	—

12 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*
(d) Other investments						
At 30 June 2005	**—**	**—**	**—**	**—**	**—**	**—**
At 31 December 2004						
Listed debt securities outside Hong Kong	3,236	—	107,310	146,389	23,728	280,663
Listed equity securities						
— in Hong Kong	6,840	1,701	42,697	315,518	4,296	371,052
— outside Hong Kong	—	—	39,972	138,111	—	178,083
Listed unit trusts and mutual funds outside Hong Kong	—	—	—	12,273	894,173	906,446
Unlisted debt securities	—	—	434,544	77,115	—	511,659
Unlisted equity securities	—	—	—	11,243	—	11,243
	10,076	1,701	624,523	700,649	922,197	2,259,146
Market value of listed securities	10,076	1,701	189,979	612,291	922,197	1,736,244

All investments previously reported as other investments were redesignated as securities held-for-trading and securities available-for-sale on 1 January 2005.

13 Insurance debtors

	At 30 June 2005 ***$'000***	At 31 December 2004 *$'000*
Amounts due from insurance customers and suppliers	**530,050**	210,281
Deposits retained by cedants	**89,122**	88,530
	619,172	298,811

All of the insurance debtors are expected to be recovered within one year.

Amounts due from insurance customers and suppliers include amounts due from fellow subsidiaries of $10,652,000 (31 December 2004: $4,815,000) which are trade related in nature.

13 Insurance debtors *(continued)*

The following is an ageing analysis of amounts due from insurance customers and suppliers (net of impairment):

	At 30 June 2005 **$'000**	At 31 December 2004 $'000
Not yet due	**402,662**	135,057
Current	**102,291**	51,191
More than 3 months but less than 12 months	**20,583**	18,657
More than 12 months	**4,514**	5,376
	530,050	210,281

14 Reinsurance assets

Reinsurance assets represent the reinsurers' share of insurance reserves including provision for outstanding claims that arise on life insurance and life and non-life reinsurance business.

	At 30 June 2005 **$'000**	At 31 December 2004 *Restated* $'000
Insurance funds	**69,797**	40,103
Life insurance funds	**22,949**	17,372
Provision for outstanding claims	**398,408**	428,041
	491,154	485,516

15 Deposits at bank with original maturity more than three months

A subsidiary of the Group has placed $445,832,000 (2004: $437,947,000) 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.

16 Cash and cash equivalents

	At 30 June 2005 $'000	At 31 December 2004 Restated $'000
Deposits with banks and other financial institutions with original maturity less than three months	**2,681,638**	2,024,790
Cash at bank and in hand	**215,046**	199,801
	2,896,684	2,224,591

17 Insurance creditors

	At 30 June 2005 $'000	At 31 December 2004 $'000
Amounts due to insurance customers and suppliers	**58,290**	72,352
Amounts due to insurance intermediaries	**11,180**	9,373
Deposits retained from retrocessionaires	**25,145**	25,445
Prepaid premiums received	**61,136**	201,987
	155,751	309,157

All of the insurance creditors are expected to be settled within one year.

Amounts due to insurance customers and suppliers include amounts due to fellow subsidiaries of $418,000 (31 December 2004: $1,703,000) which are trade related in nature.

The following is an ageing analysis of amounts due to insurance customers and suppliers:

	At 30 June 2005 $'000	At 31 December 2004 $'000
Current	**41,204**	54,390
More than 3 months but less than 12 months	**13,526**	9,754
More than 12 months	**3,560**	8,208
	58,290	72,352

18 Share capital

	At 30 June 2005		At 31 December 2004	
	No. of shares		No. of shares	
	'000	***$'000***	*'000*	*$'000*
Authorised:				
Ordinary shares of $0.05 each	**2,000,000**	**100,000**	2,000,000	100,000
Issued and fully paid:				
At 1 January	**1,331,694**	**66,585**	1,328,134	66,407
Shares issued under share option scheme	**100**	**5**	3,560	178
	1,331,794	**66,590**	1,331,694	66,585

Share option scheme

During the Period, options were exercised to subscribe for 100,000 ordinary shares of the Company at a total consideration of $111,000 of which $5,000 was credited to share capital and the remaining balance of $106,000 was credited to the share premium account. At 30 June 2005, the outstanding options under the Old Scheme and the New Scheme were as follows:

Date granted	**Exercise period**	**Exercise price** *$*	**Number of options outstanding at the Period end**
25 September 2000 to 9 October 2000	25 September 2000 to 8 October 2010	1.110	10,670,000
9 February 2001 to 17 February 2001	9 February 2001 to 16 February 2011	0.950	1,630,000
12 September 2002 to 23 September 2002	12 September 2002 to 22 September 2012	3.225	7,392,000
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
27 January 2005	27 January 2005 to 26 January 2015	3.200	350,000

19 Reserves

	Capital reserve $'000	Share premium $'000	Exchange reserve $'000	Investment revaluation reserve $'000	Employee share-based compensation reserve $'000	Retained profits $'000	Total $'000
At 1 January 2005							
As originally stated	567,458	1,639,426	(11,828)	—	—	380,819	2,575,875
Opening adjustment for the adoption of HKAS 39 *(note 2(iii))*	—	—	—	—	—	(136,290)	(136,290)
As restated	567,458	1,639,426	(11,828)	—	—	244,529	2,439,585
Shares issued	—	106	—	—	—	—	106
Exchange differences on translation of the financial statements of a subsidiary outside Hong Kong	—	—	264	—	—	—	264
Surplus on revaluation of available-for-sale securities, net of deferred tax	—	—	—	242,086	—	—	242,086
Loss for the Period	—	—	—	—	—	(43,768)	(43,768)
Equity settled share-based transaction *(note (a))*	—	—	—	—	284	—	284
At 30 June 2005	567,458	1,639,532	(11,564)	242,086	284	200,761	2,638,557
At 1 January 2004	567,458	1,633,305	(8,304)	—	—	419,734	2,612,193
Dividends approved in respect of the previous year *(note 9)*	—	—	—	—	—	(15,980)	(15,980)
Shares issued	—	6,121	—	—	—	—	6,121
Exchange differences on translation of the financial statements of a subsidiary outside Hong Kong	—	—	(3,524)	—	—	—	(3,524)
Loss for the year	—	—	—	—	—	(22,935)	(22,935)
At 31 December 2004	567,458	1,639,426	(11,828)	—	—	380,819	2,575,875

Note:

(a) On 1 January 2005, 350,000 share options were granted for a consideration of $1 to an employee of the Company, without vesting conditions, under the share option scheme of the Company. Each option gives the holder the right to subscribe for one ordinary share at $3.20 each of the Company. These share options will be exercisable until 26 January 2015.

In accordance with the transitional provisions, HKFRS 2 has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested to the employees as at 1 January 2005. No options granted during the period from 7 November 2002 to 31 December 2004 were unvested at 1 January 2005. Therefore, HKFRS 2 applies only to share options granted on or after 1 January 2005.

20 Maturity profile

	Repayable on demand $'000	3 months or less $'000	1 year or less but over 3 months $'000	5 years or less but over 1 year $'000	After 5 years $'000	Undated $'000	Total $'000
At 30 June 2005							
Assets							
Deposits at banks and other financial institutions	**415,140**	**2,266,498**	**5,675**	**1,316,294**	**128,700**	**—**	**4,132,307**
Pledged deposits at bank	**—**	**—**	**58,756**	**—**	**—**	**—**	**58,756**
Certificates of deposit (under held-to-maturity)	**—**	**—**	**—**	**9,887**	**10,000**	**—**	**19,887**
Debt securities (under held-to-maturity)	**—**	**15,545**	**200,785**	**482,141**	**502,679**	**—**	**1,201,150**
Debt securities (under available-for-sale)	**15,536**	**—**	**39,816**	**2,136,624**	**7,842,126**	**—**	**10,034,102**
Debt securities (under held-for-trading)	**20,209**	**—**	**115,865**	**367,901**	**29,609**	**92,280**	**625,864**
	450,885	**2,282,043**	**420,897**	**4,312,847**	**8,513,114**	**92,280**	**16,072,066**
At 31 December 2004							
Assets							
Deposits at banks and other financial institutions	1,173,099	851,691	15,780	1,020,361	168,195	—	3,229,126
Pledged deposits at bank	—	—	45,350	31,183	—	—	76,533
Certificates of deposit (under held-to-maturity)	—	—	—	9,843	10,000	—	19,843
Debt securities (under held-to-maturity)	—	607	127,013	1,474,124	7,368,948	—	8,970,692
Debt securities (under other investments)	—	—	115,760	511,936	41,583	123,043	792,322
	1,173,099	852,298	303,903	3,047,447	7,588,726	123,043	13,088,516

21 Commitments

(a) Capital commitments outstanding at 30 June 2005 not provided for in the interim financial report were as follows:

	At 30 June 2005 ***$'000***	At 31 December 2004 *$'000*
Contracted for	**16,343**	48,027

21 Commitments *(continued)*

(b) At 30 June 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2005	At 31 December 2004
	$'000	*$'000*
Within 1 year	**75,993**	60,079
After 1 year but within 5 years	**103,324**	82,235
	179,317	142,314

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.

22 Material related party transactions

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

		Six months ended 30 June	
		2005	2004
	Note	***$'000***	*$'000*
Business ceded by related companies:	*(i)*		
Gross premiums written		**94,599**	124,530
Commission expenses paid		**28,665**	31,927
Business retroceded to related companies:	*(ii)*		
Outward retroceded premiums		**3**	2
Commission income received		**33**	40
Investment management fee and redemption income	*(iii)*	**1,125**	19,513
Securities brokerage fee paid	*(iv)*	**542**	562
Insurance expenses covering business risk	*(v)*	**138**	87
Finance costs paid	*(vi)*	**2,885**	1,885
Rental and management fee paid	*(vii)*	**905**	890

22 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) Certain subsidiaries of the Group retroceded business to and received commission from certain fellow subsidiaries of the Company.

(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) The Company and certain subsidiaries of the Group have 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.

(v) The Company and certain subsidiaries of the Group entered into a number of insurance policies with certain fellow subsidiaries of the Group to cover their business risks in relation to fire, motor vehicle, personal accident, workmen's compensation, electronic equipment and professional indemnity.

(vi) A subsidiary of the Group has borrowed a loan from a fellow subsidiary of the Group which bears interest at LIBOR plus 1.8%. The loan is unsecured and repayable on demand.

(vii) During the Period, the Company and a subsidiary of the Group leased office premises and parking spaces and paid rent and building management fees to certain fellow subsidiaries of the Group.

Apart from the above, on 10 May 2005, a subsidiary of the Group entered into an agreement with a fellow subsidiary of the Group to sell certain properties located in the PRC at net book value as at 31 December 2004, amounted to $23,000,000. This transaction did not result in any gain or loss to the Group. The consideration was arrived at arms length negotiation between the subsidiary and the fellow subsidiary by reference to the value of the properties as at 31 December 2004 valued by an independent firm of surveyors, RHL Appraisal Ltd.

23 Off-balance sheet exposures

At 30 June 2005, the notional amounts of significant derivative transactions entered into by the Group were as follows:

	At 30 June 2005 *$'000*	At 31 December 2004 *$'000*
Exchange rate forward and option contracts	**155,460**	544,025

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.

24 Management of insurance and financial risks

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

(i) Underwriting activities

The Group's reinsurance portfolio is made up of a mix of business spread across different geographic regions and classes, with an emphasis towards property damage, marine cargo and hull and miscellaneous non-marine classes in Asian countries. In addition to diversifying its underwriting portfolio, the Group does not actively seek acceptance of any liability reinsurance business from customers operating outside of the Asia Pacific region, in particular the United States of America. In the Asia Pacific region, where 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 annuity. With regard to the control of quality of the insurance policies underwritten, the Group has formulated strict operational procedures on underwriting and claims settlement to control risks on insurance underwriting.

24 Management of insurance and financial risks *(continued)*

(ii) Reinsurance protection

The Group purchases reinsurance protection in order to increase its underwriting capacity, to diversify its risk exposure and to harmonise its net retention exposure to avoid any significant adverse impact on its financial performance which may be caused by single or multiple catastrophic losses. The reinsurance protections are chosen after careful consideration of the reinsurers' reputation and credit worthiness. In assessing the credit worthiness of reinsurers, the Group takes into account, among other factors, ratings and evaluation performed by recognised credit rating agencies, their claims-paying and underwriting track records, as well as the Group's past transaction experiences with them. The Group also spreads out and diversifies its credit risk by reinsuring with a number of reinsurers 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 analysed on a regular basis. The catastrophic exposure of the Group is protected by means of various reinsurance protection facilities which limit the Group's maximum net retained loss to a tolerable level.

(iv) Reserve adequacy

The Group exercises great care and effort in setting up the reserves for its reinsurance business. The reserves are estimated by the Group, using actuarial methods such as loss development methods and/or the Bornhuetter-Ferguson method. The adequacy of reserves is regularly reviewed.

The computation of the Group's reserves for its life insurance business is in accordance with accounting principles generally accepted in Hong Kong. The determination of annual reserves to be made are based on conservative, but realistic, assumptions on mortality and morbidity rates, returns on investment, persistency rates and policy maintenance expenses after reasonable and prudent adjustments for adverse deviation to ensure adequacy of reserves on a going concern basis.

24 Management of insurance and financial risks *(continued)*

(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 risk by holding deposits in a number of currencies and by premium income generated from underwriting in the relevant foreign currency. The transfer of foreign currency exposure through appropriate reinsurance protection also provides the Group with additional hedging against currency fluctuation risk. Members of senior management are dedicated to monitor the book of foreign currencies held by the Group.

(vi) Investments

The Group's investment policy emphasises 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 involve risks that changes in interest rates, foreign exchange rates or equity and commodity prices will affect the prices of monetary assets taken or held by the Group. The adoption of a held to maturity approach 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.

KPMG

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 38.

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 Hong Kong Accounting Standards 34 "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 Statement 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 group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as 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 2005.

KPMG
Certified Public Accountants
Hong Kong, 9 September 2005

MANAGEMENT DISCUSSION AND ANALYSIS

Consolidated Financial Performance

During the Period, total turnover for the Group was HK$3,308.00 million (2004 restated: HK$2,983.58 million), representing an increase of 10.9% compared with that of Last Period. Profit from operations was a loss of HK$140.47 million (2004: profit of HK$195.18 million). Loss attributable to equity holders of the Group amounted to HK$43.77 million (2004: profit of HK$104.06 million). Basic loss per share was HK3.3 cents (2004: basic earnings per share of HK7.8 cents) and diluted loss per share was HK3.3 cents (2004: diluted earnings per share of HK7.8 cents).

The accounting effects from the adoption of the new accounting standard HKFRSs is summarized in Note 2 of the interim financial report.

The increase in total turnover during the Period was mainly due to the continued stability of reinsurance premium income at CIRe and the continued growth in life insurance premium income in Mainland China at TPL. The fall in profit attributable to the equity holders was primarily due to a one-off adjustment, amounting to HK$94 million, of life reserve estimates in the Last Period. In addition, TPL's life insurance operations and TPI's general insurance operations continued to incur losses for this Period due to their early stage of development.

Operational Review

Reinsurance Underwriting — CIRe

During the Period, CIRe experienced stable gains in its reinsurance underwriting, producing a 4.0% increase in gross premium written to HK$999.61 million (2004: HK$961.64 million). CIRe's net retained premium ratio increased slightly to 84.5% for the Period (2004: 84.0%). However, due to the impact of the European storm "Erwin" in early January 2005, resulting in approximately HK$31.50 million in gross losses, and a large industrial fire loss in Taiwan in May 2005, resulting in about HK$35.30 million in gross losses (CIRe's net retained losses were HK$16.0 million after deducting retrocession recovery), the underwriting result for the Period was a profit of HK$47.18 million, representing a 27.8% decrease from that of Last Period (2004: HK$65.28 million). The South Asia Tsunami claims from December 2004 have further deteriorated and have reached HK$103.50 million in gross losses due to the late incurrence of claims. However, the net retained losses for CIRe from this tragic event is well contained and protected by retrocessions, and remain around HK$25 million. The combined ratio on net retained earned premium for the Period was 91.4%, representing a 4% increase from that of Last Period (2004: 87.7%).

In the core insurance markets where CIRe is active, such as Hong Kong & Macau, Mainland China and most Asian countries and regions, the premium pricing and rates for original insurance policies has been subject to keen competition. However, due to the continued economic growth of most Asian countries, as well as the general increase in risk awareness among the people and corporations of these Asian markets, the demand for various types of insurance coverage has been maintained and has resulted in steady premium income growth by most of CIRe's reinsurance clients. CIRe has adopted a highly selective business strategy to concentrate management time and resources on its core clients and core markets. During the Period, approximately 31% of gross premium written was contributed by CIRe's top ten clients (2004: 30% from top ten clients).

Geographically, Asian markets represented 79.2% of CIRe's total gross premium written for the Period (2004: 79.4%). CIRe has made further progress in its business expansion into Mainland China, where the company has intensified its marketing efforts on a larger number of clients and contacts throughout the country. During the Period, gross premium written in China constituted 17.3% of total gross premium written (2004: 15.5%). CIRe's other key markets were as follows: Hong Kong & Macau 26.2% of total gross premium written; Japan 7.5%; Other Asia 28.2%; Europe 16.6%.

CIRe continues to focus on writing property damage reinsurance, whether for a portfolio of risks or for an individual policy or risk. CIRe as a policy chooses not to get involved in long tail liability reinsurance from markets outside of Asia, and thus has not faced the legacy problems of under-reserving experienced by many of its peers.

During the Period, investment and net gain have decreased by 34.1% to HK$38.55 million for the Period (2004 Restated: HK$58.50 million).

The profit attributable to the Group for the Period was HK$76.76 million, representing a decrease of 28.6% compared to that of Last Period (2004: HK$107.54 million).

Life Insurance Business — TPL

2005 begins TPL's fourth full year of operations. Although still in a relatively early stage of development, TPL has made significant inroads into the PRC life insurance industry. Although the entire life insurance industry continued to expand at a relatively slower pace (13.7%) during the Period compared with growth rates experienced in the past, the more moderate growth was due to a change of focus and priorities amongst the major life insurers in the country. Insurers in China are now more focused on bottom-line profitability, instead of solely emphasizing top-line expansion.

As a result of the adoption of accounting standard HKFRS 4, premium income from investment contracts was not booked as turnover of the Group. The amount involved was HK$497.84 million for the Period (2004: HK$396.63 million). The accounting effects from the adoption of the other accounting standards are summarized in Note 2 of the interim financial report.

During the Period, TPL continued to expand its three major business lines, namely individual life, group life and bancassurance. Premium income reached HK$2,289.43 million in the Period, representing a 15.2% increase over that of Last Period (2004 Restated: HK$1,988.08 million). TPL achieved a market share of over 1.5% in the PRC life insurance industry, ranking sixth among the country's life insurers by total premium as defined under PRC accounting standards. Individual life premium amounted to HK$370.33 million, constituting 16.2% of total premium and representing an increase of 81.3% over that of Last Period (2004: HK$204.25 million). Group life premium amounted to HK$199.01 million, constituting 8.7% of total premium and representing an increase of 32.5% over that of Last Period (2004 Restated: HK$150.26 million). Bancassurance premium amounted to HK$1,720.09 million, constituting 75.1% of total premium and representing an increase of 5.3% over that of Last Period (2004: HK$1,633.57 million). Insurance policies with regular premium payments increased to 22.5% of total premium income, as compared with 9.9% of Last Period. Such higher proportion of regular premium products demonstrates the success of TPL's marketing strategy of developing and promoting long-term individual life policies with recurring premiums through the agency and bancassurance channels.

As of 30 June 2005, TPL's individual life sales agents increased to 16,263 and the number of bancassurance outlets increased to 16,067, representing increases of 53.0% and 36.8%, respectively, from that at the end of 2004. The persistency ratios at 13th month and 25th month were 77.4% and 88.1%, respectively, compared to 82.2% and 89.2%, respectively, for 2004. The number of in-force policies at 30 June 2005 was approximately 857,200 (31 December 2004: 575,900).

TPL's administrative and other expenses for the Period amounted to HK$399.18 million (2004: HK$215.46 million), which represented an increase of 85.3% over that of Last Period. Included in the amount was staff cost of HK$206.38 million (2004: HK$114.41 million) and rental expenses of HK$36.75 million (2004: HK$24.91 million). The increase was mainly due to the opening of new branches and sub-branches during the second half of 2004. As a result, most of the expenses in regards to operating these new branches and sub-branches were booked in the second half of 2004, accordingly. TPL's administrative and other expenses of HK$402.42 million during the second half of 2004, which was higher than that of Last Period, was within expectations.

TPL's net loss for the Period amounted to HK$169.08 million (2004: net profit of HK$38.23 million). The share of net loss attributable to the Group for the Period was a net loss of HK$83.87 million (2004: net profit of HK$13.04 million). The fall in profit attributable to the Group was primarily due to a one-off adjustment, amounting to HK$94 million, of life reserve estimates in the Last Period.

General Insurance — TPI

During the Period, TPI increased its pace of growth, with premium income rising by 52.5% to HK$656.72 million (2004: HK$430.75 million). TPI produced this strong top-line growth through selective underwriting despite the very competitive environment in the general insurance industry. Premium from motor business accounted for 63.5% (2004: 57.0%) of total premium, followed by Non-Marine at 27.4% (2004: 33.9 %) and Marine at 9.1% (2004: 9.1%). TPI's net retained combined ratio on earned premium improved to 111.2% from 128.0% of the Last Period. As a result of the rapid expansion of premium written, the expense ratio has improved to 51.6% from 74.8% of the Last Period. However, net claims to premium earned increased from 53.2% Last Period to 59.6% this Period. The increase of net claims ratio was primarily due to three marine cargo claims which caused the claims ratio of the marine business to increase to 76.8% from 26.9% of the Last Period. There was also a moderate increase of the net claims ratio on non-marine business from 17.6% Last Period to 27.8% this Period. Nevertheless, on the motor business, which accounted for more than half of the premium income, the net claims ratio remained at 64.6%, same as that of the Last Period. TPI recorded a net loss of HK$28.64 million (2004: net loss of HK$46.20 million). The net loss attributable to the Group was HK$11.46 million (2004: net loss of HK$13.88 million).

Asset Management — CIGAML

During the Period, management fee at CIGAML was HK$2.15 million (2004: HK$21.67 million). Interest income derived from investments in debt securities amounted to HK$5.56 million (2004: HK$7.04 million). Assets under the management of CIGAML amounted to HK$5,014.73 million (2004: HK$2,330.30 million). CIGAML's profits attributable to the Group for the Period was HK$4.20 million (2004: HK$15.23 million). The reduction in management fee income was mainly due to larger client withdrawals which took place in the Last Period. As a result of the adoption of accounting standard HKFRS 3, the Group ceased the amortisation of goodwill arising from the acquisition of CIGAML. Such amortisation amounted to HK$9.24 million for the Last Period.

Insurance Intermediary — SINO-RE

SINO-RE's reinsurance brokerage income for the Period decreased by 16.4% to HK$5.49 million (2004: HK$6.57 million), which reflected lower premium volumes of certain major original reinsurance contracts and also better reinsurance premium rates for the clients of SINO-RE in view of the more competitive reinsurance markets.

SINO-RE continues to focus its reinsurance consultancy and reinsurance broking services mainly to insurers domiciled in Hong Kong, Macau and Mainland China. SINO-RE has moved into larger office premises in June 2005, which will enable it to expand its office space and to hire more staff in pushing ahead its business expansion strategy, as well as to strengthen its technical and business support services to its clients and reinsurance partners.

The profit attributable to the Group for the Period was HK$4.34 million, a slight increase compared to that of Last Period (2004: HK$4.31 million). SINO-RE's investment and other net income was higher than that of Last Period, and offset its lower reinsurance brokerage revenue.

Business Outlook

Reinsurance Underwriting — CIRe

The principal business season for CIRe's treaty reinsurance business has traditionally been in January and April of each year, leaving only a few treaty reinsurance clients to be sought after in the second half of the year. During the renewal season of the first half of 2005, CIRe succeeded in securing renewals of existing treaty business from its core clients as well as obtaining new business clients in its core markets at terms and conditions commensurate with the risk involved. On the other hand, the continued competitive pressures on original insurance premium rates and the widening of original insurance coverage and conditions, together with higher policy acquisition costs, indicates that CIRe will face pressure in maintaining its core clients and core market shares, while continuing to adhere to its strict underwriting discipline.

Due to the high proportion of property reinsurance business from Asian markets in its reinsurance portfolio, CIRe is exposed to the risk of natural catastrophes, such as windstorms or flooding, which usually occur in various Asian countries and regions during the Period of July to September, and also to a lesser extent in the Caribbean every year.

It is the long-held policy of CIRe to seek positive results from its underwriting operation and to achieve steady investment income by adopting a cautious and conservative investment strategy. CIRe expects to continue this policy and approach in the months to come.

Life Insurance Business — TPL

During the Period, in accordance with its business plan, TPL has slowed down its establishment of new branches and has focused on maximizing the sales potential of its existing nationwide network. After three years of rapid expansion of its branch network, TPL now has 22 branches in major cities in China, as well as more than 189 sub-branches and marketing centres in different townships throughout the country. TPL has geographic coverage in 13 provinces and the municipalities of Beijing, Shanghai and Tianjin, covering the most wealthy and populous areas of the country. By the end of 2005, another 49 sub-branches and marketing centres will be added to the nationwide network. This will complete the first phase of TPL's network expansion. Such geographic presence provides an important platform and allows TPL to market and service its policyholders and potential clients efficiently and economically.

TPL expects its life insurance business to continue expanding at a rapid pace in the second half of 2005. The entire economy of China is continuing to expand at a healthy rate, and the life insurance industry is likewise developing in a positive manner. TPL will continue to strive for higher market share in this environment and believes that it will be able to do so while improving operating efficiencies, such as improving expense costs per premium unit. The successful launch in late July 2005 of a new Universal Life policy by TPL targeted at banking clients is expected to continue the growth momentum of the bancassurance channel. TPL will also continue its efforts at improving the profitability of its products and overall operations. More resources have been allocated to developing life insurance policies with regular and recurring premiums marketed through the agency and bancassurance channels. Other major initiatives for the second half of 2005 include further improvements in professional development for personnel, product innovation, and sales and marketing.

Tai Ping Pension Company Limited ("TPP"), a new start-up company in which the Company effectively controls 74.0% of the equity interest through its subsidiaries TPL and CIGAML, has formally received permission from the Ministry of Labour & Social Security in early August 2005 to operate as an Approved Trustee and Fund Manager for the supplementary corporate pension business. TPP's establishment is an important milestone paving the way for TPP and CIIH to enter the potentially enormous supplementary corporate pension market that has yet to fully develop in the PRC. TPP has made the necessary preparations and is ready to rapidly expand this new line of business. To fully capitalize on the internal resources and synergies within the Group, an agreement has been reached between TPP and TPL such that the group life sales force and nationwide branch network of TPL will be used as a platform to serve TPP's clients in the corporate pension business.

General Insurance — TPI

TPI's primary objective in the second half of 2005 is to achieve a modest increase in premium volume, while targeting reasonably healthy expense and claims ratios, such that a solid foundation can be established for generating profitability in 2006. Strategically, TPI has established branches in 19 major cities and 110 sub-branches and sales service points throughout China which are capable of providing insurance products and services to the most wealthy and populous provinces of the country. TPI will also focus efforts in promoting its brand name and image for the remainder of 2005.

Asset Management — CIGAML

While continuing to improve on and grow its existing businesses in Hong Kong, CIGAML intends to pursue asset management opportunities in Mainland China. In conjunction with CIHC and TPL, CIGAML is considering the formation and development of asset management entities in the PRC. The asset management industry in Mainland China is still in a nascent stage of development, and holds enormous potential for future growth.

Insurance Intermediary — SINO-RE

Following the office relocation and expansion of staff and capabilities, SINO-RE expects to upgrade its services and support to its core clients, thereby establishing a foundation to increase its business from such existing and core clients. SINO-RE also intends to take advantage of the prevailing and more competitive reinsurance market environment and the fast business growth of its clients in Mainland China. With recent, general improvements in the sentiment in investment markets, SINO-RE expects the favorable investment performance to continue during the remaining months of 2005.

INVESTMENT PORTFOLIO AND INVESTMENT INCOME

The total investment portfolio held as at 30 June 2005 amounted to HK$19,381.39 million, which represented 88.5% of the total assets of the Group. The composition of the investment portfolio was as follows:

	At 30 June 2005 *HK$million*	**% of Total**	At 31 December 2004 *HK$million*	% of Total
Bonds & fixed income securities	**11,881.00**	**61.3**	9,782.86	64.1
Cash & bank deposits	**4,406.11**	**22.7**	3,505.46	23.0
Listed equities	**594.85**	**3.1**	549.13	3.6
Listed mutual funds and unit trusts	**1,981.49**	**10.2**	906.44	5.9
Investment properties	**109.26**	**0.6**	118.90	0.8
Interest in associates	**344.49**	**1.8**	351.60	2.3
Unlisted equities	**11.09**	**0.1**	11.24	0.1
Loan	**53.10**	**0.2**	38.85	0.2
Total	**19,381.39**	**100.0**	15,264.48	100.0

By business segment as at 30 June 2005

	Reinsurance *HK$million*	**Life insurance** *HK$million*	**Asset management** *HK$million*	**Insurance intermediary** *HK$million*	**Unallocated** *HK$million*	**Total** *HK$million*
Bonds & fixed income securities	1,545.94	9,812.13	144.38	9.55	369.00	11,881.00
Cash & bank deposits	*944.28	**3,153.65	146.86	14.85	146.47	4,406.11
Listed equities	336.15	—	54.13	14.05	190.52	594.85
Listed mutual funds and unit trusts	12.10	1,969.39	—	—	—	1,981.49
Investment properties	109.26	—	—	—	—	109.26
Interest in associates	0.13	4.70	—	8.48	331.18	344.49
Unlisted equities	11.09	—	—	—	—	11.09
Loan	24.71	28.39	—	—	—	53.10
Total	2,983.66	14,968.26	345.37	46.93	1,037.17	19,381.39

During the Period, total investment income (other than unrealised gain and loss from available-for-sale securities) amounted to HK$210.55 million (2004 restated: HK$137.36 million), an increase of 53.3% from that of Last Period. The rise was mainly due to increased investments into fixed income securities and improved performance in equity investments. 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$58.76 million (2004: HK$76.53 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 was the deposit registered in favour of the Monetary Authority of Singapore pursuant to section 14A of the Singapore Insurance Act.

** A subsidiary of the Group has placed HK$445.83 million (2004: HK$437.95 million) 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 requirements of statutory solvency requirements or goes into liquidation.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank deposits as at 30 June 2005 amounted to HK$4,406.11 million (2004: HK$3,505.46 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 2005 amounted to HK$1,350.89 million (2004: HK$1,350.98 million). The gearing ratio, which represents interest-bearing notes issued divided by the total assets of the Group, was 6.2% as at 30 June 2005 (2004 restated: 7.79%).

CAPITAL STRUCTURE

During the Period, the Company issued 100,000 new shares (2004: 3,560,000 shares) for cash under the Company's staff share option scheme. Net proceeds received for shares issued for cash in aggregate amounted to HK$111,000 (2004: HK$6,299,000).

STAFF AND STAFF REMUNERATION

As at 30 June 2005, the Group had a total of 5,411 employees (2004: 3,468 employees), an increase of 1,943 employees. Total remuneration amounted to HK$225.10 million (2004: HK$130.90 million), an increase of 72.0%. Bonuses are linked to both the performance of the Group as well as individual performance.

CONTINGENT LIABILITIES

There were no outstanding litigation nor any contingent liabilities as at 30 June 2005.

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

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

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

As at 30 June 2005, the interests or short positions of the directors 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 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:

	Shares				
Name of directors	**Personal interests**	**Family interests**	**Underlying shares pursuant to share options**	**Total interests**	**Percentage of issued share capital** %
Lin Fan	—	—	1,970,000 *(Note)*	1,970,000	0.1
Miao Jianmin	—	—	2,640,000 *(Note)*	2,640,000	0.2
Song Shuguang	—	—	1,100,000 *(Note)*	1,100,000	0.1
Ng Yu Lam, Kenneth	366,000	200,000	2,200,000 *(Note)*	2,766,000	0.2
Dong Ming	—	—	2,300,000 *(Note)*	2,300,000	0.2
Shen Koping, Michael	2,000	—	2,356,000 *(Note)*	2,358,000	0.2
Lau Siu Mun, Sammy	600,000	—	1,550,000 *(Note)*	2,150,000	0.2
Zheng Changyong	—	—	1,500,000 *(Note)*	1,500,000	0.1

Note: These represent interests of options granted to the directors under the Share Option Scheme to acquire 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 Period, 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

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.

At 30 June 2005, 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 2005 was HK$2.875) granted at nominal consideration under the Old Scheme and the New Scheme respectively. Each unit of option gives the holder the right to subscribe for one share.

Directors	No. of options outstanding at the beginning of the Period	No. of options outstanding at the end of the Period	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired in exercise of options during the Period	No. of options changed during the Period	Price per share to be paid on exercise of options	Price of shares for options granted	Price of shares for options exercised
Yang Chao	2,670,000	—	26 September 2000	26 September 2000 to 25 September 2010	HK$1.00	—	*-2,670,000	HK$1.11	—	—
	1,300,000	—	12 September 2002	12 September 2002 to 11 September 2012	HK$1.00	—	*-1,300,000	HK$3.225	—	—
Lin Fan	1,270,000	1,270,000	9 October 2000	9 October 2000 to 8 October 2010	HK$1.00	—	—	HK$1.11	—	—
	700,000	700,000	12 September 2002	12 September 2002 to 11 September 2012	HK$1.00	—	—	HK$3.225	—	—

Directors	No. of options outstanding at the beginning of the Period	No. of options outstanding at the end of the Period	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired in exercise of options during the Period	No. of options changed during the Period	Price per share to be paid on exercise of options	Price of shares for options granted	Price of shares for options exercised
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	—	—
Song Shuguang	200,000	200,000	12 February 2001	12 February 2001 to 11 February 2011	HK$1.00	—	—	HK$0.95	—	—
	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	—	—

Directors	No. of options outstanding at the beginning of the Period	No. of options outstanding at the end of the Period	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired in exercise of options during the Period	No. of options changed during the Period	Price per share to be paid on exercise of options	Price of shares for options granted	Price of shares for options exercised
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	156,000	7 January 2003	7 January 2003 to 6 January 2013	HK$1.00	—	—	HK$3.975	—	—
	350,000	350,000	5 January 2004	5 January 2004 to 4 January 2014	HK$1.00	—	—	HK$3.98	—	—
	—	350,000	27 January 2005	27 January 2005 to 26 January 2015	HK$1.00	—	—	HK$3.20	HK$3.10	—
Lau Siu Mun, Sammy	850,000	850,000	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	440,000	*3,010,000	25 September 2000 to 9 October 2000	25 September 2000 to 8 October 2010	HK$1.00	100,000	+2,670,000	HK$1.11	—	HK$3.175
	130,000	130,000	9 February 2001 to 17 February 2001	9 February 2001 to 16 February 2011	HK$1.00	—	—	HK$0.95	—	—
	492,000	*1,792,000	12 September 2002 to 23 September 2002	12 September 2002 to 22 September 2012	HK$1.00	—	+1,300,000	HK$3.225	—	—

* Mr. Yang Chao resigned as a Director of the Company on 15 June 2005. As he is still a director of one of the subsidiaries of the Group, the share options that he is entitled to, but has not yet been exercised at the end of the Period, have been reclassified and grouped under the Employees category.

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 Period. The price of shares disclosed for the exercise of options is the weighted average closing price quoted on the Stock Exchange immediately before the dates of the options exercised during the Period.

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:

	2005	2004	2003	2002	2001
Weighted average value per option granted	**HK$0.81**	HK$0.94	HK$0.92	HK$0.75	HK$0.29
Risk-free interest rate	**0.01%**	0.01%	0.01%	1.0%	2.0%
Expected life (in years)	**10**	10	10	10	10
Volatility	**20.0%**	20.0%	20.0%	20.0%	20.0%
Expected dividend per share	**—**	—	HK$0.024	HK$0.03	HK$0.05

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. The Company's share options have characteristics significantly different from those of traded options and changes in the subjective input assumptions can materially affect the fair value estimate.

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

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

At 30 June 2005, 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)*	54.5
CIHK	643,425,705 shares as beneficial owner and 82,964,000 shares as interest of controlled corporation	726,389,705 *(Note 2)*	54.5
ICBC	Interest of controlled corporation	125,964,887 *(Note 3)*	9.5
ICBC (Asia)	Beneficial owner	125,964,887	9.5

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.

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 interest or short position in the shares and underlying shares of the Company as at 30 June 2005.

CORPORATE GOVERNANCE

The interim financial report for the Period has been reviewed by the audit committee of the board of directors of the Company.

During the Period, the Company has adopted the code provisions set out in the "Code on Corporate Governance Practices" contained in Appendix 14 to the Listing Rules ("Code Provisions") as the corporate governance practices of the Company.

During the Period, the Company was in compliance with the Code Provisions, with the following exceptions:—

(1) 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; and

(2) The Chairman of the Board had not attended the annual general meeting of the Company held on 28 April 2005. The Chairman will endeavour to attend all future annual general meetings of the Company unless unexpected or special circumstances prevent him from doing so.

The Company has adopted the Model Code set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 to the Listing Rules ("Model Code") as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that during the Period, all Directors have complied with the required standard as set out in the Model Code.

The Company has established a remuneration committee with specific written terms of reference. The duties of the remuneration committee are in line with the Code Provisions.

The terms of reference of the audit committee of the Company have been revised to bring them in line with the Code Provisions.

By order of the Board
FENG Xiaozeng
Chairman

Hong Kong, 9 September 2005

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