

# REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 2000.

## GROUP REORGANISATION

The Company was incorporated in Hong Kong with limited liability on 18 February 2000 under the Hong Kong Companies Ordinance. Pursuant to a reorganisation scheme to rationalise the Group structure in preparation for the listing of the shares of the Company on The Stock Exchange, the Company became the holding company of the Group on 26 May 2000. Details of the Group reorganisation are set out in note 1(b) to the accounts. The Group has been treated as a continuing entity and accordingly, the accompanying combined accounts have been presented on the basis set out in note 1(b) to the accounts.

On 29 June 2000, the dealing in shares of the Company commenced on The Stock Exchange.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are the underwriting of treaty and facultative reinsurance of all classes of general business, including non-marine and marine, and certain classes of long term business. The Group also carries on reinsurance broking and, to support its reinsurance activities, holds security, investments in money market and property investments. An analysis of the turnover and contribution to profit before taxation of the Group by principal activities and geographical area of operations for the year ended 31 December 2000 is as follows:

	<b>Group turnover</b> <i>HK\$</i>	<b>Contribution to profit from operations</b> <i>HK\$</i>
<b>By principal activities:</b>		
Reinsurance business	683,452,557	73,180,019
Brokerage business	7,591,722	5,764,649
	<u>691,044,279</u>	<u>78,944,668</u>
Other group income, net of other expenses		<u>39,869,823</u>
		<u>118,814,491</u>

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## PRINCIPAL ACTIVITIES (Continued)

	<b>Group turnover HK\$</b>
<b>By geographical locations of operations</b>	
Hong Kong and Macau	290,516,522
PRC (other than Hong Kong and Macau)	60,570,473
Japan	57,607,210
Rest of Asia	143,389,321
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Sub-total for Asia	552,083,526
Europe	98,926,310
North America	20,007,215
South America	14,056,142
Australia	4,204,777
Africa	1,766,309
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	<b>691,044,279</b>
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## MAJOR CEDANTS AND RETROCESSIONAIRES

The information in respect of the Group's gross premiums written and outward retrocession premiums attributable to the major cedants and retrocessionaires respectively during the financial year is as follows:

	<b>Percentage of the Group's total</b>	
	<b>Gross premiums written</b>	<b>Outward retrocession premiums</b>
The largest cedant	7.1%	—
Five largest cedant in aggregate	24.9%	—
The largest retrocessionaire	—	6.3%
Five largest retrocessionaires in aggregate	—	24.8%

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## MAJOR CEDANTS AND RETROCESSIONAIRES *(Continued)*

The five largest cedants in aggregate included amounts ceded by certain related parties. The aggregate amount ceded by them represent 16.3% of total gross premiums written. The directors confirm that these cedants are under the common control of China Insurance Company, Limited which is the ultimate holding company of the Company.

Apart from the above, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in these major cedants and retrocessionaires.

## ACCOUNTS

The profit of the Group for the year ended 31 December 2000 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 27 to 79.

The directors have recommended the payment of a final dividend of HK4 cents per ordinary share in respect of the year ended 31 December 2000.

## FIXED ASSETS

Details of the movements in fixed assets are set out in note 12 on the accounts.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 on the accounts. Shares were issued during the year to broaden the capital base of the Company.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the accounts.

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## DISTRIBUTABLE RESERVES

As at 31 December 2000, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$42.4 million. In addition, the Company's share premium account of HK\$282.6 million as at 31 December 2000 may be distributed in the form of fully paid bonus shares.

## DIRECTORS

The directors during the financial year were:

### **Executive directors**

Yang Chao	(appointed on 23 March 2000)
Zhang Xiaoshu	(appointed on 23 March 2000)
Miao Jianmin	(appointed on 23 March 2000)
Ng Yu Lam Kenneth	(appointed on 23 March 2000)
Dong Ming	(appointed on 25 May 2000)
Lau Siu Mun Sammy	(appointed on 23 March 2000)

### **Non-executive directors**

Zheng Changyong	(appointed on 23 March 2000)
Wu Jiesi *	(appointed on 25 May 2000)
Lau Wai Kit *	(appointed on 25 May 2000)

\* *Independent*

In accordance with Articles 92, 96 to 100 of the Company's Articles of Association, Messrs Dong Ming, Zheng Changyong, Wu Jiesi and Lau Wai Kit retire from office and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The biographical details of directors and company secretary are set out in pages 12 to 14.

## DIRECTORS' SERVICE CONTRACTS

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

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

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2000, none of the directors or their associates had any personal, family, corporate or other beneficial interests in the share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), which had been entered in the register kept by the Company pursuant to section 29 of the SDI Ordinance.

As at 31 December 2000, the directors and their associates of the Company had the following personal interests in options to subscribe for shares of the Company (market value per share is HK\$1.14 at the balance sheet date) granted at nominal consideration under a share option scheme of the Company as recorded in the register required under section 29 of the SDI Ordinance. Each option gives the holder the right to subscribe for one share.

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## DIRECTORS' INTERESTS IN SHARES *(Continued)*

	No. of options outstanding at the year end	Date granted	Period during which options exercisable	No. of shares acquired on exercise of options during the year	Price per share to be paid on exercise of options	Market value per share at date of grant of options
Yang Chao	3,000,000	26 September 2000	26 September 2000 to 25 September 2010	—	HK\$1.11	HK\$1.37
Zhang Xiaoshu	2,500,000	28 September 2000	28 September 2000 to 27 September 2010	—	HK\$1.11	HK\$1.41
Miao Jianmin	2,000,000	26 September 2000	26 September 2000 to 25 September 2010	—	HK\$1.11	HK\$1.37
Ng Yu Lam Kenneth	1,800,000	28 September 2000	28 September 2000 to 27 September 2010	—	HK\$1.11	HK\$1.41
Dong Ming	1,500,000	27 September 2000	27 September 2000 to 26 September 2010	—	HK\$1.11	HK\$1.40
Lau Siu Mun Sammy	1,500,000	27 September 2000	27 September 2000 to 26 September 2010	—	HK\$1.11	HK\$1.40
Zheng Changyong	1,200,000	28 September 2000	28 September 2000 to 27 September 2010	—	HK\$1.11	HK\$1.41

No share options were exercised by the directors during the year.

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

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## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2000, according to the register maintained by the Company under section 16(1) of the SDI Ordinance, the shareholders who had or were deemed to have interest in 10% or more of the ordinary shares in issue were as follow:

	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
China Insurance Company, Limited	555,872,000 <i>(note 1)</i>	62.2%
China Insurance H.K. (Holdings) Company Limited	555,872,000 <i>(note 2)</i>	62.2%

Notes:

1. China Insurance (PRC)'s beneficial interest in the Company is held by CIHK and The Ming An Insurance Company (Hong Kong), Limited ("Ming An"), both of which are wholly-owned subsidiaries of China Insurance (PRC).
2. 82,794,000 shares are held by Ming An, a wholly-owned subsidiary of CIHK.

Save as disclosed above, there was no person known to the directors who at 31 December 2000 was directly or indirectly interested in 10% or more of the ordinary shares in issue of the Company.

## DIRECTORS' INTEREST IN CONTRACTS

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

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

During the year ended 31 December 2000, other than the allotment and issue of shares in connection with the Company's Initial Public Offering, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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## CONNECTED TRANSACTIONS

Details of connected transaction under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“The Listing Rules”) are set out in note 30 on the accounts. In the opinion of the independent non-executive directors, these transactions were entered into by the Group:

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

A letter dated 6 April 2001 was received from the auditors of the Company confirming that the connected transactions of the Group received the approval of the Company’s board of directors and have been conducted in the manner as stated in (iii) and (iv) stated above.

## FOUR YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 80 to 81 of the accounts.

## PROPERTIES

Particulars of the Group’s properties held for own use and for investment purposes are set out in note 12 on the accounts.



## RETIREMENT SCHEMES

The Group operates a defined contribution staff provident fund scheme (“The Scheme”) for its employees whereby the Group contributes to The Scheme at a rate ranging from 5.0% to 15.0% of the monthly salary of the eligible employees. The applicable rate of contribution depends on the completed years of service of the respective employees with the Group. The Group has no obligation for the payment of retirement benefits beyond the contributions described above. For any forfeited amount due to resignation prior to vesting of the benefits, the amount will be used to reduce the contributions made in that corresponding financial year.

Contributions to The Scheme are charged to the profit and loss account as and when incurred. Contributions amounted to HK\$1.2 million for the year ended 31 December 2000 (1999: HK\$1.2 million).

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s Articles of Association which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## CODE OF BEST PRACTICE

No director of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, at any time since the Company’s shares were listed on The Stock Exchange on 29 June 2000, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the non-executive directors were not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company’s Annual General Meeting in accordance with the Company’s Articles of Association.

## AUDIT COMMITTEE

In accordance with paragraph 14 of the Code of Best Practice as set out in Appendix 14 to the Listing Rules, the board of directors has established an audit committee on 29 May 2000 comprising two independent non-executive directors and a non-executive director. The audit committee is delegated with the responsibility of reviewing the Company’s financial reporting and internal control systems.

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## USE OF PROCEEDS OF THE SHARE OFFER

On 28 July 2000, the Company used HK\$184.0 million from the proceeds of the share offer to increase the paid-up capital of CIRe and SINO-RE to HK\$780.0 million and HK\$5.0 million respectively. The rest of the proceeds have been kept to increase the working fund of the Company and to acquire high quality bonds to produce steady interest income.

## OVER-ALLOTMENT OPTION

The Global Coordinator of the Company's initial public offering exercised the over-allotment option on 14 July 2000, which resulted in an additional issue of 44,580,000 ordinary shares of the Company at HK\$1.43 per share. The additional shares issued represented approximately 5.0% of the Company's enlarged issued share capital immediately after the share offer and the exercise of the over-allotment option.

## AUDITORS

KPMG were first appointed as auditors of the Company on 29 May 2000.

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

By order of the board

**Zhang Xiaoshu**

*Director*

Hong Kong, 9 April 2001