

# REPORT OF THE DIRECTORS

The directors respectfully submit their annual report together with the audited financial statements for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activity of CIH is investment holding. The principal activities of the Company and its subsidiaries are the underwriting of all classes of reinsurance business and direct life insurance business. Apart from this, the Group also carries on assets management and insurance intermediary businesses and, to support its insurance activities, holds money market, fixed income, equity and property investments. The principal activities and other particulars of the subsidiaries are set out in note 18 of the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and the subsidiaries during the financial year are set out in note 4 of the financial statements.

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

## MAJOR INSURANCE CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Gross premiums written	Outward premiums ceded
The largest insurance customer	0.9%	–
Five largest insurance customers in aggregate	3.0%	–
The largest insurance supplier	–	12.4%
Five largest insurance suppliers in aggregate	–	34.9%

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

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

## FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2005 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 86 to 194.

No interim dividend was declared during the Year (2004: Nil). The directors did not recommend the payment of a final dividend in respect of the year ended 31 December 2005 (2004: Nil).



# REPORT OF THE DIRECTORS

## FIXED ASSETS

Details of the movements in fixed assets are set out in note 16 of the financial statements.

## SHARE CAPITAL

Shares were issued during the Year upon exercise of options under the Company's share option scheme. Details of the movements in share capital of the Company during the Year are set out in note 38 of the financial statements.

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

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

## RESERVES

Details of the movements in reserves of the Company and the Group during the Year are set out in note 39 of the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$22.71 million (2004: HK\$172.93 million). In addition, the Company's share premium account of HK\$1,644.42 million (2004 HK\$1,639.43 million) as at 31 December 2005 may be distributed in the form of fully paid bonus shares.

## DIRECTORS

The directors during the financial year were:

### Executive directors

Feng Xiaozeng (*appointed on 15 June 2005*)

Yang Chao (*resigned on 15 June 2005*)

Lin Fan

Miao Jianmin (*resigned on 4 January 2006*)

Song Shuguang

Xie Yiqun

Ng Yu Lam Kenneth

Dong Ming (*resigned on 15 December 2005*)

Shen Koping Michael

Lau Siu Mun Sammy

### Non-executive directors

Zheng Changyong

Wu Jiesi \*

Che Shujian\*

Lau Wai Kit \*

\* *Independent*



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# REPORT OF THE DIRECTORS

In accordance with Articles 97 and 100 of the Company's articles of association, Messrs. Ng Yu Lam Kenneth, Shen Koping Michael, Lau Siu Mun Sammy and Lau Wai Kit shall retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The proposed appointments will not have any specific term, but will be subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's articles of association.

Subject to the approval of the shareholders at the Company's Annual General Meeting, the emoluments of the directors will be determined by the Remuneration Committee and the Board of Directors of the Company.

The biographical details of the directors, company secretary and financial controller are set out in pages 44 to 49.

## CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmation from each of the Independent Non-Executive Directors as regards to their independence from the Company and considers that each of the Independent Non-Executive Directors is independent from the Company.

## DIRECTORS' SERVICE CONTRACTS

Messrs. Ng Yu Lam Kenneth and Lau Siu Mun Sammy have entered into service contracts with the Company on 29 May 2000 for an initial period of three years commencing from 1 April 2000. Mr. Shen Koping Michael has entered into a service contract with the Company on 23 July 2002 for an initial period of two years commencing from 15 July 2002. The respective contracts shall continue after their respective initial periods 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.



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	—	—	4,470,000	4,470,000	0.3	
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	—	—	4,440,000	4,440,000	0.3	
			-	-		
	—	—	2,600,000	2,600,000	0.2	
			-	-		
	—	—	1,500,000	1,500,000	0.1	
			-	-		
	366,000	600,000	3,200,000	4,166,000	0.3	
			-	-		
	2,000	—	2,956,000	2,958,000	0.2	
			-	-		
	700,000	—	2,050,000	2,750,000	0.2	
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	—	—	2,300,000	2,300,000	0.2	
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# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME

The Company adopted the Old Scheme on 24 May 2000 whereby the directors of the Company were authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board of Directors and would not be less than the nominal value of the shares or 80.0% of the average of the closing prices of the shares on the Stock Exchange for the five business days immediately preceding the date on which an option is offered. The options are exercisable for a period of ten years commencing from the date on which an option is accepted.

No employee shall be granted an option, which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued to him under all options previously granted to him which have been exercised and issuable to him under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25.0% of the aggregate number of shares for the time being issued and issuable under the Old Scheme.

The maximum number of shares in respect of which options may be granted under the Old Scheme may not (when aggregated with shares subject to any other employee share option scheme) exceed in nominal 10.0% of the issued share capital of the Company from time to time, excluding for this purpose any shares which have been duly allotted and issued pursuant to the Old Scheme.

At the extraordinary general meeting of the Company held on 7 January 2003, the shareholders of the Company approved the adoption of the New Scheme and the termination of the Old Scheme. The New Scheme is in line with the prevailing requirements of Chapter 17 of the Listing Rules in relation to share option schemes. All options granted under the Old Scheme shall continue to be valid and exercisable in accordance with the terms of the Old Scheme.

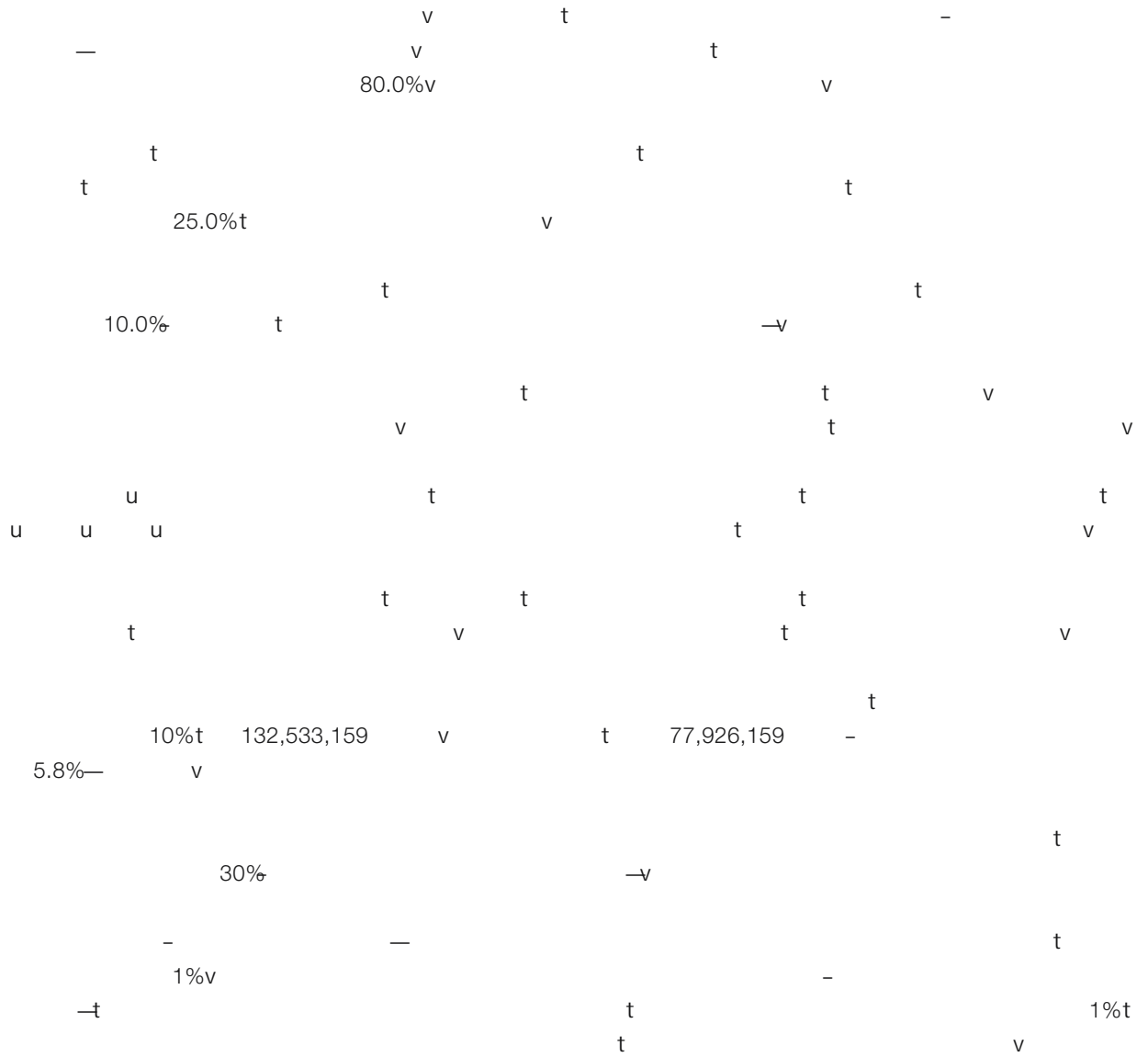
The purpose of the New Scheme is for the Company to attract, retain and motivate participants to strive for future developments and expansion of the Group and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible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

The New Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, after which period no further options will be granted but in respect of all options which remain exercisable at the end of the period, the provisions of the New Scheme shall remain in full force and effect. The remaining life of the New Scheme as at 31 December 2005 was 7 years.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed 10.0% of the total number of Shares in issue as at the Adoption Date, which was 132,533,159 Shares. As at the date of this report, a total of 77,926,159 Shares (representing approximately 5.8% of the issued share capital of the Company as at the date of this annual report) are available for issue.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30.0% of the total number of Shares in issue from time to time (or such higher percentage as may be allowed under the Listing Rules.)

The total number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period up to and including the Grant Date shall not exceed 1.0% of the total number of Shares in issue. Where any further grant of options to a participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant in the 12-month period up to and including the date of such further grant representing in aggregate over 1.0% of the Shares in issue, such further grant must be separately approved by the shareholders of the Company in a general meeting with such participant and his associates abstaining from voting.



# REPORT OF THE DIRECTORS

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

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

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

As of 31 December 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 31 December 2005 was HK\$3.30) 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 year	No. of options outstanding at the end of the year	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired in exercise of options during the year	No of options reclassified during the year	Price per share to be paid on exercise of options	Price of shares for options granted	Price of shares for options exercised
Feng Xiaozeng	–	3,800,000	2 November 2005	23 November 2005 to 22 November 2015	HK\$1.00	–	–	HK\$2.875	HK\$2.800	–
Yang Chao (resigned on 15 June 2005)	2,670,000	–	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	–	*- 2,670,000	HK\$1.110	–	–
	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\$1.110	–	–
	700,000	700,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	–	–	HK\$3.225	–	–
	–	2,500,000	2 November 2005	23 November 2005 to 22 November 2015	HK\$1.00	–	–	HK\$2.875	HK\$2.800	–
Miao Jianmin (resigned on 4 January 2006)	1,740,000	1,740,000	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	–	–	HK\$1.110	–	–
	900,000	900,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	–	–	HK\$3.225	–	–
	–	1,800,000	2 November 2005	23 November 2005 to 22 November 2015	HK\$1.00	–	–	HK\$2.875	HK\$2.800	–



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- 2005 6 15 -		2,670,000	-	2000 9 26	2000 9 26 2010 9 25	1.00	-	*-2,670,000	1.110	-	-
		1,300,000	-	2002 9 12	2002 9 12 2012 9 11	1.00	-	*-1,300,000	3.225	-	-
		1,270,000	1,270,000	2000 10 9	2000 10 9 2010 10 8	1.00	-	-	1.110	-	-
		700,000	700,000	2002 9 12	2002 9 12 2012 9 11	1.00	-	-	3.225	-	-
		-	2,500,000	2005 11 2	2005 11 23 2015 11 22	1.00	-	-	2.875	2.800	-
- 2006 1 4 -		1,740,000	1,740,000	2000 9 26	2000 9 26 2010 9 25	1.00	-	-	1.110	-	-
		900,000	900,000	2002 9 12	2002 9 12 2012 9 11	1.00	-	-	3.225	-	-
		-	1,800,000	2005 11 2	2005 11 23 2015 11 22	1.00	-	-	2.875	2.800	-

# REPORT OF THE DIRECTORS

Directors	No. of options outstanding at the beginning of the year	No. of options outstanding at the end of the year	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired in exercise of options during the year	No of options reclassified during the year	Price per share to be paid on exercise of options	Price of shares for options granted	Price of shares for options exercised
Song Shuguang	200,000	200,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.950	—	—
	900,000	900,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
	—	1,500,000	2 November 2005	23 November 2005 to 22 November 2015	HK\$1.00	—	—	HK\$2.875	HK\$2.800	—
Xie Yiqun	—	1,500,000	2 November 2005	23 November 2005 to 22 November 2015	HK\$1.00	—	—	HK\$2.875	HK\$2.800	—
Ng Yu Lam, Kenneth	1,300,000	1,300,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	—	—	HK\$1.110	—	—
	500,000	500,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.950	—	—
	400,000	400,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
	—	1,000,000	2 November 2005	23 November 2005 to 22 November 2015	HK\$1.00	—	—	HK\$2.875	HK\$2.800	—
Dong Ming (resigned on 15 December 2005)	1,500,000	—	27 September 2000	27 September 2000 to 26 September 2010	HK\$1.00	1,500,000	—	HK\$1.110	—	HK\$3.150
	400,000	—	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	400,000	—	HK\$0.950	—	HK\$3.150
	400,000	400,000	12 September 2002	12 September 2002 ** to 14 January 2006	HK\$1.00	—	—	HK\$3.225	—	—
Shen Koping, Michael	1,500,000	1,500,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
	156,000	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\$3.980	—	—
	350,000	350,000	31 December 2004	27 January 2005 to 26 January 2015	HK\$1.00	—	—	HK\$3.200	—	—
	—	600,000	2 November 2005	23 November 2005 to 22 November 2015	HK\$1.00	—	—	HK\$2.875	HK\$2.800	—
	—	350,000	30 December 2005	3 January 2006 to 2 January 2016	HK\$1.00	—	—	HK\$3.300	HK\$3.300	—

	200,000	200,000	2001 2 12	2001 2 12	1.00	-	-	0.950	-	-
	900,000	900,000	2002 9 12	2011 2 11 2002 9 12	1.00	-	-	3.225	-	-
	-	1,500,000	2005 11 2	2005 11 23 2015 11 22	1.00	-	-	2.875	2.800	-
	-	1,500,000	2005 11 2	2005 11 23 2015 11 22	1.00	-	-	2.875	2.800	-
	1,300,000	1,300,000	2000 9 28	2000 9 28 2010 9 27	1.00	-	-	1.110	-	-
	500,000	500,000	2001 2 12	2001 2 12 2011 2 11	1.00	-	-	0.950	-	-
	400,000	400,000	2002 9 12	2002 9 12 2012 9 11	1.00	-	-	3.225	-	-
	-	1,000,000	2005 11 2	2005 11 23 2015 11 22	1.00	-	-	2.875	2.800	-
- 2005 12 15 -	1,500,000	-	2000 9 27	2000 9 27 2010 9 26	1.00	1,500,000	-	1.110	-	3.150
	400,000	-	2001 2 12	2001 2 12 2011 2 11	1.00	400,000	-	0.950	-	3.150
	400,000	400,000	2002 9 12	2002 9 12 2006 1 14 **	1.00	-	-	3.225	-	-
	1,500,000	1,500,000	2002 9 12	2002 9 12 2012 9 11	1.00	-	-	3.225	-	-
	156,000	156,000	2003 1 7	2003 1 7 2013 1 6	1.00	-	-	3.975	-	-
	350,000	350,000	2004 1 5	2004 1 5 2014 1 4	1.00	-	-	3.980	-	-
	350,000	350,000	2004 12 31	2005 1 27 2015 1 26	1.00	-	-	3.200	-	-
	-	600,000	2005 11 2	2005 11 23 2015 11 22	1.00	-	-	2.875	2.800	-
	-	350,000	2005 12 30	2006 1 3 2016 1 2	1.00	-	-	3.300	3.300	-

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Directors	No. of options outstanding at the beginning of the year	No. of options outstanding at the end of the year	Date granted	Period during which options exercisable	Consideration paid for the Grant	No. of shares acquired in exercise of options during the year	No of options reclassified during the year	Price per share to be paid on exercise of options	Price of shares for options granted	Price of shares for options exercised
Lau Siu Mun, Sammy	850,000	750,000	27 September 2000	27 September 2000 to 26 September 2010	HK\$1.00	100,000	—	HK\$1.110	—	HK\$2.475
	400,000	400,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.950	—	—
	300,000	300,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
	—	600,000	2 November 2005	23 November 2005 to 22 November 2015	HK\$1.00	—	—	HK\$2.875	HK\$2.800	—
Zheng Changyong	1,000,000	1,000,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	—	—	HK\$1.110	—	—
	500,000	500,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	—	—
	—	800,000	2 November 2005	23 November 2005 to 22 November 2015	HK\$1.00	—	—	HK\$2.875	HK\$2.800	—
Employees	440,000	340,000	25 September 2000 to 9 October 2000	25 September 2000 to 8 October 2010	HK\$1.00	2,770,000	+2,670,000	HK\$1.110	—	HK\$2.645
	130,000	130,000	9 February 2001 to 17 February 2001	9 February 2001 to 16 February 2011	HK\$1.00	—	—	HK\$0.950	—	—
	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	—	—
	—	4,350,000	2 November 2005	23 November 2005 to 27 November 2015	HK\$1.00	—	—	HK\$2.875	HK\$2.800	—

\* 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 exercised as of the end of the Year, have been reclassified to be under the Employees category.

\*\* The New Scheme provides that a grantee may exercise the share options that he is entitled to, but has not yet exercised as of the date of his ceasing to be a participant, within the period of one month following the date of such cessation.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(r)(ii) and note 41 to the financial statements.

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



850,000	750,000	2000 9 27	2000 9 27 2010 9 26	1.00	100,000	-	1.110	-	2.475
400,000	400,000	2001 2 12	2001 2 12 2011 2 11	1.00	-	-	0.950	-	-
300,000	300,000	2002 9 12	2002 9 12 2012 9 11	1.00	-	-	3.225	-	-
-	600,000	2005 11 2	2005 11 23 2015 11 22	1.00	-	-	2.875	2.800	-
1,000,000	1,000,000	2000 9 28	2000 9 28 2010 9 27	1.00	-	-	1.110	-	-
500,000	500,000	2002 9 12	2002 9 12 2012 9 11	1.00	-	-	3.225	-	-
-	800,000	2005 11 2	2005 11 23 2015 11 22	1.00	-	-	2.875	2.800	-
440,000	340,000	2000 9 25 2000 10 9	2000 9 25 2010 10 8	1.00	2,770,000	+2,670,000	1.110	-	2.645
130,000	130,000	2001 2 9 2001 2 17	2001 2 9 2011 2 16	1.00	-	-	0.950	-	-
492,000	1,792,000	2002 9 12 2002 9 23	2002 9 12 2012 9 22	1.00	-	+1,300,000	3.225	-	-
-	4,350,000	2005 11 2	2005 11 23 2015 11 27	1.00	-	-	2.875	2.800	-

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# REPORT OF THE DIRECTORS

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

As of 31 December 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)	54.4
CIHK	643,425,705 shares as beneficial owner and 82,964,000 shares as interest of controlled corporation	726,389,705 (Note 2)	54.4
ICBC	Interest of controlled corporation	125,964,887 (Note 3)	9.4
ICBC (Asia)	Beneficial owner	125,964,887	9.4
JP Morgan Chase & Co.	Investment manager	93,447,000	7.0

Notes:

- (1) CIHC's interest in the Company is held by CIHK, Golden Win Development Limited ("Golden Win") and Toplap Investments Limited ("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 interests or short positions in the Shares and underlying Shares of the Company as at 31 December 2005.

## DIRECTORS' INTEREST IN CONTRACTS

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



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# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS

During the Year, the Group entered into various connected transactions with CIHC and its subsidiaries (“CIHC Group”).

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

	Note	2005 HK\$'000	2004 HK\$'000
<b>Recurring transactions</b>			
Business ceded by related companies:	(i)		
– Gross premiums written		<b>125,713</b>	103,980
– Commission expenses paid		<b>31,851</b>	24,383
Business retroceded to related companies:	(ii)		
– Outward retroceded premiums		<b>20</b>	464
– Commission income received		<b>31</b>	121
Securities brokerage fee paid	(iii)	<b>1,126</b>	1,324
Insurance expenses covering business risk	(iv)	<b>164</b>	156
Investment management fee and redemption income	(v)	<b>2,279</b>	4,211
Rental and management fee paid	(vi)	<b>1,929</b>	1,788

Notes:

- (i) *The Ming An Insurance Company (Hong Kong), Limited (“Ming An”), China Insurance Co. (Singapore) Pte. Ltd, China Insurance (Macau) Company Limited, P.T. China Insurance Indonesia and China Insurance Company (U.K.) Limited (“CICUK”), along with the Company, all subsidiaries of CIHC, ceded business to and received commission income from CIRe, a wholly-owned subsidiary of the Company, in the normal course of CIRe’s reinsurance business.*
- (ii) *CIRe retroceded business to and received commission income from China Insurance (Macau) Company Limited, China America Insurance Company Limited, HK Branch, Ming An and CICUK, along with the Company, all subsidiaries of CIHC, in the normal course of CIRe’s reinsurance business.*
- (iii) *The Group has entered into agreements with China Insurance Group Securities Limited, along with the Company, a subsidiary of CIHC, in regards to securities broking services provided. Securities broking fees are charged at a fixed rate of 0.2% of the securities value.*
- (iv) *The Group entered into a number of insurance policies with Ming An, to cover their business risks in relation to fire, motor vehicle, personal accident, workmen’s compensation, group life and medical, electronic equipment and professional indemnity.*
- (v) *CIGAML, a wholly-owned subsidiary of the Company, provided investment consultancy services to and received investment management fees and redemption incomes from subsidiaries of CIHC.*
- (vi) *The Company and CIGAML leased office premises and car park spaces from and paid rent and building management fees to subsidiaries of CIHC.*
- (vii) *CIHK, the immediate holding company, is the current owner of the China Insurance logo. Pursuant to a non-exclusive licence agreement entered into between CIHK and the Group, the Group has obtained the right to use such logo for an indefinite term at no consideration.*
- (viii) *CIRe made an unsecured loan to Sanlink Investments Limited, which was jointly established by certain related parties of the Group. The loan is interest-free and repayable on demand. The outstanding balance as at 31 December 2005 was HK\$4.83 million (2004: HK\$4.83 million).*



# REPORT OF THE DIRECTORS

Apart from the above, the Group has entered into the following transactions with connected parties:

- (a) On 10 May 2005, CIRE, subsidiary of the Group, entered into an agreement with Panbillion Finance Company Limited (the "Purchaser"), a fellow subsidiary of the Group, to sell certain properties located in the PRC at net book value as at 31 December 2004, of HK\$23,000,000. The Group intends to make use of the proceeds received for its general working capital and expects to invest the proceeds in appropriate assets to optimise its returns on the investments held. This transaction did not result in any gain or loss to the Group. The consideration was arrived at arms length negotiation between CIRE and the Purchaser by reference to the value of the properties as at 31 December 2004 valued by an independent firm of surveyors, RHL Appraisal Limited. Under the Agreement, the properties were sold on an "as is" basis. The Purchaser agreed to handle and complete all the relevant legal procedures and to bear all costs and expenses in relation to the transfer of ownership.
- (b) On 23 December 2005, CIRE, a subsidiary of the group, entered into an agreement with CIHK, the immediate holding company of the Group, to sell its 20% equity interests in Dragon Jade Industrial District Development (Shenzhen) Company, Limited ("Dragon Jade") at HK\$8,800,000. Since the business of Dragon Jade is not part of the core business of CIRE or the Group, it is the Group's policy to dispose of non-core businesses as and when appropriate. This transaction had resulted a gain to the Group in an amount of approximately HK\$800,000. The consideration was arrived at arms length negotiations between CIRE and CIHK by reference to the audited net assets value of Dragon Jade as at 31 December 2004.
- (c) On 7 December 2005, TPL and CIGAML, both subsidiaries of the Group, entered into a conditional shareholders' agreement with TPI, Fortis and CIHC (each of them were connected persons of the Group) to form a new joint stock limited company, namely TPAM (the "TPAM Shareholders' Agreement"). The registered capital of TPAM is RMB100,000,000 divided into 100,000,000 shares of RMB1.00 each. Upon the establishment of TPAM, the Group will have an effective control of 62.1% equity interest in TPAM and TPAM will become a subsidiary of the Group. As certain conditions precedent as stated in the TPAM Shareholders' Agreement have not been fulfilled, TPAM had not been established and had not commenced operation as at 7 April 2006. Therefore, the total investment into TPAM by the Group is included as advanced payment at 31 December 2005. The establishment of TPAM will enable the Group to manage the investments of the insurance income of TPL and TPI under a subsidiary specialised in this area. This will enhance the profitability of the Group in the long run.

## CONNECTED TRANSACTIONS BETWEEN THE GROUP AND CIHC GROUP

A conditional waiver for disclosure and shareholders' approval requirements for connected transactions between the Group and CIHC Group under the Listing Rules was granted by the Stock Exchange on 2 January 2003.

The Independent Non-Executive Directors have reviewed and confirmed that the connected transactions to which the conditional waiver has been granted by the Stock Exchange were conducted in the following manner:

- (i) entered into by the Group in the ordinary and usual course of its business;
- (ii) entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) entered into and conducted either:
  - (1) in accordance with the terms of the agreements governing the connected transactions; or
  - (2) if there are no such agreements on terms no less favourable than terms available to or from independent third parties; and
- (iv) where applicable, the connected transactions have been entered into within the proposed limits as stated in the waiver letter dated 2 January 2003 issued by the Stock Exchange.



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# REPORT OF THE DIRECTORS

A letter dated 7 April 2006 was received from the auditors of the Company confirming that (i) the connected transactions have received the approval of the Company's Board of Directors; and (ii) the connected transactions have been conducted in the manner as stated in (iii) and (iv) above.

## CONNECTED TRANSACTIONS BETWEEN CIGAML AND CIHC GROUP

A conditional waiver for disclosure requirements for connected transactions between CIGAML and CIHC Group under the Listing Rules was granted by the Stock Exchange on 30 July 2002.

The Independent Non-Executive Directors have reviewed and confirmed that the connected transactions to which the conditional waiver has been granted by the Stock Exchange were conducted in the following manner:

- (i) entered into in the ordinary and usual course of business of the Group;
- (ii) conducted either on normal commercial terms or on terms no less favourable than terms available to (or from, as appropriate) independent third parties;
- (iii) entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (iv) the aggregate amount of the fees received by CIGAML for the year have not exceeded the cap as laid down by the Stock Exchange in the waiver letter dated 30 July 2002.

A letter dated 7 April 2006 was received from the auditors of the Company confirming that the connected transactions to which the conditional waiver has been granted by the Stock Exchange have been conducted in the manner as stated in (ii) and (iv) above.

## INTEREST BEARING NOTES

Particulars of interest bearing notes of the Company and the Group as at 31 December 2005 are set out in note 33 of the financial statements.

## FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 195 to 196.

## RETIREMENT SCHEMES

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



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# REPORT OF THE DIRECTORS

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

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

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

Aggregate contributions to retirement schemes are charged to the income statement as and when incurred. Contributions amounted to HK\$50.30 million for the year ended 31 December 2005 (2004: HK\$30.69 million).

## CORPORATE GOVERNANCE

Information on the Company's corporate governance practices during the year under review is set out in the "Corporate Governance Report" of the Company's 2005 annual report.

## AUDIT COMMITTEE

Further information on the composition of the Audit Committee and the work performed by the Audit Committee during the year under review is set out in the Company's 2005 Annual Report under the section headed "Audit Committee" in the Corporate Governance Report.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

## AUDITORS

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

By order of the Board  
**Feng Xiaozeng**  
*Chairman*

Hong Kong, 7 April 2006



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