

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of China Insurance International Holdings Company Limited (the “Company” or “CIIH”) is investment holding. The principal activities of the company and its subsidiaries (collectively the “Group”) are the underwriting of all classes of non-life reinsurance and long term businesses. The Group also carries on insurance intermediaries business and, to support its reinsurance activities, holds securities, investments in money market and property investments. The principal activities and other particulars of the subsidiaries are set out in note 15 on the accounts.

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

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

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:

	Percentage of the Group’s total	
	Gross premiums written	Outward retrocession premiums
The largest cedant	18.6%	—
Five largest cedants in aggregate	30.3%	—
The largest retrocessionaire	—	8.0%
Five largest retrocessionaires in aggregate	—	27.5%

The largest cedant is a related party. The directors confirm that this cedant is under the common control of China Insurance Company, Limited (“CICL”) 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% of the Company’s share capital) had any interest in these major cedants and retrocessionaires.

ACCOUNTS

The profit of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs at that date are set out in the accounts on pages 32 to 92.

An interim dividend of HK1.5 cents (2000: Nil) per ordinary share was paid on 10 October 2001. The directors now recommend the payment of a final dividend of HK3.5 cents (2000: HK4.0 cents) per ordinary share in respect of the year ended 31 December 2001.

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 29 on the accounts. Shares were issued during the year to broaden the capital base of the Company.

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

During the year and save as disclosed above in the section "Share Capital", neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of the movements in reserves of the Company and the Group during the year are set out in note 30 on the accounts.

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$182.2 million (2000: HK\$42.4 million). In addition, the Company's share premium account of HK\$1,429.9 million (2000: HK\$282.6 million) as at 31 December 2001 may be distributed in the form of fully paid bonus shares.



REPORT OF THE DIRECTORS

DIRECTORS

The directors during the financial year were:

Executive directors

Yang Chao
Zhang Xiaoshu
Miao Jianmin
Ng Yu Lam Kenneth
Dong Ming
Lau Siu Mun Sammy

Non-executive directors

Zheng Changyong
Wu Jiesi *
Lau Wai Kit *

* *Independent*

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

The biographical details of directors and company secretary are set out in pages 15 to 17.

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

The directors of the Company who held office at 31 December 2001 had the following interests in the issued share capital of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance) at that date as recorded in the register of directors' share interests:

	Ordinary shares of HK\$0.05 each			
	Personal interests	Family interests	Corporate interests	Other interests

Beneficial Interests**China Insurance International Holdings
Company Limited**

Ng Yu Lam Kenneth	366,000	—	—	—
Lau Siu Mun Sammy	150,000	—	—	—

SHARE OPTION SCHEME

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

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

The maximum number of shares in respect of which options may be granted under the share option scheme may not (when aggregated with shares subject to any other employee share option scheme) exceed in nominal 10% of the issued share capital of the Company from time to time, excluding for this purpose any shares which have been duly allotted and issued pursuant to the scheme. The number of shares in respect of which options were outstanding as at 31 December 2001 represented approximately 1.5% of the issued share capital of the Company.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

At 31 December 2001, 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 2001 was HK\$4.775) granted at nominal consideration under the share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

According to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”), the exercise price must be the higher of: (i) the closing price of the securities as stated in the Stock Exchange daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant. However, the Stock Exchange may allow a listed issuer to grant options under the terms of its existing share option schemes on or after 1 September 2001 if the listed issuer is able to demonstrate to the satisfaction of the Stock Exchange that the options are granted to a participant pursuant to a contractual commitment given by the listed issuer to the participant before 1 September 2001.

As all the options granted during the year were granted before 1 September 2001 and the directors consider that the options were granted pursuant to a contractual commitment given by the Company before that date, the exercise price of the options granted during the year was determined by reference to the existing terms of the share option scheme.

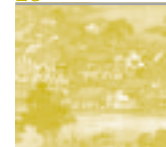
Directors	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired on exercise of options during the year	No. of options cancelled during the year	Price per share to be paid on exercise of options	Market value per share at date of grant	Market value per share at date of exercise of options
Yang Chao	3,000,000	2,670,000	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	330,000	—	HK\$1.11	HK\$1.37	HK\$1.94
	—	—	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	1,000,000	—	HK\$0.95	HK\$1.33	HK\$1.94
Zhang Xiaoshu	2,500,000	2,200,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	300,000	—	HK\$1.11	HK\$1.41	HK\$1.94
	—	—	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	800,000	—	HK\$0.95	HK\$1.33	HK\$1.94
Miao Jianmin	2,000,000	1,740,000	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	260,000	—	HK\$1.11	HK\$1.37	HK\$2.25
	—	—	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	600,000	—	HK\$0.95	HK\$1.33	HK\$2.25

SHARE OPTION SCHEME (Continued)

Directors	No. of options outstanding at the beginning of the year	No. of options outstanding at the year end	Date granted	Period during which options exercisable	Consideration paid for the grant	No. of shares acquired on exercise of options during the year	No. of options cancelled during the year	Price per share to be paid on exercise of options	Market value per share at date of grant	Market value per share at date of exercise
Ng Yu Lam Kenneth	1,800,000	1,300,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	500,000	—	HK\$1.11	HK\$1.41	HK\$3.66
	—	500,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.95	HK\$1.33	HK\$3.66
Dong Ming	1,500,000	1,500,000	27 September 2000	27 September 2000 to 26 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.40	—
	—	400,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.95	HK\$1.33	—
Lau Siu Mun Sammy	1,500,000	1,350,000	27 September 2000	27 September 2000 to 26 September 2010	HK\$1.00	150,000	—	HK\$1.11	HK\$1.40	HK\$3.23
	—	400,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.95	HK\$1.33	HK\$3.23
Zheng Changyong	1,200,000	1,000,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	200,000	—	HK\$1.11	HK\$1.41	HK\$1.94
	—	—	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	300,000	—	HK\$0.95	HK\$1.33	HK\$1.94
Employees	6,700,000	4,870,000	26 September 2000	26 September 2000 to 27 September 2010	HK\$1.00	1,830,000	—	HK\$1.11	HK\$1.40	HK\$2.32
	—	873,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	1,188,000	34,000	HK\$0.95	HK\$1.33	HK\$2.32

The share options granted are not recognised in the accounts until they are exercised. The weighted average value per option granted in 2001 and 2000 estimated at the date of grant using the Black-Scholes pricing model was HK\$0.29 and HK\$0.45 respectively. The weighted average assumptions used are as follows:

	2001	2000
Risk-free interest rate	2%	5%
Expected life (in years)	10	10
Volatility	20%	20%
Expected dividend per share	HK\$0.05	HK\$0.04



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Apart from the foregoing, at no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors 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 INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 31 December 2001 amounting to 10% or more of the ordinary shares in issue:

	Ordinary shares held	Percentage of total issued shares
CICL	674,243,705 <i>(note 1)</i>	53.0%
China Insurance (H.K.) Holdings Company Limited ("CIHK")	674,243,705 <i>(note 2)</i>	53.0%

Notes:

1. CICL's beneficial interest in the Company is held by CIHK, The Ming An Insurance Company (Hong Kong), Limited ("Ming An") and Toplap Investments Limited, all of them are wholly-owned subsidiaries of CICL.
2. 82,794,000 shares are held by Ming An and 170,000 shares are held by Toplap Investments Limited.

Save as disclosed above, there was no person known to the directors whom at 31 December 2001 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.

CONNECTED TRANSACTIONS

During the year, the Group has entered into various connected transactions with CICL group.

Details of connected transactions under Chapter 14 of the Listing Rules between the Company and the CICL group are as follows:

	Note	2001 HK\$	2000 HK\$
Recurring transactions			
Business ceded by related companies:	(i)		
Gross premiums written		182,394,374	147,601,984
Commission expenses paid		50,855,604	38,453,912
Business retroceded to related companies:	(ii)		
Outward retroceded premiums		136,683	1,885,229
Commission income received		325,873	1,132,784
Interest income received on			
Loans to directors and senior management	(iii)	—	63,602
Loans to related companies	(iv)	—	1,068,232
Premium deposits placed in related parties		298,575	436,102
Funds in an insurance pool	(v)	821,582	1,372,783
Insurance brokerage income	(vi)	33,933	54,145
Securities brokerage fee paid	(vii)	683,927	633,174
Service fee income received from insurance pool	(v)	36,511	559,899
Contributions to retirement schemes managed by a related party	(viii)	1,519,062	1,163,052
Retirement scheme management fee paid	(viii)	43,073	36,078
Travel agency services fee paid	(ix)	365,488	101,956
Insurance expenses covering business risk	(x)	126,864	170,348
Non-recurring transactions			
Acquisition of an associate	(xi)	1,164,000	—
Acquisition of a subsidiary	(xii)	522,405,661	—
Acquisition of an associate	(xiii)	300,707,547	—

CONNECTED TRANSACTIONS *(Continued)*

Notes:

- (i) During the year, CICL, Singapore Branch, P.T. China Insurance Indonesia, China Insurance Company (U.K.) Limited (“CICUK”), China Life Insurance Company, Limited (“CLICL”), Hong Kong Branch, fellow subsidiaries of the Company, Ming An, and certain branches of CICL, the ultimate holding company, ceded business to and received commission from China International Reinsurance Company Limited (“CIRe”), a wholly owned subsidiary of the Company, in the normal course of CIRe’s reinsurance business.
- (ii) During the year, CIRe retroceded business to and received commission from certain branches of CICL and Ming An, in the normal course of CIRe’s reinsurance business.
- (iii) Prior to 2001, CIRe had made mortgage loans to Messrs Ng Yu Lam Kenneth and Lau Siu Mun Sammy, directors of the Group, and Mr Ng Wo Chung, senior management of the Group. There was no loans nor advances made during the year 2001. No loan balance was outstanding as at 31 December 2001 (2000: \$Nil). The mortgage loans were fully secured by properties. Interest under the above arrangements was charged at a fixed rate of 3% to 4% per annum. All loans granted and interest accrued were immediately due and payable on the termination of the employment of the relevant directors and senior management of the Group.
- (iv) Prior to 2001, CIRe has made loans to China Insurance Group Investment Company Limited (“CIGI”), China Insurance Group Finance Company Limited, Tellon Development Limited, fellow subsidiaries of the Company, and Ming An, with an interest rate charged in a range of 4% to 11% per annum. The loans were fully repaid and no loan balance was outstanding as at 31 December 2001 (2000: \$Nil). No advance or repayment was made during the year.
- (v) Ming An ceded their Employees’ Compensation and Employer’s Liability business under an excess-of-loss reinsurance treaty to an insurance pool (“the Pool”) in which CIRe has a 15% participation on a quota share basis. CIRe has been appointed as the administrator of the Pool and receives a service fee of 1% of the inward reinsurance premiums written by the Pool. The Pool arrangement has ceased and was in run off with effect from 1 April 2000.
- (vi) During the year, SINO-RE Reinsurance Brokers Limited (“SINO-RE”) provided reinsurance broking services to and received brokerage fees for the services rendered from certain branches of CICL, CICUK, a fellow subsidiary of the Company, and Ming An, in the normal course of business.
- (vii) The Group has entered into agreements with China Insurance Group Securities Limited, a fellow subsidiary of the Company, in relation to securities broking services provided. Securities broking fees are charged at a fixed rate of 0.25% of the securities value.
- (viii) Employees of the Group participated in a defined contribution retirement scheme and Mandatory Provident Funds scheme managed by CLICL, Hong Kong Branch, a fellow subsidiary of the Company, which charges a management fee for the services rendered.
- (ix) During the year, Henry International (C.I.) Travel Limited, a fellow subsidiary of the Company, provided travel agency services to the Group on a regular basis and charges a fee for the services rendered.
- (x) During the year, the Group entered into a number of insurance policies with CLICL, Hong Kong Branch, and Ming An, to cover their business risk in relation to fire, property, vehicle, personal accident, workmen compensation, group life and medical, electronic equipment and professional indemnity.

CONNECTED TRANSACTIONS *(Continued)*

- (xi) On 25 April 2001, the Company acquired from Ming An its entire 25% equity interest in Huatai Insurance Agency & Consultant Service Limited ("Huatai") for a total consideration of RMB1.25 million. Huatai then became an associate of the Company. Subsequently, Huatai increased its share capital and the Company injected a further sum of RMB5.25 million to the equity of Huatai.

Huatai is principally engaged in agency and consultancy services to clients involved in marine and other insurance activities in the People's Republic of China ("PRC"). An approval of conducting insurance and reinsurance brokerage businesses directly in the PRC was granted to Huatai by the China Insurance Regulatory Commission of the PRC ("CIRC") on 11 September 2001. As the insurance consultancy and brokerage businesses are in the early stages of development in the PRC, Huatai has a promising growth opportunity. With the limited capital commitment and low risk, the directors of the Company believe that, with the assistance of the Company to expand its customer base, Huatai will bring in satisfactory returns to the Company.

- (xii) On 4 September 2001, a Reorganisation and Share Transfer Agreement was entered into between the Company, CICL and The Tai Ping Life Insurance Company, Limited ("TPL"), whereby the Company has conditionally agreed to acquire a 62.5% equity interest in TPL from CICL for a total consideration of approximately HK\$522.41 million. The consideration comprises cash of HK\$280 million and the allotment of 78,511,955 shares at an issue price of HK\$3.0875 per share, credited as fully paid to CIHK, at the direction of CICL.

With the consent of the State Council of the PRC, the CIRC approved on 22 May 2001 the resumption of the personal insurance business (including life assurance) of TPL throughout the PRC. Including TPL, there are only six nationwide insurance companies in the PRC carrying on life assurance business. The acquisition of a majority equity interest in TPL by the Company will place the Group in an advantageous position to penetrate the vast life assurance market in the PRC.

In accordance with the terms and conditions set out in the aforesaid Reorganisation and Share Transfer Agreement, the Company together with CICL subsequently entered into a Sale and Purchase Agreement with Fortis International N.V. ("Fortis") on 19 October 2001, whereby the Company sold a designated subsidiary, held for the purpose of holding a 12.45% equity interest in TPL to Fortis, for a consideration of US\$44 million.

As a result of this transaction (including the sale by CICL to Fortis of 12.45% of TPL), the Company's interest in the capital of TPL was reduced to 50.05% and Fortis acquired a 24.9% interest in the capital of TPL.

- (xiii) On 26 November 2001, the Company entered into a Reorganisation and Share Transfer Agreement with CICL and The Tai Ping Insurance Company, Limited ("TPI"), whereby the Company has conditionally agreed to acquire a 42.5% equity interest in TPI from CICL for a total consideration of approximately HK\$300.71 million. The consideration comprises cash of HK\$60.14 million and the allotment of 63,864,829 shares at an issue price of HK\$3.7668 per share, credited as fully paid to CIHK, at the direction of CICL.

With the consent of the State Council of the PRC, the CIRC approved on 22 May 2001 the plan for resumption of the general insurance business of TPI in the PRC and for setting up its headquarters in Shenzhen and three branch offices in Beijing, Shanghai and Guangzhou.



REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

Including TPI, there are only five nationwide insurance companies in the PRC carrying on general insurance business. The acquisition of the equity interests in TPI by the Company will allow the Group to diversify into general insurance business in the PRC.

Pursuant to the aforesaid Reorganisation and Share Transfer Agreement, the Company, CICL and Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)") entered into a Sale and Purchase Agreement on 26 March 2002, whereby subject to the fulfillment of certain conditions precedent, the Company will sell a 12.45% equity interest in TPI to ICBC (Asia), for a consideration of the Hong Kong dollars equivalent of RMB93,375,000.

Upon completion of this transaction (including the sale by CICL to ICBC (Asia) of 12.45% of TPI), the Company's interest in the capital of TPI will be reduced to 30.05% and ICBC (Asia) will acquire a 24.9% interest in the capital of TPI.

- 28
- (xiv) CIRE, Ming An, CIGI, CLICL, Hong Kong Branch, and CICL, Macau Branch established Dragon Jade Industrial District Development (Shenzhen) Co., Ltd., a wholly foreign-owned joint venture enterprise pursuant to the relevant rules and regulations of the PRC applicable to enterprises with foreign investment to develop and operate an industrial property complex in Shenzhen, the PRC in 1992 in which CIRE has a 20% equity interest.
 - (xv) CIHK, the immediate holding company, is the current owner of the China Insurance logo. Pursuant to a non-exclusive licence agreement entered into between CIHK and the Group, the Group has obtained the right to use such logo for an indefinite term at no consideration.
 - (xvi) CIRE made an unsecured loan to Sanlink Investments Limited which was jointly established by certain related parties of the Group. The loan is interest-free and for an indefinite period. The outstanding balance as at 31 December 2001 was \$4,830,000 (2000: \$4,830,000).

A conditional waiver for disclosure and shareholders' approval requirements for connected transactions between the Company and CICL group under the Listing Rules has been granted by the Stock Exchange in August 2000.

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

- (i) entered into by the Group in the ordinary and usual course of its business;
- (ii) entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) entered into on normal commercial terms and either
 - (1) in accordance with the terms of the agreements governing such transactions; or

CONNECTED TRANSACTIONS *(Continued)*

- (2) if there is no such agreement, on terms no less favourable than terms available to third parties; and
- (iv) entered into within the proposed limits as laid down by the Stock Exchange which are applicable to the Company.

A letter dated 26 March 2002 was received from the auditors of the Company confirming that (i) the connected transactions received the approval of the Company's board of directors; and (ii) the connected transactions to which a conditional waiver has been granted by the Stock Exchange have been conducted in the manner as stated in (iii) and (iv) above.

FIVE YEAR SUMMARY

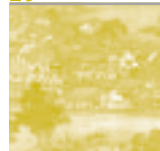
A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in pages 93 and 94.

RETIREMENT SCHEMES

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. 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.

As from 1 December 2000, the Group also operates Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the Scheme. The MPF scheme is a defined contribution retirement scheme administered by related trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000.

Aggregate contributions to the Scheme and the MPF scheme are charged to the profit and loss account as and when incurred. Contributions amounted to HK\$1.52 million for the year ended 31 December 2001 (2000: HK\$1.16 million).



REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The annual results for the year have been reviewed by the audit committee of the Board of Directors of the Company.

During the year under review, the Company was in compliance with the Code of Best Practice as set out by the Stock Exchange in Appendix 14 of the Listing Rules. The exception was that the non-executive directors were not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Articles of Association.

AUDIT COMMITTEE

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

AUDITORS

KPMG shall 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

Yang Chao

Chairman

Hong Kong, 26 March 2002