

# Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

## Principal Activities

The Group is principally engaged in the provision of an extensive range of whole life, endowment and term life insurance products to individuals in Hong Kong as well as being engaged in group retirement scheme management and asset management. The Group also provides a range of other related products, including accident, medical and disability insurance to individuals, group life and accident, medical and disability insurance and general insurance products through an agency arrangement.

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 13 to the financial statements.

## Segmented Information

The Group's turnover and contribution to operating profit before tax for the year were derived from the Group's business activities conducted in Hong Kong.

Information on the Group's turnover and contribution to operating profit before tax, analysed by principal activity, is set out in notes 3 and 5 to the financial statements, respectively.

## Results and Dividends

The Group achieved a net profit of HK\$155.9 million for the year ended 31 December 2001. The state of affairs of the Company and the Group at that date are set out in the financial statements on pages 54 to 82.

The directors do not recommend the payment of any dividend to shareholders in respect of the year.

On 17 May 2001, the Company allotted and issued 137,850,000 bonus shares to shareholders whose names appeared on the register of members of the Company on 8 May 2001 on the basis of one bonus share for every five issued shares held by the shareholders by way of capitalisation of a sum of HK\$137,850,000 standing to the credit of the share premium account.

## Summary Financial Information

A summary of the results and of the assets and liabilities of the Group is set out on pages 83 to 84. This summary does not form part of the audited financial statements.

## Fixed Assets

Details of movements in the fixed assets of the Group are set out in note 12 to the financial statements.

## Subsidiaries and Associate

Particulars of the Company's principal subsidiaries and associate are set out in notes 13 and 14 to the financial statements.

## Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year are set out in notes 24 and 25 to the financial statements, respectively.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the Companies Act 1981 of Bermuda (as amended) which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### Reserves

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

### Distributable Reserves

As at 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$9.3 million. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus may be distributed under certain circumstances. The Company's share premium account, in an amount of HK\$30.0 million as at 31 December 2001, may be distributed in the form of fully paid bonus shares.

### Charitable Donations

During the year, the Group supported a wide variety of charities and activities beneficial to the community. Donations made by the Group during the year amounted to HK\$325,000 (2000: HK\$500,000).

### Liquidity and Financial Resources

The Group had no borrowings for the year ended 31 December 2001 and as at that date.

### Major Customers

The aggregate income attributable to the Group's five largest customers was less than 30% of the total income for the year.

### Employees

The Group, including its subsidiaries but excluding its associate, had 385 (2000: 398) employees as at 31 December 2001, a decrease of 3.3% (2000: increase of 16%) over last year. Total remuneration for the year was in the amount of HK\$166.6 million (2000: HK\$160.6 million).

The Group ensures that the pay level of its employees is competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system.

The Group has implemented a variety of local and international insurance related training programmes such as actuarial courses, LOMA, ICA, Mandatory Provident Fund Scheme Examination and Insurance Intermediaries Qualifying Examination to enhance professionalism and services to our clients. The participation rate in these programmes is extremely high. In February 2002, the Group and the Hong Kong Polytechnic University provided several tailor-made associate degree and degree programmes for our staff and agents.

### Retirement Benefit Schemes

Details of the Group's retirement benefit schemes and its contributions charged to the consolidated revenue and profit and loss accounts for the year are set out in note 32 to the financial statements.

## Directors

The directors of the Company during the year and up to the date of this report are listed below. The directors' biographical information is set out on pages 34 to 37.

### Executive Directors:

YUEN Tin Fan, Francis

YANG Fan Shing, Andrew

ALLEN Peter Anthony

ARENA Alexander Anthony

BONNER John Todd

CHEUNG Sum, Sam

*(appointed on 15 March 2002)*

CHUNG Cho Yee, Mico

LEE Ho Sang

*(resigned on 15 March 2002)*

LUK Kin Yu, Peter

*(resigned on 15 March 2002)*

SO Wing Hung, Peter

*(appointed on 15 March 2002)*

TO Peter

YANG Chao

ZHENG Chang Yong

### Non-executive Director:

WANG Xianzhang

### Independent Non-executive Directors:

CHANG Hsin Kang

FRESHWATER Tim

WONG Yue Chim, Richard

In accordance with the Company's Bye-laws, Mr. CHEUNG Sum, Sam and Mr. SO Wing Hung, Peter will retire from office at the forthcoming annual general meeting. Both of them, being eligible, offer themselves for re-election.

## Directors' Service Contracts

The Company has entered into service contracts with all the executive directors of the Company for the provision of management services to the Group, details of each of which are as follows:

- (1) Mr. YANG Fan Shing, Andrew entered into a service contract with the Group for a period of five years commencing on 1 July 1999.
- (2) Each of Mr. LEE Ho Sang and Mr. LUK Kin Yu, Peter entered into a service contract with the Group for an initial period of three years commencing on 1 July 1999 and the contracts will expire on 30 June 2002. Mr. LEE Ho Sang and Mr. LUK Kin Yu, Peter resigned from the board on 15 March 2002.
- (3) Each of Mr. CHEUNG Sum, Sam and Mr. SO Wing Hung, Peter entered into a service contract with the Group for an initial period commencing on 15 March 2002 and expiring 31 March 2004.
- (4) The service contract for each of the other executive directors is indefinite.

The non-executive director has been appointed for an initial term of three years with effect from 30 November 2000.

The independent non-executive directors have been appointed for an initial term of three years with effect from 8 June 1999.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### Emoluments of Directors and the Five Highest Paid Individuals

Details of the directors' emoluments and of the five highest paid individuals in the Group are set out in notes 6 and 7 to the financial statements, respectively.

### Directors' and Chief Executive's Interests in Shares and Bonds

As at 31 December 2001, the interests of the directors, the chief executive and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

#### *Interests in the Company:*

Name of director	Number of issued shares of HK\$1.00 each				Total
	Personal	Family	Corporate	Other	
YUEN Tin Fan, Francis	—	—	<sup>1</sup> 2,704,800	—	2,704,800
YANG Fan Shing, Andrew	—	—	<sup>3</sup> 79,795,242	—	79,795,242
LEE Ho Sang	—	360,000	<sup>4</sup> 4,578,362	—	4,938,362
LUK Kin Yu, Peter	4,578,362	—	—	—	4,578,362
ALLEN Peter Anthony	360,000	—	—	—	360,000

The directors' and chief executive's interests in the Company's share options are disclosed in the section "Directors' and chief executive's rights to acquire shares" below.

#### *Interests in associated corporations:*

##### *I. Pacific Century Regional Developments Limited ("PCRD")*

Name of director	Number of issued shares of S\$0.10 each				Total
	Personal	Family	Corporate	Other	
YUEN Tin Fan, Francis	4,370,000	—	—	<sup>2</sup> 23,550,000	27,920,000
LEE Ho Sang	1,700,000	—	—	—	1,700,000
LUK Kin Yu, Peter	1,000,000	—	—	—	1,000,000
ALLEN Peter Anthony	5,010,000	—	—	—	5,010,000
TO Peter	10,000,000	—	—	—	10,000,000
CHUNG Cho Yee, Mico	8,000,000	—	—	—	8,000,000

Directors' and Chief Executive's Interests in Shares and Bonds (continued)

II. Pacific Century CyberWorks Limited ("PCCW")

(a) Ordinary shares

Name of director	Number of issued shares of HK\$0.05 each				Total
	Personal	Family	Corporate	Other	
YUEN Tin Fan, Francis	13,735,000	—	—	<sup>2</sup> 2,575,000	16,310,000
LEE Ho Sang	56,331	—	—	—	56,331
LUK Kin Yu, Peter	400,000	—	—	—	400,000
ALLEN Peter Anthony	300,000	—	—	—	300,000
ARENA Alexander Anthony	<sup>5</sup> 201,000	—	—	—	201,000
CHUNG Cho Yee, Mico	5,881,300	92,276	—	—	5,973,576
TO Peter	5,500,000	—	—	—	5,500,000
CHANG Hsin Kang	70,000	—	—	—	70,000

(b) Bonds

Name of director	Value of bonds held				Total
	Personal US\$	Family US\$	Corporate US\$	Other US\$	
LEE Ho Sang	95,000	—	—	—	95,000

(c) Convertible bonds

Name of director	Value of convertible bonds held				Total
	Personal US\$	Family US\$	Corporate US\$	Other US\$	
LEE Ho Sang	200,000	—	—	—	200,000

Directors' and Chief Executive's Interests in Shares and Bonds (continued)

*III. Pacific Century CyberWorks Japan K.K.*

Name of director	Number of issued ordinary shares of Yen 50.00 each				Total
	Personal	Family	Corporate	Other	
BONNER John Todd	480,000	—	—	—	480,000

*IV. iLink Holdings Limited ("iLink")*

Name of director	Number of issued ordinary shares of HK\$0.02 each				Total
	Personal	Family	Corporate	Other	
CHUNG Cho Yee, Mico	—	—	—	<sup>6</sup> 400,500,000	400,500,000

Notes:

- (1) Mr. YUEN Tin Fan, Francis is deemed to be interested in 2,704,800 shares of the Company held by a company which is owned by him and his spouse.
- (2) Mr. YUEN Tin Fan, Francis is deemed to be interested in 23,550,000 ordinary shares of PCRD and 2,575,000 shares of PCCW by virtue of being a beneficiary under a discretionary trust.
- (3) Mr. YANG Fan Shing, Andrew is deemed to be interested in 79,795,242 shares of the Company held by a company which is owned by him and his spouse.
- (4) Mr. LEE Ho Sang is deemed to be interested in 4,578,362 shares of the Company held by a company which is owned by him and his spouse.
- (5) 1,000 shares of which are held in the form of 100 ADRs (American Depository Receipts).
- (6) Mr. CHUNG Cho Yee, Mico is deemed to be interested in 400,500,000 ordinary shares of iLink by virtue of being a beneficiary under a trust.

Save as disclosed above, none of the directors or the chief executive or their associates had any personal, family, corporate or other interest in the shares and bonds of the Company or any of its associated corporations as defined in the SDI Ordinance.

### Directors' and Chief Executive's Rights to Acquire Shares

Pursuant to the Company's share option scheme as set out in note 25 to the financial statements, the Company has granted options on the Company's shares in favour of the following directors of the Company, the details of which are as follows:

*Interests in the Company:*

Name of director	Date of grant of share options	Exercisable period	Exercise price HK\$	Number of share options				Outstanding at 31 December 2001
				Outstanding at 31 December 2000	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	
YUEN Tin Fan, Francis	7 July 1999	7 July 2000 to 6 July 2009	5.233	19,440,000	—	—	—	19,440,000
YANG Fan Shing, Andrew	7 July 1999	7 July 2000 to 6 July 2009	5.233	4,560,000	—	—	—	4,560,000
ALLEN Peter Anthony	7 July 1999	7 July 2000 to 6 July 2009	5.233	600,000	—	—	—	600,000
BONNER John Todd	7 July 1999	7 July 2000 to 6 July 2009	5.233	16,560,000	—	—	—	16,560,000
CHUNG Cho Yee, Mico	7 July 1999	7 July 2000 to 6 July 2009	5.233	2,280,000	—	—	—	2,280,000
LEE Ho Sang	7 July 1999	7 July 2000 to 6 July 2009	5.233	2,280,000	—	—	—	2,280,000
	7 July 1999	7 July 2000 to 6 July 2007	4.187	583,200	—	—	—	583,200
LUK Kin Yu, Peter	7 July 1999	7 July 2000 to 6 July 2009	5.233	2,280,000	—	—	—	2,280,000
	7 July 1999	7 July 2000 to 6 July 2007	4.187	874,800	—	—	—	874,800

The subscription price per share option and the number of share options outstanding as at 31 December 2000 have been adjusted as a result of the completion of the bonus issue of new ordinary shares on 17 May 2001.

No share option has been granted to or exercised by the directors during the year.

Directors' and Chief Executive's Rights to Acquire Shares (continued)

Interests in associated corporations:

I. Pacific Century Regional Developments Limited

Name of director	Date of grant of share options	Exercisable period	Exercise price S\$	Number of share options				
				Outstanding at 31 December 2000	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Outstanding at 31 December 2001
ARENA Alexander Anthony	24 November 1999	25 October 2001 to 24 October 2009	0.7584	15,300,000	—	—	—	15,300,000
BONNER John Todd	24 November 1999	25 October 2001 to 24 October 2009	0.7584	5,000,000	—	—	—	5,000,000
CHUNG Cho Yee, Mico	15 April 1999	15 April 2001 to 14 April 2004	0.1430	8,000,000	—	8,000,000	—	—

II. Pacific Century CyberWorks Limited

Name of director	Date of grant of share options	Exercisable period	Exercise price HK\$	Number of share options				
				Outstanding at 31 December 2000	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Outstanding at 31 December 2001
YUEN Tin Fan, Francis	28 August 1999	17 August 2003 to 17 August 2009	2.356	10,670,000	—	—	—	10,670,000
	26 August 2000	26 August 2001 to 26 August 2010	12.024	32,000,000	—	—	16,000,000	16,000,000
	20 February 2001	26 August 2001 to 22 January 2011	3.368	—	16,000,000	—	—	16,000,000
ALLEN Peter Anthony	28 August 1999	17 August 2000 to 17 August 2009	2.356	1,360,000	—	—	—	1,360,000
	26 August 2000	26 August 2001 to 26 August 2010	12.024	1,786,000	—	—	893,000	893,000
	20 February 2001	26 August 2001 to 22 January 2011	3.368	—	893,000	—	—	893,000
ARENA Alexander Anthony	28 August 1999	17 August 2000 to 17 August 2009	2.356	16,000,000	—	—	—	16,000,000
	26 August 2000	26 August 2001 to 26 August 2010	12.024	16,000,000	—	—	8,000,000	8,000,000
	20 February 2001	26 August 2001 to 22 January 2011	3.368	—	8,000,000	—	—	8,000,000



Directors' and Chief Executive's Rights to Acquire Shares (continued)

II. Pacific Century CyberWorks Limited (continued)

Name of director	Date of grant of share options	Exercisable period	Exercise price HK\$	Number of share options				
				Outstanding at 31 December 2000	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Outstanding at 31 December 2001
BONNER John Todd	13 November 1999	17 August 2000 to 25 October 2009	4.552	5,000,000	—	—	—	5,000,000
	26 August 2000	26 August 2001 to 26 August 2010	12.024	4,800,000	—	—	2,400,000	2,400,000
	20 February 2001	26 August 2001 to 22 January 2011	3.368	—	2,400,000	—	—	2,400,000
CHUNG Cho Yee, Mico	28 August 1999	17 August 2001 to 17 August 2009	2.356	17,876,000	—	—	—	17,876,000
	26 August 2000	26 August 2001 to 26 August 2010	12.024	10,600,000	—	—	5,300,000	5,300,000
	20 February 2001	26 August 2001 to 22 January 2011	3.368	—	5,300,000	—	—	5,300,000
TO Peter	28 August 1999	17 August 2001 to 17 August 2009	2.356	21,800,000	—	—	—	21,800,000

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies and fellow subsidiaries a party to any arrangement to enable the Company's directors or chief executive or their associates or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries, holding companies and fellow subsidiaries was a party, and 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.

Except for the loans made to the directors set out in note 17 to the financial statements, at no time during the year were there any loans advanced to or obligations assumed by or for a director of the Company.

### Directors' Interests in Competing Business

Interests of the directors of the Company in competing businesses as at 31 December 2001 required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Name of director	Name of companies	Nature of competing business	Nature of interest
YANG Chao	CIC Holdings Limited	General insurance business	As a director
	China Insurance International Holdings Company Limited	Insurance business	As a director
	China Insurance Company, Limited	Insurance group	As a director
	PT China Insurance Indonesia	General insurance business	As a director
	China Life Insurance Company, Limited	Life insurance business	As a director
	The Ming An Insurance Company (Hong Kong), Limited	General insurance business	As a director
	The Tai Ping Insurance Company Limited	General insurance business	As a director
	The Tai Ping Life Insurance Company Ltd.	Life insurance business	As a director
ZHENG Chang Yong	China Life Insurance Company, Limited	Life insurance business	As a director
	China America Holding Company	General insurance business	As a director
	China Insurance International Holdings Company Limited	Insurance business	As a director

All of the above companies are within the China Insurance Group, which holds a 12.2% interest in the Company as described in the section "Substantial shareholders" below.

Other than as disclosed above, none of the directors is interested in any business apart from the Company's business which competes or is likely to compete, either directly or indirectly, with the Company's business.

### Substantial Shareholders

As at 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Notes	Number of issued shares held		Percentage of total issued shares
		Direct interest	Deemed interest	
Pacific Century Regional Developments Limited	(1)	370,352,700	—	44.8%
LI Tzar Kai, Richard	(1)	—	370,352,700	44.8%
Pacific Century Group Holdings Limited	(1)	—	370,352,700	44.8%
Pacific Century International Limited	(1)	—	370,352,700	44.8%
Pacific Century Group (Cayman Islands) Limited	(1)	—	370,352,700	44.8%
Anglang Investments Limited	(1)	—	370,352,700	44.8%
Million Profits Enterprises Inc.	(2)	—	101,060,000	12.2%
The Ming An Insurance Company (Hong Kong), Limited	(2)	—	101,060,000	12.2%
China Insurance H.K. (Holdings) Company Limited	(2)	—	101,060,000	12.2%

## Substantial Shareholders (continued)

Notes:

- (1) Each of Mr. LI Tzar Kai, Richard, Pacific Century Group Holdings Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited is taken to have an interest under the SDI Ordinance in the same 370,352,700 shares held by Pacific Century Regional Developments Limited.
- (2) Each of Million Profits Enterprises Inc., The Ming An Insurance Company (Hong Kong), Limited and China Insurance H.K. (Holdings) Company Limited is taken to have an interest under the SDI Ordinance in the same 101,060,000 shares, in aggregate, beneficially owned by Joyful Box Inc. and King System Limited.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ and chief executive’s interests in shares and bonds” above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

## Connected Transactions

Details of the connected transactions as defined under the Listing Rules are set out in note 31 to the financial statements. In the opinion of the directors of the Company, including the independent non-executive directors, these connected transactions were:

- conducted in the ordinary and usual course of the Group’s business;
- conducted on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- conducted in accordance with the terms of the agreements governing such transactions.

## Compliance with the Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the year.

Pursuant to the requirements of the Listing Rules, an Audit Committee of the Company comprises Messrs. Wong Yue Chim, Richard (Chairman), Chang Hsin Kang and Tim Freshwater who are independent non-executive directors was established with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Society of Accountants. Regular meetings have been held by the Committee and the Committee met three times in 2001.

The Audit Committee is answerable to the Board and the principal duties of the Committee include the review and supervision of the Company’s management reporting process and internal controls.

## Auditors

The financial statements for the year have been audited by Ernst & Young who now retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board:

**YUEN Tin Fan, Francis**  
*Chairman*

Hong Kong  
15 March 2002