

## REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2002.

### 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 non-life and life reinsurance business, and direct life insurance business. The Group also carries on asset management and insurance intermediaries 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 15 on 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 12 on the financial statements.

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

### MAJOR INSURANCE CUSTOMERS AND SUPPLIERS

The information in respect of the Group's gross premiums written and outward premiums ceded attributable to the 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	6.9%	—
Five largest insurance customers in aggregate	14.2%	—
The largest insurance supplier	—	17.6%
Five largest insurance suppliers in aggregate	—	40.0%

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.

# REPORT OF THE DIRECTORS

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2002 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 34 to 99.

An interim dividend of HK1.5 cents (2001: HK1.5 cents) per ordinary share was paid on 10 October 2002. The directors now recommend the payment of a final dividend of HK1.5 cents (2001: HK3.5 cents) per ordinary share in respect of the year ended 31 December 2002.

## FIXED ASSETS

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

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 32 on the financial statements. Shares were issued during the year as part of the consideration for the acquisition of all the issued share capital of CIGAML and upon exercise of options under the Company's share option scheme.

## 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 33 on the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$112.69 million (2001: HK\$182.20 million). In addition, the Company's share premium account of HK\$1,629.99 million (2001: HK\$1,429.91 million) as at 31 December 2002 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  
Shen Koping Michael (appointed on 23 July 2002)  
Lau Siu Mun Sammy

#### **Non-Executive directors**

Zheng Changyong  
Wu Jiesi \*  
Lau Wai Kit \*

*\* Independent*

In accordance with Articles 92 and 96 to 100 of the Company's articles of association, Messrs Shen Koping Michael and Lau Wai Kit shall 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 17 to 19.

### **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. 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 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.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES

The directors of the Company who held office at 31 December 2002 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
<b>Beneficial Interests</b>				
<b>CIIH</b>				
Ng Yu Lam Kenneth	466,000	—	—	—
Lau Siu Mun Sammy	350,000	—	—	—

### SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 24 May 2000 ("the Old Scheme") 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 was 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 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% 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% 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. The number of shares in respect of which options were outstanding as at 31 December 2002 represented approximately 2.0% of the issued share capital of the Company.

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME (Continued)

According to Chapter 17 of the Listing Rules in relation to share option schemes, the exercise price must be the higher of (i) the closing price of the shares 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 shares 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 complies with the requirements of Chapter 17 of the Listing Rules. Therefore, for options granted after 1 September 2001 under the Old Scheme, the options were granted in accordance with the requirements of Chapter 17 of the Listing Rules.

At 31 December 2002, 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 2002 was HK\$3.975) granted at nominal consideration under the Old Scheme. Each 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 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 of options	Weighted average market value per share at date of exercise of options
Yang Chao	2,670,000	2,670,000	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.37	—
	—	1,300,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Zhang Xiaoshu	2,200,000	2,200,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.41	—
	—	1,100,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Miao Jianmin	1,740,000	1,740,000	26 September 2000	26 September 2000 to 25 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.37	—
	—	900,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Ng Yu Lam, Kenneth	1,300,000	1,300,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.41	—
	500,000	500,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.95	HK\$1.33	—
	—	400,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
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	400,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.95	HK\$1.33	—
	—	400,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—

## REPORT OF THE DIRECTORS

### 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 of options	Weighted average market value per share at date of exercise of options
Shen Koping Michael	—	1,500,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Lau Siu Mun, Sammy	1,350,000	1,100,000	27 September 2000	27 September 2000 to 26 September 2010	HK\$1.00	250,000	—	HK\$1.11	HK\$1.40	HK\$3.929
	400,000	400,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	—	—	HK\$0.95	HK\$1.33	—
	—	300,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
Zheng Chanyong	1,000,000	1,000,000	28 September 2000	28 September 2000 to 27 September 2010	HK\$1.00	—	—	HK\$1.11	HK\$1.41	—
	—	500,000	12 September 2002	12 September 2002 to 11 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—
<b>Employees</b>	4,870,000	4,020,000	26 September 2000	26 September 2000 to 27 September 2010	HK\$1.00	850,000	—	HK\$1.11	HK\$1.40	HK\$4.278
	873,000	634,000	12 February 2001	12 February 2001 to 11 February 2011	HK\$1.00	239,000	—	HK\$0.95	HK\$1.33	HK\$4.352
	—	2,290,000	12 September 2002	12 September 2002 to 22 September 2012	HK\$1.00	—	—	HK\$3.225	HK\$3.235	—

The share options granted are not recognised in the financial statements until they are exercised. The weighted average value per option granted in 2000, 2001 and 2002 estimated at the date of grant using the Black-Scholes pricing model was HK\$0.45, HK\$0.29 and HK\$0.75 respectively. The weighted average assumptions used are as follows:

	2002	2001	2000
Risk-free interest rate	1.0%	2.0%	5.0%
Expected life (in years)	10	10	10
Volatility	20.0%	20.0%	20.0%
Expected dividend per share	HK\$0.03	HK\$0.05	HK\$0.04

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 the 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.



## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME (Continued)

Subsequent to the balance sheet date, at the extraordinary general meeting of the Company held on 7 January 2003, the shareholders of the Company approved the adoption of a new share option scheme (“New Scheme”) and the termination of the Old Scheme. The New Scheme is in line with the prevailing requirements of Chapter 17 of the Listing Rules in relation to share option schemes. All options granted under the Old Scheme shall continue to be valid and exercisable in accordance with the terms of the Old Scheme. No options have been granted under the New Scheme.

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.

### 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 2002 amounting to 10% or more of the ordinary shares in issue:

	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
CIHC	726,389,705 <i>(note 1)</i>	54.8%
CIHK	726,389,705 <i>(note 2)</i>	54.8%

Notes:

1. CIHC’s beneficial interest in the Company is held by CIHK, Golden Win and Toplap, all of them are wholly-owned subsidiaries of CIHC.
2. 82,794,000 shares are held by Golden Win and 170,000 shares are held by Toplap.

Save as disclosed above, there was no person known to the directors whom at 31 December 2002 was directly or indirectly interested in 10% or more of the ordinary shares in issue of the Company.

## REPORT OF THE DIRECTORS

### 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.

### CONNECTED TRANSACTIONS

During the year, the Group has entered into various connected transactions with CIHC and its subsidiaries ("CIHC Group").

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

	<i>Note</i>	<b>2002</b> \$	2001 \$
<b><i>Recurring transactions</i></b>			
Business ceded by related companies:	(i)		
Gross premiums written		<b>244,649,638</b>	182,394,374
Commission expenses paid		<b>66,618,150</b>	50,855,604
Business retroceded to related companies:	(ii)		
Outward retroceded premiums		<b>61,540</b>	136,683
Commission income received		<b>332</b>	325,873
Interest income received on			
Premium deposits placed with related parties		<b>310,127</b>	298,575
Funds in an insurance pool	(iii)	<b>286,668</b>	821,582
Insurance brokerage income	(iv)	<b>62,218</b>	33,933
Securities brokerage fee paid	(v)	<b>477,637</b>	683,927
Service fee income received from insurance pool	(iii)	<b>28,459</b>	36,511
IT consultation service income received	(vi)	<b>262,000</b>	190,000
Contributions to retirement schemes managed by a related party	(vii)	<b>1,844,135</b>	1,519,062
Travel agency services fee paid	(viii)	<b>334,914</b>	365,488
Insurance expenses covering business risk	(ix)	<b>298,771</b>	126,864
Investment management fee and redemption income	(x)	<b>27,621,779</b>	—
Rental and management fee paid	(xi)	<b>1,137,533</b>	726,240
<b><i>Non-recurring transactions</i></b>			
Acquisition of an associate	(xii)	—	1,164,000
Acquisition of an associate	(xiii)	—	300,707,547
Acquisition of a subsidiary	(xiv)	<b>403,200,000</b>	—
Acquisition of a subsidiary	(xv)	—	522,405,661
		<b>—————</b>	<b>—————</b>



## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS *(Continued)*

#### Notes:

- (i) During the year, Ming An, China Insurance Co. (Singapore) Pte. Ltd, China Insurance (Macau) Company Limited, P.T. China Insurance Indonesia, CICUK, CLICL, fellow subsidiaries of the Company, and certain branches of CIHC, the ultimate holding company, ceded business to and received commission from 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 China Insurance Company, Macau, China America Insurance, HK Branch, Ming An and CICUK, fellow subsidiaries of the Company, in the normal course of CIRE's reinsurance business.
- (iii) 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.
- (iv) During the year, SINO-RE, a wholly owned subsidiary of the Company, provided reinsurance broking services to and received brokerage fees for the services rendered to TPI, an associate of the Company.
- (v) The Group has entered into agreements with CIGSL, 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.
- (vi) During the year, CIRE provided IT consultation services to and received service fees from CIHK, the immediate holding company, and China Insurance Group Investment Company Limited, a fellow subsidiary of the Company.
- (vii) 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.
- (viii) 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 charged a fee for the services rendered.
- (ix) During the year, the Group entered into a number of insurance policies with CLICL, Hong Kong Branch, and Ming An, to cover their business risks in relation to fire, motor vehicle, personal accident, workmen compensation, group life and medical, electronic equipment and professional indemnity.
- (x) During the year, CIGAML, a wholly owned subsidiary of the Company, provided investment consultancy services to and received investment management fees and redemption incomes from CLTL and C.I.G (Nominee), fellow subsidiaries of the Company.
- (xi) During the year, the Company and CIGAML leased office premises and car park spaces from and paid rent and building management fees to Jacton Limited and Charter Firm Limited, respectively, which are fellow subsidiaries of the Company.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS (Continued)

Notes: (Continued)

- (xii) On 25 April 2001, the Company acquired from Ming An its entire 25% equity interest in 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.
- (xiii) On 26 November 2001, the Company entered into a Reorganisation and Share Transfer Agreement with CIHC and TPI, whereby the Company agreed to acquire a 42.5% equity interest in TPI from CIHC for a total consideration of approximately HK\$300.70 million. The consideration comprised of cash 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 CIHC, at the direction of CIHC.

Pursuant to the aforesaid Reorganisation and Share Transfer Agreement, the Company, CIHC and ICBC (Asia) entered into a Sale and Purchase Agreement on 26 March 2002 whereby the Company sold a 12.45% equity interest in TPI to ICBC (Asia), for a consideration of the Hong Kong dollars equivalent of RMB93.38 million.

Upon completion of this transaction (including the sale by CIHC to ICBC (Asia) of 12.45% of TPI), the Company's interest in the capital of TPI is 30.05%.

- (xiv) On 8 July, 2002, the Company entered into a sale and purchase agreement with CIHK, pursuant to which the Company agreed to acquire all the issued shares of CIGAML from CIHK for a total consideration of HK\$403.20 million. The consideration comprised of a cash payment of HK\$201.62 million and the issuance and allotment of 51,620,000 new shares of HK\$0.05 each of the Company at price of HK\$3.905 per share to CIHK credited as fully paid. The transaction was completed on 9 September 2002.
- (xv) On 4 September 2001, a Reorganisation and Share Transfer Agreement was entered into between the Company, CIHC and TPL, whereby the Company agreed to acquire a 62.5% equity interest in TPL from CIHC for a total consideration of approximately HK\$522.41 million. The consideration comprised cash of HK\$280.00 million and the allotment of 78,511,955 shares at an issue price of HK\$3.0875 per share, credited as fully paid to CIHC, at the direction of CIHC.

In accordance with the terms and conditions set out in the aforesaid Reorganisation and Share Transfer Agreement, the Company together with CIHC subsequently entered into a Sale and Purchase Agreement with Fortis on 19 October 2001, whereby the Company sold a designated subsidiary, incorporated for the purpose of holding a 12.45% equity interest in TPL to Fortis, for a consideration of US\$44.00 million.

As a result of this transaction (including the sale by CIHC 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.

- (xvi) CIRe and CIHK established Dragon Jade, 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 20.0% equity interest.



## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS *(Continued)*

*Notes: (Continued)*

- (xvii) 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.
- (xviii) 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 2002 was HK\$4.83 million (2001 : HK\$4.83 million).

#### ***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 in August 2000.

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 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) entered into within the proposed limits as laid down by the Stock Exchange in the waiver.

A letter dated 25 March 2003 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 the conditional waiver has been granted by the Stock Exchange have been conducted in the manner as stated in (iii) and (iv) above.

The conditional waiver which was originally effective for financial periods up to 31 December 2002 has been renewed in January 2003. The new waiver granted by the Stock Exchange will be effective for the three financial years ending 31 December 2005.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS *(Continued)*

#### ***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 in 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 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 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) entered into within the proposed limit as laid down by the Stock Exchange in the waiver.

A letter dated 25 March 2003 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.

### 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 100 and 101.

### 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.



## REPORT OF THE DIRECTORS

### RETIREMENT SCHEMES *(Continued)*

As from 1 December 2000, the Group also operates a 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 5.0% 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 to the 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\$4.09 million for the year ended 31 December 2002 (2001: HK\$1.80 million).

### 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 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 the Group’s senior management and external auditors regularly to review the effectiveness of the internal control systems and the interim and annual results of the Group.

### 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

**Yang Chao**

*Chairman*

Hong Kong, 25 March 2003