

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 2002.

Principal activities

The principal activity of the Company is investment holding.

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 agency arrangements.

In June 2002, Pacific Century Insurance Company Limited ("PCI") (an indirect wholly-owned subsidiary) entered into an agreement for the transfer of its Mandatory Provident Fund business to HSBC Life (International) Limited ("HSBC Life"). The related activities have been accounted for as discontinuing operations in the preparation of the current financial statements, details of which are set out in note 34 to the financial statements. Other than this transfer of business to HSBC Life, there were no other significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 45 to 79.

The directors recommend, subject to the approval of the shareholders at the forthcoming annual general meeting, the payment of a final dividend of HK\$0.01 per ordinary share in respect of the year, to shareholders on the register of members on 5 May 2003 payable on or before 15 May 2003. This recommendation has been incorporated in the financial statements and the declaration of dividend is by way of distribution out of contributed surplus. Further details are set out in note 12 to the financial statements.

Summary financial information

A summary of the published results of the Group for the last five financial years and assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements and classified as appropriate, is set out on pages 80 to 81. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 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, together with the reasons therefor, are set out in notes 26 and 27 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, redemption or sale of listed securities of the Company

During the year, the Company repurchased certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. The directors considered that, the Company had surplus cash which was sufficient for capital expenditure, normal operation, business expansion and investment of the Group in the foreseeable future and the repurchases would enhance shareholder value. Further details of these transactions are set out in note 26 to the financial statements.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

report of the directors

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity.

Distributable reserves

At 31 December 2002, the Company's reserves available for cash distribution and/or distribution in specie, after the proposed final dividend of HK\$8.2 million, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$7.6 million. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus may be distributed under certain circumstances. In addition, the Company's share premium account, in the amount of HK\$26.7 million as at 31 December 2002, 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\$348,000 (2001: HK\$325,000).

Major customers

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

Directors

The directors of the Company during the year and up to the date of this report were as listed below. The directors' biographical information is set out on pages 13 to 15.

Executive directors:

YUEN Tin Fan, Francis	
YANG Fan Shing, Andrew	
CHAN Ping Kan	(appointed on 4 March 2003)
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	(resigned on 30 June 2002)
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. CHAN Ping Kan will retire from office at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

report of the directors

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 both contracts expired on 30 June 2002. Mr. LEE Ho Sang and Mr. LUK Kin Yu, Peter both 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 on 31 March 2004.
- (4) Mr. CHAN Ping Kan entered into a service contract with the Group for a period commencing on 4 March 2003 and expiring on 31 March 2006.
- (5) 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 were appointed for an initial term of three years with effect from 8 June 1999, with the term being renewed for a further two years with effect from 8 June 2002.

Apart from the foregoing, 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.

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, existed at the end of the year or at any time during the year.

Directors' and chief executive's interests in shares

As at 31 December 2002, the interests of the directors and the chief executive and their associates in the shares of the Company or its associated corporations, 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:

Ordinary shares of the Company:

Name of director	Personal	Number of shares held and nature of interest			Total
		Family	Corporate	Other	
YANG Fan Shing, Andrew	—	—	¹ 75,495,242	—	75,495,242
SO Wing Hung, Peter	—	—	—	² 276,000	276,000
ALLEN Peter Anthony	360,000	—	—	—	360,000

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

report of the directors

Directors' and chief executive's interests in shares (continued)

Interests in associated corporations:

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

Name of director	Personal	Number of shares held and nature of interest			Total
		Family	Corporate	Other	
ALLEN Peter Anthony	5,010,000	—	—	—	5,010,000
CHUNG Cho Yee, Mico	8,000,000	—	—	—	8,000,000

II. PCCW Limited ("PCCW")

Name of director	Personal	Number of shares held and nature of interest			Total
		Family	Corporate	Other	
SO Wing Hung, Peter	—	—	—	² 453,305	453,305
ALLEN Peter Anthony	1,266,000	—	—	—	1,266,000
ARENA Alexander Anthony	³ 3,801,000	—	—	—	3,801,000
CHUNG Cho Yee, Mico	5,881,300	92,276	—	—	5,973,576
CHANG Hsin Kang	320,000	—	—	—	320,000

III. Pacific Century CyberWorks Japan Co., Ltd.

Name of director	Personal	Number of shares held and nature of interest			Total
		Family	Corporate	Other	
BONNER John Todd	110,000	—	—	—	110,000

IV. iLink Holdings Limited ("iLink")

Name of director	Personal	Number of shares held and nature of interest			Total
		Family	Corporate	Other	
CHEUNG Sum, Sam	—	—	—	⁴ 400,500,000	400,500,000
CHUNG Cho Yee, Mico	—	—	—	⁴ 400,500,000	400,500,000

Notes:

- (1) Mr. YANG Fan Shing, Andrew is deemed to be interested in 75,495,242 shares of the Company held by a company which is owned by him and his spouse.
- (2) The shares are held by a trust, the beneficiaries of which are the family members of Mr. SO Wing Hung, Peter.
- (3) 1,000 of the shares included in the total are held in the form of 100 ADRs (American Depository Receipts), each representing 10 ordinary shares.
- (4) Each of Mr. CHEUNG Sum, Sam and 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 of the Company or any of its associated corporations as defined in the SDI Ordinance.

report of the directors

Directors' and chief executives' rights to acquire shares or debentures

Pursuant to the Company's share option schemes as set out in note 27 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 1 January 2002	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding at 31 December 2002
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)	—
				49,458,000	—	—	(6,018,000)	43,440,000

*Messrs. LEE Ho Sang and LUK Kin Yu, Peter resigned as directors of the Company on 15 March 2002.

No share options were granted to or exercised by the directors during the year.

report of the directors

Directors' and chief executive's rights to acquire shares or debentures (continued)

Interests in associated corporations:

I. PCRD

Name of director	Date of grant of share options	Exercisable period	Exercise price SGD	Number of share options				Outstanding at 31 December 2002
				Outstanding at 1 January 2002	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	
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
				20,300,000	—	—	—	20,300,000

II. PCCW

Name of director	Date of grant of share options	Exercisable period	Exercise price HK\$	Number of share options				Outstanding at 31 December 2002
				Outstanding at 1 January 2002	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	
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	16,000,000	—	—	—	16,000,000
	20 February 2001	26 August 2001 to 22 January 2011	3.368	16,000,000	—	—	—	16,000,000
CHEUNG Sum, Sam	22 January 2001	26 May 2001 to 22 January 2011	3.368	3,000,000	—	—	—	3,000,000
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	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	8,000,000	—	—	—	8,000,000
	20 February 2001	26 August 2001 to 22 January 2011	3.368	8,000,000	—	—	—	8,000,000

report of the directors

Directors' and chief executive's rights to acquire shares or debentures (continued)

Interests in associated corporations: (continued)

II. PCCW (continued)

Name of director	Date of grant of share options	Exercisable period	Exercise price HK\$	Number of share options				Outstanding at 31 December 2002
				Outstanding at 1 January 2002	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	
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	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	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
				140,892,000	—	—	—	140,892,000

*Mr. TO Peter resigned as a director of the Company on 30 June 2002.

Apart from that disclosed above, under the heading "Directors' and chief executive's interests in shares" and in the share option scheme disclosures set out in note 27 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

report of the directors

Directors' interests in competing businesses

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the following directors have declared interests in the following businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of director	Name of companies	Competing business	Nature of interest
YANG Chao	China Insurance (Holdings) Company, Limited (Formerly known as China Insurance Company, Limited)	Insurance business	As a director
	China Insurance International Holdings Company Limited	Insurance business	As a director
	China Life Insurance Company, Limited	Life insurance business	As a director
	CIC Holdings (Europe) Limited (Formerly known as CIC Holdings Limited)	General 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
	Tai Ping Life Insurance Company, Limited	Life insurance business	As a director
	PT China Insurance Indonesia	General insurance business	As a director
ZHENG Chang Yong (Note 1)	China Insurance (Holdings) Company, Limited	Insurance business	As a director
	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
	PT China Insurance Indonesia	General insurance business	As a director

Note:

- (1) Mr. ZHENG Chang Yong was appointed as a director of China Insurance (Holdings) Company, Limited and PT China Insurance Indonesia on August 20, 2002 and May 27, 2002 respectively.

All of the above companies are within the China Insurance Group, which holds a 12.3% interest in the Company as disclosed in the section headed "Substantial shareholders" below.

As the board of directors of the Company is independent from the boards of directors of the above-listed companies and the above directors do not control the board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of the above-listed companies.

report of the directors

Substantial shareholders

As at 31 December 2002, 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	—	45.0%
LI Tzar Kai, Richard	(1)	—	370,352,700	45.0%
Pacific Century Group Holdings Limited	(1)	—	370,352,700	45.0%
Pacific Century International Limited	(1)	—	370,352,700	45.0%
Pacific Century Group (Cayman Islands) Limited	(1)	—	370,352,700	45.0%
Anglang Investments Limited	(1)	—	370,352,700	45.0%
The Ming An Insurance Company (Hong Kong), Limited	(2)	—	101,060,000	12.3%
China Insurance H.K. (Holdings) Company Limited	(2)	—	101,060,000	12.3%

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) The Ming An Insurance Company (Hong Kong), Limited and China Insurance H.K. (Holdings) Company Limited are 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 headed "Directors' and chief executive's interests in shares" 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 33 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 businesses;
- conducted 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.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

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 to the Listing Rules throughout the accounting period covered by the annual report.

report of the directors

Audit committee

Pursuant to the requirements of the Listing Rules, the Company has an audit committee which comprises Messrs. Wong Yue Chim, Richard (Chairman), Chang Hsin Kang and Tim Freshwater, who are the independent non-executive directors of the Company. The audit committee was established with reference to 'A Guide for the Formation of an audit committee' issued by the Hong Kong Society of Accountants. Regular meetings are held by the audit committee, which met two times during 2002.

The audit committee is answerable to the board of directors. The principal duties of the audit 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 at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

YUEN Tin Fan, Francis

Chairman

Hong Kong

17 March 2003