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If you are in any doubt as to any aspect of this Circular or as to the action you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Pacific Century Insurance Holdings Limited, you should at once hand this Circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



PACIFIC CENTURY INSURANCE HOLDINGS LIMITED
(盈科保險集團有限公司) *

(An investment holding company incorporated in Bermuda with limited liability)

(Stock Code: 65)

ACQUISITION OF 1063 KING'S ROAD
VERY SUBSTANTIAL ACQUISITION

A notice convening a special general meeting of Pacific Century Insurance Holdings Limited to be held at 10:30 a.m. on 6 February 2007 at Fuji Room, Level 5, One Pacific Place, 88 Queensway, Admiralty, Hong Kong is set out on pages 221 and 222 of this Circular. Whether or not you intend to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

* For identification purpose only

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DEFINITIONS

In this Circular, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

“Acquisition”	the proposed acquisition of the entire issued share capital of HKL (King’s Road) and related shareholder’s loans to HKL (King’s Road) and Foundasia pursuant to the Share Purchase Agreement
“Announcement”	the announcement dated 13 December 2006 made by the Company in relation to the Share Purchase Agreement
“associate”	has the meaning ascribed to this term in the Listing Rules
“Board”	the board of Directors
“Company”	Pacific Century Insurance Holdings Limited
“connected person”	has the meaning ascribed to this term by the Listing Rules
“Directors”	the directors of the Company
“Enlarged Group”	the Group, HKL (King’s Road) and Foundasia following completion of the Share Purchase Agreement
“Foundasia”	Foundasia (HK) Limited, a wholly owned subsidiary of HKL (King’s Road) and the owner of the Property
“Group”	the Company and its subsidiaries or, where the context so requires, any of them (as defined under the Listing Rules)
“HK\$”	Hong Kong dollars
“HKLC”	The Hongkong Land Company, Limited, being the vendor of a shareholder’s loan due by HKL (King’s Road) as mentioned in the section “Letter from the Board — Details of the Share Purchase Agreement — Assets” below
“HKLPC”	The Hongkong Land Property Company, Limited, being the vendor of a shareholder’s loan due by Foundasia as mentioned in the section “Letter from the Board — Details of the Share Purchase Agreement — Assets” below
“HKL (King’s Road)”	HKL (King’s Road) Limited, a company incorporated under the laws of the British Virgin Islands and the holding company of Foundasia
“HKL (King’s Road) Group”	HKL (King’s Road) and Foundasia

DEFINITIONS

“HKL (Quarry Bay)”	HKL (Quarry Bay) Limited, being the vendor of the entire issued share capital of HKL (King’s Road) and a shareholder’s loan due by HKL (King’s Road) as mentioned in the section “Letter from the Board — Details of the Share Purchase Agreement — Assets” below
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	15 January 2007, being the latest practicable date prior to the printing of this Circular for ascertaining certain information herein
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Purchaser”	Shabhala International Limited, an indirect wholly owned subsidiary of the Company
“PRC”	the People’s Republic of China
“Property”	the property situated at 1063 King’s Road, Quarry Bay, Hong Kong
“Share(s)”	ordinary share(s) of HK\$1.00 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Purchase Agreement”	the share purchase agreement dated 13 December 2006 entered into between the Purchaser and the Vendors for the purchase and sale of the entire issued share capital of HKL (King’s Road), and the related shareholder’s loans to HKL (King’s Road) and Foundasia
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time and the rules thereunder
“SGM”	the special general meeting to be convened by the Company to consider and approve the Share Purchase Agreement and the transaction contemplated thereunder, the notice of which is set out at the end of this Circular
“sq. ft.”	square feet
“Vendors”	HKL (Quarry Bay), HKLC and HKLPC
“%”	per cent



PACIFIC CENTURY INSURANCE HOLDINGS LIMITED
(盈科保險集團有限公司) *

(An investment holding company incorporated in Bermuda with limited liability)

(Stock Code: 65)

Executive Directors:

Mr. Yuen Tin Fan, Francis
Mr. Chan Ping Kan, Raymond
Mr. So Wing Hung, Peter

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Non-executive Directors:

Mr. Peter Anthony Allen
Mr. Chung Cho Yee, Mico
Mr. Feng Xiaozeng
Mr. Zheng Changyong

*Head office and principal place
of business in Hong Kong:*

Suite 1401-1410
14th Floor
One Pacific Place
88 Queensway Admiralty
Hong Kong

Independent Non-Executive Directors:

Prof. Chang Hsin Kang
Mr. Timothy George Freshwater
Mr. Wang Xianzhang
Prof. Wong Yue Chim, Richard

19 January 2007

To the Shareholders,

Dear Sir or Madam,

**ACQUISITION OF 1063 KING'S ROAD
VERY SUBSTANTIAL ACQUISITION**

INTRODUCTION

The Board announced on 13 December 2006 that the Purchaser (an indirect wholly owned subsidiary of the Company) and the Vendors had entered into the Share Purchase Agreement, pursuant to which the Purchaser had agreed to purchase from the Vendors the entire issued share capital of HKL (King's Road) and related shareholder's loans to HKL (King's Road) and Foundasia, for HK\$1,472,295,000.00. HKL (King's Road), through Foundasia, owns the property situated at 1063, King's Road, Quarry Bay, Hong Kong (i.e., the Property).

* For identification purpose only

LETTER FROM THE BOARD

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and are therefore subject to the approval of the Shareholders at the SGM. The purpose of this Circular is (i) to provide further information in relation to the Acquisition; and (ii) to give you notice of the SGM at which resolution will be proposed to consider and if thought fit, approve, inter alia, the Share Purchase Agreement and the transactions contemplated thereunder.

DETAILS OF THE SHARE PURCHASE AGREEMENT

Date

13 December 2006

Parties

- (1) the Purchaser, an indirect wholly owned subsidiary of the Company, as purchaser;
- (2) (i) HKL (Quarry Bay), as vendor of the entire issued share capital of HKL (King's Road) and a shareholder's loan due by HKL (King's Road) as at completion, as seller;
- (ii) HKLC, as vendor of a shareholder's loan due by HKL (King's Road) as at completion; and
- (iii) HKLPC, as vendor of a shareholder's loan due by Foundasia as at completion.

Assets

The Vendors' entire interest in the Property, represented by:

- (a) two ordinary shares of US\$1.00 each in the share capital of HKL (King's Road) held by HKL (Quarry Bay), being its entire issued share capital, and all shareholder's loan (which is unsecured, non-interest bearing and repayable on demand) by HKL (Quarry Bay) to HKL (King's Road) as at completion, the amount of which as at 13 December 2006 was HK\$1,638,132.68;
- (b) all shareholder's loan (which is unsecured, non-interest bearing and repayable on demand) by HKLC to HKL (King's Road) as at completion, the amount of which as at 13 December 2006 was HK\$132,311,315.00; and
- (c) all shareholder's loan (which is unsecured, interest bearing and repayable on demand) by HKLPC to Foundasia as at completion, the amount of which as at 30 November 2006 was HK\$1,411,422,647.27.

LETTER FROM THE BOARD

Consideration and Completion

The consideration for the entire issued share capital of HKL (King's Road), and all related shareholder's loans to HKL (King's Road) and Foundasia is HK\$1,472,295,000.00, payable as follows:

- (a) an initial deposit of HK\$30,000,000.00 was paid by the Purchaser on signing of the Share Purchase Agreement;
- (b) a further deposit of HK\$117,229,500.00 was paid within 14 days of signing of the Share Purchase Agreement; and
- (c) the balance of the consideration of HK\$1,325,065,500.00 (subject to adjustment set out below) is payable on completion.

Completion shall take place on the earlier of the third business day after satisfaction (or waiver) of the following conditions or 31 March 2007 (or such other date as the parties may agree) conditional upon the following:

- (a) the passing at a general meeting of the Company, in accordance with the Listing Rules, of a resolution to approve the Share Purchase Agreement and the transactions contemplated thereunder or the obtaining otherwise of all necessary consents or approvals required of the Company under the Listing Rules for approving the terms of the Share Purchase Agreement and the transactions contemplated thereunder; and
- (b) the Purchaser, acting reasonably, is satisfied that:
 - (i) HKL (Quarry Bay) has legal and beneficial title to the shares of HKL (King's Road) free from encumbrances;
 - (ii) the shareholders' loans are due and owing; and
 - (iii) Foundasia has good title to the Property in accordance with section 13 of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong), and is the sole registered owner of the Property and the Property is beneficially owned by Foundasia.

In the event the above conditions are not satisfied or waived by 31 March 2007, the transaction will not proceed and, in relation to the non-satisfaction of condition (b), any deposit paid by the Purchaser shall be refunded by the Vendors without interest.

The consideration will be subject to a post-completion adjustment by reference to HKL (King's Road)'s and Foundasia's working capital at completion on a dollar-for-dollar basis. If such working capital is a positive amount, then the consideration will be adjusted by adding thereto an amount equal to such positive amount payable by the Purchaser to the Vendors. However, if such working capital

LETTER FROM THE BOARD

is a negative amount, then the consideration will be adjusted by deducting therefrom an amount equal to such negative amount payable by the Vendors to the Purchaser. The consideration was determined after arm's length negotiation between the parties with reference to the market value of the Property. A valuation report is included in Appendix VI to this Circular.

It was the original intention of the Directors to fund the consideration from internal resources and bank borrowings. However, after due consideration of the sufficiency of internal resources, the Directors have now decided that the consideration will be funded solely from internal resources of the Company for the completion of the Acquisition.

Following completion, HKL (King's Road) will become an indirect wholly owned subsidiary of the Company.

Other information

HKL (King's Road), through Foundasia, is the holding company of the Property which is a 31-level Grade-A office complex situated at 1063, King's Road, Quarry Bay, Hong Kong. The Property offers approximately 290,000 sq. ft. of gross commercial space with floors 1-3 comprising a carpark with 115 spaces. Retail spaces, an entrance lobby and loading/unloading area are provided on the ground floor, while the upper floors (6/F to 30/F) are designated for office use. Completed in 1999, the Property combines eye-catching contemporary architecture with state-of-the-art telecommunications, advanced security and building management systems. The Property is currently 100% occupied, leased to a wide range of high quality tenants.

HKL (King's Road) and the Purchaser have agreed to use all reasonable endeavours to procure that a management agreement in relation to the ongoing management of the Property for a period of not less than six months after completion by a Hongkong Land entity acceptable to the Purchaser, be entered into upon terms to be agreed in due course.

As at 31 December 2005, the audited consolidated net deficiency in assets of HKL (King's Road) was HK\$230,575,000.00. For the year ended 31 December 2004, the audited consolidated net profits before and after taxation of HKL (King's Road) were HK\$347,927,000.00 and HK\$347,927,000.00 respectively. For the year ended 31 December 2005, the audited consolidated net profits before and after taxation of HKL (King's Road) were HK\$254,782,000.00 and HK\$254,782,000.00 respectively.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE TRANSACTION

The Group intends to hold the Property as a long term investment which offers attractive yield with long term capital appreciation potential. The Group currently utilises approximately 200,000 sq. ft. of office space for its corporate and insurance operations at various locations in Hong Kong. The majority of the existing leases are expected to expire in the next two to eight years. Subject to existing tenancy agreements, the Group is considering to move its operations to the Property in phases so that it can benefit from the certainty of future rental expenses and the improved efficiency of operating under one roof.

The Directors consider that the Share Purchase Agreement and the transactions contemplated under the Share Purchase Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders.

EFFECTS OF THE ACQUISITION ON THE GROUP

Net assets

The unaudited consolidated net asset value of the Group as at 30 September 2006 as extracted from the unaudited quarterly results of the Group for the nine months ended 30 September 2006 was HK\$2,487,350,000.00. The audited consolidated net deficiency in assets of HKL (King's Road) as at 30 September 2006 was HK\$225,074,000.00 as shown in Appendix II to this Circular.

As set out in Appendix V to this Circular, assuming completion of the Acquisition had taken place on 30 September 2006, the pro forma net asset value of the Enlarged Group would have been HK\$2,487,350,000.00.

Earnings

The Group intends to hold the Property as a long term investment. The Group is considering to move its operation into the Property by phases, subject to the existing tenancy agreements. In the interim, the Property will be leased out and provide the Enlarged Group with a stable source of rental income. The Directors believe that the Property offers capital appreciation potential in the long term.

For the nine months ended 30 September 2006, HKL (King's Road) reported an audited consolidated net profit of HK\$5,501,000.00 as shown in Appendix II to this Circular, which is arrived at after crediting a reversal of impairment on the Property of HK\$23,952,000.00 during the period.

The Group recorded an unaudited consolidated net profit of HK\$222,107,000.00 for the nine months ended 30 September 2006 as shown in Appendix I to this Circular.

Assuming completion of the Acquisition had taken place on 1 January 2006, the unaudited pro forma net profit of the Enlarged Group for the nine months ended 30 September 2006 as set out in Appendix V to this Circular would have been HK\$208,798,000.00. The decrease in net profit by

LETTER FROM THE BOARD

HK\$13,309,000.00 was mainly due to the fact that the reversal of impairment on the Property of HK\$23,952,000.00 during the nine months ended 30 September 2006 was applied as part of the acquisition cost of the Property. The Enlarged Group will benefit from the capital appreciation subsequent to the completion of the Acquisition.

Gearing ratio

As at 30 September 2006, the Group had interest-bearing loans of HK\$783,726,000.00 and the Group's gearing ratio calculated as a percentage of interest-bearing loans to capital and reserves was 31.5%.

In view of cash and cash equivalents of HK\$2,050,134,000.00 and financial assets at fair value through profit and loss of HK\$1,319,927,000.00 as at 30 September 2006, the Directors consider that the Group has sufficient internal resources to finance the Acquisition. Hence, the total interest-bearing loans and the gearing ratio of the Enlarged Group would not be changed significantly assuming the Acquisition had been completed as at 1 January 2006 as set out in Appendix V to this Circular.

Taking into account the present internal resources, the available banking and other borrowing facilities and the income to be generated from the Property after the completion of the Acquisition, the Directors are in the opinion that the Enlarged Group has sufficient cash flow for at least the next 12 months following the date of this Circular.

INFORMATION ON THE GROUP

The Group is principally engaged in the provision of a range of whole life, endowment and term life insurance products to individuals in Hong Kong as well as being engaged in 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.

GENERAL INFORMATION

Hongkong Land group, of which the Vendors are members, is a leading property investment, management and development group with a major portfolio in Hong Kong, where it owns and manages prime office and retail space in the heart of the Central business district in Hong Kong.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Vendors or any of their associates or the ultimate beneficial owners of the Vendors are connected persons of the Company and are third parties independent of the Company and connected persons of the Company.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Business Outlook

We believe that the demand for insurance products in Hong Kong will continue to grow. The government of Hong Kong is now advancing its health care reform plan, which will create an increase in demand for medical products. In addition, we expect further growth in retirement and pension products as a result of an ageing population.

LETTER FROM THE BOARD

We will continue to build on our solid foundation through developing profitable products, strengthening and diversifying distribution capabilities and driving down unit costs.

LISTING RULES IMPLICATIONS

The Share Purchase Agreement and the transactions contemplated thereunder constitute a very substantial acquisition of the Company under Chapter 14 of the Listing Rules and will be subject to the approval of the Shareholders at the SGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting in respect of the proposed ordinary resolution to approve the Acquisitions at the SGM.

The accountants' reports of HKL (King's Road) as set out in Appendix II to this Circular were made up to 30 September 2006. The Stock Exchange has granted a waiver from strict compliance with the requirement set out in Rule 4.06(1) of the Listing Rules regarding the inclusion of the consolidated results of HKL (King's Road) in respect of each of the three financial years immediately preceding the issue of the Circular on the following conditions:

- (a) this Circular is to be despatched on or before 16 February 2007; and
- (b) the Company confirms that after performing due diligence work, there is no significant change in the financial position of HKL (King's Road) since 30 September 2006 and that no event is expected to arise from the date thereof which may result in a significant change in the financial position of HKL (King's Road).

In connection with the above, the Directors, having considered the due diligence work performed by the Company, confirm that there is no significant change in the financial position of HKL (King's Road) since 30 September 2006 and that no event is expected to arise from the date thereof which may result in a significant change in the financial position of HKL (King's Road).

PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to Bye-law 70 of the Bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the Meeting; or
- (ii) by at least three Shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

LETTER FROM THE BOARD

- (iv) by a Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

SGM

A notice convening the SGM to be held at 10:30 a.m. on 6 February 2007 at Fuji Room, Level 5, One Pacific Place, 88 Queensway, Admiralty, Hong Kong is set out on pages 221 and 222 of this Circular for the purpose of considering and, if thought fit, passing, with or without amendments, the ordinary resolution in respect of the Acquisition. A form of proxy for use by the Shareholders at the SGM is enclosed. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournments thereof. Completion and return of the respective form of proxy will not preclude you from attending and voting in person at the SGM or any adjournments thereof should you so desire.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders should vote in favour of the Acquisition at the SGM.

OTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Circular and the notice of the SGM.

By Order of the Board
Pacific Century Insurance Holdings Limited
Yuen Tin Fan, Francis
Executive Chairman

1. SUMMARY OF ASSETS AND LIABILITIES AND RESULTS OF THE GROUP FOR THREE FINANCIAL YEARS ENDED 31 DECEMBER 2003, 31 DECEMBER 2004 AND 31 DECEMBER 2005

The table set out below is the summary of the financial information extracted from the relevant published audited financial statements of the Group for the three years ended 31 December 2003, 31 December 2004 and 31 December 2005. Due to the adoption of new Hong Kong Financial Reporting Standards in 2005, 2003 and 2004 financial information has been restated to conform with the new accounting policies adopted by the Group.

Summary of consolidated assets and liabilities

	As at 31 December		
	2005	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>	<i>(Restated)</i>
NON-CURRENT ASSETS			
Property, plant and equipment	219,649	215,885	220,993
Investment properties	15,028	15,319	15,319
Deferred acquisition costs	1,037,714	1,023,228	1,102,016
Financial assets	1,016,725	394,002	409,935
Pledged deposit	<u>15,751</u>	<u>—</u>	<u>—</u>
Total non-current assets	<u>2,304,867</u>	<u>1,648,434</u>	<u>1,748,263</u>
CURRENT ASSETS			
Deferred acquisition costs	286,179	286,168	301,257
Premiums receivable	88,468	74,048	58,246
Prepayments and other debtors	210,162	132,171	128,690
Financial assets	5,887,859	5,782,713	4,687,756
Reinsurance assets	1,954	1,959	1,932
Tax recoverable	1,009	—	10,950
Cash and cash equivalents	<u>1,357,684</u>	<u>1,301,545</u>	<u>488,980</u>
	7,833,315	7,578,604	5,677,811
Assets of a disposal group classified as held for sale	<u>59,773</u>	<u>—</u>	<u>—</u>
Total current assets	<u>7,893,088</u>	<u>7,578,604</u>	<u>5,677,811</u>

	As at 31 December		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>	2003 <i>HK\$'000</i> <i>(Restated)</i>
CURRENT LIABILITIES			
Payable to policyholders	(147,520)	(162,329)	(162,837)
Due to related companies	—	—	(7,086)
Accrued expenses and other creditors	(262,497)	(252,387)	(197,465)
Tax payable	<u>(8,988)</u>	<u>(4,800)</u>	<u>(1,470)</u>
	(419,005)	(419,516)	(368,858)
Liabilities directly associated with the assets classified as held for sale	<u>(21,610)</u>	<u>—</u>	<u>—</u>
Total current liabilities	<u>(440,615)</u>	<u>(419,516)</u>	<u>(368,858)</u>
NET CURRENT ASSETS	<u>7,452,473</u>	<u>7,159,088</u>	<u>5,308,953</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>9,757,340</u>	<u>8,807,522</u>	<u>7,057,216</u>
NON-CURRENT LIABILITIES			
Derivative financial instruments	(3,313)	—	—
Interest-bearing loans	(768,140)	(768,991)	—
Future insurance liabilities under investment contracts	(546,802)	(482,225)	(255,551)
Future insurance liabilities under insurance contracts	(5,050,881)	(4,407,350)	(3,898,004)
Policyholders' dividends and bonuses	<u>(771,653)</u>	<u>(668,302)</u>	<u>(566,854)</u>
Total non-current liabilities	<u>(7,140,789)</u>	<u>(6,326,868)</u>	<u>(4,720,409)</u>
NET ASSETS	<u>2,616,551</u>	<u>2,480,654</u>	<u>2,336,807</u>
EQUITY			
Issued capital	818,106	820,938	821,350
Reserves	1,765,721	1,577,622	1,466,176
Proposed dividends	<u>32,724</u>	<u>82,094</u>	<u>49,281</u>
TOTAL EQUITY	<u>2,616,551</u>	<u>2,480,654</u>	<u>2,336,807</u>

Summary of consolidated results

	Year ended 31 December		
	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE			
Turnover	1,826,885	1,688,832	1,605,132
Investment income, net gains, and other income	<u>373,791</u>	<u>472,278</u>	<u>502,646</u>
Total revenue and gains, net	2,200,676	2,161,110	2,107,778
Less: Reinsurance premiums	<u>(154,807)</u>	<u>(156,767)</u>	<u>(169,049)</u>
Net revenue	<u>2,045,869</u>	<u>2,004,343</u>	<u>1,938,729</u>
Policyholders' benefits (<i>Note 1</i>)	(581,354)	(584,917)	(555,795)
Agency commission and allowances	(389,176)	(292,264)	(277,127)
Change in deferred acquisition costs	14,497	(93,877)	(104,245)
Management expenses	(303,608)	(304,215)	(342,877)
Increase in future insurance liabilities under investment contracts (<i>Note 2</i>)	(29,233)	(15,074)	(19,320)
Increase in future insurance liabilities under insurance contracts	(652,783)	(505,751)	(414,728)
Finance costs	<u>(45,346)</u>	<u>(1,805)</u>	<u>—</u>
PROFIT BEFORE TAX	58,866	206,440	224,637
Tax	<u>(16,963)</u>	<u>(17,579)</u>	<u>(10,362)</u>
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	41,903	188,861	214,275
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	<u>599</u>	<u>(566)</u>	<u>(374)</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS	<u>42,502</u>	<u>188,295</u>	<u>213,901</u>

Notes:

- “Policyholders' benefits” was renamed as “policyholders' benefits under insurance contracts” in the financial statements prepared for the accounting periods beginning on or after 1 January 2006.
- “Increase in future insurance liabilities under investment contracts” was renamed as “policyholders' benefits under investment contracts” in the financial statements prepared for the accounting periods beginning on or after 1 January 2006.

2. FINANCIAL INFORMATION

- (i) Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement of the Group and the balance sheet of the Company and notes on the accounts reproduced from the audited accounts published in the Company's annual report for the year ended 31 December 2005.

Consolidated income statement**For the year ended 31 December 2005**

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
CONTINUING OPERATIONS			
REVENUE			
Turnover	4	1,826,885	1,688,832
Investment income, net gains, and other income	4	<u>373,791</u>	<u>472,278</u>
Total revenue and gains, net		2,200,676	2,161,110
Less: Reinsurance premiums		<u>(154,807)</u>	<u>(156,767)</u>
Net revenue		<u>2,045,869</u>	<u>2,004,343</u>
OPERATING EXPENSES			
Policyholders' benefits	6	(581,354)	(584,917)
Agency commission and allowances		(389,176)	(292,264)
Change in deferred acquisition costs	20	14,497	(93,877)
Management expenses		<u>(303,608)</u>	<u>(304,215)</u>
Total operating expenses		<u>(1,259,641)</u>	<u>(1,275,273)</u>
Increase in future insurance liabilities under investment contracts	36	(29,233)	(15,074)
Increase in future insurance liabilities under insurance contracts		(652,783)	(505,751)
Finance costs	7	<u>(45,346)</u>	<u>(1,805)</u>
PROFIT BEFORE TAX	8, 9	58,866	206,440
Tax	12	<u>(16,963)</u>	<u>(17,579)</u>
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		41,903	188,861

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	13	<u>599</u>	<u>(566)</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS			
	14	<u>42,502</u>	<u>188,295</u>
DIVIDENDS			
	15		
Dividends paid		8,213	—
Dividends proposed		<u>32,724</u>	<u>82,094</u>
		<u>40,937</u>	<u>82,094</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS			
	16		
Basic			
— For profit for the year		<u>5.18 cents</u>	<u>22.94 cents</u>
— For profit from continuing operations		<u>5.11 cents</u>	<u>23.01 cents</u>
Diluted			
— For profit for the year		<u>5.11 cents</u>	<u>22.54 cents</u>
— For profit from continuing operations		<u>5.04 cents</u>	<u>22.61 cents</u>

Consolidated balance sheet

As at 31 December 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
NON-CURRENT ASSETS			
Property, plant and equipment	17	219,649	215,885
Investment properties	19	15,028	15,319
Deferred acquisition costs	20	1,037,714	1,023,228
Financial assets	21	1,016,725	394,002
Pledged deposit	28	<u>15,751</u>	<u>—</u>
Total non-current assets		<u>2,304,867</u>	<u>1,648,434</u>
CURRENT ASSETS			
Deferred acquisition costs	20	286,179	286,168
Premiums receivable		88,468	74,048
Prepayments and other debtors		210,162	132,171
Financial assets	21	5,887,859	5,782,713
Reinsurance assets	37	1,954	1,959
Tax recoverable		1,009	—
Cash and cash equivalents	28	<u>1,357,684</u>	<u>1,301,545</u>
		7,833,315	7,578,604
Assets of a disposal group classified as held for sale	13	<u>59,773</u>	<u>—</u>
Total current assets		<u>7,893,088</u>	<u>7,578,604</u>
CURRENT LIABILITIES			
Payable to policyholders	31	(147,520)	(162,329)
Accrued expenses and other creditors	34	(262,497)	(252,387)
Tax payable		<u>(8,988)</u>	<u>(4,800)</u>
		(419,005)	(419,516)
Liabilities directly associated with the assets classified as held for sale	13	<u>(21,610)</u>	<u>—</u>
Total current liabilities		<u>(440,615)</u>	<u>(419,516)</u>
NET CURRENT ASSETS		<u>7,452,473</u>	<u>7,159,088</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,757,340</u>	<u>8,807,522</u>

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
NON-CURRENT LIABILITIES			
Derivative financial instruments	30	(3,313)	—
Interest-bearing loans	35	(768,140)	(768,991)
Future insurance liabilities under investment contracts	36	(546,802)	(482,225)
Future insurance liabilities under insurance contracts	37	(5,050,881)	(4,407,350)
Policyholders' dividends and bonuses	38	<u>(771,653)</u>	<u>(668,302)</u>
Total non-current liabilities		<u>(7,140,789)</u>	<u>(6,326,868)</u>
NET ASSETS		<u>2,616,551</u>	<u>2,480,654</u>
EQUITY			
Issued capital	39	818,106	820,938
Reserves	41(a)	1,765,721	1,577,622
Proposed dividends	15	<u>32,724</u>	<u>82,094</u>
TOTAL EQUITY		<u>2,616,551</u>	<u>2,480,654</u>

Consolidated statement of changes in equity

For the year ended 31 December 2005

		Issued share capital	Share premium account	Contributed surplus	Share option reserve	Hedging reserve	Available- for-sale financial assets revaluation reserve	Retained profits	Proposed final dividends	Total
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(note 39)</i>	<i>(note 39)</i>	<i>(note 41(a))</i>							
As at 1 January 2004										
As previously reported		821,350	26,219	152,178	—	—	—	1,287,779	49,281	2,336,807
Prior year adjustment	2.4(b)	—	—	—	2,138	—	—	(2,138)	—	—
As restated		821,350	26,219	152,178	2,138	—	—	1,285,641	49,281	2,336,807
Final 2003 dividend declared		—	—	—	—	—	—	—	(49,281)	(49,281)
Issue of shares	39	2,880	3,024	—	—	—	—	—	—	5,904
Share repurchase expenses	39	—	(41)	—	—	—	—	—	—	(41)
Shares repurchased and cancelled	39	(3,292)	(5,750)	—	—	—	—	—	—	(9,042)
Equity-settled share option arrangements	2.4(c)	—	—	—	8,012	—	—	—	—	8,012
Net profit for the year		—	—	—	—	—	—	188,295	—	188,295
Proposed 2004 dividend	15	—	—	—	—	—	—	(82,094)	82,094	—
As at 31 December 2004 (as restated)		820,938	23,452	152,178	10,150	—	—	1,391,842	82,094	2,480,654
As at 1 January 2005										
As previously reported		820,938	23,452	152,178	—	—	—	1,401,992	82,094	2,480,654
Prior year adjustment	2.4(b)	—	—	—	10,150	—	—	(10,150)	—	—
As restated		820,938	23,452	152,178	10,150	—	—	1,391,842	82,094	2,480,654
Change in fair value of available-for-sale financial assets		—	—	—	—	—	187,510	—	—	187,510
Net loss on a cash flow hedge		—	—	—	—	(937)	—	—	—	(937)
Total income and expenses recognised directly in equity		—	—	—	—	(937)	187,510	—	—	186,573
Net profit for the year		—	—	—	—	—	—	42,502	—	42,502

		Issued share capital	Share premium account	Contributed surplus	Share option reserve	Hedging reserve	Available- for-sale financial assets revaluation reserve	Retained profits	Proposed final dividends	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 39)	(note 39)	(note 41(a))							
Total income and expense for the year		—	—	—	—	(937)	187,510	42,502	—	229,075
Final 2004 dividend declared		—	—	—	—	—	—	—	(82,094)	(82,094)
Issue of shares	39(b)	3,030	3,182	—	—	—	—	—	—	6,212
Share repurchase expenses	39(a)	—	(80)	—	—	—	—	—	—	(80)
Shares repurchased and cancelled	39(a)	(5,862)	(12,092)	—	—	—	—	—	—	(17,954)
Equity-settled share option arrangements	2.4(c)	—	—	—	8,951	—	—	—	—	8,951
Dividends paid	15	—	—	—	—	—	—	(8,213)	—	(8,213)
Proposed final 2005 dividend	15	—	—	—	—	—	—	(32,724)	32,724	—
As at 31 December 2005		<u>818,106</u>	<u>14,462*</u>	<u>152,178*</u>	<u>19,101*</u>	<u>(937)*</u>	<u>187,510*</u>	<u>1,393,407*</u>	<u>32,724</u>	<u>2,616,551</u>

* These reserve amounts comprised the consolidated reserves of HK\$1,765,721,000 (2004: HK\$1,577,622,000) in the consolidated balance sheet.

Consolidated cash flow statement**For the year ended 31 December 2005**

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		58,866	206,440
From a discontinued operation		661	(566)
Adjustments for:			
Finance costs	7	45,346	1,805
Depreciation from property, plant and equipment	8	16,118	14,985
Depreciation from investment properties	8	291	—
Gain on disposal of items of property, plant and equipment	8	(88)	(99)
Interest income on policy loans and loans to employees and agents	4	(23,409)	(19,849)
Interest income from quoted bonds and deposits	4, 13	(181,112)	(176,507)
Dividend income from listed and unlisted investments	4	(31,332)	(19,441)
Net realised and unrealised capital gains on embedded derivatives and financial assets at fair value through profit and loss	4,13	(36,988)	(221,942)
Fair value gains, net:			
Available-for-sale financial assets (transfer from equity)	4	(41,408)	—
Equity-settled share option expense	8	8,951	8,012
Operating loss before working capital changes		(184,104)	(207,162)
Increase in policy loans		(25,020)	(21,305)
(Increase)/decrease in loans to employees and agents		(12,774)	37,247
(Increase)/decrease in reinsurance assets		5	(27)
(Increase)/decrease in deferred acquisition costs		(14,497)	93,877
Increase in premiums receivable		(14,420)	(15,802)
Increase in prepayments and other debtors		(78,249)	(3,481)
Purchases of available-for-sale financial assets		(5,782,987)	(4,796,305)
Proceeds from disposal of available-for-sale financial assets		5,410,534	3,962,120
Purchases of financial assets at fair value through profit and loss		(89,435)	(58,870)
Proceeds from disposal of financial assets at fair value through profit and loss		15,961	38,414
Increase in time deposits with original maturity of more than three months when acquired		(23)	(10)
Decrease in claims payable		(6,689)	(5,760)
Increase/(decrease) in premium deposits		(8,063)	5,252
Increase in other payables and accruals		10,185	49,021
Increase/(decrease) in amounts due to related companies		313	(1,185)
Increase in future insurance liabilities under investment contracts		85,742	226,674
Increase in future insurance liabilities under insurance contracts		643,531	509,346
Increase in policyholders' dividends and bonuses		103,351	101,448
Increase in derivative financial instruments		(10,167)	—

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
Cash generated from/(used in) operations		<u>43,194</u>	<u>(86,508)</u>
Interest received from policy loans and loans to employees and agents		23,409	19,849
Interests received from quoted bonds and deposits		195,350	159,168
Dividends received from listed and unlisted investments		30,229	18,397
Interest paid on interest-bearing loans		(46,197)	—
Hong Kong profits tax paid		<u>(13,846)</u>	<u>(3,299)</u>
Net cash inflow from operating activities		<u>232,139</u>	<u>107,607</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	17	(20,096)	(9,943)
Proceeds from disposal of items of property, plant and equipment		302	165
Increase in pledged time deposits		<u>(15,751)</u>	<u>—</u>
Net cash outflow from investing activities		<u>(35,545)</u>	<u>(9,778)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	39(b)	6,212	5,904
Repurchase of shares	39(a)	(18,034)	(9,083)
Proceeds from issue of bonds		—	767,186
Dividends paid		<u>(90,307)</u>	<u>(49,281)</u>
Net cash (outflow)/inflow from financing activities		<u>(102,129)</u>	<u>714,726</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		<u>1,299,466</u>	<u>486,911</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>1,393,931</u></u>	<u><u>1,299,466</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	1,126,133	1,072,041
Non-pledged time deposits with original maturity of less than three months when acquired	28	231,551	227,425
Cash and short term deposits attributable to a discontinued operation	13	<u>36,247</u>	<u>—</u>
		<u><u>1,393,931</u></u>	<u><u>1,299,466</u></u>

Balance sheet
As at 31 December 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	18	<u>861,267</u>	<u>913,197</u>
CURRENT ASSETS			
Dividends receivable		36,784	46,464
Prepayments and other debtors		370	356
Cash and cash equivalents	28	<u>35</u>	<u>18</u>
Total current assets		<u>37,189</u>	<u>46,838</u>
CURRENT LIABILITIES			
Dividends payable		(23)	(8)
Creditors and accrued expenses		<u>(2,640)</u>	<u>(2,573)</u>
Total current liabilities		<u>(2,663)</u>	<u>(2,581)</u>
NET CURRENT ASSETS		<u>34,526</u>	<u>44,257</u>
NET ASSETS		<u>895,793</u>	<u>957,454</u>
EQUITY			
Issued capital	39	818,106	820,938
Reserves	41(b)	44,963	54,422
Proposed dividends	15	<u>32,724</u>	<u>82,094</u>
TOTAL EQUITY		<u>895,793</u>	<u>957,454</u>

NOTES TO FINANCIAL STATEMENTS**31 DECEMBER 2005****1. CORPORATE INFORMATION**

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act 1981 (as amended) on 17 May 1999. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the year, the Group is principally engaged in the provision of a range of whole life, endowment and unit-linked insurance products to individuals in Hong Kong as well as being engaged in asset management. The Group also provides a range of other related products, including term life, accident, medical and disability insurance to individuals, and employee groups, 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 (the “MPF business”) to HSBC Life (International) Limited (“HSBC Life”). The related activities have been accounted for as a discontinued operation in the current year’s financial statements, details of which are set out in note 13 to the financial statements.

The Group operates in one reportable business segment, being the provision of financial services, and in one reportable geographical segment, being Hong Kong.

In the opinion of the directors, the parent and the ultimate holding company of the Group is OS Holdings Limited, which is incorporated in Bermuda.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of available-for-sale financial assets, financial assets at fair value through profit and loss and derivative financial instruments, which have been measured at fair value. This accounting basis differs in certain material respects from the statutory financial statements of the Company’s insurance subsidiary, which are prepared and filed with the Hong Kong Office of the Commissioner of Insurance. Disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell as further explained in note 2.5. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$’000) except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continued to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year’s financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities
Amendment	
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 4	Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 20, 21, 23, 27, 28, 31, 33, 36, 37, 38, and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s and the Company’s financial statements.

HKAS 24 has expanded the definition of related parties and affected the Group’s related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKFRS 2 — Share-based Payment**

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium accounts were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee’s share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 “Summary of significant accounting policies” below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The Group has employee share options granted after 7 November 2002 that were not yet vested at 1 January 2005. The adoption of HKFRS 2 has had an impact on the retained profits as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year’s income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(b) **HKFRS 3 — Business Combinations**

In prior years, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against the consolidated retained profits in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

The transitional provisions of HKFRS 3 have required goodwill previously eliminated against retained profits remains eliminated against retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. HKFRS 3 has had no material impact on the Group.

(c) **HKFRS 4 — Insurance Contracts**

On 1 January 2005, the Group adopted HKFRS 4 retrospectively. The main features of HKFRS 4 include, the definition of an insurance contract, the requirement for liability adequacy tests and impairment tests for reinsurance assets, and the prohibition of catastrophe and equalisation provisions. Based on this standard, the Group continued to account for insurance contracts and investment contracts with discretionary participation features (“DPF”) using previously adopted accounting policies. In addition, insurance contracts with insignificant underwriting risks and investment contracts without DPF, previously classified as insurance contracts are reclassified as investment contracts upon the adoption of HKFRS 4. Deposits collected and benefit payments of investment contracts are not accounted for through the income statement, but are accounted for by direct adjustment to the balance sheet.

The effects of adopting HKFRS 4 are summarised in note 2.4 to the financial statements.

(d) HKFRS 5 — Non-current Assets Held for Sale and Discontinued Operations

The Group has applied HKFRS 5 prospectively in accordance with the transitional provisions of HKFRS 5, which has resulted in a change in accounting policy on the recognition of a discontinued operation. Under the previous SSAP 33 “Discontinuing Operations”, the Group would have recognised a discontinued operation at the earlier of:

- the date the Group entered into a binding sale agreement; and
- the date the board of directors had approved and announced a formal disposal plan.

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or it has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations. It is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The principal impact of this change to the Group is one of presentation and disclosure.

(e) HKAS 32 and HKAS 39 — Financial Instruments**(i) Bonds purchased other than held to maturity, equities, unit trusts and mutual funds**

In prior years, investments in bonds purchased other than held to maturity, equities, unit trusts and mutual funds, were classified as short term investments and were stated at their fair value on an individual basis with gains and losses recognised in the income statement.

Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK\$5,393,543,000 were designated as available-for-sale under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment. The remaining securities held by the Group at 1 January 2005 in the amount of HK\$388,950,000 were designated as fair value through profit or loss and are stated at fair value with gains or losses being recognised in the consolidated income statement.

The adoption of HKAS 39 has not resulted in any change in the measurement of these investments. Comparative amounts have been reclassified for presentation purposes.

(ii) Derivative financial instruments

In prior years, the Group used derivative financial instruments such as foreign currency forward contracts, treasury lock agreements and cross currency swaps agreements to hedge risks associated primarily with foreign currency, interest rate and market fluctuations. Derivative financial instruments were valued at fair value. Any gain or loss was recognised in the income statement.

Upon the adoption of HKAS 32 and HKAS 39, a cross currency swap agreement entered by the Group during the year and designated as a hedge against certain interest bearing loans was recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(f) HKAS 40 — Investment Property

In prior years, investment properties were held in respect of the Group's long term insurance business for investment purposes and were stated at cost less any impairment losses. This treatment was commonly adopted by life insurance companies in Hong Kong for such assets held in respect of the long term insurance business and was permitted under Hong Kong Statement of Standard Accounting Practice 13 "Accounting for investment properties".

Upon the adoption of HKAS 40, the Group adopted the cost model for the measurement of its investment properties and as such they are stated at cost less accumulated depreciation and any impairment losses. In accordance with the transitional provisions of HKAS 40, depreciation commences from 1 January 2005.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006.

HKAS 1 Amendment	Capital Disclosures
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 1 Amendment	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 21 Amendment and HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions and HKFRS 1 Amendment do not apply to the activities of the Group.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

As at 1 January 2005 Effect of new policies (Increase/(decrease))	Effect of adopting				Total HK\$'000
	HKASs 32* and 39* Change in classification of investments HK\$'000	HKFRS 2* Equity-settled share option arrangements HK\$'000	HKFRS 4* Insurance contracts HK\$'000	HKFRS 5* A disposal group classified as held for sale HK\$'000	
Assets					
Available-for-sale financial assets	5,393,543	—	—	—	5,393,543
Financial assets at fair value through profit or loss	388,950	—	—	(27,722)	361,228
Reinsurance assets	—	—	1,959	—	1,959
Prepayments and other debtors	—	—	—	(19)	(19)
Short term investments	(5,782,493)	—	—	—	(5,782,493)
Cash and cash equivalents	—	—	—	(37,255)	(37,255)
Assets of a disposal group classified as held for sale	—	—	—	64,996	64,996
					<u>1,959</u>
Liabilities/equity					
Payable to policyholders	—	—	—	(101)	(101)
Accrued expenses and other creditors	—	—	—	(3,831)	(3,831)
Liabilities directly associated with the assets classified as held for sale	—	—	—	31,651	31,651
Future insurance liabilities under investment contracts	—	—	—	(27,719)	(27,719)
Future insurance liabilities under insurance contracts	—	—	1,959	—	1,959
Share option reserve	—	10,150	—	—	10,150
Retained profits	—	(10,150)	—	—	(10,150)
					<u>1,959</u>

As at 31 December 2005 Effect of new policies (Increase/(decrease))	Effect of adopting						Total HK\$'000	
	HKASs 32 [#] and 39 [*]	HKAS 40 [*]			HKFRS 2 [#]			HKFRS 5 [*] A disposal group
	Change in classification of investments HK\$'000	HKAS 39 [*] Cash flow hedge HK\$'000	Depreciation of investment properties HK\$'000	Equity settled share option arrangements HK\$'000	HKFRS 4 [#] Insurance contracts HK\$'000	classified as held for sale HK\$'000		
Assets								
Investment properties	—	—	(291)	—	—	—	(291)	
Available-for-sale financial assets	5,980,577	—	—	—	—	—	5,980,577	
Financial assets at fair value through profit or loss	503,142	—	—	—	—	(21,166)	481,976	
Derivative financial instruments	10,167	—	—	—	—	—	10,167	
Reinsurance assets	—	—	—	—	1,954	—	1,954	
Prepayments and other debtors	—	—	—	—	—	(258)	(258)	
Short term investments	(6,493,886)	—	—	—	—	—	(6,493,886)	
Cash and cash equivalents	—	—	—	—	—	(38,349)	(38,349)	
Assets of a disposal group classified as held for sale	—	—	—	—	—	59,773	59,773	
							<u>1,663</u>	
Liabilities/equity								
Payable to policyholders	—	—	—	—	—	(57)	(57)	
Accrued expenses and other creditors	—	—	—	—	—	(388)	(388)	
Liabilities directly associated with the assets classified as held for sale	—	—	—	—	—	21,610	21,610	
Derivative financial instruments	—	3,313	—	—	—	—	3,313	
Future insurance liabilities under investment contracts	—	—	—	—	—	(21,165)	(21,165)	
Future insurance liabilities under insurance contracts	—	—	—	—	1,954	—	1,954	
Share option reserve	—	—	—	19,101	—	—	19,101	
Hedging reserve	—	(937)	—	—	—	—	(937)	
Available-for-sale financial assets revaluation reserve	187,510	—	—	—	—	—	187,510	
Retained profits	(187,510)	(2,376)	(291)	(19,101)	—	—	<u>(209,278)</u>	
							<u>1,663</u>	

(b) Effect on the balances of equity as at 1 January 2004 and at 1 January 2005

Effect of new policies Increase/(decrease)	Effect of adopting HKFRS 2# Equity-settled share option arrangements HK\$'000	Total HK\$'000
1 January 2004		
Share option reserve	2,138	2,138
Retained profits	(2,138)	<u>(2,138)</u>
		<u>—</u>
1 January 2005		
Share option reserve	10,150	10,150
Retained profits	(10,150)	<u>(10,150)</u>
		<u>—</u>

(c) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting					Total HK\$'000
	HKAS 39* Designation of available-for- sale financial assets HK\$'000	HKAS 39* Cash flow hedge HK\$'000	HKAS 40* Depreciation of investment properties HK\$'000	HKFRS 2* Employee share option scheme HK\$'000	HKFRS 4# Insurance contracts HK\$'000	
Year ended 31 December 2005						
Decrease in turnover	—	—	—	—	(168,543)	(168,543)
Decrease in investment income, net gains and other income	(187,510)	(2,376)	—	—	—	(189,886)
Decrease in policyholders' benefits	—	—	—	—	112,751	112,751
Increase in management expenses	—	—	(291)	(8,951)	—	(9,242)
Increase in future insurance liabilities under investment contracts	—	—	—	—	(30,683)	(30,683)
Decrease in future insurance liabilities under insurance contracts	—	—	—	—	86,475	86,475
Total decrease in profit	<u>(187,510)</u>	<u>(2,376)</u>	<u>(291)</u>	<u>(8,951)</u>	<u>—</u>	<u>(199,128)</u>
Decrease in basic earnings per share	(22.86) cents	(0.29) cents	(0.04) cents	(1.09) cents	—	(24.28) cents
Decrease in diluted earnings per share	(22.53) cents	(0.29) cents	(0.03) cents	(1.08) cents	—	(23.93) cents

Effect of new policies	Effect of adopting		Total HK\$'000
	HKFRS 2 [#] Employee share option scheme HK\$'000	HKFRS 4 [#] Insurance contracts HK\$'000	
Year ended 31 December 2004			
Decrease in turnover	—	(265,519)	(265,519)
Decrease in policyholders' benefits	—	54,273	54,273
Increase in management expenses	(8,012)	—	(8,012)
Increase in future insurance liabilities under investment contracts	—	(15,074)	(15,074)
Decrease in future insurance liabilities under insurance contracts	—	226,320	226,320
Total decrease in profit	<u>(8,012)</u>	<u>—</u>	<u>(8,012)</u>
Decrease in basic earnings per share	(0.98) cents	—	(0.98) cents
Decrease in diluted earnings per share	(0.96) cents	—	(0.96) cents

* Adjustments taken effect prospectively from 1 January 2005.

Adjustments/presentation taken effect retrospectively.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Prior to the adoption of HKFRS 3 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired.

Profit recognition

The operating profits of the long term insurance business of the Group are arrived at annually by means of an actuarial valuation of future insurance liabilities, determined by the appointed actuary of the Group using a net level premium approach. Detailed policies are as follows:

- (i) acquisition costs relating to the production of any new business are deferred to the extent that they can be recovered, and are shown explicitly as an asset in the balance sheet. Assumptions used in assessing the deferred acquisition costs reflect management's assessment of the most likely outcome of the future policy cash flows, subject to reasonable allowances for prudence purposes. All other acquisition costs and all maintenance costs are expensed as and when incurred;
- (ii) amounts received on reinsurance contracts that do not transfer significant underwriting risk are included as a component of insurance liabilities in the balance sheet; and
- (iii) premiums relating to reinsurance contracts that do not transfer significant underwriting risk are treated as adjustments to the amounts carried in the balance sheet in respect of the contracts concerned.

Premiums

Premiums in respect of traditional policies and group policies are recognised as income as and when they fall due, whereas those in respect of universal life and unit-linked contracts are accounted for as they are received.

Premiums on reinsurance contracts that transfer underwriting risk are expensed as incurred. Premiums on reinsurance contracts that do not transfer significant underwriting risk are treated as adjustments to the amounts carried on the balance sheet in respect of the contracts concerned.

Commissions

Commissions received on reinsurance policies that transfer underwriting risk are recognised as income at the same time as the reinsurance premiums are accounted for. Amounts received on reinsurance contracts that do not transfer significant underwriting risk are included as a component of insurance liabilities in the balance sheet. Commission payable to agents for the first policy year is included as a component of deferrable acquisition costs.

Deferred acquisition costs ("DAC")

The acquisition costs primarily related to the production of new business, are deferred in so far as there are sufficient margins in the future premiums of new business to fund the amortisation of the DAC. DAC include first year commissions and other costs related to the acquisition of new business.

DAC are carried at cost and amortised on the straight-line basis over 10 years, adjusted for any unfavourable actual experience and any permanent impairment in value determined by reference to margins in the future premiums.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and non-current assets/disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Company that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis so as to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	50 years or the lease term, whichever is shorter
Buildings	40 years
Computer equipment	3 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its investments in bonds, equities, unit trusts and mutual funds other than subsidiaries, as long term investments and short term investments.

Long term investments

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at amortised cost less any impairment losses which reflect their credit risk. Amortised cost is defined as cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount. An impairment loss is charged to the income statement in the period in which it arises, on an individual investment basis.

In situations where the circumstances and events which led to an impairment of a held-to-maturity security cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the reversal of the impairment is credited to the income statement, on an individual investment basis, to the extent of the amount previously charged.

Short term investments

Short term investments are investments in bonds other than for held to maturity, equities, unit trusts and mutual funds and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

The Group designates financial assets in bonds other than held to maturity, equities, unit trusts and mutual funds purchased for investment linked products at fair value through profit and loss. Gains or losses of these assets are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in bonds other than held to maturity, equities, unit trusts and mutual funds that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted/unquoted securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

In accordance with the provisions of HKAS 39, the Group's investments at 1 January 2005 in the amount of HK\$5,393,543,000, previously classified as short term investments, have been redesignated as available-for-sale.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as cross currency swap agreement to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives (including embedded derivatives) that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of cross currency swap agreement is determined by reference to the present value of estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Investment properties

Investment properties represents the Group's interests in land and buildings held in respect of the Group's long term insurance business for investment purposes. Investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis as to write off the cost of each investment property to its residual value over its estimated useful life. The principal annual rates used for this purpose are based on the remaining lease term of the land use rights.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the investment property is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Prepayments

Prepayments made in connection with the recruitment of agents are capitalised and amortised to the income statement over the term of the contract with the agent.

Premiums receivable

Premiums receivable represent premiums which are due for payment. The Group normally allows policyholders to make payment within a grace period of one month from the due date. The grace period may be extended by one further month by management purely on a discretionary basis. Insurance policies continue in force if default premiums are settled before the expiry of the grace period.

Future insurance liabilities

Future insurance liabilities represent net future policy liabilities as determined by the appointed actuary of the Group using a net level premium approach.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences as at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Conversely, any previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets, against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefits

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model, further details of which are given in note 40. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (“market conditions”), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and other allowances and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the “ORSO Scheme”) for those employees who were eligible to participate in this scheme. The ORSO Scheme operated in a similar way to the MPF Scheme, except that when an employee left the ORSO Scheme before his/her interest in the Group’s employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer’s contributions. With effect from 1 December 2000, the Group has operated both schemes and those employees who were eligible to participate in the ORSO Scheme are also eligible to participate in the MPF Scheme.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss with the exception of differences on cross currency swap agreements that provide a hedge against an interest bearing loan. These are taken directly to equity until the full repayment of the interest bearing loan, at which time they are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Product classification

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts

Insurance contracts are defined as those contracts that transfer significant insurance risk at the inception of the contract. Such contracts may also transfer financial risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts

Investment contracts are defined as those contracts that transfer financial risk with no significant insurance risk at the inception of the contract. Deposits collected and benefits payments are not accounted for in the income statement, but are accounted for directly in the balance sheet as a movement in the liabilities.

Insurance contracts liabilities*Insurance contracts with fixed and guaranteed terms*

These are traditional insurance contracts that provide coverage for death, accident and sickness benefits. The provision for life insurance contracts with fixed level premiums is calculated on the basis of the prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing. The liability is determined as the sum of the expected discounted value of the benefit payments, less the expected discounted value of the theoretical premiums that would be required to meet the benefits, based on the valuation assumptions as to mortality and investment income that are established at the time the contract is issued, plus a margin for adverse deviation. Changes to the liabilities at each reporting date are recorded in the income statement as an expense. The liabilities on yearly renewable premium contracts are the liabilities for the unexpired risks carried at the balance sheet date.

The carrying value of the Group's insurance contracts with fixed and guaranteed term at the balance sheet date was HK\$4,931,508,000 (net of reinsurer's share of liabilities).

Investment contracts liabilities

Liabilities for investment contracts are carried at fair values through accumulated cash flows or current unit fund values.

The carrying value of investment contracts at the balance sheet date was HK\$567,967,000 (including the investment contracts of discontinued operation).

Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services, investment management services and for surrenders. The fee is recognised as revenue in the period in which it is received.

Benefits and insurance claims

Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued to the liability.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation Uncertainty

Life insurance contracts

The estimation of the ultimate liability arising from claims made under life insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimation of the liability that the Group will ultimately pay for those claims.

Two major components in the estimation of the liabilities for insurance contracts are death benefits and investment returns. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group base these estimates on standard industry and national mortality tables that reflect historical mortality experience, adjusted where appropriate to reflect the Group's unique risk exposure. The estimated number of deaths determines the value of possible future benefits to be paid out which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Investment returns are based on the investment strategy of the company, with due regard to the expected return on assets backing the insurance contracts.

Estimates for future deaths and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability.

Impairment of available-for-sale financial assets

In determining the fair values, management evaluates the normal volatility in the share price, the financial health of the investees, the industry and sector performance like changes in operational and financial cash flows. Any indication of deterioration in the above factors can have a negative impact on the fair value.

The carrying value of the Group's available-for-sale financial assets at the balance sheet date was HK\$5,980,577,000.

4. REVENUE, INVESTMENT INCOME, NET GAINS, AND OTHER INCOME

Turnover represents gross premiums on insurance contracts, commissions received and receivable in respect of general insurance business conducted under agency agreements, and service fees from asset management.

An analysis of turnover, investment income, net gains and other income is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000 (Restated)
Turnover		
Life insurance contracts:		
Single premium	30,018	11,464
First year premium	266,010	226,562
Renewal premium	<u>1,500,071</u>	<u>1,421,606</u>
Gross premium (note 5)	1,796,099	1,659,632
General insurance commissions under agency agreements	8,727	8,801
Asset management fees	16,188	10,406
Fees on investment contracts	<u>5,871</u>	<u>9,993</u>
Attributable to continuing operations reported in the consolidated income statement	<u>1,826,885</u>	<u>1,688,832</u>
Investment income		
General and shareholders' funds:		
Interest income from quoted bonds	153,770	171,374
Interest income from banks and asset management businesses	26,241	4,923
Interest received from policy loans and loans to employees and agents	23,409	19,849
Dividend income from listed and unlisted investments	31,312	19,441
Investment handling charges	(3,008)	(4,149)
Write-back/(additional) provision for bad and doubtful debts	12,501	(22,174)
Others	<u>1,888</u>	<u>1,518</u>
	246,113	190,782
Segregated funds (note (i)):		
Interest income from quoted investments	114	151
Interest income from banks and asset management businesses	59	4
Dividend income from listed investments	20	—
Investment handling charges	(1,663)	(3,235)
Others	<u>656</u>	<u>1,549</u>
	<u>(814)</u>	<u>(1,531)</u>
Total	<u>245,299</u>	<u>189,251</u>

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Restated)</i>
Net gains		
Realised gains/(losses)		
General and shareholders' funds:		
Realised gains on other listed/quoted investments	—	144,439
Realised gains on other unlisted investments	—	13,779
Listed available-for-sale financial assets (transfer from equity)	51,714	—
Unlisted available-for-sale financial assets (transfer from equity)	(10,083)	—
Realised losses on embedded derivatives (<i>note (ii)</i>)	(38)	—
	<u>41,593</u>	<u>158,218</u>
Segregated funds (<i>note (i)</i>):		
Unlisted available-for-sale financial assets (transfer from equity)	(223)	—
Realised losses on other unlisted investments	—	(19)
	<u>(223)</u>	<u>(19)</u>
Net realised gains	<u>41,370</u>	<u>158,199</u>
Unrealised gains/(losses)		
General and shareholders' funds:		
Unrealised losses on other listed/quoted investments	—	(28,494)
Unrealised gains on financial assets at fair value through profit or loss (Unlisted short term investments: 2004)	5,374	75,911
Unrealised losses on embedded derivatives (<i>note (ii)</i>)	(2,284)	—
	<u>3,090</u>	<u>47,417</u>
Segregated funds (<i>note (i)</i>):		
Financial assets at fair value through profit or loss (Short term investments: 2004)	<u>32,486</u>	<u>12,750</u>
Net unrealised gains	<u>35,576</u>	<u>60,167</u>
Total	<u><u>76,946</u></u>	<u><u>218,366</u></u>

	<i>Notes</i>	Group	
		2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Restated)</i>
Investment income and net gains:			
General and shareholders' fund		290,796	396,417
Segregated funds (note(i))		<u>31,449</u>	<u>11,200</u>
		<u>322,245</u>	<u>407,617</u>
Other income:			
Reinsurance commission income and refund		20,964	17,688
Others		<u>30,582</u>	<u>46,973</u>
Other income		<u>51,546</u>	<u>64,661</u>
Investment income, net gains, and other income attributable to continuing operations reported in the consolidated income statement		373,791	472,278
Investment income, net gains and other income attributable to a discontinued operation	13	<u>2,599</u>	<u>3,964</u>
		<u>376,390</u>	<u>476,242</u>

The Group's income all arises from its activities conducted in Hong Kong.

Notes:

- (i) The investment income and net gains amounting to a net gain of HK\$31,449,000 (2004 (restated): net gain of HK\$11,200,000) on segregated funds will be offset by a change in future insurance liabilities and policyholders' benefits relevant to segregated fund policies, and has had no impact on the consolidated income statement.
- (ii) The Group has invested in convertible bonds and callable bonds, which have a call option to convert the bond into the equity of the issuer at an established conversion rate.

5. REVENUE ON LIFE INSURANCE CONTRACTS

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Restated)</i>
Gross earned premium on life insurance contracts:		
With fixed and guaranteed terms	1,772,628	1,637,952
Unit-linked	<u>23,471</u>	<u>21,680</u>
	<u>1,796,099</u>	<u>1,659,632</u>
Reinsurers' share of life insurance contracts premium:		
With fixed and guaranteed terms	(149,426)	(156,056)
Unit-linked	<u>(5,381)</u>	<u>(711)</u>
	<u>(154,807)</u>	<u>(156,767)</u>
Total revenue on life insurance contract	<u><u>1,641,292</u></u>	<u><u>1,502,865</u></u>

6. POLICYHOLDERS' BENEFITS

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Restated)</i>
Death and disability claims	193,345	196,480
Surrenders	171,628	183,358
Maturities and periodic payments	98,333	103,640
Policyholders' dividends	<u>118,048</u>	<u>101,439</u>
	<u>581,354</u>	<u>584,917</u>
Gross policyholders' benefits paid:		
Unit-linked	11,306	8,721
With fixed and guaranteed terms	<u>615,689</u>	<u>634,288</u>
	<u>626,995</u>	<u>643,009</u>
Reinsurers' share of policyholders' benefits paid:		
With fixed and guaranteed terms	<u>(45,641)</u>	<u>(58,092)</u>
	<u>(45,641)</u>	<u>(58,092)</u>
Total net policyholders' benefits paid	<u>581,354</u>	<u>584,917</u>

7. FINANCE COSTS

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on interest-bearing loans	46,431	1,805
Interest income on derivative financial instruments, net <i>(note (i))</i>	<u>(1,085)</u>	<u>—</u>
	<u>45,346</u>	<u>1,805</u>

Note:

- (i) The Group entered into a cross currency swap contract, effective from 17 June 2005, as a cash flow hedge, to hedge any foreign currency fluctuations during the term of the interest-bearing loan denominated in United States dollar ("US\$"), as disclosed in note 35 to the financial statements.

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Group	
	2005	2004
	HK\$'000	HK\$'000 (Restated)
Auditors' remuneration	1,465	1,065
Depreciation		
Property, plant and equipment (note 17)	16,118	14,985
Investment properties (note 19)	291	—
Amortisation of deferred acquisition costs (note (i) and note 20)	286,746	305,102
Minimum lease payments under operating lease rentals on land and buildings	30,182	19,498
Employee benefits expense (including directors' remuneration, note 10)		
Wages and salaries	114,491	141,832
Equity-settled share option expenses	<u>8,951</u>	<u>8,012</u>
Retirement benefits scheme contributions	3,714	8,080
Less: Forfeited contributions	<u>(344)</u>	<u>(605)</u>
Net retirement benefits scheme contributions (note (ii))	<u>3,370</u>	<u>7,475</u>
Total employee benefits expense	<u>126,812</u>	<u>157,319</u>
Retirement benefits scheme contributions for agents	10,266	8,902
Less: Forfeited contributions for agents	<u>(725)</u>	<u>(846)</u>
Net retirement benefits scheme contributions for agents (note (ii))	<u>9,541</u>	<u>8,056</u>
Gross rental income	(985)	(984)
Direct operating expenses arising (including repairs and maintenance) on rental-earning investment properties	<u>155</u>	<u>488</u>
Net rental income	(830)	(496)
Gain on disposal of items of property, plant and equipment	<u>(88)</u>	<u>(99)</u>

Notes:

- (i) The amortisation of deferred acquisition costs for the year is included in "Change in deferred acquisition costs" on the face of the consolidated income statement, as disclosed in note 20 to the financial statements.
- (ii) As at 31 December 2005, the Group had forfeited contributions of HK\$5,231,000 available to reduce its contributions to the pension scheme in future years (2004: HK\$5,331,000).

9. PROFIT BEFORE TAX BY ACTIVITY

Pursuant to the requirements of the Listing Rules, the Group's profit before tax is analysed by activity as follows:

	<i>Note</i>	Group 2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
Life insurance contracts		63,360	201,681
Retirement scheme business		(1,003)	(1,347)
General insurance business under agency agreements		2,708	2,716
Asset management business (<i>note (i)</i>)		(12,070)	(6,603)
Fees on investment contracts		<u>5,871</u>	<u>9,993</u>
Profit before tax attributable to continuing operations reported in the consolidated income statement		58,866	206,440
Profit/(loss) before tax attributable to a discontinued operation	13	<u>661</u>	<u>(566)</u>
		<u>59,527</u>	<u>205,874</u>
<i>Note:</i>			
(i) Income from operation: Asset management		46,088	41,282
Less: Intra-Group income		<u>(29,900)</u>	<u>(30,876)</u>
		16,188	10,406
Operating expenses before tax		<u>(28,258)</u>	<u>(17,009)</u>
		<u>(12,070)</u>	<u>(6,603)</u>

The Group's profit before tax arises mainly from its direct underwriting activities conducted in Hong Kong.

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
Executive and non-executive directors:		
Fees	1,320	1,320
Salaries, allowances, and benefits in kind	11,600	11,383
Performance related bonuses*	—	11,609
Employee share option benefits	2,439	2,443
Contributions to retirement benefits schemes	<u>1,160</u>	<u>1,138</u>
	<u>16,519</u>	<u>27,893</u>
Independent non-executive directors:		
Fees	<u>360</u>	<u>360</u>
	<u><u>16,879</u></u>	<u><u>28,253</u></u>

* Certain executive directors of the Company were entitled to bonus payments which were determined as a percentage of the profit after tax and before the performance related bonuses provision of the Group.

The independent non-executive directors are entitled to an annual directors' fee of HK\$120,000 each.

During the year, a director was granted share options, in respect of his services to the Group under one of the share option schemes of the Company, further details of which are set out in note 40 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of grant and included in the above directors' remuneration disclosures.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 HK\$'000	2004 HK\$'000
CHANG Hsin Kang	120	120
FRESHWATER Timothy George	120	120
WONG Yue Chim, Richard	120	120
	<u>360</u>	<u>360</u>

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors and a non-executive director

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Employee share option benefits HK\$'000	Pension scheme contributions HK\$'000	Total emoluments HK\$'000
2005						
<i>Executive directors:</i>						
YUEN Tin Fan, Francis	200	—	—	—	—	200
CHAN Ping Kan, Raymond	—	5,000	—	671	500	6,171
ALLEN Peter Anthony	200	—	—	—	—	200
ARENA Alexander Anthony	200	—	—	—	—	200
*CHEUNG Sum, Sam	—	3,300	—	585	330	4,215
CHUNG Cho Yee, Mico	200	—	—	—	—	200
SO Wing Hung, Peter	—	3,300	—	1,183	330	4,813
FENG Xiaozeng	200	—	—	—	—	200
YANG Chao	—	—	—	—	—	—
ZHENG Changyong	200	—	—	—	—	200
	1,200	11,600	—	2,439	1,160	16,399
<i>Non-executive director:</i>						
WANG Xianzhang	120	—	—	—	—	120
	<u>1,320</u>	<u>11,600</u>	<u>—</u>	<u>2,439</u>	<u>1,160</u>	<u>16,519</u>

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Performance related bonuses <i>HK\$'000</i>	Employee share option benefits <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total emoluments <i>HK\$'000</i>
2004						
<i>Executive directors:</i>						
YUEN Tin Fan, Francis	200	—	—	—	—	200
CHAN Ping Kan, Raymond	—	5,001	5,735	971	500	12,207
ALLEN Peter Anthony	200	—	—	—	—	200
ARENA Alexander Anthony	200	—	—	—	—	200
*CHEUNG Sum, Sam	—	3,191	2,937	736	319	7,183
CHUNG Cho Yee, Mico	200	—	—	—	—	200
SO Wing Hung, Peter	—	3,191	2,937	736	319	7,183
FENG Xiaozeng	—	—	—	—	—	—
YANG Chao	200	—	—	—	—	200
ZHENG Changyong	200	—	—	—	—	200
	<u>1,200</u>	<u>11,383</u>	<u>11,609</u>	<u>2,443</u>	<u>1,138</u>	<u>27,773</u>
<i>Non-executive director:</i>						
WANG Xianzhang	<u>120</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>120</u>
	<u><u>1,320</u></u>	<u><u>11,383</u></u>	<u><u>11,609</u></u>	<u><u>2,443</u></u>	<u><u>1,138</u></u>	<u><u>27,893</u></u>

*Note: Mr. CHEUNG Sum, Sam resigned as a director of the Company with effect from 23 February 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees for the year were as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Restated)</i>
Salaries, housing allowances, and benefits in kind	2,925	2,925
Performance related bonuses	7,650	7,389
Employee share option benefits	1,086	1,614
Contributions to retirement benefits schemes	<u>270</u>	<u>270</u>
	<u>11,931</u>	<u>12,198</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
HK\$5,000,001 — HK\$5,500,000	1	1
HK\$6,500,001 — HK\$7,000,000	1	—
HK\$7,000,001 — HK\$7,500,000	<u>—</u>	<u>1</u>
	<u>2</u>	<u>2</u>

12. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising from the Group's asset management business conducted in Hong Kong, and the Group's long term insurance business during the year.

The assessable profits of a wholly-owned subsidiary, which is engaged in the long term insurance business and retirement scheme management, are computed in accordance with the special provisions of the Hong Kong Inland Revenue Ordinance. Tax for the long term insurance business, as defined by the Inland Revenue Ordinance, is computed at 17.5% (2004: 17.5%) of 5% of net premium (gross premium received less reinsurance premium ceded) from the life insurance business in accordance with Section 23(1)(a) of the Inland Revenue Ordinance rather than on taxable profits.

	2005 HK\$'000	2004 HK\$'000
Group:		
Current — Hong Kong		
Charge for the year	16,963	6,629
Deferred (<i>note 24</i>)	<u>—</u>	<u>10,950</u>
Total tax charge for the year	<u><u>16,963</u></u>	<u><u>17,579</u></u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2005		2004	
	HK\$'000	%	HK\$'000 (Restated)	%
Profit before tax (including profit/(loss) from a discontinued operation)	<u>59,527</u>		<u>205,874</u>	
Tax at the statutory rate	10,417	17.5	36,028	17.5
5% of net premium of life insurance business	14,210	23.9	13,697	6.6
Loss of life insurance business and other businesses not taxable at the statutory rate	<u>(7,602)</u>	<u>(12.8)</u>	<u>(32,146)</u>	<u>(15.6)</u>
Tax charge at the Group's effective rate	17,025	28.6	17,579	8.5
Tax charge attributable to a discontinued operation (<i>note 13</i>)	<u>(62)</u>	<u>(0.1)</u>	<u>—</u>	<u>—</u>
Tax charge attributable to continuing operations reported in the consolidated income statement	<u><u>16,963</u></u>	<u><u>28.5</u></u>	<u><u>17,579</u></u>	<u><u>8.5</u></u>

13. DISCONTINUED OPERATION

In June 2002, Pacific Century Insurance Company Limited ("PCI"), a wholly-owned subsidiary of the Group, entered into an agreement for the transfer of its MPF business to HSBC Life. The disposal is consistent with the Company's long term strategy to focus on providing an extensive range of whole life, endowment and term life insurance products to individuals in Hong Kong. The transfer of the MPF business commenced in July 2002, and the Group plans to complete the transfer in 2006. As at 31 December 2005, the MPF business was classified as a disposal group held for sale.

The results of the MPF business for the year are presented below:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
REVENUE		
Interest income	928	55
Realised and unrealised gains on financial assets at fair value through profit or loss	1,450	3,576
Other income	<u>221</u>	<u>333</u>
Total revenue	<u>2,599</u>	<u>3,964</u>
OPERATING EXPENSES		
Policyholders' benefits	(1,450)	(3,656)
Agency commission and allowances	(1)	(2)
Management expenses	<u>(487)</u>	<u>(872)</u>
Total operating expenses	<u>(1,938)</u>	<u>(4,530)</u>
PROFIT/(LOSS) BEFORE TAX FROM THE DISCONTINUED OPERATION	661	(566)
Tax related to pre-tax profit	<u>(62)</u>	<u>—</u>
PROFIT/(LOSS) FOR THE YEAR FROM THE DISCONTINUED OPERATION	<u>599</u>	<u>(566)</u>

The major classes of assets and liabilities of the MPF business classified as held for sale as at 31 December are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
ASSETS		
Financial assets at fair value through profit or loss	21,166	—
Time deposits with original maturity of more than three months when acquired	2,102	—
Cash and cash equivalents	36,247	—
Prepayments and other debtors	<u>258</u>	<u>—</u>
Assets classified as held for sale	<u>59,773</u>	<u>—</u>
LIABILITIES		
Claims payable	52	—
Premium deposits	5	—
Accrued expenses and other creditors	388	—
Future insurance liabilities under investment contracts	<u>21,165</u>	<u>—</u>
Liabilities directly associated with the assets classified as held for sale	<u>21,610</u>	<u>—</u>
Net assets directly associated with the disposal group	<u>38,163</u>	<u>—</u>

The net cash flows incurred by the MPF business are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Operating	1,094	(76)
Investing	—	—
Financing	<u>—</u>	<u>—</u>
Net cash inflow/(outflow)	<u>1,094</u>	<u>(76)</u>
Earnings/(loss) per share:		
Basic, from the discontinued operation	0.073 cents	(0.069) cents
Diluted, from the discontinued operation	<u>0.072 cents</u>	<u>(0.068) cents</u>

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2005	2004
Net profit/(loss) attributable to ordinary equity holders from the discontinued operation	HK\$599,000	HK\$(566,000)
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	820,109,000	820,737,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u>832,171,000</u>	<u>835,336,000</u>

14. Profit from Ordinary Activities attributable to Equity Holders

The profit from ordinary activities attributable to equity holders for the years ended 31 December 2005 and 31 December 2004 dealt with in the financial statements of the Group and the Company are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
Group	<u>42,502</u>	<u>188,295</u>

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Company	<u>31,517</u>	<u>49,021</u>

15. Dividends

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Dividend paid — HK\$0.01 (2004: Nil) per ordinary share	8,213	—
Dividends proposed — HK\$0.04 (2004: HK\$0.1) per ordinary share	<u>32,724</u>	<u>82,094</u>
	<u>40,937</u>	<u>82,094</u>

The proposed dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

16. Earnings Per Share attributable to Ordinary Equity Holders

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary equity holders, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit for the year attributable to ordinary equity holders. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Earnings		
Net profit/(loss) attributable to ordinary equity holders, used in the basic earnings/(loss) per share calculation:		
From continuing operations	41,903	188,861
From a discontinued operation	<u>599</u>	<u>(566)</u>
Net profit attributable to ordinary equity holders	<u>42,502</u>	<u>188,295</u>
	Number of shares	
	2005	2004
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	820,109,000	820,737,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	<u>12,062,000</u>	<u>14,599,000</u>
	<u>832,171,000</u>	<u>835,336,000</u>

17. Property, Plant and Equipment

Group

31 December 2005	Leasehold land and buildings <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Software under development <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2005, net of accumulated depreciation	192,914	4,414	18,204	353	—	215,885
Additions	—	2,678	17,418	—	—	20,096
Disposals	—	(80)	(134)	—	—	(214)
Depreciation provided for during the year	<u>(5,150)</u>	<u>(2,975)</u>	<u>(7,902)</u>	<u>(91)</u>	<u>—</u>	<u>(16,118)</u>
As at 31 December 2005, net of accumulated depreciation	<u>187,764</u>	<u>4,037</u>	<u>27,586</u>	<u>262</u>	<u>—</u>	<u>219,649</u>
As at 31 December 2005:						
Cost	226,971	28,146	97,529	452	—	353,098
Accumulated depreciation	<u>(39,207)</u>	<u>(24,109)</u>	<u>(69,943)</u>	<u>(190)</u>	<u>—</u>	<u>(133,449)</u>
Net carrying amount	<u>187,764</u>	<u>4,037</u>	<u>27,586</u>	<u>262</u>	<u>—</u>	<u>219,649</u>

31 December 2004	Leasehold land and buildings	Computer equipment	Furniture, fixtures and equipment	Motor vehicles	Software under development	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2004, net of accumulated depreciation	197,964	6,217	15,968	443	401	220,993
Additions	—	1,084	8,859	—	—	9,943
Disposals	—	—	(23)	—	(43)	(66)
Transfers	—	358	—	—	(358)	—
Depreciation provided for during the year	<u>(5,050)</u>	<u>(3,245)</u>	<u>(6,600)</u>	<u>(90)</u>	<u>—</u>	<u>(14,985)</u>
As at 31 December 2004, net of accumulated depreciation	<u>192,914</u>	<u>4,414</u>	<u>18,204</u>	<u>353</u>	<u>—</u>	<u>215,885</u>
As at 31 December 2004:						
Cost	226,971	29,668	82,190	2,263	—	341,092
Accumulated depreciation	<u>(34,057)</u>	<u>(25,254)</u>	<u>(63,986)</u>	<u>(1,910)</u>	<u>—</u>	<u>(125,207)</u>
Net carrying amount	<u>192,914</u>	<u>4,414</u>	<u>18,204</u>	<u>353</u>	<u>—</u>	<u>215,885</u>
As at 1 January 2004:						
Cost	226,971	28,531	74,614	2,656	401	333,173
Accumulated depreciation	<u>(29,007)</u>	<u>(22,314)</u>	<u>(58,646)</u>	<u>(2,213)</u>	<u>—</u>	<u>(112,180)</u>
Net carrying amount	<u>197,964</u>	<u>6,217</u>	<u>15,968</u>	<u>443</u>	<u>401</u>	<u>220,993</u>

Details of the Group's leasehold land and buildings included above, which are held under medium term leases and stated at cost, are as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	216,520	216,520
Elsewhere	<u>10,451</u>	<u>10,451</u>
	<u>226,971</u>	<u>226,971</u>

18. Interests in Subsidiaries

	Company	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Unlisted shares, at cost	385,025	376,074
Amounts due from subsidiaries	614,417	537,123
Amount due to a subsidiary	<u>(138,175)</u>	<u>—</u>
	861,267	913,197
Provision for impairment	<u>—</u>	<u>—</u>
	<u>861,267</u>	<u>913,197</u>

The amounts due from/(to) subsidiaries are unsecured, interest-free and are not repayable within the next 12 months. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Bright Victory International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$7,743,935	100	—	Investment holding
Pacific Century Insurance Company Limited	Bermuda/ Hong Kong	Ordinary US\$121,000,000 Redeemable US\$9,000,000	—	100	Life assurance, administration of retirement schemes and other related businesses
Pacific Century Trustees Limited	Hong Kong	Ordinary HK\$30,000,000	—	100	Provision of trustee services
PCI Investment Management Limited	Hong Kong	Ordinary HK\$10,000,000	100	—	Asset management
PCI Capital Limited	British Virgin Islands	Ordinary US\$1	—	100	Note issuance
Noblenew Investments Limited	British Virgin Islands	Ordinary US\$1	100	—	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. Investment Properties

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost:		
As at 1 January and 31 December	<u>15,319</u>	<u>15,319</u>
Accumulated depreciation:		
As at 1 January	—	—
Depreciation provided for during the year	<u>(291)</u>	<u>—</u>
As at 31 December	<u>(291)</u>	<u>—</u>
Carrying amount as at 31 December	<u><u>15,028</u></u>	<u><u>15,319</u></u>

The investment properties had fair value of HK\$16,650,000 as at 31 December 2005 (2004: HK\$16,650,000) based on valuation performed by independent, professionally qualified valuers, based on current prices in actual market. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 44(a) to the financial statements.

The Group's investment properties are situated in Mainland China and are held under the following lease terms:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Long term leases	11,532	11,730
Medium term leases	<u>3,496</u>	<u>3,589</u>
	<u><u>15,028</u></u>	<u><u>15,319</u></u>

20. Deferred Acquisition Costs

	Group	
	2005 HK\$'000	2004 HK\$'000
Balance as at beginning of the year	1,309,396	1,403,273
Additions	301,243	211,225
Less: Amortisation	<u>(286,746)</u>	<u>(305,102)</u>
Change in deferred acquisition costs	<u>14,497</u>	<u>(93,877)</u>
Balance as at 31 December	1,323,893	1,309,396
Current portion	<u>(286,179)</u>	<u>(286,168)</u>
Non-current portion	<u>1,037,714</u>	<u>1,023,228</u>

21. Financial Assets

	Notes	Group	
		2005 HK\$'000	2004 HK\$'000
Total financial assets			
Policy loans	22	241,193	216,173
Loans to employees and agents	23	53,718	40,944
Held-to-maturity financial assets	25	136,953	137,105
Available-for-sale financial assets (short term investments: 2004)	26	5,980,577	5,393,543
Financial assets at fair value through profit or loss			
(short term investments: 2004)	27	481,976	388,950
Derivative financial instruments	30	<u>10,167</u>	<u>—</u>
		6,904,584	6,176,715
Current portion:			
Loans to employees and agents	23	(1,522)	(220)
Available-for-sale financial assets (short term investments: 2004)	26	(5,394,194)	(5,393,543)
Financial assets at fair value through profit or loss			
(short term investments: 2004)	27	(481,976)	(388,950)
Derivative financial instruments	30	<u>(10,167)</u>	<u>—</u>
		<u>(5,887,859)</u>	<u>(5,782,713)</u>
Non-current portion		<u>1,016,725</u>	<u>394,002</u>

22. Policy Loans

The policy loans are made to policyholders and are secured by the policies' cash surrender value. Policy loans are repayable at the discretion of the policyholders as long as the interest plus the principal of the loans do not equal or exceed the cash value or until the policy matures. The policy loans are interest bearing at 9% per annum.

23. Loans to Employees and Agents

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans to employees and agents	53,718	40,944
Current portion	<u>(1,522)</u>	<u>(220)</u>
Non-current portion	<u>52,196</u>	<u>40,724</u>

The Group provides loans to employees and agents which are interest-bearing at the prevailing bank lending rates, some of which are secured by the underlying properties and/or motor vehicles, and are repayable by monthly installments. The effective interest rates of loans to employees and agents ranged from 5% to 16% per annum.

No loans had been provided to directors as at the current or prior year's balance sheet dates.

24. Deferred Tax

The movement in the Group's deferred tax asset during the year was as follows:

Deferred tax asset

Group

	Losses available for offset against future taxable profits	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January	—	10,950
Deferred tax charged to the income statement during the year (<i>note 12</i>)	<u>—</u>	<u>(10,950)</u>
As at 31 December	<u>—</u>	<u>—</u>

As at 31 December 2005, there were no significant unrecognised deferred tax liabilities (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such an amount be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. Held-to-maturity Financial Assets

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Held-to-maturity bonds, at amortised cost quoted in places other than Hong Kong	<u>136,953</u>	<u>137,105</u>
Market value of quoted held-to-maturity bonds as at 31 December	<u>135,949</u>	<u>136,098</u>

The held-to-maturity bonds analysed by category of issuer as at the balance sheet date were as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Corporate entities	<u>136,953</u>	<u>137,105</u>

26. Available-for-sale Financial Assets (Short Term Investments: 2004)

	Group	
	Available- for-sale financial assets	Short term investments
	2005 HK\$'000	2004 HK\$'000
Quoted bonds, at market value:		
Hong Kong	779,063	769,310
Elsewhere	<u>1,992,591</u>	<u>2,303,271</u>
	<u>2,771,654</u>	<u>3,072,581</u>
Listed equity investments, at market value:		
Hong Kong	300,587	145,390
Elsewhere	<u>1,075,874</u>	<u>1,225,433</u>
	<u>1,376,461</u>	<u>1,370,823</u>
Unlisted unit trusts, at fair value	<u>409,287</u>	<u>292,997</u>
Unlisted mutual funds, at fair value	<u>836,812</u>	<u>657,142</u>
Unlisted equity investments, at fair value	<u>78,061</u>	<u>—</u>
Available-for-sale unlisted exchangeable note, investment element at cost (<i>note (i)</i>)	<u>508,302</u>	<u>—</u>
Total available-for-sale financial assets	5,980,577	5,393,543
Portion classified as current assets	<u>(5,394,194)</u>	<u>(5,393,543)</u>
Non-current portion	<u><u>586,383</u></u>	<u><u>—</u></u>

Note:

- (i) The Group subscribed for an exchangeable note on 3 June 2005, the component parts of which are an investment element and an option to convert into shares in the future. The basic note will be held as an available-for-sale financial asset and the option will be held as derivative. The investment element was carried at cost and the embedded option to convert the shares in the future has zero fair value as at 31 December 2005 since the Group is at present not able to exercise its exchange right because of the controls on foreign ownership of insurance business currently existing under PRC law.

The quoted bonds analysed by category of issuer as at the balance sheet date were as follows:

	Group	
	Available-for-sale financial assets	Short term investments
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Governments	398,890	431,430
Banks and other financial institutions	1,272,608	1,209,908
Corporate entities	<u>1,100,156</u>	<u>1,431,243</u>
Total	<u>2,771,654</u>	<u>3,072,581</u>

The maturity profile of the quoted bonds as at the balance sheet date was as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
With a residual maturity of:		
One year or less	267,055	300,278
Two years or less but over one year	306,038	236,496
Three years or less but over two years	462,716	180,107
Four years or less but over three years	236,215	368,780
Five years or less but over four years	188,428	294,220
Over five years	<u>1,311,202</u>	<u>1,692,700</u>
Quoted bonds	<u>2,771,654</u>	<u>3,072,581</u>

The effective interest rates of quoted bonds ranged from 1.76% to 8.63% per annum.

As at 31 December 2004, the Group held bonds issued by PCCW Capital with a nominal amount of US\$10,000,000 which have a maturity date in 2005. The market value of these bonds amounted to HK\$93,085,000 as at 31 December 2004. During 2005, the Group had redeemed US\$10,000,000 (equivalent to HK\$77,998,000) nominal value of all its holding of PCCW Capital Limited bonds. The Group recorded a gain totaling HK\$23,552,000 from the sales transaction, of which HK\$402,000 was recognised during the year.

During the year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK\$228,918,000 (2004: Nil). Realised gain of HK\$41,408,000 (2004: Nil) was removed from equity during the year and recognised in the income statement for the year, leaving an unused unrealised gain reserve of HK\$187,510,000 (2004: Nil).

The above investments consist of investments in bonds purchased other than for held-to-maturity, equity securities, unit trusts and mutual funds which were designated as available-for-sale financial assets on 1 January 2005. Equity securities, unit trusts and mutual funds have no fixed maturity date or coupon rate.

The fair values of listed equity investments, quoted bonds, unit trusts and mutual funds are based on quoted market prices.

27. Financial Assets at Fair Value through Profit or Loss (Short Term Investments: 2004)

	Group	
	Financial assets at fair value through profit or loss 2005 <i>HK\$'000</i>	Short term investments 2004 <i>HK\$'000</i>
Unlisted unit trusts, at fair value	<u>481,976</u>	<u>388,950</u>

The above investments as at 31 December 2005 were designated as financial assets at fair value through profit or loss at the date of inception.

28. Cash and Cash Equivalents

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cash and bank balances	1,141,884	1,072,041	35	18
Time deposits	<u>231,551</u>	<u>229,504</u>	<u>—</u>	<u>—</u>
	1,373,435	1,301,545	35	18
Less: Pledged time deposits:				
Pledged for cross currency swap agreements <i>(note 30)</i>	<u>(15,751)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	<u>1,357,684</u>	<u>1,301,545</u>	<u>35</u>	<u>18</u>

The maturity profile of the time deposits as at the balance sheet date were as follows:

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
With a residual maturity of:				
Three months or less	231,551	227,425	—	—
One year or less but over three months	<u>—</u>	<u>2,079</u>	<u>—</u>	<u>—</u>
	<u>231,551</u>	<u>229,504</u>	<u>—</u>	<u>—</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

29. Financial Risk Management Objectives and Policies**(a) Regulatory framework**

The operation of the Group are subject to local regulatory requirements in Hong Kong. The regulators are interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters and that the risk levels are at acceptable levels.

(b) Insurance risk

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents, and related risks. The Group retains a maximum of US\$100,000 for each risk it insures, with the excess being reinsured through surplus treaties, coinsurance treaties, facultative reinsurance, and catastrophe treaties with reputable international reinsurers. Consequently, total claims payable in any given year can be predicted with a high degree of precision. Over the last five years, the actual claims in each year have been less than expected. As part of the Group's quality control process, the Group regularly invites reinsurers to audit its underwriting and claim practices and procedures, to ensure that they meet the highest industry standards.

(c) Investment securities

The Group limits its exposure by setting minimum limits of its portfolio mix in bonds and maximum limits of portfolio mix in equities and other investments. The Group also sets maximum limits on currency, maturity and credit limit on fixed income portfolios. The Group only deals with institutions with high creditworthiness.

(d) Premium receivables

The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy documents or trust deed on the expiry of which either the premium is paid or the policy will be terminated or change to reduced paid up or term cover according to the provision of the policy.

(e) Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Group's interest risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

(f) Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group structures levels of market risk it accepts through a Group market risk policy which includes determining what constitutes market risk for the Group, the basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; the net exposure limits by geographical segments for investments in countries other than Hong Kong and US; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.

(g) *Currency risk*

It is the Group's policy to match its assets and liabilities by currency to minimise its exposure to currency risks. The Group sells policies denominated in Hong Kong dollars and United States dollars and its assets are quite well matched with the liabilities. As at the balance sheet date, the Group had 13.7% investments in foreign currency equities (other than the United States, Hong Kong and Mainland China). The Group believes that the currency risk in equities is reflected in their share price and therefore its exposure to the foreign currencies was not hedged.

(h) *Credit risk*

It is the Group's investment policy to invest in investment grade bonds to limit exposure to credit risk. The Group allows a maximum of 5% of invested assets to be invested in non-investment grade bonds. As at 31 December 2005, the non-investment grade bonds held by the Group was approximately 2.9% of its invested assets and approximately 91.8% of the bonds held by the Group was investment grade bonds.

(i) *Price risk*

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally for investment securities not held for the account of unit linked business.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limit on investment in each country, sector and market.

The Group has actively refined its investment model through the use of the Value at Risk (VaR) technique to measure portfolio risks and performance. As at the balance sheet date, the value at risk on its equity portfolio, being measured at 95% confidence level for a monthly time span, was 4.0% of the equity portfolio size. The similar value at risk on its hedge fund portfolio was 3.5% of the hedge fund portfolio size.

(j) *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Group is the daily calls on its available cash resources in respect of claims arising from insurance and investment contracts and the maturity of debt securities.

The Group manages liquidity through a Group liquidity risk policy which includes determining what constitutes liquidity risk for the Group; the minimum proportion of funds to meet emergency calls; the setting up of contingency funding plans; specifying the sources of funding and the events that would trigger the plan; specifying the concentration of funding sources; the reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and the review of the Group's liquidity risk policy for pertinence and changing environment.

The table below analyses certain assets and liabilities of the Group as at 31 December 2005 into their relevant maturity groups based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates.

	1 year or less HK\$'000	2 years or less but > 1 year HK\$'000	3 years or less but > 2 years HK\$'000	4 years or less but > 3 years HK\$'000	5 years or less but > 4 years HK\$'000	> 5 years HK\$'000	Unit- linked HK\$'000	Total HK\$'000
Tax recoverable	1,009	—	—	—	—	—	—	1,009
Reinsurance assets	1,954	—	—	—	—	—	—	1,954
Prepayments and other debtors	210,162	—	—	—	—	—	—	210,162
Financial assets:								
Derivative financial instruments	—	852	455	903	2,212	5,745	—	10,167
Held-to-maturity financial assets	—	136,953	—	—	—	—	—	136,953
Assets at fair value through profit and loss	85,972	—	—	—	—	—	396,004	481,976
Available-for-sale financial assets — other than bonds	2,622,540	—	—	—	—	586,383	—	3,208,923
Available-for-sale financial assets — bonds	267,055	306,038	462,716	236,215	188,428	1,311,202	—	2,771,654
Loans to employees and agents	1,522	2,038	6,230	326	1,586	42,016	—	53,718
Pledged deposits	—	—	—	—	—	15,751	—	15,751
Cash and cash equivalents	1,351,475	—	—	—	—	—	6,209	1,357,684
Assets of a disposal group classified as held for sale	59,773	—	—	—	—	—	—	59,773
	<u>4,601,462</u>	<u>445,881</u>	<u>469,401</u>	<u>237,444</u>	<u>192,226</u>	<u>1,961,097</u>	<u>402,213</u>	<u>8,309,724</u>
Future insurance liabilities under insurance contracts	319,160	1,359	1,838	3,460	3,618	4,603,996	117,450	5,050,881
Tax payable	8,988	—	—	—	—	—	—	8,988
Financial liabilities:								
Derivative financial instruments	—	—	—	—	—	3,313	—	3,313
Future insurance liabilities under investment contracts	—	—	—	113,107	6,691	144,591	282,413	546,802
Interest-bearing loans	—	—	—	—	—	768,140	—	768,140
Payable to policyholders	147,520	—	—	—	—	—	—	147,520
Accrued expenses and other creditors	262,497	—	—	—	—	—	—	262,497
Liabilities directly associated with the assets classified as held for sale	21,610	—	—	—	—	—	—	21,610
	<u>759,775</u>	<u>1,359</u>	<u>1,838</u>	<u>116,567</u>	<u>10,309</u>	<u>5,520,040</u>	<u>399,863</u>	<u>6,809,751</u>

30. Derivative Financial Instruments

	Group	
	2005 HK\$'000	2004 HK\$'000
Options embedded in convertible bonds	4,223	—
Options embedded in callable bonds	5,944	—
Unlisted cross currency swap agreement, at fair value (note (i))	<u>(3,313)</u>	<u>—</u>
	6,854	—
Portion classified as non-current financial liabilities		
— cross currency swap agreement	<u>3,313</u>	<u>—</u>
Current portion of derivative financial assets	<u>10,167</u>	<u>—</u>

Note:

- (i) The notional amount of the cross currency swap agreement is US\$100M (equivalent to HK\$777.7M) which indicates the nominal value of the transaction outstanding as at the balance sheet date. It does not represent the amount at risk.

As at 31 December 2005, the Group pledged US\$2,032,000 (equivalent to HK\$15,751,000) as a cash collateral for the cross currency swap agreement, which has a maturity date at 17 December 2014 to the counterparty.

The carrying amounts of the cross currency swap agreement, embedded in exchangeable note convertible bonds and callable bonds are the same as their fair values.

Cross currency swap agreement — cash flow hedge

As at 31 December 2005, the Group held a cross currency swap agreement designated as hedge in respect of expected future currency fluctuations related to repayment of its interest-bearing loan of US\$100M with maturity at 17 December 2014. The terms of the cross currency swap agreement is as follows:

Buy	Maturity	Exchange rate
US\$	17 December 2014	7.777

The terms of the cross currency swap agreement have been negotiated to match the terms of the interest-bearing loan. The cash flow hedge of the expected future foreign currency fluctuations related to repayment of the interest-bearing loan was assessed to be highly effective and a net loss of HK\$937,000 was included in the hedging reserve.

31. Payable to Policyholders

		Group	
	<i>Notes</i>	2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
Claims payable	32	67,232	73,973
Premium deposits	33	<u>80,288</u>	<u>88,356</u>
		<u>147,520</u>	<u>162,329</u>

32. Claims Payable

The provision for claims reported by policyholders, claims incurred but not reported may be analysed as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January	73,973	79,733
Provided during the year	617,481	573,262
Utilised during the year	(621,645)	(579,087)
Exchange realignment	(104)	65
Written back during the year	<u>(2,473)</u>	<u>—</u>
As at 31 December	<u>67,232</u>	<u>73,973</u>

33. Premium Deposits

Premium deposits are amounts that are left in deposits with the Group for the payment of future premiums.

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January	88,356	83,104
Discontinued operation as at 1 January	(101)	—
Received during the year	593,156	735,226
Utilised during the year	(598,921)	(730,018)
Exchange realignment	(74)	44
Written back during the year	<u>(2,128)</u>	<u>—</u>
As at 31 December	<u>80,288</u>	<u>88,356</u>

34. **Accrued Expenses and Other Creditors**

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables and accruals	256,283	246,486
Due to related companies	<u>6,214</u>	<u>5,901</u>
	<u>262,497</u>	<u>252,387</u>

The amounts due to related companies arose from the ordinary and normal course of business with terms similar to those offered to other customers of the Group.

35. **Interest-Bearing Loans**

On 17 December 2004, an indirect wholly-owned subsidiary of the Company, PCI Capital Limited (“PCI Capital”), issued an aggregate principal amount of US\$100 million (approximately HK\$780 million) with a coupon rate of 5.875% guarantee bonds (the “Bonds”) due 17 December 2014 to independent third party investors. PCI Capital raised approximately HK\$767,186,000 (US\$98,648,000), net of expenses.

Interest on the bonds is payable on 17 June and 17 December of each year, beginning on 17 June 2005. The Bonds are fully and unconditionally guaranteed by Pacific Century Insurance Company Limited (“PCI”). PCI’s guarantee is its unsecured and unsubordinated obligation which ranks equally with all of PCI’s other existing and future unsecured and unsubordinated obligations. As required by the insurance laws of Hong Kong and Bermuda, PCI’s guarantee is effectively junior to the liabilities of its long term business, to the extent of the assets maintained by PCI in respect of its long term business. The Bonds are listed on the Main Board of the Singapore Exchange Securities Trading Limited and under the provision of Rule 144A of the United States Securities Act.

The Bonds will fully mature on 17 December 2014. Accordingly, the Bonds have been classified as non-current liabilities as at the balance sheet date. The effective interest rate of the Bonds is 6.12% per annum.

36. Future Insurance Liabilities under Investment Contracts

Movements in future insurance liabilities under investment contracts are as follows:

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
As at 1 January	482,225	255,551
Discontinued operation at 1 January	(27,719)	—
Deposits	173,693	275,512
Withdrawal	(104,026)	(54,273)
Charges	(5,871)	(9,993)
Interest credited	29,233	15,074
Exchange realignment	(733)	354
	<u>546,802</u>	<u>482,225</u>
As at 31 December	<u>546,802</u>	<u>482,225</u>

37. Future Insurance Liabilities under Insurance Contracts

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>
Insurance contracts liabilities	4,917,990	4,247,872
Coinsurance liabilities	<u>132,891</u>	<u>159,478</u>
Future insurance liabilities under insurance contracts	5,050,881	4,407,350
Reinsurer's share of liabilities	<u>(1,954)</u>	<u>(1,959)</u>
Net liabilities	<u>5,048,927</u>	<u>4,405,391</u>

Group

	Year 2005				Year 2004			
	Insurance contracts liabilities <i>HK\$'000</i>	Coinsurance liabilities <i>HK\$'000</i>	Reinsurer's share of liabilities <i>HK\$'000</i>	Net liabilities <i>HK\$'000</i>	Insurance contracts liabilities <i>HK\$'000</i> <i>(Restated)</i>	Coinsurance liabilities <i>HK\$'000</i> <i>(Restated)</i>	Reinsurer's share of liabilities <i>HK\$'000</i> <i>(Restated)</i>	Net liabilities <i>HK\$'000</i> <i>(Restated)</i>
Unit-linked	117,450	—	(31)	117,419	98,206	—	(27)	98,179
With fixed and guaranteed terms	<u>4,800,540</u>	<u>132,891</u>	<u>(1,923)</u>	<u>4,931,508</u>	<u>4,149,666</u>	<u>159,478</u>	<u>(1,932)</u>	<u>4,307,212</u>
Total	<u>4,917,990</u>	<u>132,891</u>	<u>(1,954)</u>	<u>5,048,927</u>	<u>4,247,872</u>	<u>159,478</u>	<u>(1,959)</u>	<u>4,405,391</u>

Movements in future insurance liabilities under insurance contracts are as follows:

Group

	Year 2005				Year 2004			
	Insurance contracts liabilities	Coinsurance liabilities	Reinsurer's share of liabilities	Net liabilities	Insurance contracts liabilities	Coinsurance liabilities	Reinsurer's share of liabilities	Net liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000 (Restated)	HK\$'000 (Restated)
As at 1 January	4,247,872	159,478	(1,959)	4,405,391	3,709,270	188,735	(1,932)	3,896,073
Premium received	1,259,558	(99,049)	(55,758)	1,104,751	1,175,484	(109,547)	(47,220)	1,018,717
Liability for death, surrender and maturity	(557,889)	32,890	12,751	(512,248)	(593,317)	39,378	18,714	(535,225)
Benefit and claims experience variation	(183,029)	—	43,006	(140,023)	(342,351)	—	28,482	(313,869)
Investment income and change in unit price	160,731	10,467	—	171,198	295,216	12,401	—	307,617
Financing cost for coinsurance	—	29,105	—	29,105	—	28,511	—	28,511
Exchange realignment	(9,253)	—	6	(9,247)	3,570	—	(3)	3,567
As at 31 December	<u>4,917,990</u>	<u>132,891</u>	<u>(1,954)</u>	<u>5,048,927</u>	<u>4,247,872</u>	<u>159,478</u>	<u>(1,959)</u>	<u>4,405,391</u>

Life insurance contracts liabilities — assumptions and sensitivities

(a) **Key assumptions**

Liabilities on insurance contracts offered by the Group are predominantly conventional whole life insurance for which premiums are paid for a limited period of time or the whole of life, with fixed benefits paid upon death, surrender benefits increasing with the duration of policy. Some plans provide for guaranteed periodic payments. Most of the whole life insurance products are entitled to annual dividends and some with terminal dividend upon policy termination. For this block of policies and also for endowment and level term products, the assumptions used for the determination of future liabilities are:

Mortality rate: 150% 1993 Hong Kong Assured Life Mortality table, plus 0.2 per 1,000.

Interest rate: 5.5% for policies with dividend and 4.0% for policies without dividend.

The method of calculating the liabilities is net level premium reserve, with cash value floor plus an adjustment to remove future valuation strain.

For unit-linked funds, the liabilities are the fund account values.

For insurance with pure risk coverage such as accident benefit, dread disease, medical insurance and disability insurance, the liabilities are the unearned gross premiums.

The Group's investment returns on the investment assets backing the insurance fund, including realised and unrealised gains and losses, for the past five years are:

2001	5.77%
2002	8.03%
2003	9.91%
2004	7.09%
2005	6.62%

The Group's actual claims as compared to the mortality experience assumed in the calculation of the future insurance contracts liabilities for the past five years are:

2001	63%
2002	92%
2003	65%
2004	58%
2005	51%

(b) **Sensitivities**

Assumptions	Insurance contracts liabilities
5.5%/4.0%, 100% valuation mortality	HK\$5,048,927,000
5.0%/4.0%, 100% valuation mortality	HK\$5,262,264,000
5.5%/4.0%, 110% valuation mortality	HK\$5,118,933,000

38. **Policyholders' Dividends and Bonuses**

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January	668,302	566,854
Provided during the year	202,718	190,801
Utilised during the year	(97,389)	(90,197)
Exchange realignment	<u>(1,978)</u>	<u>844</u>
As at 31 December	<u><u>771,653</u></u>	<u><u>668,302</u></u>

39. Share Capital

	Company			
	2005		2004	
	Number of shares	Nominal value <i>HK\$'000</i>	Number of shares	Nominal value <i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$1.00 each	<u>3,000,000,000</u>	<u>3,000,000</u>	<u>3,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$1.00 each	<u>818,106,000</u>	<u>818,106</u>	<u>820,938,000</u>	<u>820,938</u>

During the year, the movements in share capital were as follows:

- (a) A total of 5,862,000 ordinary shares of HK\$1.00 each were repurchased by the Company during the year at prices ranging from HK\$2.80 to HK\$3.15 per share. The aggregate price paid by the Company for such repurchases, before share repurchase expenses, was HK\$17,954,000.

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares and related expenses, in the amount of HK\$12,172,000, was charged to the share premium account, as disclosed in the consolidated statement of changes in equity and in note 41(b) to the financial statements.

- (b) The subscription rights attaching to 3,030,000 share options were exercised at the subscription price of HK\$2.05 per share (note 40), resulting in the issue of 3,030,000 shares of HK\$1.00 each for a total cash consideration, before expenses, of HK\$6,211,500.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2004	821,350,000	821,350	26,219	847,569
Shares repurchased and cancelled	(3,292,000)	(3,292)	(5,750)	(9,042)
Share options exercised	<u>2,880,000</u>	<u>2,880</u>	<u>3,024</u>	<u>5,904</u>
	820,938,000	820,938	23,493	844,431
Share repurchase expenses	<u>—</u>	<u>—</u>	<u>(41)</u>	<u>(41)</u>
As at 31 December 2004	<u>820,938,000</u>	<u>820,938</u>	<u>23,452</u>	<u>844,390</u>
As at 1 January 2005	820,938,000	820,938	23,452	844,390
Shares repurchased and cancelled (a)	(5,862,000)	(5,862)	(12,092)	(17,954)
Share options exercised (b)	<u>3,030,000</u>	<u>3,030</u>	<u>3,182</u>	<u>6,212</u>
	818,106,000	818,106	14,542	832,648
Share repurchase expenses (a)	<u>—</u>	<u>—</u>	<u>(80)</u>	<u>(80)</u>
As at 31 December 2005	<u>818,106,000</u>	<u>818,106</u>	<u>14,462</u>	<u>832,568</u>

Share options

Details of the Company's share option schemes and the share options issued under the schemes, are included in note 40 to the financial statements.

40. Share Option Schemes

The Company operates share option schemes for the purpose of attracting, retaining and motivating talented participants to strive for future development and the expansion of the Group. The schemes are designed to act as an incentive to encourage the participants and allow them to enjoy the results of the Company attained through their efforts and contributions.

Eligible participants of the share option scheme adopted on 16 June 1999 (the "Old Share Option Scheme") included (a) any employee as well as any executive director of the Group; and (b) any agent who had agreed by a contract in writing to render full-time and exclusive services to the Group and (for new options only), who had or would have, rendered such services for a continuous period of at least 12 months as at the date of grant. As the Old Share Option Scheme was terminated with effect from 6 May 2002, no further options may be offered pursuant to this scheme, however for outstanding options in existence, the provisions of the Old Share Option Scheme remain in force.

Eligible participants of a share option scheme adopted on 6 May 2002 (the “New Scheme”) include (a) any employee or executive director of the Group; (b) any advisor or consultant to the Group (including any executive or employee of this advisor or consultant); and (c) any agent who has agreed by a contract in writing to render full-time and exclusive services to the Group. The New Scheme was adopted on 6 May 2002, and unless otherwise cancelled or amended, will be valid and effective for a period of 10 years commencing from that date. During the year, a total of 3,210,000 share options were granted under the New Scheme.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the New Scheme unless the Company obtains a fresh approval from its shareholders. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes shall not exceed 30% of the total number of shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant pursuant to the share option schemes within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Each grant of options to a director, chief executive, substantial shareholder or any of their respective associates is subject to approval by the independent non-executive directors (excluding the independent non-executive director who is the grantee of the options), where any grant of options granted to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the securities issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value (based on the closing price of the Company’s shares as at the date of each grant) in excess of HK\$5 million, are subject to shareholders’ approval in a general meeting. All connected persons of the Company must abstain from voting at such a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the directors, and unless resolved otherwise, commences on the first anniversary of the date of grant and ends on a date which is not later than five years from the relevant exercise date of the share options or 10 years from the date of grant of share options, if earlier.

The exercise price of the share options is determinable by the directors, and must be at least the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the offer, and (iii) the nominal value of the Company’s shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

As at 31 December 2005, the Company had 61,021,268 (2004: 70,654,390) outstanding share options. Details of the share options outstanding during the year ended 31 December 2005 were as follows:

(i) *Directors*

Name of director	Number of share options							As at 31 December 2005	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options*	Price of Company's shares #		
	As at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	Forfeited during the year	As at 31 December 2005						As at date of options	Immediately before the exercise date	As at exercise date of options
												HK\$	HK\$	HK\$	HK\$
YUEN Tin Fan, Francis	19,440,000	—	—	—	(3,888,000)	—	15,552,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—	
CHAN Ping Kan, Raymond	8,000,000	—	—	—	—	—	8,000,000	20 June 2003	20 June 2004 to 20 March 2006	20 June 2004 to 19 March 2011	1.62	—	—	—	
ALLEN Peter Anthony	600,000	—	—	—	(120,000)	—	480,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—	
CHEUNG Sum, Sam**	4,000,000	—	—	—	—	—	4,000,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	—	—	
CHUNG Cho Yee, Mico	2,280,000	—	—	—	(456,000)	—	1,824,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—	
SO Wing Hung, Peter	4,000,000	—	—	—	—	—	4,000,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	—	—	
	—	800,000	—	—	—	—	800,000	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	3.6	—	—	
	<u>38,320,000</u>	<u>800,000</u>	<u>—</u>	<u>—</u>	<u>(4,464,000)</u>	<u>—</u>	<u>34,656,000</u>								

** *Note:* Mr. CHEUNG Sum, Sam resigned as a director of the Company with effect from 23 February 2006.

(ii) *Other employees*

	Number of share options							Date of grant of share options	Vesting period	Exercise period of share options	Price of Company's shares #			
	As at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	Forfeited during the year	As at 31 December 2005				Exercise price of share options* HK\$	As at grant date of options HK\$	Immediately before the exercise date HK\$	As at exercise date of options HK\$
In aggregate	1,108,800	—	—	(82,800)	(615,600)	—	410,400	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—	—
	367,200	—	—	—	(146,880)	—	220,320	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—	—
	5,470,000	—	(810,000)	(260,000)	—	—	4,400,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	3.25	3.27
	2,640,000	—	—	—	—	—	2,640,000	2 March 2004	2 March 2005 to 2 March 2007	2 March 2005 to 1 March 2012	3.84	—	—	—
	1,080,000	—	—	—	—	—	1,080,000	4 October 2004	4 October 2005 to 4 October 2007	4 October 2005 to 3 October 2012	2.825	—	—	—
	—	210,000	—	—	—	—	210,000	19 May 2005	19 May 2006 to 19 May 2008	19 May 2006 to 18 May 2013	3.125	3.125	—	—
	<u>10,666,000</u>	<u>210,000</u>	<u>(810,000)</u>	<u>(342,800)</u>	<u>(762,480)</u>	<u>—</u>	<u>8,960,720</u>							

(iii) *Others (agents)*

In aggregate	5,232,990	—	—	(48,120)	(3,114,954)	—	2,069,916	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—	—
	3,238,440	—	—	(33,120)	(982,728)	—	2,222,592	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—	—
	126,960	—	—	(3,360)	(61,560)	—	62,040	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—
	13,070,000	—	(2,220,000)	—	—	—	10,850,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	3.12	3.13
	—	2,200,000	—	—	—	—	2,200,000	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	3.6	—	—
	<u>21,668,390</u>	<u>2,200,000</u>	<u>(2,220,000)</u>	<u>(84,600)</u>	<u>(4,159,242)</u>	<u>—</u>	<u>17,404,548</u>							
Total	<u>70,654,390</u>	<u>3,210,000</u>	<u>(3,030,000)</u>	<u>(427,400)</u>	<u>(9,385,722)</u>	<u>—</u>	<u>61,021,268</u>							

Notes to the reconciliation of share options outstanding during the year:

* The exercise price of the share options is subject to adjustment in the case of rights or bonus shares, or other similar changes in the Company's share capital.

The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

No share option was cancelled during the year ended 31 December 2005.

The fair value of the share options granted during the year was HK\$4,706,000 (2004: HK\$5,377,000).

The fair value of equity-settled share options granted is estimated at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2005 and 31 December 2004.

	2005	2005	2004	2004
Exercise price (HK\$)	3.125	3.675	2.825	3.840
Dividend yield (%)	1.874%	1.874%	1.874%	1.874%
Expected volatility (%)	43.60%	43.24%	46.70%	43.87%
Historical volatility (%)	43.60%	43.24%	46.70%	43.87%
Risk-free interest rate (%)	3.783%	3.794%	3.499%	3.338%
Expected life of option (year)	6-8	6-8	6-8	6-8
Weighted average share price at grant date (HK\$)	3.1295	3.6451	2.8259	3.7918

The expected life of the options is based on the historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options grant was incorporated into the measurement of fair value.

The 3,030,000 share options exercised during the year resulted in the issue of 3,030,000 ordinary shares of the Company and new share capital of HK\$3,030,000 and share premium of HK\$3,181,500 (before issue expenses), as detailed in note 39 to the financial statements.

At the balance sheet date, the Company had 61,021,268 share options outstanding under the New Scheme and the Old Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 61,021,268 additional ordinary shares of the Company and additional share capital of approximately HK\$61,021,000 and share premium of approximately HK\$139,487,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 60,121,268 share options outstanding under the New Scheme and the Old Share Option Scheme, which represented approximately 7.34% of the Company's shares in issue as at that date.

41. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 55 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the Group's then holding company acquired pursuant to the group reorganisation in 1999, over the nominal value of the Company's shares issued in exchange upon the reorganisation.

As detailed in note 2.5 to the financial statements, the Group eliminated goodwill against reserves in respect of acquisitions which occurred prior to 1 January 2001. The amount of goodwill remaining eliminated against consolidated retained profits, arising from the acquisition of a subsidiary prior to 1 January 2001, was HK\$56,586,000 as at 1 January and 31 December 2005. The goodwill is stated at cost.

(b) *Company*

	<i>Notes</i>	Share premium account <i>HK\$'000</i>	Contributed surplus <i>(note (i))</i> <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at 1 January 2004						
As previously reported		26,219	7,392	—	46,501	80,112
Prior year adjustments	2.4(b)	<u>—</u>	<u>—</u>	<u>2,138</u>	<u>—</u>	<u>2,138</u>
As restated		26,219	7,392	2,138	46,501	82,250
Issue of shares	39	3,024	—	—	—	3,024
Shares repurchased and cancelled	39	(5,750)	—	—	—	(5,750)
Share repurchase expenses	39	(41)	—	—	—	(41)
Equity-settled share option arrangements	2.4(c)	—	—	8,012	—	8,012
Net profit for the year		—	—	—	49,021	49,021
Proposed 2004 dividend	15	<u>—</u>	<u>—</u>	<u>—</u>	<u>(82,094)</u>	<u>(82,094)</u>
As at 31 December 2004 (as restated)		23,452	7,392	10,150	13,428	54,422
Balance as at 1 January 2005						
As previously reported		23,452	7,392	—	13,428	44,272
Prior year adjustments	2.4(b)	<u>—</u>	<u>—</u>	<u>10,150</u>	<u>—</u>	<u>10,150</u>
As restated		23,452	7,392	10,150	13,428	54,422
Issue of shares	39	3,182	—	—	—	3,182
Shares repurchased and cancelled	39	(12,092)	—	—	—	(12,092)
Share repurchase expenses	39	(80)	—	—	—	(80)
Equity-settled share option arrangements	2.4(c)	—	—	8,951	—	8,951
Net profit for the year		—	—	—	31,517	31,517
Dividends paid	15	—	—	—	(8,213)	(8,213)
Proposed 2005 dividend	15	<u>—</u>	<u>—</u>	<u>—</u>	<u>(32,724)</u>	<u>(32,724)</u>
As at 31 December 2005		<u><u>14,462</u></u>	<u><u>7,392</u></u>	<u><u>19,101</u></u>	<u><u>4,008</u></u>	<u><u>44,963</u></u>

Notes:

- (i) The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation in 1999, over the nominal value of the Company's shares issued in exchange upon the reorganisation. Under the Bermuda Companies Act 1981 (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances.
- (ii) The Company depends primarily on dividends from its life insurance subsidiary in order to pay dividends to shareholders. Hong Kong insurance legislation limits the extent of retained profits that can be paid to the Company, through the use of minimum solvency margins and prudent regulations over the value of actuarial liabilities.

As at 31 December 2005, the Company had distributable reserves amounting to HK\$11,400,000 (2004: HK\$20,820,000).

42. Contingent Liabilities

As at 31 December 2005, the Group and the Company had no material contingent liabilities other than as set out in note 43 and contingencies arising from the ordinary course of the Group's long term insurance business (2004: Nil).

43. Pending Litigation

On 21 September 2000, a writ was issued against a number of persons, including PCI and certain insurance agents of PCI, by certain members of an insurance group operating in Hong Kong (the "Plaintiffs"), whereby the Plaintiffs sought, among other things, injunctive relief and damages against PCI in connection with PCI's plan matching scheme and the purported use of certain documents and information.

On 24 July 2001, a High Court judge granted the Plaintiffs interim injunctive relief pending the trial of the action or further order. The interim injunctive relief restrains PCI, among others, from disclosing or otherwise making any use of certain documents and information, and accepting applications for life insurance policies in certain circumstances.

Having consulted the Group's legal counsel, the Group has determined that it will continue to vigorously defend itself against these proceedings. In the opinion of the directors and based on legal advice, it is unlikely that the final outcome of these proceedings would materially affect the financial position of the Group.

44. Operating Lease Arrangements**(a) As lessor**

The Group leases its investment properties (note 19 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,239	1,313
In the second to fifth years, inclusive	<u>1,806</u>	<u>846</u>
	<u><u>3,045</u></u>	<u><u>2,159</u></u>

(b) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years.

As at 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	46,390	20,699
In the second to fifth years, inclusive	165,158	16,797
After five years	<u>19,670</u>	<u>—</u>
	<u><u>231,218</u></u>	<u><u>37,496</u></u>

45. Commitments

- (a) In addition to the operating lease commitments detailed in note 44(b) above, the Group and the Company had the following commitments as at the balance sheet date:

	Group and Company	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for, in respect of the purchase of:		
Computer equipment	217	—
Furniture, fixture and equipment	802	1,356
	<u>1,019</u>	<u>1,356</u>
Authorised, but not contracted for, in respect of the purchase of:		
Computer equipment	36,677	—
	<u>37,696</u>	<u>1,356</u>

46. Related Party Transactions

- (a) Details of the material transactions with companies related to the Group were as follows:

	<i>Notes</i>	Group	
		2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
Premium income in respect of group life and medical policies issued to:			
	(i)		
Pacific Century Asset Management (HK) Limited (trading as "Pacific Century Group")		1,784	1,833
PCCW Services Limited		2,909	1,972
Pacific Century Systems Limited		471	—
Power Logistics Limited		73	—
PCCW Directories Ltd.		68	72
		<u>5,305</u>	<u>3,877</u>
General insurance business income received from The Ming An Insurance Company (Hong Kong), Limited			
	(ii)	<u>6,471</u>	<u>7,409</u>
Title-sponsor of live concert shows			
Music Nation Productions Company Limited	(iii)	<u>800</u>	<u>—</u>

Notes:

- (i) The Group entered into a number of group life and medical policies with certain companies which are associates of Mr. Richard Li and Pacific Century Regional Developments Limited. In the opinion of the directors (including the independent non-executive directors), the group life and medical policies for these related companies are negotiated and conducted on terms and conditions similar to those offered to other customers of the Group, in the ordinary and usual course of business of the Group and on terms that are fair and reasonable so far as the shareholders of the Company are concerned. The total amount of premium income derived therefrom did not exceed 2% of the total turnover of the Group for the year ended 31 December 2005. The Group has no amount due from these companies as at 31 December 2005 (2004: Nil).
- (ii) Pursuant to an agency agreement dated 1 November 1994 and subsequently replaced by an Agency Agreement effective 1 January 2001, PCI was, with effect from 1 January 2001 appointed as an underwriting agent of The Ming An Insurance Company (Hong Kong), Limited (“Ming An”), with authorisation to underwrite and to settle claims of certain types of general insurance businesses on behalf of Ming An.

On 8 November 2004, PCI and Ming An entered into a supplemental agreement to amend the duration of the Agency Agreement for not more than three years for the sole purpose of complying with Rule 14A.35 of the Listing Rules (the “Supplemental Agreement”). Pursuant to the Supplemental Agreement, the terms of the Agency Agreement have been amended to not more than three years which will expire on 31 March 2007 and will be automatically renewed for another three years until being terminated pursuant to the terms of the Agency Agreement with effect from 8 November 2004. The amount due to Ming An was HK\$3,823,000 (2004: HK\$3,952,000) as at 31 December 2005 which is unsecured, interest-free and has a credit term of 90 days according to the Agency Agreement.

- (iii) The Company entered into an agreement on 15 April 2005 with Music Nation Productions Company Limited (“Music Nation”) to act as the sole and exclusive title-sponsor of all live concert shows (the “Concerts”) performed by Mr. TAM Wing Lun, Alan from 25 August 2005 to 3 September 2005. Music Nation is a private company owned by Mr. LI Tzar Kai, Richard, a substantial shareholder of the Company. In the opinion of the directors (including the independent non-executive directors), the above-mentioned transaction was in the ordinary and usual course of business of the Company, on normal commercial terms and was fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with Rule of 14.07 and Rule 14A.31(2)(a) of the Listing Rules, the above-mentioned transaction is exempt from all the reporting, announcement and independent shareholders’ approval requirements as each of the percentage ratios required to be calculated under the size tests is less than 0.1%. The Group has no amount due to Music Nation as at 31 December 2005 (2004: Nil).

- (b) The Group provides loans to employees and agents which are interest-bearing at the prevailing bank lending rates, some of which are secured by the underlying properties and/or motor vehicles, and are repayable on a monthly instalment basis. Details of these loans are included in note 23 to the financial statements.

(c) Compensation of key management personnel of the Group:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term employee benefits	26,027	37,531
Post-employment benefits	1,630	1,603
Share-based payments	<u>3,703</u>	<u>4,199</u>
Total compensation paid to key management personnel	<u><u>31,360</u></u>	<u><u>43,333</u></u>

Further details of directors' emoluments are included in note 10 to the financial statements.

The related party transactions in respect of item (a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

47. Comparative Amounts

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

48. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 February 2006.

- (ii) Set out below is the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement of the Group and notes on such accounts reproduced from the accounts published in the Company's interim report for the six months ended 30 June 2006.

Condensed consolidated income statement

For the six months ended 30 June 2006

	<i>Notes</i>	For the six months ended 30 June	
		2006 <i>(Unaudited)</i> <i>HK\$'000</i>	2005 <i>(Unaudited)</i> <i>HK\$'000</i>
CONTINUING OPERATIONS			
REVENUE			
Turnover	2	932,962	854,160
Investment income, net gains, and other income	2	<u>395,685</u>	<u>146,340</u>
Total revenue and gains, net	2	1,328,647	1,000,500
Less: Reinsurance premiums		<u>(65,701)</u>	<u>(68,378)</u>
Net revenue		<u>1,262,946</u>	<u>932,122</u>
Policyholders' benefits under insurance contracts	3	(324,410)	(275,525)
Policyholders' benefits under investment contracts		(4,735)	(5,601)
Agency commission and allowances		(217,030)	(157,628)
Change in deferred acquisition costs	12	31,230	(28,103)
Management expenses		(200,309)	(147,329)
Increase in future insurance liabilities under insurance contracts		(327,083)	(296,931)
Finance costs	4	<u>(21,866)</u>	<u>(23,169)</u>
PROFIT/(LOSS) BEFORE TAX	5, 6	198,743	(2,164)
Tax	7	<u>(11,288)</u>	<u>(9,216)</u>
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		187,455	(11,380)

	<i>Notes</i>	For the six months ended 30 June	
		2006	2005
		<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	8	<u>652</u>	<u>307</u>
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS		<u>188,107</u>	<u>(11,073)</u>
INTERIM DIVIDEND	9	<u>24,150</u>	<u>8,213</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS	10		
Basic			
— For profit/(loss) for the period		HK 23.24 cents	(HK 1.35 cents)
— For profit/(loss) from continuing operations		<u>HK 23.15 cents</u>	<u>(HK 1.39 cents)</u>
Diluted			
— For profit/(loss) for the period		HK 22.87 cents	(HK 1.35 cents)
— For profit/(loss) from continuing operations		<u>HK 22.79 cents</u>	<u>(HK 1.39 cents)</u>

Condensed consolidated balance sheet
As at 30 June 2006

	<i>Notes</i>	30 June 2006 <i>(Unaudited)</i> <i>HK\$'000</i>	31 December 2005 <i>(Audited)</i> <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		211,735	219,649
Investment properties		14,885	15,028
Deferred acquisition costs	12	1,065,901	1,037,714
Financial assets	13	522,091	1,016,725
Pledged deposit	19	<u>16,157</u>	<u>15,751</u>
Total non-current assets		<u>1,830,769</u>	<u>2,304,867</u>
CURRENT ASSETS			
Deferred acquisition costs	12	289,222	286,179
Premiums receivable		48,261	88,468
Prepayments and other debtors		198,046	210,162
Financial assets	13	6,265,796	5,887,859
Reinsurance assets	24	2,025	1,954
Tax recoverable		—	1,009
Cash and cash equivalents	19	<u>1,704,085</u>	<u>1,357,684</u>
		8,507,435	7,833,315
Assets of a disposal group classified as held for sale	8	<u>56,340</u>	<u>59,773</u>
Total current assets		<u>8,563,775</u>	<u>7,893,088</u>
CURRENT LIABILITIES			
Payable to policyholders		(151,260)	(147,520)
Accrued expenses and other creditors		(212,169)	(262,497)
Tax payable		<u>(19,251)</u>	<u>(8,988)</u>
		(382,680)	(419,005)
Liabilities directly associated with the assets classified as held for sale	8	<u>(17,531)</u>	<u>(21,610)</u>
Total current liabilities		<u>(400,211)</u>	<u>(440,615)</u>

	<i>Notes</i>	30 June 2006	31 December 2005
		<i>(Unaudited)</i>	<i>(Audited)</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
NET CURRENT ASSETS		<u>8,163,564</u>	<u>7,452,473</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,994,333</u>	<u>9,757,340</u>
NON-CURRENT LIABILITIES			
Derivative financial instruments	21	(9,036)	(3,313)
Interest-bearing loans	22	(769,922)	(768,140)
Future insurance liabilities under investment contracts	23	(583,394)	(546,802)
Future insurance liabilities under insurance contracts	24	(5,384,023)	(5,050,881)
Policyholders' dividends and bonuses		<u>(825,396)</u>	<u>(771,653)</u>
Total non-current liabilities		<u>(7,571,771)</u>	<u>(7,140,789)</u>
NET ASSETS		<u><u>2,422,562</u></u>	<u><u>2,616,551</u></u>
EQUITY			
Issued capital	25	804,988	818,106
Reserves		1,593,424	1,765,721
Proposed dividend		<u>24,150</u>	<u>32,724</u>
TOTAL EQUITY		<u><u>2,422,562</u></u>	<u><u>2,616,551</u></u>

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2006

	Notes	Issued share capital	Share premium account	Contributed surplus	Share option reserve	Hedging reserve	Available- for-sale financial assets revaluation reserve	Retained profits	Proposed dividend	Total equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>(Unaudited)</i>										
As at										
1 January 2005		820,938	23,452	152,178	10,150	—	—	1,391,842	82,094	2,480,654
Change in fair value of available-for- sale financial assets		—	—	—	—	—	19,389	—	—	19,389
Net gain on a cash flow hedge		—	—	—	—	790	—	—	—	790
Total income recognised directly in equity		—	—	—	—	790	19,389	—	—	20,179
Loss for the period		—	—	—	—	—	—	(11,073)	—	(11,073)
Total income and expense for the period		—	—	—	—	790	19,389	(11,073)	—	9,106
Final 2004 dividend declared		—	—	—	—	—	—	—	(82,094)	(82,094)
Issue of shares		1,380	1,449	—	—	—	—	—	—	2,829
Share repurchase expenses		—	(13)	—	—	—	—	—	—	(13)
Shares repurchased and cancelled		(970)	(2,026)	—	—	—	—	—	—	(2,996)
Equity-settled share option arrangements		—	—	—	3,731	—	—	—	—	3,731
Interim 2005 dividend	9	—	—	—	—	—	—	(8,213)	8,213	—
As at 30 June 2005		<u>821,348</u>	<u>22,862</u>	<u>152,178</u>	<u>13,881</u>	<u>790</u>	<u>19,389</u>	<u>1,372,556</u>	<u>8,213</u>	<u>2,411,217</u>

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

		Issued share capital	Share premium account	Contributed surplus	Share option reserve	Hedging reserve	Available-for- sale financial assets revaluation reserve	Retained profits	Proposed dividend	Total equity
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 25)	(note 25)								
<i>(Unaudited)</i>										
As at 1 January 2006		818,106	14,462	152,178	19,101	(937)	187,510	1,393,407	32,724	2,616,551
Change in fair value of available-for-sale financial assets		—	—	—	—	—	(289,715)	—	—	(289,715)
Net loss on a cash flow hedge		—	—	—	—	(7,237)	—	—	—	(7,237)
Total expenses recognised directly in equity		—	—	—	—	(7,237)	(289,715)	—	—	(296,952)
Profit for the period		—	—	—	—	—	—	188,107	—	188,107
Total income and expense for the period		—	—	—	—	(7,237)	(289,715)	188,107	—	(108,845)
Final 2005 dividend declared		—	—	—	—	—	—	—	(32,724)	(32,724)
Issue of shares	25(b)	5,170	7,936	—	(2,414)	—	—	—	—	10,692
Share repurchase expenses	25(a)	—	(282)	—	—	—	—	—	—	(282)
Shares repurchased and cancelled	25(a)	(18,288)	(17,319)	—	—	—	—	(29,719)	—	(65,326)
Equity-settled share option arrangements		—	—	—	2,496	—	—	—	—	2,496
Interim 2006 dividend	9	—	—	—	—	—	—	(24,150)	24,150	—
As at 30 June 2006		<u>804,988</u>	<u>4,797*</u>	<u>152,178*</u>	<u>19,183*</u>	<u>(8,174)*</u>	<u>(102,205)*</u>	<u>1,527,645*</u>	<u>24,150</u>	<u>2,422,562</u>

* These reserve amounts comprised the consolidated reserves of HK\$1,593,424,000 (31 December 2005: HK\$1,765,721,000) in the condensed consolidated balance sheet.

Condensed consolidated cash flow statement
For the six months ended 30 June 2006

	<i>Notes</i>	For the six months ended 30 June	
		2006	2005
		<i>(Unaudited)</i> <i>HK\$'000</i>	<i>(Unaudited)</i> <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES		435,673	257,917
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(751)	(7,955)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		<u>(87,640)</u>	<u>(180)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		347,282	249,782
Cash and cash equivalents as at beginning of period		<u>1,393,931</u>	<u>1,299,466</u>
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD		<u><u>1,741,213</u></u>	<u><u>1,549,248</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	524,797	969,370
Non-pledged time deposits with original maturity of less than three months when acquired	19	1,179,288	543,963
Cash and short term deposit attributable to a discontinued operation	8	<u>37,128</u>	<u>35,915</u>
		<u><u>1,741,213</u></u>	<u><u>1,549,248</u></u>

Notes to the condensed consolidated interim financial statements

1. Basis of Preparation and Significant Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (the “HKAS”) 34, “Interim Financial Reporting” issued by the HKICPA and the disclosure requirements set out in Appendix 16 of the Listing Rules.

The basis of preparation and accounting policies adopted in the preparation of the interim financial statements are the same as those used in the preparation of the annual financial statements for the year ended 31 December 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

- HKAS 39 Amendment — The Fair Value Option — restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss;
- HKAS 39 & HKFRS 4 Amendments — Financial Guarantee Contracts — amend the scope of HKAS 39 to include financial guarantee contracts issued. The amendments address the treatment of financial guarantee contracts by the issuer. Under the amended HKAS 39 financial guarantee contracts are recognised initially at fair value and generally remeasured at the higher of (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue;

The adoption of these amendments has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s interim financial statements.

2. Revenue, Investment Income, Net Gains, and Other Income

Revenue, which is also the Group’s turnover, represents gross insurance premiums on insurance contracts, commissions received and receivable in respect of general insurance business conducted under agency agreements, and service fees from asset management.

An analysis of revenue, investment income, net gains and other income is as follows:

	For the six months ended 30 June	
	2006 <i>(Unaudited)</i> <i>HK\$’000</i>	2005 <i>(Unaudited)</i> <i>HK\$’000</i>
Revenue:		
Life insurance contracts:		
Single premium	18,459	11,489
First year premium	138,220	109,156
Renewal premium	<u>762,666</u>	<u>718,381</u>
Gross premium	919,345	839,026
General insurance commissions under agency agreements	4,092	5,597
Asset management fees	7,301	8,343
Fees on investment contracts	<u>2,224</u>	<u>1,194</u>

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Revenue attributable to continuing operations reported in the condensed consolidated income statement	<u>932,962</u>	<u>854,160</u>
Investment income:		
General and shareholders' funds:		
Interest income from quoted bonds	75,854	81,281
Interest income from banks and asset management	25,359	9,735
Interest received from policy loans and loans to employees and agents	12,961	11,112
Dividend income from listed and unlisted investments	12,101	14,230
Interest income from an exchangeable note	13,564	—
Investment handling charges	(4,505)	(2,507)
Others	<u>895</u>	<u>(69)</u>
	<u>136,229</u>	<u>113,782</u>
Segregated funds (note (i)):		
Interest income from banks and asset management	129	4
Dividend income from listed investments	35	—
Investment handling charges	(877)	(976)
Others	<u>374</u>	<u>350</u>
	<u>(339)</u>	<u>(622)</u>
Total investment income	<u>135,890</u>	<u>113,160</u>
Net gains:		
Realised gains/(losses)		
General and shareholders' funds:		
Listed available-for-sale financial assets (transfer from equity)	126,355	1,276
Unlisted available-for-sale financial assets (transfer from equity)	88,344	2,690
Financial assets at fair value through profit or loss	6,160	3,099
Embedded derivatives (note (ii))	<u>(264)</u>	<u>—</u>
Net realised gains	<u>220,595</u>	<u>7,065</u>
Unrealised gains/(losses)		
General and shareholders' funds:		
Financial assets at fair value through profit or loss	26,433	(2,893)
Embedded derivatives (note (ii))	<u>(1,072)</u>	<u>—</u>
	<u>25,361</u>	<u>(2,893)</u>
Segregated funds (note (i)):		
Financial assets at fair value through profit or loss	<u>2,202</u>	<u>3,331</u>
Net unrealised gains	<u>27,563</u>	<u>438</u>

	For the six months ended 30 June	
	2006	2005
	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000
Total net gains	<u>248,158</u>	<u>7,503</u>
Investment income and net gains:		
General and shareholders' funds	382,185	117,954
Segregated funds <i>(note (i))</i>	<u>1,863</u>	<u>2,709</u>
	<u>384,048</u>	<u>120,663</u>
Other income:		
Reinsurance commission income and refund	6,300	4,891
Others	<u>5,337</u>	<u>20,786</u>
Total other income	<u>11,637</u>	<u>25,677</u>
Investment income, net gains and other income	<u>395,685</u>	<u>146,340</u>
Total revenue and gains, net attributable to continuing operations reported in the condensed consolidated income statement	1,328,647	1,000,500
Total revenue and gains, net attributable to a discontinued operation <i>(note 8)</i>	<u>2,618</u>	<u>369</u>
	<u>1,331,265</u>	<u>1,000,869</u>

The Group's income all arises from its activities conducted in Hong Kong.

Notes:

- (i) The investment income and net gains amounting to a net gain of HK\$1,863,000 (six months ended 30 June 2005: net gain of HK\$2,709,000) on segregated funds will be offset by a change in future insurance liabilities and policyholders' benefits relevant to segregated fund policies, and has no impact on the condensed consolidated income statement.
- (ii) The Group has invested in convertible bonds and callable bonds, which have a call option to convert the bond into the equity of the issuer at an established conversion rate.

3. Policyholders' Benefits under Insurance Contracts

	For the six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Death and disability claims	107,731	91,808
Surrenders	92,437	83,852
Maturities and periodic payments	62,336	46,252
Policyholders' dividends	<u>61,906</u>	<u>53,613</u>
	<u>324,410</u>	<u>275,525</u>

4. Finance Costs

	For the six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on interest-bearing loans	(23,170)	(23,285)
Interest income on derivative financial instruments, net (<i>note (i)</i>)	<u>1,304</u>	<u>116</u>
	<u>(21,866)</u>	<u>(23,169)</u>

Note:

- (i) The Group has entered into a cross currency swap contract, effective 17 June 2005, as a cash flow hedge, to eliminate any foreign currency fluctuations during the term of the interest-bearing loans denominated in United States dollar ("US\$"), as disclosed in note 22 to the condensed consolidated interim financial statements.

5. Profit/(Loss) Before Tax

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2006	2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	1,712	653
Depreciation:		
Property, plant and equipment	8,279	7,533
Investment properties	143	—
Amortisation of deferred acquisition costs (<i>note (i) and note 12</i>)	153,261	143,051
Minimum lease payments under operating lease rentals on land and buildings	16,711	12,832
Employee benefits expenses (including directors' remuneration)	88,096	62,377
Gain on disposal of items of property, plant and equipment	<u>(20)</u>	<u>(91)</u>

Note:

- (i) The amortisation of deferred acquisition costs for the period is included in "Change in deferred acquisition costs" on the face of the condensed consolidated income statement, as disclosed in note 12 to the condensed consolidated interim financial statements.

6. Profit/(Loss) Before Tax by Activity

Pursuant to the requirements of the Listing Rules, the profit/(loss) before tax is analysed by activity as follows:

	For the six months ended 30 June	
	2006 <i>(Unaudited)</i> <i>HK\$'000</i>	2005 <i>(Unaudited)</i> <i>HK\$'000</i>
Life insurance contracts	200,602	(4,205)
Retirement scheme business	(371)	(881)
General insurance business under agency agreements	1,098	2,652
Asset management business <i>(note (i))</i>	(6,335)	(924)
Fees on investment contracts	<u>3,749</u>	<u>1,194</u>
Profit/(loss) before tax attributable to continuing operations reported in the condensed consolidated income statement	198,743	(2,164)
Profit before tax attributable to a discontinued operation <i>(note 8)</i>	<u>652</u>	<u>369</u>
	<u><u>199,395</u></u>	<u><u>(1,795)</u></u>
<i>Note:</i>		
(i) Income from operations — asset management	22,979	24,795
Less: Intra-group income	<u>(15,678)</u>	<u>(16,452)</u>
	7,301	8,343
Operating expenses before tax	<u>(13,636)</u>	<u>(9,267)</u>
	<u><u>(6,335)</u></u>	<u><u>(924)</u></u>

The Group's profit/(loss) before tax arises mainly from its direct underwriting activities conducted in Hong Kong.

7. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising from the Group's asset management business conducted in Hong Kong, and the Group's long term insurance business during the period.

The assessable profits of a wholly-owned subsidiary, which is engaged in the long term insurance business and retirement scheme management, are computed in accordance with the special provisions of the Hong Kong Inland Revenue Ordinance. Tax for the long term insurance business, as defined by the Inland Revenue Ordinance, is computed at 17.5% of 5% of net premium (gross premium received less reinsurance premium ceded) from the life insurance business in accordance with Section 23(1)(a) of the Inland Revenue Ordinance.

	For the six months ended 30 June	
	2006	2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current — Hong Kong profits tax	<u>11,288</u>	<u>9,216</u>

8. Discontinued Operation

In June 2002, PCI, a wholly-owned subsidiary of the Group, entered into an agreement for the transfer of its MPF business to HSBC Life. The disposal is consistent with the Company's long term strategy to focus on providing an extensive range of whole life, endowment and term life insurance products to individuals in Hong Kong. The transfer of the MPF business commenced in July 2002, and the Group plans to complete the transfer in 2006. As at 30 June 2006, the MPF business was classified as disposal group held for sale.

The results of the MPF business for the periods ended 30 June 2006 and 2005 are presented below:

	For the six months ended 30 June	
	2006	2005
	<i>(Unaudited)</i> <i>HK\$'000</i>	<i>(Unaudited)</i> <i>HK\$'000</i>
REVENUE		
Interest income	746	103
Realised and unrealised gain on financial assets at fair value through profit or loss	1,745	266
Other income	<u>127</u>	<u>—</u>
Total revenue	<u>2,618</u>	<u>369</u>
OPERATING EXPENSES		
Policyholders' benefits	(1,745)	—
Management expenses	<u>(221)</u>	<u>—</u>
Total operating expenses	<u>(1,966)</u>	<u>—</u>
PROFIT BEFORE TAX FROM THE DISCONTINUED OPERATION	652	369
Tax	<u>—</u>	<u>(62)</u>
PROFIT FOR THE PERIOD FROM THE DISCONTINUED OPERATION	<u><u>652</u></u>	<u><u>307</u></u>

The major classes of the total assets and liabilities of the MPF business classified as held for sale as at 30 June 2006 and 31 December 2005 are as follows:

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS		
Financial assets at fair value through profit or loss	17,095	21,166
Time deposits with original maturity of more than three months when acquired	2,102	2,102
Cash and cash equivalents	37,128	36,247
Prepayments and other debtors	<u>15</u>	<u>258</u>
Assets classified as held for sale	<u>56,340</u>	<u>59,773</u>
LIABILITIES		
Claims payable	3	52
Premium deposits	5	5
Accrued expenses and other creditors	429	388
Future insurance liabilities under investment contracts	<u>17,094</u>	<u>21,165</u>
Liabilities directly associated with assets classified as held for sale	<u>17,531</u>	<u>21,610</u>
Net assets directly associated with the disposal group	<u>38,809</u>	<u>38,163</u>

The net cash flows incurred by the MPF business are as follows:

	For the six months ended 30 June	
	2006	2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating	881	(358)
Investing	—	—
Financing	<u>—</u>	<u>—</u>
Net cash inflow/(outflow)	<u>881</u>	<u>(358)</u>
Earnings per share:		
Basic, from the discontinued operation	HK 0.081 cents	HK 0.037 cents
Diluted, from the discontinued operation	<u>HK 0.079 cents</u>	<u>HK 0.037 cents</u>

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	For the six months ended 30 June	
	2006 <i>(Unaudited)</i>	2005 <i>(Unaudited)</i>
Profit attributable to ordinary equity holders from the discontinued operation	HK\$652,000	HK\$307,000
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	809,576,000	821,383,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u>822,652,000</u>	<u>833,933,000</u>

9. Dividend

	For the six months ended 30 June	
	2006 <i>(Unaudited)</i> <i>HK\$'000</i>	2005 <i>(Unaudited)</i> <i>HK\$'000</i>
Interim dividend — HK\$0.03 (2005: HK\$0.01) per ordinary share	<u>24,150</u>	<u>8,213</u>

The Board has declared an interim dividend for the six months ended 30 June 2006 of HK\$0.03 per share (2005: HK\$0.01) on 10 August 2006.

10. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity holders for the period, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2006 is based on the profit attributable to ordinary equity holders for this period. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the six months ended 30 June 2006, as used in the basic earnings per share calculation for this period and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during this period.

No diluted loss per share for the six months ended 30 June 2005 has been calculated as share options outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2006	2005
	<i>(Unaudited)</i> HK\$'000	<i>(Unaudited)</i> HK\$'000
Earnings		
Profit/(loss) attributable to ordinary equity holders, used in the basic earnings/(loss) per share calculation:		
From continuing operations	187,455	(11,380)
From a discontinued operation	<u>652</u>	<u>307</u>
Profit/(loss) attributable to ordinary equity holders	<u><u>188,107</u></u>	<u><u>(11,073)</u></u>
	Number of shares	
	30 June 2006	30 June 2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	809,576,000	821,383,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	<u>13,076,000</u>	<u>—</u>
	<u><u>822,652,000</u></u>	<u><u>821,383,000</u></u>

11. Segment Information

The Group operates in the reportable business segment, being the provision of financial services, and in one reportable geographical segment, being Hong Kong.

12. Deferred Acquisition Costs

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of period/year	1,323,893	1,309,396
Additions	184,491	301,243
Less: Amortisation	<u>(153,261)</u>	<u>(286,746)</u>
Change in deferred acquisition costs	<u>31,230</u>	<u>14,497</u>
At end of period/year	1,355,123	1,323,893
Current portion	<u>(289,222)</u>	<u>(286,179)</u>
Non-current portion	<u><u>1,065,901</u></u>	<u><u>1,037,714</u></u>

13. Financial Assets

	<i>Notes</i>	30 June 2006	31 December 2005
		<i>(Unaudited)</i>	<i>(Audited)</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Total financial assets:			
Policy loans	14	255,165	241,193
Loans to employees and agents	15	54,581	53,718
Held-to-maturity financial assets	16	136,930	136,953
Available-for-sale financial assets	17	5,522,018	5,980,577
Financial assets at fair value through profit or loss	18	810,399	481,976
Derivative financial instruments	21	<u>8,794</u>	<u>10,167</u>
		<u>6,787,887</u>	<u>6,904,584</u>
Current portion:			
Loans to employees and agents	15	(2,577)	(1,522)
Available-for-sale financial assets	17	(5,444,026)	(5,394,194)
Financial assets at fair value through profit or loss	18	(810,399)	(481,976)
Derivative financial instruments	21	<u>(8,794)</u>	<u>(10,167)</u>
		<u>(6,265,796)</u>	<u>(5,887,859)</u>
Non-current portion		<u><u>522,091</u></u>	<u><u>1,016,725</u></u>

14. Policy Loans

The Group's policy loans are made to policyholders and are secured by the policies' cash surrender value. Policy loans are repayable at the discretion of the policyholders as long as the interest plus the principal of the loans do not equal or exceed the cash value or until the policy matures. The policy loans are interest bearing at 9% per annum.

15. Loans to Employees and Agents

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans to employees and agents	54,581	53,718
Current portion	<u>(2,577)</u>	<u>(1,522)</u>
Non-current portion	<u>52,004</u>	<u>52,196</u>

The Group provides loans to employees and agents which are interest-bearing at the prevailing bank lending rates, some of which are secured by the underlying properties and/or motor vehicles, and are repayable by monthly installments. The effective interest rates of loans to employees and agents range from 5.0% to 16.0% per annum.

No loans had been provided to directors as at 30 June 2006 and 31 December 2005.

16. Held-to-maturity Financial Assets

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Held-to-maturity bonds, at amortised cost quoted in places other than Hong Kong	<u>136,930</u>	<u>136,953</u>
Market value of quoted held-to-maturity bonds as at period/year end	<u>136,930</u>	<u>135,949</u>

All the held-to-maturity bonds are issued by corporate entities.

17. Available-for-sale Financial Assets

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Quoted bonds, at market value (<i>note (i)</i>):		
Hong Kong	935,729	779,063
Elsewhere	<u>2,215,425</u>	<u>1,992,591</u>
	<u>3,151,154</u>	<u>2,771,654</u>
Listed equity investments, at market value:		
Hong Kong	150,420	300,587
Elsewhere	<u>1,151,906</u>	<u>1,075,874</u>
	<u>1,302,326</u>	<u>1,376,461</u>
Unlisted unit trusts, at fair value	<u>205,412</u>	<u>409,287</u>
Unlisted mutual funds, at fair value	<u>785,134</u>	<u>836,812</u>
Unlisted equity investments, at fair value	<u>77,992</u>	<u>78,061</u>
Available-for-sale unlisted exchangeable note, investment element at cost (<i>note (ii)</i>)	<u>—</u>	<u>508,302</u>
Total available-for-sale financial assets	5,522,018	5,980,577
Portion classified as current assets	<u>(5,444,026)</u>	<u>(5,394,194)</u>
Non-current portion	<u><u>77,992</u></u>	<u><u>586,383</u></u>

The above investments consist of investments in bonds purchased other than for held-to-maturity, equity securities, unit trusts and mutual funds. Equity securities, unit trusts and mutual funds have no fixed maturity date or coupon rate.

The fair values of listed equity investments, quoted bonds, unit trusts and mutual funds are based on quoted market prices.

The fair values of unlisted investments are determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

When the fair value of unlisted investments cannot be reliably measured, they are stated at cost less any impairment losses.

Notes:

- (i) The quoted bonds analysed by category of issuer as at the balance sheet date are as follows:

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Governments	334,997	398,890
Banks and other financial institutions	1,721,622	1,272,608
Corporate entities	<u>1,094,535</u>	<u>1,100,156</u>
Total	<u><u>3,151,154</u></u>	<u><u>2,771,654</u></u>

The effective interest rates of quoted bonds ranged from 1.08% to 8.63% per annum.

- (ii) The Group subscribed for an exchangeable note on 3 June 2005, the component parts of which are an investment element and an option to convert into shares in the future. The basic note was held as an available-for-sale financial asset and the option was held as derivative. The investment element was carried at cost and the embedded option to convert the shares in the future had zero fair value as at 31 December 2005 since the Group was not able to exercise its exchange right because of the controls on foreign ownership of the insurance business currently existing under PRC law. On 28 February 2006, the Group entered into a termination agreement to terminate the note and the principal amount of the note was repaid with accrued interest thereon.

18. Financial Assets at Fair Value through Profit or Loss

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted unit trusts, at fair value	<u>810,399</u>	<u>481,976</u>

The above investments as at 30 June 2006 were designated as financial assets at fair value through profit or loss at the date of inception of the investments.

19. Cash and Cash Equivalents

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	540,954	1,141,884
Time deposits	<u>1,179,288</u>	<u>231,551</u>
	<u>1,720,242</u>	<u>1,373,435</u>
Less: Pledged deposit for cross currency swap agreement (<i>note 21(i)</i>)	<u>(16,157)</u>	<u>(15,751)</u>
Cash and cash equivalents	<u><u>1,704,085</u></u>	<u><u>1,357,684</u></u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposit approximate to their fair values.

20. Financial Risk Management Objectives and Policies

(a) *Regulatory framework*

The operations of the Group are subject to local regulatory requirements in Hong Kong. The regulators are interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters and that the risk levels are at acceptable levels.

(b) *Insurance risk*

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents, and related risks. The Group retains a maximum of US\$100,000 for each risk it insures, with the excess being reinsured through surplus treaties, coinsurance treaties, facultative reinsurance, and catastrophe treaties with reputable international reinsurers. Consequently, total claims payable in any given year can be predicted with a high degree of precision. Over the last five years, the actual claims in each year have been less than expected. As part of the Group's quality control process, the Group regularly invites reinsurers to audit its underwriting and claims practices and procedures, to ensure that they meet the highest industry standards.

(c) *Investment securities*

The Group limits its exposure by setting minimum limits of its portfolio mix in bonds and maximum limits of its portfolio mix in equities and other investments. The Group also sets maximum limits on currency, maturity and credit limit on fixed income portfolios. The Group only deals with institutions with high creditworthiness.

(d) *Premium receivables*

The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy documents or trust deeds on the expiry of which either the premium is paid or the policy will be terminated or changed to reduce paid-up or term cover according to the provision of the policy.

(e) *Interest rate risk*

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

(f) *Market risk*

Market risk is the risk of changes in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Group structures levels of market risk it accepts through its market risk policy which includes determining what constitutes market risk for the Group, the basis used to fairly value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; the net exposure limits by geographical segments for investments in countries other than Hong Kong and US; monitoring compliance with its market risk policy and review of market risk policy for pertinence and changing environment.

(g) *Currency risk*

It is the Group's policy to match its assets and liabilities by currency to minimise its exposure to currency risks. The Group sells policies denominated in Hong Kong dollars and United States dollars and its assets are quite well matched with the liabilities. As at the balance sheet date, the Group had 11.3% investments in foreign currency equities (other than the investments in the United States, Hong Kong and Mainland China). The Group believes that the currency risk in equities is reflected in their share price and therefore its exposure to the foreign currencies was not hedged.

(h) *Credit risk*

It is the Group's investment policy to invest in investment grade bonds to limit its exposure to credit risk. The Group allows a maximum of 5% of invested assets to be invested in non-investment grade bonds. As at 30 June 2006, the non-investment grade bonds held by the Group was approximately 0.9% of its invested assets and approximately 99.1% of the bonds held by the Group was investment grade bonds.

(i) *Price risk*

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit linked business.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limit on investment in each country, sector and market.

The Group has actively refined its investment model through the use of the value at risk technique to measure portfolio risks and performance. As at the balance sheet date, the value at risk on its equity portfolio, being measured at 95% confidence level for a monthly time span, was 7.8% of the equity portfolio size. The similar value at risk on its hedge fund portfolio was 4.2% of the hedge fund portfolio size.

(j) **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Group is the daily calls on its available cash resources in respect of claims arising from insurance and investment contracts and the maturity of debt securities.

The Group manages liquidity through its liquidity risk policy which includes determining what constitutes liquidity risk for the Group; the minimum proportion of funds to meet emergency calls; the setting up of contingency funding plans; specifying the sources of funding and the events that would trigger the plans; specifying the concentration of funding sources; the reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with its liquidity risk policy and the review of the Group's liquidity risk policy for pertinence and changing environment.

The tables below analyse certain assets and liabilities of the Group as at 30 June 2006 and 31 December 2005 into their relevant maturity groups based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates.

As at 30 June 2006 (Unaudited)	1 year or less HK\$'000	2 years or less but > 1 year HK\$'000	3 years or less but > 2 years HK\$'000	4 years or less but > 3 years HK\$'000	5 years or less but > 4 years HK\$'000	> 5 years HK\$'000	Unit-linked HK\$'000	Total HK\$'000
ASSETS								
Reinsurance assets	2,025	—	—	—	—	—	—	2,025
Premium receivable	48,261	—	—	—	—	—	—	48,261
Prepayments and other debtors	198,046	—	—	—	—	—	—	198,046
Financial assets:								
Derivative financial instruments	—	1,571	1,820	2,743	55	2,605	—	8,794
Held-to-maturity financial assets	—	136,930	—	—	—	—	—	136,930
Assets at fair value through profit or loss	65,049	—	—	—	—	—	745,350	810,399
Available-for-sale financial assets — other than bonds	2,292,872	—	—	—	—	77,992	—	2,370,864
Available-for-sale financial assets — bonds	767,740	398,132	528,479	309,335	92,235	1,055,233	—	3,151,154
Loans to employees and agents	2,577	1,723	4,924	287	11,502	33,568	—	54,581
Pledged deposit	—	—	—	—	—	16,157	—	16,157
Cash and cash equivalents	1,698,760	—	—	—	—	—	5,325	1,704,085
Assets of a disposal group classified as held for sale	56,340	—	—	—	—	—	—	56,340
	<u>5,131,670</u>	<u>538,356</u>	<u>535,223</u>	<u>312,365</u>	<u>103,792</u>	<u>1,185,555</u>	<u>750,675</u>	<u>8,557,636</u>

As at 30 June 2006 (Unaudited)	1 year or less <i>HK\$'000</i>	2 years or less but > 1 year <i>HK\$'000</i>	3 years or less but > 2 years <i>HK\$'000</i>	4 years or less but > 3 years <i>HK\$'000</i>	5 years or less but > 4 years <i>HK\$'000</i>	> 5 years <i>HK\$'000</i>	Unit-linked <i>HK\$'000</i>	Total <i>HK\$'000</i>
LIABILITIES								
Future insurance liabilities under insurance contracts	334,581	2,055	1,607	5,105	3,417	4,913,077	124,181	5,384,023
Tax payable	19,251	—	—	—	—	—	—	19,251
Financial liabilities:								
Derivative financial instruments	—	—	—	—	—	9,036	—	9,036
Future insurance liabilities under investment contracts	2,827	—	1,530	116,692	380	75,189	386,776	583,394
Interest-bearing loans	—	—	—	—	—	769,922	—	769,922
Payable to policyholders	151,260	—	—	—	—	—	—	151,260
Accrued expenses and other creditors	212,169	—	—	—	—	—	—	212,169
Liabilities directly associated with the assets classified as held for sale	17,531	—	—	—	—	—	—	17,531
	<u>737,619</u>	<u>2,055</u>	<u>3,137</u>	<u>121,797</u>	<u>3,797</u>	<u>5,767,224</u>	<u>510,957</u>	<u>7,146,586</u>
As at 31 December 2005 (Audited)								
	1 year or less <i>HK\$'000</i>	2 years or less but > 1 year <i>HK\$'000</i>	3 years or less but > 2 years <i>HK\$'000</i>	4 years or less but > 3 years <i>HK\$'000</i>	5 years or less but > 4 years <i>HK\$'000</i>	> 5 years <i>HK\$'000</i>	Unit-linked <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS								
Tax recoverable	1,009	—	—	—	—	—	—	1,009
Reinsurance assets	1,954	—	—	—	—	—	—	1,954
Premium receivable	88,468	—	—	—	—	—	—	88,468
Prepayments and other debtors	210,162	—	—	—	—	—	—	210,162
Financial assets:								
Derivative financial instruments	—	852	455	903	2,212	5,745	—	10,167
Held-to-maturity financial assets	—	136,953	—	—	—	—	—	136,953
Assets at fair value through profit or loss	85,972	—	—	—	—	—	396,004	481,976
Available-for-sale financial assets — other than bonds	2,622,540	—	—	—	—	586,383	—	3,208,923
Available-for-sale financial assets — bonds	267,055	306,038	462,716	236,215	188,428	1,311,202	—	2,771,654
Loans to employees and agents	1,522	2,038	6,230	326	1,586	42,016	—	53,718
Pledged deposit	—	—	—	—	—	15,751	—	15,751
Cash and cash equivalents	1,351,475	—	—	—	—	—	6,209	1,357,684
Assets of a disposal group classified as held for sale	59,773	—	—	—	—	—	—	59,773
	<u>4,689,930</u>	<u>445,881</u>	<u>469,401</u>	<u>237,444</u>	<u>192,226</u>	<u>1,961,097</u>	<u>402,213</u>	<u>8,398,192</u>

As at 31 December 2005 (Audited)	1 year or less HK\$'000	2 years or less but > 1 year HK\$'000	3 years or less but > 2 years HK\$'000	4 years or less but > 3 years HK\$'000	5 years or less but > 4 years HK\$'000	> 5 years HK\$'000	Unit-linked HK\$'000	Total HK\$'000
LIABILITIES								
Future insurance liabilities under insurance contracts	319,160	1,359	1,838	3,460	3,618	4,603,996	117,450	5,050,881
Tax payable	8,988	—	—	—	—	—	—	8,988
Financial liabilities:								
Derivative financial instruments	—	—	—	—	—	3,313	—	3,313
Future insurance liabilities under investment contracts	—	—	—	113,107	6,691	144,591	282,413	546,802
Interest-bearing loans	—	—	—	—	—	768,140	—	768,140
Payable to policyholders	147,520	—	—	—	—	—	—	147,520
Accrued expenses and other creditors	262,497	—	—	—	—	—	—	262,497
Liabilities directly associated with the assets classified as held for sale	21,610	—	—	—	—	—	—	21,610
	<u>759,775</u>	<u>1,359</u>	<u>1,838</u>	<u>116,567</u>	<u>10,309</u>	<u>5,520,040</u>	<u>399,863</u>	<u>6,809,751</u>

21. Derivative Financial Instruments

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Options embedded in convertible bonds	4,921	4,223
Options embedded in callable bonds	3,873	5,944
Unlisted cross currency swap agreement, at fair value (note (i))	<u>(9,036)</u>	<u>(3,313)</u>
	(242)	6,854
Portion classified as non-current financial liabilities		
— cross currency swap agreement	<u>9,036</u>	<u>3,313</u>
Current portion of derivative financial assets	<u>8,794</u>	<u>10,167</u>

Note:

- (i) The notional amount of the cross currency swap agreement is US\$100 million (equivalent to HK\$777.7 million) which indicates the nominal value of the transaction outstanding as at the balance sheet date. It does not represent the amount at risk.

As at 30 June 2006, the Group pledged US\$2,080,000 (31 December 2005: US\$2,032,000) (equivalent to HK\$16,157,000 (31 December 2005: HK\$15,751,000)) as a cash collateral for the cross currency swap agreement, which has a maturity date at 17 December 2014 to the counterparty.

The carrying amounts of the cross currency swap agreement, embedded in convertible bonds and callable bonds are the same as their fair values.

Cross currency swap agreement — cash flow hedge

As at 30 June 2006, the Group held a cross currency swap agreement designated as a hedge in respect of expected future currency fluctuations related to repayment of its interest-bearing loan of US\$100 million with maturity at 17 December 2014. The terms of the cross currency swap agreement are as follows:

Buy	Maturity	Exchange rate
US\$	17 December 2014	7.777

The terms of the cross currency swap agreement have been negotiated to match the terms of the interest-bearing loan. The cash flow hedge of the expected future foreign currency fluctuations related to repayment of the interest-bearing loan was assessed to be effective and a net loss of HK\$7,237,000 (six months ended 30 June 2005: HK\$790,000) was included in the hedging reserve.

22. Interest-Bearing Loans

On 17 December 2004, an indirect wholly-owned subsidiary of the Company, PCI Capital Limited (“PCI Capital”), issued an aggregate principal amount of US\$100 million (approximately HK\$780 million) with a coupon rate of 5.875% guaranteed bonds (the “Bonds”) due 17 December 2014 to independent third party investors. PCI Capital raised approximately HK\$767,186,000 (US\$98,648,000), net of expenses.

Interest on the Bonds is payable on 17 June and 17 December of each year, beginning on 17 June 2005. The Bonds are fully and unconditionally guaranteed by PCI. PCI’s guarantee is its unsecured and unsubordinated obligation which ranks equally with all of PCI’s other existing and future unsecured and unsubordinated obligations. As required by the insurance laws of Hong Kong and Bermuda, PCI’s guarantee is effectively junior to the liabilities of its long term business, to the extent of the assets maintained by PCI in respect of its long term business. The Bonds are listed on the Main Board of the Singapore Exchange Securities Trading Limited and under the provision of Rule 144A of the United States Securities Act.

The Bonds will fully mature on 17 December 2014. Accordingly, the Bonds have been classified as non-current liabilities as at the balance sheet date. The effective interest rate of the Bonds is 6.12% per annum.

23. Future Insurance Liabilities under Investment Contracts

Movements in future insurance liabilities under investment contracts are as follows:

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of period/year	546,802	482,225
Discontinued operation at beginning of period/year	—	(27,719)
Deposits	127,856	173,693
Withdrawal	(96,523)	(104,026)
Charges	(2,224)	(5,871)
Interest credited	4,735	29,233
Exchange realignment	<u>2,748</u>	<u>(733)</u>
At end of period/year	<u>583,394</u>	<u>546,802</u>

24. Future Insurance Liabilities under Insurance Contracts

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Insurance contracts liabilities	5,251,446	4,917,990
Coinsurance liabilities	<u>132,577</u>	<u>132,891</u>
Future insurance liabilities under insurance contracts	5,384,023	5,050,881
Reinsurers' share of liabilities	<u>(2,025)</u>	<u>(1,954)</u>
Net liabilities	<u>5,381,998</u>	<u>5,048,927</u>

	30 June 2006 (Unaudited)				31 December 2005 (Audited)			
	Insurance contracts liabilities	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities	Insurance contracts liabilities	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unit-linked	124,181	—	(28)	124,153	117,450	—	(31)	117,419
With fixed and guaranteed terms	<u>5,127,265</u>	<u>132,577</u>	<u>(1,997)</u>	<u>5,257,845</u>	<u>4,800,540</u>	<u>132,891</u>	<u>(1,923)</u>	<u>4,931,508</u>
Total	<u>5,251,446</u>	<u>132,577</u>	<u>(2,025)</u>	<u>5,381,998</u>	<u>4,917,990</u>	<u>132,891</u>	<u>(1,954)</u>	<u>5,048,927</u>

Movements in future insurance liabilities under insurance contracts are as follows:

	30 June 2006 (Unaudited)				31 December 2005 (Audited)			
	Insurance contracts liabilities	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities	Insurance contracts liabilities	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of period/year	4,917,990	132,891	(1,954)	5,048,927	4,247,872	159,478	(1,959)	4,405,391
Premium received	643,561	(37,460)	(28,241)	577,860	1,259,558	(99,049)	(55,758)	1,104,751
Liability for death, surrender and maturity	(294,748)	17,956	14,268	(262,524)	(557,889)	32,890	12,751	(512,248)
Benefit and claims experience variation	(304,720)	—	13,907	(290,813)	(183,029)	—	43,006	(140,023)
Investment income and change in unit price	283,304	4,512	—	287,816	160,731	10,467	—	171,198
Financing cost for coinsurance	—	14,678	—	14,678	—	29,105	—	29,105
Exchange realignment	6,059	—	(5)	6,054	(9,253)	—	6	(9,247)
At end of period/year	<u>5,251,446</u>	<u>132,577</u>	<u>(2,025)</u>	<u>5,381,998</u>	<u>4,917,990</u>	<u>132,891</u>	<u>(1,954)</u>	<u>5,048,927</u>

Life insurance contracts liabilities — assumptions and sensitivities**(a) Key assumptions**

Liabilities on insurance contracts offered by the Group are predominantly conventional whole life insurance for which premiums are paid for a limited period of time or the whole of life, with fixed benefits paid upon death, surrender benefits increasing with the duration of policy. Some plans provide for guaranteed periodic payments. Most of the whole life insurance products are entitled to annual dividends and some with terminal dividend upon policy termination. For this block of policies and also for endowment and level term products, the assumptions used for the determination of future liabilities are:

Mortality rate: 150% 1993 Hong Kong Assured Life Mortality table, plus 0.2 per 1,000.

Interest rate: 5.5% for policies with dividend and 4.0% for policies without dividend.

The method of calculating the liabilities is net level premium reserve, with a cash value floor plus an adjustment to remove future valuation strain.

For unit-linked funds, the liabilities are the fund account values.

For insurance with pure risk coverage such as accident benefit, dread disease, medical insurance and disability insurance, the liabilities are the unearned gross premiums.

The Group's investment returns on the investment assets backing the insurance fund, including realised and unrealised gains and losses, for the past five years/period are:

2002	8.03%
2003	9.91%
2004	7.09%
2005	6.62%
30 June 2006	2.21%

The Group's actual claims as compared to the mortality experience assumed in the calculation of the future insurance contracts liabilities for the past five years/period are:

2002	92%
2003	65%
2004	58%
2005	51%
30 June 2006	56%

(b) Sensitivities

Assumptions	Insurance contracts liabilities
5.5%/4.0%, 100% valuation mortality	HK\$5,381,998,000
5.0%/4.0%, 100% valuation mortality	HK\$5,618,074,000
5.5%/4.0%, 110% valuation mortality	HK\$5,458,556,000

25. Share Capital

	30 June 2006 (Unaudited)		31 December 2005 (Audited)	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$1.00 each	<u>3,000,000,000</u>	<u>3,000,000</u>	<u>3,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$1.00 each	<u>804,988,000</u>	<u>804,988</u>	<u>818,106,000</u>	<u>818,106</u>

During the period, the movements in share capital were as follows:

- (a) A total of 18,288,000 ordinary shares of HK\$1.00 each were repurchased by the Company during the period at prices ranging from HK\$3.15 to HK\$3.775 per share. The aggregate price paid by the Company for such repurchases, before share repurchase expenses, was HK\$65,326,000.

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares and related expenses, in the amount of HK\$17,601,000, was charged to the share premium account and the balance of HK\$29,719,000 was charged to the retained profits account, as disclosed in the condensed consolidated statement of changes in equity.

- (b) The subscription rights attaching to 5,170,000 share options were exercised at the subscription prices of HK\$2.05 and HK\$2.825 per share (note 26), resulting in the issue of 5,170,000 shares of HK\$1.00 each for a total cash consideration, before expenses, of HK\$10,692,000, together with a release of the share option reserve amounting to HK\$2,414,000, which is credited to the share premium account.

A summary of the transactions during the period with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
As at 1 January 2006	818,106,000	818,106	14,462	832,568
Shares repurchased and cancelled (a)	(18,288,000)	(18,288)	(17,319)	(35,607)
Share options exercised (b)	<u>5,170,000</u>	<u>5,170</u>	<u>7,936</u>	<u>13,106</u>
	804,988,000	804,988	5,079	810,067
Shares repurchase expenses (a)	<u>—</u>	<u>—</u>	<u>(282)</u>	<u>(282)</u>
As at 30 June 2006	<u>804,988,000</u>	<u>804,988</u>	<u>4,797</u>	<u>809,785</u>

Share options

Details of the Company's share option schemes and the share options issued under the schemes, are included in note 26 to the condensed consolidated interim financial statements.

26. Share Option Schemes

As at 30 June 2006, the Company had 55,542,548 (31 December 2005: 61,021,268) outstanding share options. Details of the share options outstanding during the six months ended 30 June 2006 are as follows:

(i) Directors

Name of director	Number of share options							Price of Company's shares							
	As at 1 January 2006	Granted during the period	Exercised during the period	Lapsed during the period	Forfeited during the period	Expired during the period	As at 30 June 2006	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options*	Immediately before the exercise date#			At exercise date of options
												At grant date#	exercise date#		
											HK\$	HK\$	HK\$	HK\$	
YUEN Tin Fan, Francis	15,552,000	—	—	—	—	—	15,552,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—	
CHAN Ping Kan, Raymond	8,000,000	—	—	—	—	—	8,000,000	20 June 2003	20 June 2004 to 20 March 2006	20 June 2004 to 19 March 2011	1.62	—	—	—	
Peter Anthony ALLEN	480,000	—	—	—	—	—	480,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—	
**CHEUNG Sum, Sam	4,000,000	—	—	—	—	—	4,000,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	—	—	
CHUNG Cho Yee, Mico	1,824,000	—	—	—	—	—	1,824,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—	
SO Wing Hung, Peter	4,000,000	—	—	—	—	—	4,000,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	—	—	
	800,000	—	—	—	—	—	800,000	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	—	—	—	
	<u>34,656,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,656,000</u>								

(ii) *Other employees*

	Number of share options							Price of Company's shares						
	As at 1 January 2006	Granted during the period	Exercised during the period	Lapsed during the period	Forfeited during the period	Expired during the period	As at 30 June 2006	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options*	Immediately before the exercise		At exercise date of options
											At grant date#	exercise date#		
											HK\$	HK\$	HK\$	
In aggregate	410,400	—	—	—	—	—	410,400	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—	—
	220,320	—	—	(103,680)	—	—	116,640	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—	—
	4,400,000	—	(1,660,000)	(200,000)	—	—	2,540,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	3.38	3.39
	2,640,000	—	—	—	—	—	2,640,000	2 March 2004	2 March 2005 to 2 March 2007	2 March 2005 to 1 March 2012	3.84	—	—	—
	1,080,000	—	(120,000)	—	—	—	960,000	4 October 2004	4 October 2005 to 4 October 2007	4 October 2005 to 3 October 2012	2.825	—	3.75	3.75
	210,000	—	—	—	—	—	210,000	19 May 2005	19 May 2006 to 19 May 2008	19 May 2006 to 18 May 2013	3.125	—	—	—
	—	120,000	—	—	—	—	120,000	4 April 2006	4 April 2007 to 4 April 2009	4 April 2007 to 3 April 2014	3.68	3.70	—	—
	<u>8,960,720</u>	<u>120,000</u>	<u>(1,780,000)</u>	<u>(303,680)</u>	<u>—</u>	<u>—</u>	<u>6,997,040</u>							
(iii) <i>Others (Agents)</i>														
In aggregate	2,069,916	—	—	(85,920)	—	—	1,983,996	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—	—
	2,222,592	—	—	(37,440)	—	—	2,185,152	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—	—
	62,040	—	—	(1,680)	—	—	60,360	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—
	10,850,000	—	(3,390,000)	—	—	—	7,460,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	3.67	3.69
	2,200,000	—	—	—	—	—	2,200,000	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	—	—	—
	<u>17,404,548</u>	<u>—</u>	<u>(3,390,000)</u>	<u>(125,040)</u>	<u>—</u>	<u>—</u>	<u>13,889,508</u>							
Total	<u>61,021,268</u>	<u>120,000</u>	<u>(5,170,000)</u>	<u>(428,720)</u>	<u>—</u>	<u>—</u>	<u>55,542,548</u>							

Notes to the reconciliation of share options outstanding during the period:

* The exercise price of the share options is subject to adjustment in the case of rights or bonus shares, or other similar changes in the Company's share capital.

** Mr. CHEUNG Sum, Sam resigned as a director of the Company with effect from 23 February 2006.

- # The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

No share option was cancelled during the period ended 30 June 2006.

The fair value of the share options granted during the period was HK\$150,000 (2005: HK\$3,987,000).

The fair value of equity-settled share options granted is estimated at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the period ended 30 June 2006:

Exercise price (HK\$)	3.68
Dividend yield (%)	1.6273%
Expected volatility (%)	30.52%
Historical volatility (%)	30.52%
Risk-free interest rate (%)	4.575%
Expected life of option (year)	6-8
Weighted average share price at grant date (HK\$)	3.6517

The expected life of the options is based on the historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options grant was incorporated into the measurement of fair value.

The 5,170,000 share options exercised during the period resulted in the issue of 5,170,000 ordinary shares of the Company and new share capital of HK\$5,170,000 and share premium of HK\$7,936,000 (before issue expenses), as detailed in note 25 to the condensed consolidated interim financial statements.

At the balance sheet date, the Company had 55,542,548 share options outstanding under the New Scheme and the Old Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 55,542,548 additional ordinary shares of the Company and additional share capital of approximately HK\$55,542,548 and share premium of approximately HK\$133,310,000 (before issue expenses).

27. Contingent Liabilities

As at 30 June 2006, the Group and the Company had no material contingent liabilities other than as set out below in note 28 and contingencies arising from the ordinary course of the long term insurance business (31 December 2005: Nil).

28. Pending Litigation

On 21 September 2000, a writ was issued against a number of persons, including PCI and certain insurance agents of PCI, by certain members of an insurance group operating in Hong Kong (the "Plaintiffs"), whereby the Plaintiffs sought, among other things, injunctive relief and damages against PCI in connection with PCI's plan matching scheme and the purported use of certain documents and information.

On 24 July 2001, a High Court judge granted the Plaintiffs interim injunctive relief pending the trial of the action or further order. The interim injunctive relief restrains PCI, among others, from disclosing or otherwise making any use of certain documents and information, and accepting applications for life insurance policies in certain circumstances.

Having consulted legal counsel, the Group has determined that it will continue to vigorously defend these proceedings. In the opinion of the directors and based on legal advice, it is unlikely that the final outcome of these proceedings would materially affect the financial position of the Group.

29. Operating Lease Commitments

(a) *As lessor*

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits.

As at 30 June 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,151	1,239
In the second to fifth years, inclusive	<u>1,274</u>	<u>1,806</u>
	<u><u>2,425</u></u>	<u><u>3,045</u></u>

(b) *As lessee*

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

As at 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	52,146	46,390
In the second to fifth years, inclusive	148,991	165,158
After five years	<u>2,810</u>	<u>19,670</u>
	<u><u>203,947</u></u>	<u><u>231,218</u></u>

30. Capital Commitments

In addition to the operating lease commitments in note 29(b) above, the Group and the Company had the following commitments as at the balance sheet date:

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for, in respect of the purchase of:		
Computer equipment	17,208	217
Furniture, fixture and equipment	<u>29,286</u>	<u>802</u>
	<u>46,494</u>	<u>1,019</u>
Authorised, but not contracted for, in respect of the purchase of:		
Computer equipment	22,641	36,677
Furniture, fixture and equipment	<u>50,714</u>	<u>—</u>
	<u>73,355</u>	<u>36,677</u>
	<u><u>119,849</u></u>	<u><u>37,696</u></u>

31. Related Party Transactions

(a) Details of the material transactions with companies related to the Group are as follows:

		For the six months ended 30 June	
	<i>Notes</i>	2006	2005
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Premium income in respect of group life and medical policies issued to:			
Pacific Century Asset Management (HK) Limited (trading as "Pacific Century Group")	(i)	1,672	1,784
PCCW Services Limited		7,351	2,085
Pacific Century Systems Limited		484	471
Power Logistics Limited		64	73
PCCW Directories Limited		<u>68</u>	<u>72</u>
		<u>9,639</u>	<u>4,485</u>
General insurance business income received from The Ming An Insurance Company (Hong Kong), Limited	(ii)	<u>2,540</u>	<u>4,245</u>

Notes:

- (i) The Group entered into a number of group life and medical policies with certain companies which are associates of Mr. LI Tzar Kai, Richard and PCRD. In the opinion of the directors (including the independent non-executive directors), the group life and medical policies for these related companies are negotiated and conducted on terms and conditions similar to those offered to other customers of the Group, in the ordinary and usual course of business of the Group and on terms that are fair and reasonable so far as the shareholders of the Company are concerned. The total amount of the premium income derived therefrom did not exceed 2% of the total turnover of the Group for the period ended 30 June 2006. The Group had no amount due from these companies as at 30 June 2006 (2005: Nil).
- (ii) Pursuant to an agency agreement dated 1 November 1994 and subsequently replaced by an Agency Agreement effective 1 January 2001, PCI was, with effect from 1 January 2001, appointed as an underwriting agent of The Ming An Insurance Company (Hong Kong), Limited (“Ming An”), with authorisation to underwrite and to settle claims of certain types of general insurance businesses on behalf of Ming An.

On 8 November 2004, PCI and Ming An entered into a supplemental agreement to amend the duration of the Agency Agreement for not more than three years for the sole purpose of complying with Rule 14A.35 of the Listing Rules (the “Supplemental Agreement”). Pursuant to the Supplemental Agreement, the terms of the Agency Agreement have been amended to not more than three years which will expire on 31 March 2007 and will be automatically renewed for another three years until being terminated pursuant to the terms of the Agency Agreement with effect from 8 November 2004. The amount due to Ming An was HK\$4,119,000 (31 December 2005: HK\$3,823,000) as at 30 June 2006 which is unsecured, interest-free and has a credit term of 90 days according to the Agency Agreement.

- (b) The Group provides loans to employees and agents which are interest-bearing at the prevailing bank lending rates, some of which are secured by the underlying properties and/or motor vehicles, and are repayable on a monthly installment basis.
- (c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2006	2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term employee benefits	8,810	12,908
Post-employment benefits	702	815
Share-based payments	<u>1,173</u>	<u>1,644</u>
Total compensation paid to key management personnel	<u><u>10,685</u></u>	<u><u>15,367</u></u>

The related party transactions in respect of item (a) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

32. Comparative Amounts

Certain prior year/period comparative figures have been reclassified to conform with the current period's presentation.

33. Approval of the Interim Financial Report

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 10 August 2006.

(iii) Set out below is the consolidated income statement and consolidated balance sheet of the Group reproduced from the unaudited quarterly results announcement of the Company for the three months and nine months ended 30 September 2006.

Consolidated income statement

For the three months and nine months ended 30 September 2006

	<i>Note</i>	Three months ended		Nine months ended	
		30 September 2006	30 September 2005	30 September 2006	30 September 2005
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
CONTINUING OPERATIONS					
REVENUE					
Turnover	1	507,176	459,871	1,440,138	1,314,031
Investment income, net gains and other income		<u>183,414</u>	<u>104,690</u>	<u>579,099</u>	<u>251,030</u>
Total revenue and gains, net		690,590	564,561	2,019,237	1,565,061
Less: Reinsurance premiums		<u>(30,795)</u>	<u>(37,294)</u>	<u>(96,496)</u>	<u>(105,672)</u>
Net revenue		<u>659,795</u>	<u>527,267</u>	<u>1,922,741</u>	<u>1,459,389</u>
Policyholders' benefits under insurance contracts		(173,752)	(146,582)	(498,162)	(422,107)
Policyholders' benefits under investment contracts		(24,977)	(2,893)	(29,712)	(8,494)
Agency commission and allowances		(111,724)	(101,227)	(328,754)	(258,855)
Change in deferred acquisition costs		19,276	10,831	50,506	(17,272)
Management expenses		(107,706)	(78,757)	(308,015)	(226,086)
Increase in future insurance liabilities under insurance contracts		(210,484)	(174,430)	(537,567)	(471,361)
Finance costs		<u>(11,030)</u>	<u>(11,034)</u>	<u>(32,896)</u>	<u>(34,203)</u>
PROFIT BEFORE TAX		39,398	23,175	238,141	21,011
Tax		<u>(5,832)</u>	<u>(4,400)</u>	<u>(17,120)</u>	<u>(13,616)</u>

	Three months ended		Nine months ended	
	30 September <i>Note</i>	30 September	30 September	30 September
	2006 <i>(Unaudited)</i> HK\$'000	2005 <i>(Unaudited)</i> HK\$'000	2006 <i>(Unaudited)</i> HK\$'000	2005 <i>(Unaudited)</i> HK\$'000
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	33,566	18,775	221,021	7,395
DISCONTINUED OPERATION				
Profit for the period from a discontinued operation	<u>434</u>	<u>308</u>	<u>1,086</u>	<u>615</u>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS	<u>34,000</u>	<u>19,083</u>	<u>222,107</u>	<u>8,010</u>
INTERIM DIVIDEND	<u>—</u>	<u>—</u>	<u>24,348</u>	<u>8,213</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS				
Basic				
— For profit for the period	<u>HK4.20cents</u>	<u>HK2.33cents</u>	<u>HK27.43cents</u>	<u>HK0.98cents</u>
— For profit from continuing operations	<u>HK4.14cents</u>	<u>HK2.29cents</u>	<u>HK27.30cents</u>	<u>HK0.90cents</u>
Diluted				
— For profit for the period	<u>HK4.14cents</u>	<u>HK2.29cents</u>	<u>HK27.02cents</u>	<u>HK0.96cents</u>
— For profit from continuing operations	<u>HK4.09cents</u>	<u>HK2.26cents</u>	<u>HK26.88cents</u>	<u>HK0.89cents</u>

Consolidated balance sheet

As at 30 September 2006

	<i>Note</i>	30 September 2006 <i>(Unaudited)</i> <i>HK\$'000</i>	31 December 2005 <i>(Audited)</i> <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		57,161	219,649
Investment properties		14,811	15,028
Deferred acquisition costs		1,084,656	1,037,714
Financial assets		527,677	1,016,725
Pledged deposits		<u>24,238</u>	<u>15,751</u>
Total non-current assets		<u>1,708,543</u>	<u>2,304,867</u>
CURRENT ASSETS			
Deferred acquisition costs		289,743	286,179
Premiums receivable		62,865	88,468
Prepayments and other debtors		207,411	210,162
Financial assets		6,367,836	5,887,859
Reinsurance assets		1,962	1,954
Properties held for sale		175,531	—
Tax recoverable		—	1,009
Cash and cash equivalents		<u>2,012,552</u>	<u>1,357,684</u>
		9,117,900	7,833,315
Assets of a disposal group classified as held for sale		<u>57,151</u>	<u>59,773</u>
Total current assets		<u>9,175,051</u>	<u>7,893,088</u>
CURRENT LIABILITIES			
Payable to policyholders		(151,520)	(147,520)
Accrued expenses and other creditors		(265,479)	(262,497)
Tax payable		<u>(25,083)</u>	<u>(8,988)</u>
		(442,082)	(419,005)
Liabilities directly associated with the assets classified as held for sale		<u>(17,904)</u>	<u>(21,610)</u>
Total current liabilities		<u>(459,986)</u>	<u>(440,615)</u>

	<i>Note</i>	30 September 2006 <i>(Unaudited)</i> <i>HK\$'000</i>	31 December 2005 <i>(Audited)</i> <i>HK\$'000</i>
NET CURRENT ASSETS		<u>8,715,065</u>	<u>7,452,473</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,423,608</u>	<u>9,757,340</u>
NON-CURRENT LIABILITIES			
Derivative financial instruments		(15,774)	(3,313)
Interest-bearing loans		(783,726)	(768,140)
Future insurance liabilities under investment contracts		(663,182)	(546,802)
Future insurance liabilities under insurance contracts		(5,604,180)	(5,050,881)
Policyholders' dividends and bonuses		<u>(869,396)</u>	<u>(771,653)</u>
Total non-current liabilities		<u>(7,936,258)</u>	<u>(7,140,789)</u>
NET ASSETS		<u><u>2,487,350</u></u>	<u><u>2,616,551</u></u>
EQUITY			
Issued capital		812,448	818,106
Reserves	2	1,674,902	1,765,721
Proposed dividends		<u>—</u>	<u>32,724</u>
TOTAL EQUITY		<u><u>2,487,350</u></u>	<u><u>2,616,551</u></u>

Condensed consolidated cash flow statement
For the nine months ended 30 September 2006

	Nine months ended	
	30 September	30 September
	2006	2005
<i>Note</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	774,906	244,121
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(22,008)	(17,725)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<u>(96,695)</u>	<u>(12,668)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	656,203	213,728
Cash and cash equivalents as at beginning of period	<u>1,393,931</u>	<u>1,299,466</u>
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD	<u><u>2,050,134</u></u>	<u><u>1,513,194</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	451,515	1,050,701
Non-pledged time deposits with original maturity of less than three months when acquired	1,561,037	424,512
Cash and short term deposits attributable to a discontinued operation	<u>37,582</u>	<u>37,981</u>
	<u><u>2,050,134</u></u>	<u><u>1,513,194</u></u>

1. TURNOVER

Turnover represents gross premiums on insurance contracts, commissions received and receivable in respect of general insurance business conducted under agency agreements, and service fees from asset management.

An analysis of turnover is as follows:

	Three months ended		Nine months ended	
	30 September 2006 (Unaudited) HK\$'000	30 September 2005 (Unaudited) HK\$'000	30 September 2006 (Unaudited) HK\$'000	30 September 2005 (Unaudited) HK\$'000
<u>Turnover</u>				
Life insurance contracts				
Single premium	4,640	5,074	23,099	16,563
First year premium	77,997	69,207	216,217	178,363
Renewal premium	<u>413,723</u>	<u>378,020</u>	<u>1,176,389</u>	<u>1,096,401</u>
Gross Premium	496,360	452,301	1,415,705	1,291,327
General insurance commissions under agency agreements	3,560	1,573	7,652	7,170
Asset management fees	3,597	4,197	10,898	12,540
Fees on investment contracts	<u>3,659</u>	<u>1,800</u>	<u>5,883</u>	<u>2,994</u>
Attributable to continuing operations reported in the consolidated income statement	<u>507,176</u>	<u>459,871</u>	<u>1,440,138</u>	<u>1,314,031</u>

2. RESERVES

	30 September 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Share premium account	16,329	14,462
Contributed surplus	152,178	152,178
Share option reserve	16,359	19,101
Hedging reserve	(17,681)	(937)
Available-for-sale financial assets revaluation reserve	(53,730)	187,510
Retained profits	<u>1,561,447</u>	<u>1,393,407</u>
	<u>1,674,902</u>	<u>1,765,721</u>

The following is the text of a report, prepared for the purpose of incorporation in this Circular, received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

19 January 2007

The Directors
Pacific Century Insurance Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to HKL (King's Road) Limited ("HKL (King's Road)") and its subsidiary (hereinafter collectively referred to as the "HKL (King's Road) Group") for each of the three years ended 31 December 2003, 2004 and 2005 and the nine months ended 30 September 2005 and 2006 (the "Relevant Periods") for inclusion in the circular of Pacific Century Insurance Holdings Limited (the "Company") dated 19 January 2007 (the "Circular") in connection with the proposed acquisition by the Company of the entire issued share capital of HKL (King's Road) and certain related shareholder's loans to HKL (King's Road) Group which constitutes a very substantial acquisition pursuant to Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

HKL (King's Road) was incorporated in the British Virgin Islands with limited liability under the International Business Companies Act of the British Virgin Islands on 4 July 1996 and has substantially the same characteristics as a Hong Kong incorporated private company. As at the date of this report, HKL (King's Road) owns 100% the equity share capital of Foundasia (HK) Limited. Foundasia (HK) Limited is a private company and was incorporated in Hong Kong with limited liability on 6 July 1993. Its principal activity is property investment in Hong Kong. Both of the companies now comprising the HKL (King's Road) Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for HKL (King's Road) during the Relevant Periods as it is not subject to any statutory audit requirements as a company incorporated in the British Virgin Islands. The financial statements of Foundasia (HK) Limited for each of the three years ended 31 December 2003, 2004 and 2005 were audited by us.

Respective responsibilities of directors and reporting accountants

The financial information as set out in Sections I to III below (the “Financial Information”) has been prepared based on the audited financial statements, or where applicable, unaudited management accounts of both of the companies comprising the HKL (King’s Road) Group and the unaudited consolidated financial statements of the HKL (King’s Road) Group for the Relevant Periods on the basis set out in Note 2 of Section II below, after making such adjustments as are appropriate. The directors of the respective companies now comprising the HKL (King’s Road) Group, during the Relevant Periods, are responsible for preparing financial statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are responsible for the Financial Information which gives a true and fair view.

For the financial information for each of the years ended 31 December 2003, 2004 and 2005 and the nine months ended 30 September 2006, it is our responsibility to express an independent opinion, based on our examination, on the financial information and to report our opinion to you.

For the financial information for the nine months ended 30 September 2005, it is our responsibility to form an independent conclusion, based on our review, on the financial information and to report our conclusion to you.

Basis of opinion and review work performed

For the financial information for each of the years ended 31 December 2003, 2004 and 2005 and the nine months ended 30 September 2006, we examined the audited financial statements or, where appropriate, the unaudited management accounts of both of the companies now comprising the HKL (King’s Road) Group and the unaudited consolidated financial statements of the HKL (King’s Road) Group and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

For the financial information for the nine months ended 30 September 2005, we conducted our review on the financial information in accordance with Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the HKICPA. A review consists principally of making enquiries of the HKL (King’s Road) Group management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information for the nine months ended 30 September 2005.

Opinion and review conclusion

In our opinion, the financial information for each of the years ended 31 December 2003, 2004 and 2005 and the nine months ended 30 September 2006, for the purpose of this report, gives a true and fair view of the state of affairs of the HKL (King's Road) Group and HKL (King's Road) as at 31 December 2003, 2004 and 2005 and at 30 September 2006 and of the results and cash flows of the HKL (King's Road) Group for the years/period then ended.

On the basis of our review which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the financial information for the nine months ended 30 September 2005.

I FINANCIAL INFORMATION

Consolidated Balance Sheets

	<i>Section II</i>	As at 31 December			As at
	<i>Note</i>	2003	2004	2005	30 September
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>2006</i>
					<i>HK\$'000</i>
ASSETS					
Non-current assets					
Investment property	5	292,850	415,257	507,482	505,204
Leasehold land	5	445,150	648,743	815,518	829,709
		<u>738,000</u>	<u>1,064,000</u>	<u>1,323,000</u>	<u>1,334,913</u>
Current assets					
Debtors and other receivables	7	9,334	9,965	9,199	7,398
Utility deposits		1,600	1,600	1,600	1,600
Cash at bank		127	72	—	—
		<u>11,061</u>	<u>11,637</u>	<u>10,799</u>	<u>8,998</u>
Total assets		<u><u>749,061</u></u>	<u><u>1,075,637</u></u>	<u><u>1,333,799</u></u>	<u><u>1,343,911</u></u>
EQUITY					
Share capital	8	—	—	—	—
Revenue reserves		(833,284)	(485,357)	(230,575)	(225,074)
Total equity		<u>(833,284)</u>	<u>(485,357)</u>	<u>(230,575)</u>	<u>(225,074)</u>
LIABILITIES					
Current liabilities					
Creditors and other accruals	10	2,223	4,369	2,053	2,465
Rental deposits		13,786	14,923	17,187	19,204
Amounts due to intermediate holding companies	11	1,564,698	1,540,064	1,543,496	1,545,678
Amount due to immediate holding company	11	1,638	1,638	1,638	1,638
		<u>1,582,345</u>	<u>1,560,994</u>	<u>1,564,374</u>	<u>1,568,985</u>
Total equity and liabilities		<u><u>749,061</u></u>	<u><u>1,075,637</u></u>	<u><u>1,333,799</u></u>	<u><u>1,343,911</u></u>
Net current liabilities		<u>(1,571,284)</u>	<u>(1,549,357)</u>	<u>(1,553,575)</u>	<u>(1,559,987)</u>
Total assets less current liabilities		<u>(833,284)</u>	<u>(485,357)</u>	<u>(230,575)</u>	<u>(225,074)</u>

Balance Sheets

	Section II Note	As at 31 December			As at
		2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	30 September 2006 HK\$'000
ASSETS					
Non-current assets					
Investment in a subsidiary	6	—	—	—	46,262
Total assets		<u>—</u>	<u>—</u>	<u>—</u>	<u>46,262</u>
EQUITY					
Share capital	8	—	—	—	—
Revenue reserves	9	(133,949)	(133,949)	(133,949)	(87,687)
Total equity		<u>(133,949)</u>	<u>(133,949)</u>	<u>(133,949)</u>	<u>(87,687)</u>
LIABILITIES					
Current liabilities					
Amounts due to intermediate holding companies	11	132,311	132,311	132,311	132,311
Amount due to immediate holding company	11	<u>1,638</u>	<u>1,638</u>	<u>1,638</u>	<u>1,638</u>
		<u>133,949</u>	<u>133,949</u>	<u>133,949</u>	<u>133,949</u>
Total equity and liabilities		<u>—</u>	<u>—</u>	<u>—</u>	<u>46,262</u>
Net current liabilities		<u>(133,949)</u>	<u>(133,949)</u>	<u>(133,949)</u>	<u>(133,949)</u>
Total assets less current liabilities		<u>(133,949)</u>	<u>(133,949)</u>	<u>(133,949)</u>	<u>(87,687)</u>

Consolidated Income Statements

	Section II Note	Year ended 31 December			Nine months ended 30 September	
		2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2005 HK\$'000 <i>(Unaudited)</i>	2006 HK\$'000
Turnover	13	60,623	61,650	62,675	47,145	54,922
Cost of sales	14	<u>(20,080)</u>	<u>(19,350)</u>	<u>(17,645)</u>	<u>(12,466)</u>	<u>(13,418)</u>
Gross profit		40,543	42,300	45,030	34,679	41,504
Other income		44	44	44	33	33
Administrative expenses	14	(10,365)	(8,796)	(12,826)	(9,608)	(12,091)
(Impairment)/reversal of impairment on investment property and leasehold land		<u>(133,615)</u>	<u>334,742</u>	<u>271,754</u>	<u>268,565</u>	<u>23,952</u>
Operating (loss)/profit		(103,393)	368,290	304,002	293,669	53,398
Finance costs	15	<u>(28,184)</u>	<u>(20,363)</u>	<u>(49,220)</u>	<u>(31,612)</u>	<u>(47,897)</u>
(Loss)/profit before income tax expenses		(131,577)	347,927	254,782	262,057	5,501
Income tax expenses	16	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(Loss)/profit for the year/period attributable to equity holders of HKL (King's Road)		<u><u>(131,577)</u></u>	<u><u>347,927</u></u>	<u><u>254,782</u></u>	<u><u>262,057</u></u>	<u><u>5,501</u></u>

Consolidated Statements of Changes in Equity

Attributable to equity holders of
HKL (King's Road)

	Share capital	Revenue reserves	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2003	—	(701,707)	(701,707)
Loss for the year	<u>—</u>	<u>(131,577)</u>	<u>(131,577)</u>
As at 31 December 2003 and 1 January 2004	—	(833,284)	(833,284)
Profit for the year	<u>—</u>	<u>347,927</u>	<u>347,927</u>
As at 31 December 2004 and 1 January 2005	—	(485,357)	(485,357)
Profit for the year	<u>—</u>	<u>254,782</u>	<u>254,782</u>
As at 31 December 2005 and 1 January 2006	—	(230,575)	(230,575)
Profit for the period	<u>—</u>	<u>5,501</u>	<u>5,501</u>
As at 30 September 2006	<u>—</u>	<u>(225,074)</u>	<u>(225,074)</u>
As at 1 January 2005	—	(485,357)	(485,357)
Profit for the period (<i>Unaudited</i>)	<u>—</u>	<u>262,057</u>	<u>262,057</u>
As at 30 September 2005 (<i>Unaudited</i>)	<u>—</u>	<u>(223,300)</u>	<u>(223,300)</u>

Consolidated Cash Flow Statements

	Year ended 31 December			Nine months ended 30 September	
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2005 HK\$'000 <i>(Unaudited)</i>	2006 HK\$'000
Cash flows from operating activities					
(Loss)/profit before income tax expenses	(131,577)	347,927	254,782	262,057	5,501
Depreciation and amortisation	10,324	8,742	12,754	9,565	12,039
Impairment/(reversal of impairment) on investment property and leasehold land	133,615	(334,742)	(271,754)	(268,565)	(23,952)
Interest expenses	28,184	20,362	49,219	31,611	47,896
(Increase)/decrease in utility deposits, debtors and other receivables	(1,961)	(631)	766	(137)	1,801
(Decrease)/increase in rental deposits, creditors and other accruals	(2,071)	3,283	(52)	171	2,429
Cash generated from operations	36,514	44,941	45,715	34,702	45,714
Interest paid	(28,184)	(20,362)	(49,219)	(31,611)	(47,896)
Net cash generated from/(used in) operating activities	<u>8,330</u>	<u>24,579</u>	<u>(3,504)</u>	<u>3,091</u>	<u>(2,182)</u>
Cash flows from financing activities					
(Repayment to)/advance from an intermediate holding company	(8,261)	(24,634)	3,432	(3,163)	2,182
Net cash (used in)/generated from financing activities	<u>(8,261)</u>	<u>(24,634)</u>	<u>3,432</u>	<u>(3,163)</u>	<u>2,182</u>
Net increase/(decrease) in cash and cash equivalents	69	(55)	(72)	(72)	—
Cash and cash equivalents at beginning of the year/period	58	127	72	72	—
Cash and cash equivalents at end of the year/period	<u>127</u>	<u>72</u>	<u>—</u>	<u>—</u>	<u>—</u>

II NOTES TO THE FINANCIAL INFORMATION

1 Group structure and principal activities

HKL (King's Road) was incorporated in the British Virgin Islands on 4 July 1996 as a company with limited liability under the International Business Companies Act of the British Virgin Islands.

HKL (King's Road) is an investment holding company. Its subsidiary is principally engaged in property investment in Hong Kong. The address of its registered office is Beaufort House, P.O. Box 438, Road Town, Tortola, British Virgin Islands.

At 30 September 2006, the immediate holding company and ultimate holding company of HKL (King's Road) are HKL (Quarry Bay) Limited and Hongkong Land Holdings Limited respectively. The Financial Information is presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. For the purpose of this report, these policies are materially consistent with those of the Company and have been consistently applied to all the years/periods presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information presented below has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). HKFRS 1 "First-time Adoption of Hong Kong Financial Reporting Standards" has been applied in preparing the Financial Information. As it is the first set of financial statements prepared in accordance with HKFRS and HKL (King's Road) did not prepare any consolidated financial statements during the Relevant Periods, no reconciliation to HKFRS is presented. The Financial Information has been prepared under the historical cost convention.

The HKL (King's Road) Group has net current liabilities of HK\$1,559,987,000 and net liabilities of HK\$225,074,000 as at 30 September 2006, both of which include loans payable to intermediate holding companies of HK\$1,545,678,000 which have no fixed repayment terms. Should the intermediate holding companies demand repayment of these loans of HK\$1,545,678,000, the HKL Kings Road Group would need to find an alternative source of finance or capital. Such a demand for repayment of these loans payable to the intermediate holding companies would affect significantly the ability of the HKL (King's Road) Group to continue as a going concern and to meet its liabilities as they fall due. The Financial Information has been prepared on a going concern basis because, in the opinion of the Directors of HKL (King's Road) and the Company, the HKL (King's Road) Group is expected to continue to meet its liabilities as they fall due based on the financial supports provided by an intermediate holding company and the Company before and after completion of the Acquisition respectively.

The preparation of the Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the HKL (King's Road) Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 3 of this section.

The following new standard and amendment to existing standard have been published and are mandatory for the accounting periods beginning on or after 1 January 2007 or later periods. The HKL (King's Road) Group has not early adopted these standards and amendment:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures. HKFRS 7 introduces new disclosures relating to financial instruments. The HKAS 1 Amendment will affect the disclosures about qualitative information about the HKL (King's Road) Group's objective, policies and processes for managing capital, qualitative data about what the HKL (King's Road) Group regards as capital and compliance with any capital requirements and the consequences of any non-compliance. The HKL (King's Road) Group will apply HKFRS 7 and HKAS 1 Amendment from 1 January 2007, but it is not expected to have any impact on the classification and valuation of the HKL (King's Road) Group's financial instruments.

The following interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the HKL (King's Road) Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 December 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the HKL (King's Road) Group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the HKL (King's Road) Group's operations;
- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). Relating to certain transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. As it is anticipated that no transaction will involve the issue of equity instruments, HK(IFRIC)-Int 8 is not relevant to the HKL (King's Road) Group's operations;
- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the HKL (King's Road) Group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the HKL (King's Road) Group's operations; and
- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 September 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost, to be reversed at a subsequent balance sheet date. As the HKL (King's Road) Group is not required to prepare interim financial statements on a recurring basis, HK(IFRIC)-Int 10 is not relevant to the HKL (King's Road) Group's operations.

2.2 *Basis of consolidation*

The Financial Information includes the financial statements of HKL (King's Road) and its subsidiary. The results of the subsidiary are consolidated from the date of acquisition, being the date on which the HKL (King's Road) obtained control, and continues to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the HKL (King's Road) Group are eliminated on consolidation.

2.3 *Subsidiaries*

A subsidiary is an entity whose financial and operating policies HKL (King's Road) controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the separate financial statements of HKL (King's Road) to the extent of dividends received and receivable.

2.4 *Revenue recognition*

Revenue includes gross rental income from operating leases and management charges from properties. Rental income (including any lease incentives) under operating leases are accounted for on a straight line basis over the lease terms. Management charges are recognised when the related services are provided.

2.5 *Impairment of assets*

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and available-for-sale financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.6 *Related parties*

A party is considered to be related to the HKL (King's Road) Group if:

- (a) the party, directly or indirectly through one or more intermediates, (i) controls, is controlled by, or is under common control with, the HKL (King's Road) Group; (ii) has an interest in the company that gives it significant influence over the HKL (King's Road) Group; or (iii) has joint control over the HKL (King's Road) Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;

- (d) the party is a member of the key management personnel of the HKL (King's Road) Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the HKL (King's Road) Group, or of any entity that is a related party of the HKL (King's Road) Group.

2.7 *Loans*

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

2.8 *Investment property*

Investment property represents the HKL (King's Road) Group's interest in a building that is held for long-term yields or for capital appreciation or both, and that is not occupied by the companies in the HKL (King's Road) Group. Building comprises building infrastructure and other plant and machinery, and is stated at cost less accumulated depreciation and impairment losses if any.

Depreciation for each significant component of the building is calculated on the straight-line basis so as to write off the cost of each significant component of the building to its residual value over its estimated useful life, as follows:

- Building infrastructure	50 years
- Other plant and machinery	20 years

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An investment property is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement to be recognised in the income statement in the year the investment property is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.9 *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases.

Leasehold land held under operating lease is stated at cost less accumulated amortisation and impairment losses if any. Payments made for leasehold land are charged to the income statement on a straight-line basis over the period of lease.

2.10 *Accounts receivable*

Accounts receivable are carried initially at fair value and subsequently at amortised cost using effective interest method. An estimate is made for impairment loss based on a review of all outstanding amounts on a regular basis. Bad debts are written off during the year in which they are identified.

2.11 *Income tax*

Income tax comprises current tax and deferred tax.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences as at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Conversely, any previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets, against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.12 *Cash and cash equivalents*

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject

to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the HKL (King's Road) Group's cash management. For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.13 Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

3 Significant accounting judgements and estimates

Estimates and judgements used in preparing the Financial Information are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

(a) Impairment of investment property and leasehold land

The recoverable amount of investment property and leasehold land is estimated when there is an indication of impairment. The recoverable amount is calculated as the higher of the investment property and related leasehold land's value in use and its fair value less costs to sell. For the years ended 31 December 2003, 2004 and 2005 the recoverable amount was based on value in use of investment property and leasehold land. Value in use was determined using forecast pre-tax cashflows, discounted at prevailing market yields.

Changes in assumptions supporting the value in use, including the discount rates, would have directly impacted the HKL (King's Road) Group's operating profit or loss during the Relevant Periods.

The impairment/reversal of impairment is allocated between the investment property and leasehold land elements on a pro rata basis because the individual elements do not have independent cashflows.

The estimated useful lives and related depreciation charges for investment property are based on the accounting policies and judgements of the Company, which are reviewed regularly. Any change in the useful lives would impact the depreciation charge and the net book value.

(b) Income taxes

(i) Deferred income tax liabilities

HKL (King's Road) acquired all of the equity of Foundasia (HK) Limited in 1996. The directors of HKL (King's Road) considered that the substance of the acquisition was an acquisition of property and not a business combination. On this basis, no provision has been recorded for deferred income tax in relation to the temporary difference between the carrying value of the leasehold land in the financial statements and the related tax base because the initial recognition of assets and liabilities affected neither the accounting nor taxable profit/loss.

(ii) Deferred income tax assets

The HKL (King's Road) Group recognises deferred tax assets in respect of tax losses of Foundasia (HK) Limited to the extent of deferred tax liabilities recognised. The HKL (King's Road) Group has not recognised a deferred tax asset for the remaining tax losses as it is not probable that sufficient taxable profits will be available to allow the deferred tax assets to be recovered. As at 30 September 2006, deferred tax assets of HK\$34,996,000 arising from tax losses of HK\$199,976,000 have not been recognised.

(iii) Uncertain tax positions

The HKL (King's Road) Group is subject to income taxes in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determinations are made.

4 Segment information

Business segments

No segment analysis for business segment is presented as the HKL (King's Road) Group principally operates in one business segment, which is property investment.

Geographical segments

No segment analysis for geographical segment is presented as all the HKL (King's Road) Group's operations and assets are in Hong Kong.

5 Investment property and leasehold land

The HKL (King's Road) Group

	As at 31 December			As at 30
	2003	2004	2005	September
	HK\$'000	HK\$'000	HK\$'000	2006
				HK\$'000
Investment property (note a)	292,850	415,257	507,482	505,204
Leasehold land (note b)	<u>445,150</u>	<u>648,743</u>	<u>815,518</u>	<u>829,709</u>
Net book amount	<u>738,000</u>	<u>1,064,000</u>	<u>1,323,000</u>	<u>1,334,913</u>
Fair value	<u>738,000</u>	<u>1,064,000</u>	<u>1,323,000</u>	<u>1,472,300</u>

The HKL (King's Road) Group's investment property and related leasehold land interest are held under a lease of more than 50 years in Hong Kong which have been revalued on an open market value basis calculated on net income allowing for the reversionary potential on a current use basis. The valuations at 31 December 2003, 2004 and 2005 were carried out by Jones Lang LaSalle Limited and that of 30 September 2006 was carried out by CB Richard Ellis Limited. Both valuers are independent, qualified valuers with recent experience in Hong Kong commercial investment properties.

(a) *Investment property*

	The HKL (King's Road) Group			Nine months ended 30 September 2006
	Year ended 31 December			
	2003	2004	2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period, net of accumulated depreciation and impairment	355,561	292,850	415,257	507,482
Depreciation provided for during the year/period	(9,726)	(8,235)	(12,015)	(11,341)
(Impairment)/reversal of impairment	<u>(52,985)</u>	<u>130,642</u>	<u>104,240</u>	<u>9,063</u>
At end of year/period, net of accumulated depreciation and impairment	<u>292,850</u>	<u>415,257</u>	<u>507,482</u>	<u>505,204</u>
At beginning of year/period				
Cost	616,832	616,832	616,832	616,832
Accumulated depreciation and impairment	<u>(261,271)</u>	<u>(323,982)</u>	<u>(201,575)</u>	<u>(109,350)</u>
	<u>355,561</u>	<u>292,850</u>	<u>415,257</u>	<u>507,482</u>
At end of year/period				
Cost	616,832	616,832	616,832	616,832
Accumulated depreciation and impairment	<u>(323,982)</u>	<u>(201,575)</u>	<u>(109,350)</u>	<u>(111,628)</u>
	<u>292,850</u>	<u>415,257</u>	<u>507,482</u>	<u>505,204</u>

(b) *Leasehold land*

	The HKL (King's Road) Group			Nine months ended 30 September 2006
	Year ended 31 December			
	2003	2004	2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period	526,378	445,150	648,743	815,518
Amortisation	(598)	(507)	(739)	(698)
(Provision for)/reversal of impairment	<u>(80,630)</u>	<u>204,100</u>	<u>167,514</u>	<u>14,889</u>
At end of year/period	<u>445,150</u>	<u>648,743</u>	<u>815,518</u>	<u>829,709</u>

At 30 September 2006, the net book value of investment property and leasehold land represents the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised in prior years. Consequently, the excess of the fair value of investment property and leasehold land over their net book values has not been recognised in the Financial Information as the Company's accounting policy is to record investment property and leasehold land at cost less accumulated amortisation and depreciation.

6 Investment in a subsidiary

	HKL (King's Road)			
	As at 31 December			As at
	2003	2004	2005	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2006
Unlisted shares, at cost	133,941	133,941	133,941	133,941
Provision for impairment	<u>(133,941)</u>	<u>(133,941)</u>	<u>(133,941)</u>	<u>(87,679)</u>
Net book amount	<u>—</u>	<u>—</u>	<u>—</u>	<u>46,262</u>

Foundasia (HK) Limited is a wholly owned subsidiary of HKL (King's Road) and incorporated in Hong Kong, and its principal activity is property investment.

7 Debtors and other receivables

	The HKL (King's Road) Group			
	As at 31 December			As at
	2003	2004	2005	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2006
Debtors	242	83	339	416
Unamortised lease incentives	8,992	9,539	8,649	6,682
Other receivables and prepayment	<u>100</u>	<u>343</u>	<u>211</u>	<u>300</u>
	<u>9,334</u>	<u>9,965</u>	<u>9,199</u>	<u>7,398</u>

Debtors represent tenants receivable which is normally due for payment upon presentation of debit note at the beginning of each rental period (normally on a monthly basis). At 31 December 2003, 2004 and 2005, and 30 September 2006, all debtors were current and aged within 30 days.

8 Share capital

HKL (King's Road) and the HKL (King's Road) Group

	As at 31 December			As at 30 September	
	2003	2004	2005	2006	
	HK\$	HK\$	HK\$	HK\$	
Authorised 100 shares at US\$1 each	<u>780</u>	<u>780</u>	<u>780</u>	<u>780</u>	
Issued and fully paid 2 shares at US\$1 each	<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>	

9 Revenue reserves

HKL (King's Road)

	Year ended 31 December			Nine months ended 30 September	
	2003	2004	2005	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period	(133,949)	(133,949)	(133,949)	(133,949)	(133,949)
Profit for the year/period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>46,262</u>
At the end of year/period	<u>(133,949)</u>	<u>(133,949)</u>	<u>(133,949)</u>	<u>(133,949)</u>	<u>(87,687)</u>

10 Creditors and other accruals

The HKL (King's Road) Group's creditors mainly comprise costs payable for managing the investment property. As 31 December 2003, 2004 and 2005, and 30 September 2006, most creditors were current and aged within 30 days.

11 Amounts due to immediate holding company and intermediate holding companies

(a) *The HKL (King's Road) Group*

	As at 31 December			As at
	2003	2004	2005	30 September
	HK\$'000	HK\$'000	HK\$'000	2006
				HK\$'000
Amounts due to intermediate holding companies:				
- The Hongkong Land Property Company Limited (note (i))	1,432,387	1,407,753	1,411,185	1,413,367
- The Hongkong Land Company Limited (note (ii))	<u>132,311</u>	<u>132,311</u>	<u>132,311</u>	<u>132,311</u>
	<u>1,564,698</u>	<u>1,540,064</u>	<u>1,543,496</u>	<u>1,545,678</u>
Amounts due to immediate holding company:				
- HKL (Quarry Bay) Limited (note (ii))	<u>1,638</u>	<u>1,638</u>	<u>1,638</u>	<u>1,638</u>

Notes:

- (i) The loan is denominated in Hong Kong dollar, unsecured, interest-bearing and with no fixed repayment terms. The effective interest rates at 31 December 2003, 2004, 2005 and 30 September 2006 were 2.0%, 1.4%, 3.6% and 4.6% respectively.
- (ii) The loans are denominated in Hong Kong dollar, unsecured, interest free and with no fixed repayment terms.

(b) *HKL (King's Road)*

	As at 31 December			As at
	2003	2004	2005	30 September
	HK\$'000	HK\$'000	HK\$'000	2006
				HK\$'000
Amounts due to intermediate holding companies:				
- The Hongkong Land Company Limited (note (i))	<u>132,311</u>	<u>132,311</u>	<u>132,311</u>	<u>132,311</u>
Amounts due to immediate holding company:				
- HKL (Quarry Bay) Limited (note (i))	<u>1,638</u>	<u>1,638</u>	<u>1,638</u>	<u>1,638</u>

Note:

- (i) The loans are denominated in Hong Kong dollar, unsecured, interest free and with no fixed repayment terms.

The carrying amounts of the loans approximate their fair values.

12 Deferred income tax

- (a) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The deferred income tax assets are recognised to the extent of deferred income tax liabilities recognised.
- (b) The movements in deferred income tax assets and liabilities during the years/periods, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax	HKL (King's Road) Group				
	Assets	(Liabilities)			
		Accelerated tax		Total	Net
	Tax losses	depreciation	Other	Total	Net
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2003	564	—	(564)	(564)	—
(Charged)/credited to the income statement	(182)	—	182	182	—
As at 31 December 2003	382	—	(382)	(382)	—
Credited/(charged) to the income statement	1,940	(2,173)	233	(1,940)	—
As at 31 December 2004	2,322	(2,173)	(149)	(2,322)	—
Credited/(charged) to the income statement	15,758	(15,901)	143	(15,758)	—
As at 31 December 2005	18,080	(18,074)	(6)	(18,080)	—
Credited/(charged) to the income statement	1,904	(1,904)	—	(1,904)	—
As at 30 September 2006	19,984	(19,978)	(6)	(19,984)	—

(c) The unrecognised deferred income tax assets are as follows:

	HKL (King's Road) Group			
	As at 31 December			As at
	2003	2004	2005	30 September
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2006
				<i>HK\$'000</i>
Unused tax losses	276,021	259,931	191,213	199,976
Accelerated accounting depreciation and impairment	<u>103,178</u>	<u>—</u>	<u>—</u>	<u>—</u>
Unrecognised deferred income tax assets arising from unused tax losses	48,304	45,488	33,462	34,996
Unrecognised deferred income tax assets arising from accelerated accounting depreciation and impairment	<u>18,056</u>	<u>—</u>	<u>—</u>	<u>—</u>

The recognised and unrecognised tax losses have no expiry date.

13 Turnover

	Year ended 31 December			Nine months ended	
				30 September	
	2003	2004	2005	2005	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	42,921	43,384	44,175	33,171	40,080
Management fee income	<u>17,702</u>	<u>18,266</u>	<u>18,500</u>	<u>13,974</u>	<u>14,842</u>
	<u>60,623</u>	<u>61,650</u>	<u>62,675</u>	<u>47,145</u>	<u>54,922</u>

Generally the HKL (King's Road) Group's operating leases are for terms of two years or more.

14 Expenses by nature

Expenses included in cost of sales and administrative expenses are analysed as follows:

	Year ended 31 December			Nine months ended 30 September	
	2003	2004	2005	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Direct operating expenses on investment properties that generate rental income					
Electricity	6,084	6,226	6,434	4,980	5,412
Repairs and maintenance	6,587	6,202	5,378	3,582	3,550
Cleaning	1,340	1,257	1,212	921	939
Property management expenses reimbursed to a fellow subsidiary	3,361	2,661	2,790	2,049	1,910
Depreciation of investment property	9,726	8,235	12,015	9,011	11,341
Amortisation of leasehold land	598	507	739	554	698
Auditors' remuneration	50	50	66	37	49
Others	2,699	3,008	1,837	940	1,610
	<u>30,445</u>	<u>28,146</u>	<u>30,471</u>	<u>22,074</u>	<u>25,509</u>
Cost of sales and administrative expenses					

15 Finance costs

	Year ended 31 December			Nine months ended 30 September	
	2003	2004	2005	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Interest expenses on the amount due to an intermediate holding company	28,184	20,362	49,219	31,611	47,896
Bank charges	—	1	1	1	1
	<u>28,184</u>	<u>20,363</u>	<u>49,220</u>	<u>31,612</u>	<u>47,897</u>

16 Income tax expenses

The HKL (King's Road) Group are subject to Hong Kong profits tax. For the years ended 31 December 2003, 2004 and 2005 and for the nine months ended 30 September 2005 and 2006, no provision for Hong Kong profits tax has been made as the HKL (King's Road) Group had sufficient tax losses brought forward to set off against any assessable profits.

The tax on the HKL (King's Road) Group's loss or profit before income tax differs from the theoretical amounts that would arise using the profits tax rate in Hong Kong as follows:

	Year ended 31 December			Nine months ended 30 September	
	2003	2004	2005	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/profit before income tax expenses	<u>(131,577)</u>	<u>347,927</u>	<u>254,782</u>	<u>262,057</u>	<u>5,501</u>
Tax calculated at tax rate of 17.5% applicable to profits in Hong Kong	(23,026)	60,887	44,587	45,860	963
Provision for/(reversal of) impairment of leasehold land and investment property not deductible or taxable for taxation purpose	15,972	(40,329)	(33,020)	(32,563)	(2,930)
Other expenses not deductible for taxation purpose	371	314	459	344	433
Utilisation of previously unrecognised deferred income tax asset	—	(20,872)	(12,026)	(13,641)	—
Tax losses for which no deferred income tax asset recognised	<u>6,683</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,534</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

17 Directors' emoluments and five highest paid individuals

No fees or other emoluments have been paid or are payable to the directors of HKL (King's Road) for their services during the Relevant Periods. As the HKL (King's Road) Group did not incur any staff cost, during the Relevant Periods, information in respect of five highest paid individuals information is not presented.

18 Operating lease arrangements

The HKL (King's Road) Group leases its investment property to tenants under operating lease arrangements.

The future aggregate minimum lease payments receivable under non-cancellable operating leases with its tenants are as follows:

	As at 31 December			As at 30 September
	2003	2004	2005	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	38,988	38,084	39,482	57,108
In the second to fifth years inclusive	<u>37,200</u>	<u>12,212</u>	<u>67,544</u>	<u>73,240</u>
	<u>76,188</u>	<u>50,296</u>	<u>107,026</u>	<u>130,348</u>

19 Financial risk management objectives and policies

The HKL (King's Road) Group's activities expose it to various types of risk which include credit risk, liquidity risk and interest rate risk. The HKL (King's Road) Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects it may have on the HKL (King's Road) Group's financial performance.

The carrying amounts of financial assets and liabilities approximate their fair values.

Credit risk

The HKL (King's Road) Group has no significant credit risk. It has policies in place to ensure that rental deposits are required from tenants prior to commencement of leases.

Liquidity risk

The HKL (King's Road) Group has no bank borrowings as at 30 September 2006. In order to maintain liquidity, the HKL (King's Road) Group obtains funding from the immediate holding company and intermediate holding companies.

Interest rate risk

The HKL (King's Road) Group is exposed to cashflow interest rate risk and the exposure is managed by intermediate holding companies and fellow subsidiaries.

20 Related party transactions

Related party transactions of the HKL (King's Road) Group during the Relevant Periods include property management expenses and interest expenses which are disclosed in note 14 and 15 respectively.

Related party balances are disclosed in note 11.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the HKL (King's Road) or its subsidiary in respect of any period subsequent to 30 September 2006. Save as disclosed in this report, no dividend has been declared, made or paid by the HKL (King's Road) or its subsidiary in respect of any period subsequent to 30 September 2006.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

INDEBTEDNESS OF THE ENLARGED GROUP**STATEMENT OF INDEBTEDNESS***Borrowings*

At the close of business on 30 November 2006, being the latest practicable date for this statement of indebtedness prior to the date of this Circular, the Enlarged Group had interest-bearing loans of HK\$790,108,000.00, which represents guaranteed bonds with a coupon rate of 5.875% per annum due on 17 December 2014.

Contingent liabilities

At the close of business on 30 November 2006, the Enlarged Group had no material contingent liabilities other than those as set out in the section headed “Litigation” of Appendix VII to this Circular and the contingencies arising from the ordinary course of the long term insurance business.

Disclaimer

Save as disclosed above and apart from a bank deposit of US\$3,139,000.00 (equivalent to HK\$24,409,000.00) pledged as a collateral to the counter-party for a cross currency swap agreement entered into during the year of 2005, as at the close of business on 30 November 2006, the Enlarged Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors are of the opinion that taking into account the Enlarged Group’s internal resources, available banking and other borrowing facilities, the Enlarged Group has sufficient working capital for its present requirements and for the period ending twelve months from the date of this Circular.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, being the date to which the latest published audited accounts of the Group were made up.

1. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP*Profit*

The Group reported net profits from ordinary activities attributable to shareholders of HK\$222.1 million, HK\$42.5 million, HK\$188.3 million and HK\$213.9 million for the nine months ended 30 September 2006 and the three years ended 31 December 2005, 2004, 2003 respectively. The higher profit for the nine months of 2006 was mainly due to higher investment income realised during the period. Unrealised loss reserve on available-for-sale financial assets was HK\$53.7 million as at 30 September, 2006. The decrease in earnings in 2005 was mainly due to the reclassification of the investment portfolio from “trading” to “available-for-sale” following adoption of the new accounting standard “HKAS 39”. As a result of this reclassification, there was a balance of HK\$187.5 million in the available-for-sale financial assets revaluation reserve as at the end of 2005, which was booked as equity in the balance sheet. The high earnings in 2003 was mainly due to high investment return achieved during that year.

Revenue and Operating Expenses

Turnover from operations were HK\$1,440.1 million, HK\$1,826.9 million, HK\$1,688.8 million and HK\$1,605.1 million for the nine months ended 30 September 2006 and the three years ended 31 December 2005, 2004 and 2003 respectively. The yearly increase arose mainly from the increase in both new business and business in force.

Investment income and other income were HK\$579.1 million, HK\$373.8 million, HK\$472.3 million and HK\$502.6 million for the nine months ended 30 September 2006 and the three years ended 31 December 2005, 2004 and 2003 respectively. The high income in 2006 was mainly due to high investment income realised during the nine-month period. The low income of 2005 was due to the reclassification of the investment portfolio from “trading” to “available-for-sale”.

Policyholder benefits were HK\$527.9 million, HK\$610.6 million, HK\$600.0 million and HK\$575.1 million for the nine months ended 30 September 2006 and the three years ended 31 December 2005, 2004 and 2003 respectively. The yearly increase was mainly due to the increase in the portfolio in force.

Agency commission and allowances were HK\$328.8 million, HK\$389.2 million, HK\$292.3 million and HK\$277.1 million for the nine months ended 30 September 2006 and the three years ended 31 December 2005, 2004 and 2003 respectively. The yearly increase were mainly due to the increase in turnover.

Deferred acquisition costs increased by HK\$50.5 million and HK\$14.5 million for the nine months ended 30 September 2006 and the year ended 31 December 2005 respectively and decreased by HK\$93.9 million and HK\$104.2 million for the two years ended 31 December 2004 and 2003 respectively. The increase/(decrease) were mainly due to higher/(lower) volume of new business resulting in more/(less) addition than the amortisation.

Management expenses were HK\$308.0 million, HK\$303.6 million, HK\$304.2 million and HK\$342.9 million for the nine months ended 30 September 2006 and the three years ended 31 December 2005, 2004 and 2003 respectively. High expenses for the nine months of 2006 was incurred to support strong growth in agency force and high volume of new business. The lower expenses of 2004 and 2003 were mainly due to stringent expense control exerted during those years.

Finance costs were costs associated with the US\$100 million bond issued in 2004.

Human Resources

The Group had 295, 303, 288 and 338 employees as at 30 September 2006 and 31 December 2005, 2004 and 2003 respectively. Total remuneration (excluding Director's fees) was HK\$128.1 million, HK\$125.1 million, HK\$155.6 million and HK\$161.2 million for the nine months ended 30 September 2006 and the three years ended 31 December 2005, 2004 and 2003 respectively.

Capital Adequacy and Financing

The Group's total assets were HK\$10,883.6 million, HK\$10,198.0 million, HK\$9,227.0 million and HK\$7,426.1 million as at 30 September 2006 and 31 December 2005, 2004 and 2003 respectively. The Group's net assets were HK\$2,487.4 million, HK\$2,616.6 million, HK\$2,480.7 million, and HK\$2,336.8 million as at 30 September 2006 and 31 December 2005, 2004 and 2003 respectively.

On a statutory reporting basis, the net assets of the Group's insurance subsidiary far exceeded the statutory net surplus required by the Hong Kong insurance regulations.

On 17 December 2004, an indirect wholly-owned subsidiary of the Company issued an aggregate principal amount of US\$100 million (approximately HK\$780 million) with a coupon rate of 5.875% guarantee bonds (the "Bonds") due on 17 December 2014 to independently third party investors. The Group raised approximately HK\$767,186,000.00 (US\$98,648,000.00), net of expenses.

The expected future currency fluctuations related to repayments of its interest-bearing loan, i.e. Bonds, were hedged by a cross currency swap agreement entered into by the Group during the year of 2005.

Other than the mentioned interest-bearing loans, the Group had no other borrowings as at 30 September 2006 and 31 December 2005, 2004 and 2003.

The gearing ratio of the Group was 31.5%, 29.4%, and 31.0% as at 30 September 2006 and 31 December 2005 and 2004. The Group had no interest-bearing loans as at 31 December 2003. Gearing ratio is the ratio of interest-bearing loans to capital and reserves.

Expansion Plan

In June 2005 the Group subscribed for an exchangeable note (the “Note”) for HK\$508.3 million. The Note gave the Group the right to exchange for the entire issued share capital of two PRC companies which together hold a 22.09% interest in Sino Life Insurance Co. Ltd (“Sino Life”). Since three representatives from the Group were not appointed to the board of Sino Life by 28 February 2006, the Note was cancelled and the Group received HK\$521,866,004.00, being the principal amount of the Note and accrued interest. The Group will continue to look for suitable investment opportunities to gain access to the rapidly growing insurance market in China.

Investments

The following tables showed the investment mix of the Group:

31 December 2003

		Fixed interest	Mortgage & loans	Cash	Equities	Others	Total
By currency	US\$	59.2%	3.7%	3.3%	6.2%	5.7%	78.1%
	HK\$	7.1%	2.3%	4.4%	2.8%	0.1%	16.7%
	Others	1.1%	0.0%	1.0%	3.1%	0.0%	5.2%
	Total	67.4%	6.0%	8.7%	12.1%	5.8%	100.0%
By geographical area	US	21.4%	0.0%	0.0%	0.0%	0.9%	22.3%
	Europe	9.0%	0.0%	0.0%	0.0%	0.0%	9.0%
	Japan	1.8%	0.0%	0.0%	0.0%	1.1%	2.9%
	HK/China	15.6%	6.0%	8.7%	7.4%	0.3%	38.0%
	Other Asia	17.2%	0.0%	0.0%	4.3%	0.0%	21.5%
	Others	2.4%	0.0%	0.0%	0.4%	3.5%	6.3%
	Total	67.4%	6.0%	8.7%	12.1%	5.8%	100.0%

31 December 2004

		Fixed interest	Mortgage & loans	Cash	Equities	Others	Total
By currency	US\$	39.8%	2.6%	9.3%	6.2%	9.3%	67.2%
	HK\$	4.9%	1.0%	8.9%	2.0%	0.1%	16.9%
	Others	0.0%	0.0%	0.3%	15.6%	0.0%	15.9%
	Total	44.7%	3.6%	18.5%	23.8%	9.4%	100.0%
By geographical area	US	9.0%	0.0%	0.0%	1.0%	4.3%	14.3%
	Europe	5.6%	0.0%	0.0%	0.0%	0.0%	5.6%
	Japan	0.0%	0.0%	0.0%	0.5%	0.8%	1.3%
	HK/China	10.7%	3.6%	18.5%	6.6%	0.2%	39.6%
	Other Asia	14.8%	0.0%	0.0%	15.6%	0.0%	30.4%
	Others	4.6%	0.0%	0.0%	0.1%	4.1%	8.8%
	Total	44.7%	3.6%	18.5%	23.8%	9.4%	100.0%

31 December 2005

		Fixed interest	Mortgage & loans	Cash	Equities	Others	Total
By currency	US\$	32.6%	2.6%	10.7%	7.7%	11.6%	65.2%
	HK\$	7.2%	1.4%	8.6%	4.1%	—	21.3%
	Others	—	—	(0.2%)	13.7%	—	13.5%
	Total	39.8%	4.0%	19.1%	25.5%	11.6%	100.0%
By geographical area	US	8.9%	—	—	1.0%	4.0%	13.9%
	Europe	4.6%	—	—	0.4%	—	5.0%
	Japan	0.3%	—	—	3.1%	1.0%	4.4%
	HK/China	10.5%	4.0%	19.1%	10.8%	3.2%	47.6%
	Other Asia	12.1%	—	—	9.3%	—	21.4%
	Others	3.4%	—	—	0.9%	3.4%	7.7%
	Total	39.8%	4.0%	19.1%	25.5%	11.6%	100.0%

30 September 2006

		Fixed interest	Mortgage & loans	Cash	Equities	Others	Total
By currency	US\$	30.3%	2.5%	13.5%	7.8%	9.9%	64.0%
	HK\$	12.8%	1.3%	10.2%	2.6%	(0.1%)	26.8%
	Others	—	—	0.7%	8.5%	—	9.2%
	Total	43.1%	3.8%	24.4%	18.9%	9.8%	100.0%
By geographical area	US	9.1%	—	—	—	4.3%	13.4%
	Europe	4.3%	—	—	—	—	4.3%
	Japan	2.2%	—	—	2.3%	0.9%	5.4%
	HK/China	14.0%	3.8%	24.4%	9.1%	2.8%	54.1%
	Other Asia	10.8%	—	—	6.3%	0.5%	17.6%
	Others	2.7%	—	—	1.2%	1.3%	5.2%
	Total	43.1%	3.8%	24.4%	18.9%	9.8%	100.0%

Details of Charges on Group Assets

As at 30 September 2006 and 31 December 2005 there were respectively US\$3.1 million and US\$2.0 million cash collateral paid to the counter-party for a cross currency swap agreement entered into by the Group during the year of 2005.

Contingent Liabilities

As at 31 December 2006, the Group and the Company had no material contingent liabilities other than those as set out in the section headed “Litigation” of Appendix VII to this Circular and the contingencies arising from the ordinary course of the long term insurance business.

Share Option

The Company operates share option schemes for the purpose of attracting, retaining and motivating talented participants to strive for future development and expansion of the Group. The schemes are designed to act as an incentive to encourage the participants and allow them to enjoy the results of the Company attained through their efforts and contributions.

Eligible participants of the share option scheme adopted on 16 June 1999 (the “Old Share Option Scheme”) included (a) any employee as well as any executive director of the Group; and (b) any agent who had agreed by a contract in writing to render full-time and exclusive services to the Group and (for new options only), who had or would have, rendered such services for a continuous period of at least 12 months as at the date of grant. As the Old Share Option Scheme was terminated with effect from 6 May 2002, no further options may be offered pursuant to this scheme, however for outstanding options in existence, the provisions of the Old Share Option Scheme remain in force.

Eligible participants of a share option scheme adopted on 6 May 2002 (the “New Scheme”) include (a) any employee or executive director of the Group; (b) any advisor or consultant to the Group (including any executive or employee of this advisor or consultant); and (c) any agent who has agreed by a contract in writing to render full-time and exclusive services to the Group. The New Scheme was adopted on 6 May 2002, and unless otherwise cancelled or amended, will be valid and effective for a period of 10 years commencing from that date. 40,180,000 share options, 3,720,000 share options and 3,210,000 share options were granted under the New Scheme during the years of 2003, 2004 and 2005 respectively.

As at 31 December 2003, 2004 and 2005, the number of shares issuable under the New Scheme and the Old Share Option Scheme was 73,222,990, 70,654,390 and 61,021,268, which represented approximately 8.91%, 8.61% and 7.46% of the Company’s shares in issue as at that date respectively.

The total number of shares which may be issued upon the exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the New Scheme unless the Company obtains a fresh approval from its shareholders. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes shall not exceed 30% of the total number of shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant pursuant to the share option schemes within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Each grant of options to a director, chief executive, substantial shareholder or any of their respective associates is subject to the approval by the independent non-executive directors (excluding the independent non-executive director who is the grantee of the options), where any grant of options granted to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the securities issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value (based on the closing price of the Company's shares as at the date of each grant) in excess of HK\$5 million, are subject to shareholders' approval in a general meeting. All connected persons of the Company must abstain from voting at such a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the directors, and unless resolved otherwise, commences on the first anniversary of the date of grant and ends on a date which is not later than five years from the relevant exercise date of the share options or 10 years from the date of grant of share options, if earlier.

The exercise price of the share options is determinable by the directors, and must be at least the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer, and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends of the Company or to vote at shareholders' meetings.

2. MANAGEMENT DISCUSSION AND ANALYSIS ON HKL (KING'S ROAD)

Overview

HKL (King's Road) Group owns the Property, an office and retail complex in Quarry Bay, on the eastern side of Hong Kong Island, with a total lettable area of approximately 290,000 sq. ft. of gross office and retail spaces as at 30 September 2006. It was completed in July 1999. 1063 King's Road consists of a 31-level office and retail complex. Its principal office tenants include Aedas Limited and CMA CGM & ANL (HK) Shipping Agencies Limited and its principal retail tenants include DBS Bank (Hong Kong) Limited and Coffee Concepts (Hong Kong) Limited. As at 30 September 2006, the occupancy rate was 99% for office space and 100% for retail space. For the period ended 30 September 2006, the average rent for office space was HK\$20.94 per sq. ft. per month and the average rent for retail space was HK\$49.59 per sq. ft. per month.

Turnover

Rental income from office and retail spaces accounted for over 70% of HKL (King's Road) Group's turnover for each in the three years ended 31 December 2005, 2004 and 2003 and the nine months ended 30 September 2006. The remaining portion was contributed by management fee income.

Cost of sales

Cost of sales included leasing, maintenance, repair and other expenses. HKL (King's Road) Group also paid a fellow subsidiary for property management, property maintenance and other services in connection with the Property.

Movements in capital value of the Property

In 2003, the impact of SARS and the new supply of an office complex of same grade nearby caused a drop in rental and capital value of the Property and thus the resulting operating profit/(loss) of the HKL (King's Road) Group. With the absorption of vacant space in this new supply and the improvement of office market in Hong Kong East from 2004 onwards, the capital value of the Property increased at the same time.

Human resources

For the three years ended 31 December 2005, 2004 and 2003 and the nine months ended 30 September 2006, the HKL (King's Road) Group had no employees.

Liquidity and capital resources

Liquidity

The HKL (King's Road) Group's principal sources of funds have been received from its holding companies. Working capital requirements were financed principally through cash flow from operating activities and borrowings from holding companies.

Contingent liabilities

For the three years ended 31 December 2005, 2004 and 2003, and the nine months ended 30 September 2006, the HKL (King's Road) Group had no contingent liabilities.

Capital expenditure

The HKL (King's Road) Group had no major capital expenditure incurred for the three years ended 31 December 2005, 2004 and 2003 and the nine months ended 30 September 2006.

Financial Risk

The HKL (King's Road) Group had no bank borrowings. In order to maintain liquidity, the HKL (King's Road) Group obtained funding from the immediate holding company and intermediate holding companies.

The HKL (King's Road) Group had no significant exposure to exchange rate fluctuations. For its exposure to cashflow interest rate risk, the HKL (King's Road) Group managed it by intermediate holding companies and fellow subsidiaries.

Expansion plan

As at 30 September 2006, the HKL (King's Road) Group had no expansion plan incurred during three years ended 31 December 2005, 2004 and 2003 and the nine months ended 30 September 2006.

Significant investment

The HKL (King's Road) Group had no significant investment for the three years ended 31 December 2005, 2004 and 2003 and nine months ended 30 September 2006.

Other information

A reconciliation of the net book amount of the Property as at 30 September 2006, as shown in the Appendix II to this Circular, to the fair value of the Property as at 30 November 2006, as shown in the Appendix VI to this Circular, is as follows:

	Investment Property <i>HK\$'000</i>	Leasehold Land <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book amount as at 30 September 2006, as shown in the Appendix II to this Circular	505,204	829,709	1,334,913
Movements for the period from 1 October 2006 to 30 November 2006			
— Addition/(disposal)	—	—	—
— Depreciation/amortisation	<u>(2,584)</u>	<u>(158)</u>	<u>(2,742)</u>
Net book amount as at 30 November 2006	<u>502,620</u>	<u>829,551</u>	<u>1,332,171</u>
Fair value as at 30 November 2006, as shown in the Appendix VI to this Circular			<u>1,472,300</u>

The following is the text of a letter, prepared for the sole purpose, of inclusion in this Circular, received from Ernst and Young, Certified Public Accountants.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

19 January 2007

The Board of Directors
Pacific Century Insurance Holdings Limited
Suite 1401-1410
14/F., One Pacific Place
88 Queensway, Admiralty
Hong Kong

Dear Sirs,

**ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION TO THE DIRECTORS OF PACIFIC CENTURY INSURANCE HOLDINGS
LIMITED**

We report on the unaudited pro forma financial information of Pacific Century Insurance Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 175 to 179 under the heading of “Unaudited Pro Forma Financial Information of the Enlarged Group” (the “Unaudited Pro Forma Financial Information”) in Appendix V of the Company’s circular dated 19 January 2007, in connection with the proposed acquisition of 1063 King’s Road through acquisition of 100% equity interests in HKL (King’s Road) Limited and Foundasia (HK) Limited (the “Proposed Acquisition”) (the “Circular”) by Shabhala International Limited. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Proposed Acquisition might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 179 to the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information of the Group in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information of the Group and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 30 September 2006 or any future dates; or
- the results of the Group for the period from 1 January 2006 to 30 September 2006 or any future periods.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information of the Group has been properly compiled by the directors of the Company on the basis stated;

- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information of the Group as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following unaudited pro forma consolidated balance sheet, consolidated income statement and consolidated cash flow statement of the Enlarged Group (collectively referred to as the “Unaudited Pro Forma Financial Information”) which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition as if it had taken place on 30 September 2006 for the pro forma consolidated balance sheet and on 1 January 2006 for the pro forma consolidated income statement and consolidated cash flow statement. This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position, and financial results and cash flows of the Enlarged Group had the Acquisition been completed as at 30 September 2006 and 1 January 2006 respectively or at any future date.

1. Unaudited Pro Forma Consolidated Balance Sheet of the Enlarged Group

	Unaudited consolidated balance sheet of the Group as at 30 September 2006	Audited consolidated balance sheet of HKL (King’s Road) Limited as at 30 September 2006	The Enlarged Group Subtotal	Pro forma adjustment #1	Notes	Adjusted Enlarged Group Total
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>		<i>HK\$’000</i>
NON-CURRENT ASSETS						
Leasehold land	—	829,709	829,709	327,586	1(b)	1,157,295
Property, plant and equipment	57,161	—	57,161			57,161
Investment properties	14,811	505,204	520,015	(190,204)	1(b)	329,811
Deferred acquisition costs	1,084,656	—	1,084,656			1,084,656
Financial assets	527,677	—	527,677			527,677
Pledged deposit	24,238	—	24,238			24,238
Total non-current assets	<u>1,708,543</u>	<u>1,334,913</u>	<u>3,043,456</u>			<u>3,180,838</u>
CURRENT ASSETS						
Deferred acquisition costs	289,743	—	289,743			289,743
Premiums receivable	62,865	—	62,865			62,865
Prepayments and other debtors	207,411	8,998	216,409			216,409
Financial assets	6,367,836	—	6,367,836			6,367,836
Reinsurance assets	1,962	—	1,962			1,962
Properties held for sale	175,531	—	175,531			175,531
Cash and cash equivalents	2,012,552	—	2,012,552	(1,472,295)	1(a)	552,928
				12,671	1(c)	
	<u>9,117,900</u>	<u>8,998</u>	<u>9,126,898</u>			<u>7,667,274</u>
Assets of a disposal group classified as held for sale	57,151	—	57,151			57,151
Total current assets	<u>9,175,051</u>	<u>8,998</u>	<u>9,184,049</u>			<u>7,724,425</u>

	Unaudited consolidated balance sheet of the Group as at 30 September 2006 <i>HK\$'000</i>	Audited consolidated balance sheet of HKL (King's Road) Limited as at 30 September 2006 <i>HK\$'000</i>	The Enlarged Group Subtotal <i>HK\$'000</i>	Pro forma adjustment #1 Notes <i>HK\$'000</i>	Adjusted Enlarged Group Total <i>HK\$'000</i>
CURRENT LIABILITIES					
Payable to policyholders	(151,520)	—	(151,520)		(151,520)
Accrued expenses and other creditors	(265,479)	(21,669)	(287,148)		(287,148)
Tax payable	(25,083)	—	(25,083)		(25,083)
Amounts due to intermediate holding companies	—	(1,545,678)	(1,545,678)	1,545,678	1(d) —
Amount due to immediate holding company	—	(1,638)	(1,638)	1,638	1(d) —
	(442,082)	(1,568,985)	(2,011,067)		(463,751)
Liabilities directly associated with the assets classified as held for sale	(17,904)	—	(17,904)		(17,904)
Total current liabilities	<u>(459,986)</u>	<u>(1,568,985)</u>	<u>(2,028,971)</u>		<u>(481,655)</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>8,715,065</u>	<u>(1,559,987)</u>	<u>7,155,078</u>		<u>7,242,770</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>10,423,608</u>	<u>(225,074)</u>	<u>10,198,534</u>		<u>10,423,608</u>
NON-CURRENT LIABILITIES					
Derivative financial instruments	(15,774)	—	(15,774)		(15,774)
Interest-bearing loans	(783,726)	—	(783,726)		(783,726)
Future insurance liabilities under investment contracts	(663,182)	—	(663,182)		(663,182)
Future insurance liabilities under insurance contracts	(5,604,180)	—	(5,604,180)		(5,604,180)
Policyholders' dividends and bonuses	(869,396)	—	(869,396)		(869,396)
Total non-current liabilities	<u>(7,936,258)</u>	<u>—</u>	<u>(7,936,258)</u>		<u>(7,936,258)</u>
NET ASSETS/(LIABILITIES)	<u><u>2,487,350</u></u>	<u><u>(225,074)</u></u>	<u><u>2,262,276</u></u>		<u><u>2,487,350</u></u>
EQUITY					
Issued capital	812,448	—	812,448		812,448
Reserves	1,674,902	(225,074)	1,449,828	225,074	1(e) 1,674,902
TOTAL EQUITY	<u><u>2,487,350</u></u>	<u><u>(225,074)</u></u>	<u><u>2,262,276</u></u>		<u><u>2,487,350</u></u>

2. Unaudited Pro Forma Consolidated Income Statement of the Enlarged Group

	Unaudited consolidated income statement of the Group for the period ended 30 September 2006	Audited consolidated income statement of HKL (King's Road) Limited for the period ended 30 September 2006	The Enlarged Group Subtotal	Pro forma adjustment #2 Notes	Adjusted Enlarged Group Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CONTINUING OPERATIONS					
REVENUE					
Turnover	1,440,138	—	1,440,138		1,440,138
Investment income, net gains, and other income	579,099	54,955	634,054		634,054
Total revenue and gains, net	2,019,237	54,955	2,074,192		2,074,192
Less: Reinsurance premiums	(96,496)	—	(96,496)		(96,496)
Net revenue	1,922,741	54,955	1,977,696		1,977,696
OPERATING EXPENSES					
Policyholders' benefits under insurance contracts	(498,162)	—	(498,162)		(498,162)
Policyholders' benefits under investment contracts	(29,712)	—	(29,712)		(29,712)
Agency commission and allowances	(328,754)	—	(328,754)		(328,754)
Change in deferred acquisition costs	50,506	—	50,506		50,506
Management expenses	(308,015)	(25,509)	(333,524)	5,142	2(a) (328,382)
Increase in future insurance liabilities under insurance contracts	(537,567)	—	(537,567)		(537,567)
Reversal of impairment on investment property and leasehold land	—	23,952	23,952	(23,952)	2(b) —
Finance costs	(32,896)	(47,897)	(80,793)		(80,793)
PROFIT BEFORE TAX	238,141	5,501	243,642		224,832
Tax	(17,120)	—	(17,120)		(17,120)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	221,021	5,501	226,522		207,712
DISCONTINUED OPERATION					
Profit for the period from a discontinued operation	1,086	—	1,086		1,086
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS	222,107	5,501	227,608		208,798

3. Unaudited Pro Forma Consolidated Cash Flow Statement of the Enlarged Group

	Unaudited consolidated cash flow statement of the Group for the period ended 30 September 2006	Audited consolidated cash flow statement of HKL (King's Road) Limited for the period ended 30 September 2006	The Enlarged Group Subtotal	Pro forma adjustment	#1 Notes	Adjusted Enlarged Group Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	774,906	(2,182)	772,724			772,724
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(22,008)	—	(22,008)	(1,472,295)	1(a)	(1,481,632)
				12,671	1(c)	
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	<u>(96,695)</u>	<u>2,182</u>	<u>(94,513)</u>			<u>(94,513)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	656,203	—	656,203			(803,421)
Cash and cash equivalents as at beginning of period	<u>1,393,931</u>	<u>—</u>	<u>1,393,931</u>			<u>1,393,931</u>
CASH AND CASH EQUIVALENTS AS AT 30 SEPTEMBER 2006	<u><u>2,050,134</u></u>	<u><u>—</u></u>	<u><u>2,050,134</u></u>			<u><u>590,510</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	451,515	—	451,515			451,515
Non-pledged time deposits with original maturity of less than three months when acquired	1,561,037	—	1,561,037	(1,472,295)	1(a)	101,413
				12,671	1(c)	
Cash and short term deposits attributable to a discontinued operation	<u>37,582</u>	<u>—</u>	<u>37,582</u>			<u>37,582</u>
	<u><u>2,050,134</u></u>	<u><u>—</u></u>	<u><u>2,050,134</u></u>			<u><u>590,510</u></u>

4. Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group**A. Basis of Preparation**

The pro forma adjustments are derived using the accounting policies as adopted in the unaudited consolidated financial statements of the Group for the nine months ended 30 September 2006.

For the purpose of preparing the unaudited pro forma consolidated balance sheet, consolidated income statement and consolidated cash flow statement of the Enlarged Group, the fair value of the Property as at 30 September 2006 applied in the calculation of the underlying pro forma adjustments is determined with reference to the valuation conducted by CB Richard Ellis Limited.

Since the fair value of the Property at the completion of the Acquisition may be different from the fair value used in the preparation of the unaudited pro forma consolidated balance sheet, consolidated income statement and consolidated cash flow statement presented above, the actual amounts may be different from the adjustments shown in this unaudited pro forma consolidated balance sheet, consolidated income statement and consolidated cash flow statement.

B. Pro Forma Adjustments

1. The adjustments reflect the following:

- (a) Being the acquisition of a 100% interest in HKL (King's Road) for a consideration of HK\$1,472,295,000.00. The consideration is fully paid out of internal resources;
- (b) Being the fair value of the Property which is determined with reference to the valuation conducted by CB Richard Ellis Limited as at 30 September 2006; and
- (c) Being the net negative working capital of HKL (King's Road) and Foundasia as at 30 September 2006. The consideration is adjusted by deducting therefrom an amount equal to such negative amount payable by the Vendors.
- (d) Being the loans to HKL (King's Road) and Foundasia assigned from the Vendors to the Purchaser according to the Share Purchase Agreement; and
- (e) Being the elimination of the reserves of HKL (King's Road) and Foundasia on consolidation of the Group.

2. The adjustments reflect the following:

- (a) Being the amortisation of leasehold land and depreciation of investment property which are provided for the Property for the nine months ended 30 September 2006 in accordance with the followings:
 - (i) the fair value of the Property which is determined with reference to the valuation conducted by CB Richard Ellis Limited as at 30 September 2006; and
 - (ii) the current accounting policy for investment properties as adopted in the unaudited consolidated financial statements of the Group for the nine months ended 30 September 2006. The Group may consider to change the accounting policy for investment properties upon the completion of the Acquisition to apply the fair value model under Hong Kong Accounting Standards 40; and
- (b) Being the adjustment of the reversal of impairment recorded by HKL (King's Road) and Foundasia for the nine months up to 30 September 2006. The adjustment is recorded as the acquisition is assumed to have been made on 1 January 2006 for the purpose of the pro forma income statement.

Set out below is the letters and valuation certificates received from CB Richard Ellis, an independent property valuer, prepared for the purpose of incorporation in this Circular in connection with the valuation on property interest of the Group as at 30 November 2006.

1. VALUATION REPORT ON THE PROPERTY

CBRE
CB RICHARD ELLIS
世邦魏理仕

34/F. Central Plaza
18 Harbour Road
Wanchai, Hong Kong
T 852 2820 2800
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地產代理（公司）牌照號碼
Estate Agent's Licence No: C-004065

19 January 2007

The Directors
Pacific Century Insurance Holdings Limited
Suite 1401-1410, 14th Floor
One Pacific Place
88 Queensway
Admiralty
Hong Kong

Dear Sirs,

Re: 1063 King's Road, Quarry Bay, Hong Kong

In accordance with the instruction for us, we, CB Richard Ellis Limited have prepared the following valuation report providing the market value of the captioned property interests to be acquired by Pacific Century Insurance Holdings Limited (referred to as the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) located in the Hong Kong. We confirm that we have carried out inspections, made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the property interests as at 30 September 2006 and 30 November 2006 respectively.

Our valuation is prepared in accordance with the “HKIS Valuation Standards on Properties (First Edition 2005)” published by the Hong Kong Institute of Surveyors, the relevant provisions of the Companies Ordinance and Chapter 5 of Listing Rules published by the Stock Exchange of Hong Kong Limited.

Our opinion of Market Value is defined as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Property Categorization

The property interests to be acquired by the Group will be held for long term investment purposes.

Valuation Methodologies

In valuing the Properties, we have adopted market approach by reference to sales evidence as available on the market and information provide to us including tenancy details, and other relevant information.

Title Investigations

We have caused searches to be made at the Land Registry, but have not been given any legal advice in respect of title. We have not searched the original documents to verify the correctness of any information or to verify whether any amendments have been made which do not appear on the copies handed to us.

Valuation Assumptions

In valuing the property interests, we have assumed that owners of the property interests have free and uninterrupted rights to us and assign the properties during the whole of respective unexpired terms granted.

Our valuation has been made on the assumption that the owner sells the property interests on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the values of the property.

Other special assumptions for of the property, if any, have been stated in the footnotes of the valuation certificate.

Valuation Considerations

We have relied to a very considerable extent on information given by the Group and the existing owner of the Property interests and have accepted information given to us o such matters as planning approvals or statutory notices, easements, tenure, lettings, floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Group and the existing owner of the property interests which is material to our valuations and have been advised by the Group and the existing owner of the property interests that no material facts have been omitted from the information provided.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have assumed that all applicable zoning, use regulations and restrictions have been complied with. We have further assumed that the utilisations and improvements of land are within the boundaries of the properties held by the owner or permitted to be occupied by the owner. Unless otherwise stated, no encroachment or trespass exits are considered.

We have inspected the property to such extent that we consider necessary for the purpose of this valuation. No structural survey has been made nor were any tests carried out on any of the services provided in the property. We are therefore unable to report whether the property is free from rot, infestation or any other structural defects.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the property but have assumed that the floor areas shown on the documents handed to us are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximate.

Unless otherwise stated, all money amounts are stated in Hong Kong dollars. We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Gilbert C H Chan
MHKIS MRICS RPS (GP)
Director
Valuation & Advisory Services

Notes: Mr. Gilbert C H Chan is Registered Professional Surveyor with over 13 years' valuation experience on all landed properties in Hong Kong.

VALUATION CERTIFICATE

Property	Description and tenure	Details of occupancy	Market Value in	Market Value in
			existing state as at 30 September 2006	existing state as at 30 November 2006
No. 1063 King's Road, Quarry Bay, Hong Kong.	The property comprises a 31-storey commercial building with ground floor devoted to entrance lobby and retail shop, 1st to 3rd floors accommodate 115 car parking spaces, 4th to 5th floors for mechanical and refuge uses and upper floors accommodate office units.	The shops and offices are fully leased subject to various tenancies for terms mostly of 2 to 3 years with the last expiry date on 30 November 2009 with the total monthly rental of HK\$5,133,451.5 exclusive of rates and management fee.	HK\$1,472,300,000	HK\$1,472,300,000
Sub-Section 3 of Section C of Quarry Bay Inland Lot No. 15 and Sub-Section 5 of Section E of Quarry Bay Marine Lot No. 2 and The Extension Thereeto.	The total gross floor area of the property is approximately 27,300.16 sq.m. (293,859 sq.ft..)	The car parking spaces are let on monthly and hourly basis with total net income of HK\$1,193,614.58 for the year ended 27 September 2006.		
	No. 1063 King's Road was completed in 1999.			
	The property is held under two Government Leases in respect to the two Building Lots. Sub-Section 3 of Section C of Quarry Bay Inland Lot No. 15 is held for a term of 999 years from 2 February 1882. Sub Section 5 of Section E of Quarry Bay Marine Lot No. 2 and The Extension Thereeto is held for a term of 999 years from 18 April 1900. The Government rent is HK\$513 per annum.			

Notes:

1. The registered owner of the property is Foundasia (HK) Limited vide Memorial No. UB6903518 dated 28 December 1996.
2. Apart from various tenancies, the property is subjected to following encumbrances:
 - a) Deed of Surrender of Water Rights in favour of The Crown in respect of Inland Lot No. 1336, Quarry Bay Inland Lot Nos. 9, 3, 11, 12, 15, 8 and 7, Quarry Bay Marine Lot Nos. 1 and 2 and Extension to Quarry Bay Marine Lot No. 2 vide Memorial No. UB1194121 dated 29 August 1975;
 - b) Deed of Dedication in favour of The Director of Buildings on behalf of The Government of The HKSAR vide Memorial No. UB7760418 dated 6 May 1999; and
 - c) Modification Letter vide Memorial No. UB7760419 dated 6 May 1999.
3. The Property is tenanted and we have valued the property on an open market basis subject to the existing tenancies.

2. VALUATION REPORT ON OTHER PROPERTY INTERESTS OF THE GROUP

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19 January 2007

The Directors
Pacific Century Insurance Holdings Limited
Suite 1401-1410, 14th Floor
One Pacific Place
88 Queensway
Admiralty
Hong Kong

Dear Sirs,

Re: Valuation of Various Properties in Hong Kong and The People's Republic of China ("The PRC")

In accordance with the instruction for us, we, CB Richard Ellis Limited have prepared the following valuation report providing the market value of the property interests held by Pacific Century Insurance Holdings Limited (referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") located in the Hong Kong and the PRC. We confirm that we have carried out inspections, made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the property interests as at 30 November 2006.

Our valuation is prepared in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors, the relevant provisions of the Companies Ordinance and Chapter 5, Practice Notes 12 and 16 of Listing Rules published by the Stock Exchange of Hong Kong Limited.

Our opinion of Market Value is defined as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Property Categorization

In the course of our valuation, the property interests held by the Group is categorized into the following groups:

Group I

Property interests in Group I are completed developments held by the Group in the PRC for owner occupation.

Group II

Property interests in Group II are completed developments held by the Group in the PRC for investment.

Groups III and IV

Property interests in Groups III and IV which are rented by the Group in Hong Kong and the PRC respectively under tenancy agreements, we are of the opinion that they have no commercial value due to the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent and/or the short term nature of property interests.

Valuation Methodologies

In valuing the properties, we have adopted market approach by reference to sales evidence as available on the market and information provided to us including tenancy details, and other relevant information.

Title Investigations

For the properties rented by the Group in Hong Kong, we have been provided with copies of relevant tenancy agreements. However, we have not searched the original documents to verify the correctness of any information or to verify whether any amendments have been made which do not appear on the copies handed to us.

For the properties held by the Group in the PRC, we have been given extracted copies of relevant title documents and, for properties rented by the Group in the PRC, copies of relevant tenancy agreements. We have not checked the titles to the properties and have not scrutinized the original title documents. We have relied on the advice given by the Group and its legal advisers on PRC laws, Yao, Liang Law Office regarding the titles to the property interests located in the PRC. For the purpose

of our valuations, we have assumed that the Group has enforceable title to the property interests. In our valuations, we have taken into account the legal opinion of the PRC's legal advisers, and while we have exercised our professional judgment in arriving at our valuations, you are urged to consider our valuation assumptions with caution.

Valuation Assumptions

In valuing the property interests, we have assumed that owners of the property interests have free and uninterrupted rights to us and assign the properties during the whole of respective unexpired terms granted.

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the values of the properties.

Other special assumptions for each of the properties, if any, have been stated in the footnotes of the valuation certificate for the respective properties.

Valuation Considerations

We have relied to a very considerable extent on information given by the Group of the property interests and have accepted information given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to our valuations and have been advised by the Group that no material facts have been omitted from the information provided.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have assumed that all applicable zoning, use regulations and restrictions have been complied with. We have further assumed that the utilisations and improvements of land are within the boundaries of the properties held by the owner or permitted to be occupied by the owner. Unless otherwise stated, no encroachment or trespass exists are considered.

We have inspected the properties to such extent that we consider necessary for the purpose of this valuation. No structural survey has been made nor were any tests carried out on any of the services provided in the properties. We are therefore unable to report whether the properties are free from rot, infestation or any other structural defects.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the properties but have assumed that the floor areas shown on the documents handed to us are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximate.

Unless otherwise stated, all money amounts are stated in Hong Kong dollars. The exchange rate adopted in our valuation is HK\$100.00 = RMB100.71, which was the approximate exchange rate prevailing as at 30 November 2006.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Gilbert C H Chan MHKIS MRICS RPS (GP)
Director
Valuation & Advisory Services

Notes: Mr. Gilbert C H Chan is Registered Professional Surveyor with over 13 years' valuation experience on all landed properties in Hong Kong and in the PRC.

SUMMARY OF VALUES

No.	Property	Market value in existing state as at 30 November 2006	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 30 November 2006
Group I — Property Interests held by the Group in the PRC for Owner Occupation				
1	Room 610, Level 6, Bright China Chang An Building, No. 7 Jianguomennei Main Street, Dongcheng district, Beijing, The PRC	HK\$2,250,000	100%	HK\$2,250,000
2	Room No. 1309, Level 13, China Merchants Building, No. 66 Lujiazui Road, Pudong District, Shanghai, The PRC	HK\$1,450,000	100%	HK\$1,450,000
			Sub-Total	<u>HK\$3,700,000</u>
Group II — Property Interests held by the Group in the PRC for Investment				
3	Room 611, Level 6, Bright China Chang An Building, No. 7 Jianguomennei Main Street, Dongcheng district, Beijing, The PRC	HK\$2,180,000	100%	HK\$2,180,000
4	Unit B-70 (also known as Unit B30), Kings Garden Villa, No. 18-22 Xiaoyun Road, Chaoyang District, Beijing, The PRC	HK\$8,200,000	100%	HK\$8,200,000

No.	Property	Market value in existing state as at 30 November 2006	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 30 November 2006
5	Unit D-73 (also known as Unit B33), Kings Garden Villa, No. 18-22 Xiaoyun Road, Chaoyang District, Beijing, The PRC	HK\$7,700,000	100%	HK\$7,700,000
6	Unit Nos. 3017-3018, Level 30, Office Tower, CITIC Plaza, No. 233 Tianhe North Road, Tianhe District, Guangzhou, Guangdong Province, The PRC	HK\$4,800,000	100%	HK\$4,800,000
			Sub-Total	<u>HK\$22,880,000</u>
Group III — Property Interests rented by the Group in Hong Kong				
7	The Whole of 17th-20th, 22nd, 26th-28th Floors, Wing On Centre, Nos. 110-114 Connaught Road Central and Nos. 209-211 Des Voeux Road Central, Hong Kong	No commercial value	100%	No commercial value
8	The Whole of 28th Floor, Langham Place Office Tower, No. 8 Argyle Street, Mong Kok, Kowloon	No commercial value	100%	No commercial value
9	The Whole of 29th Floor, Langham Place Office Tower, No. 8 Argyle Street, Mong Kok, Kowloon	No commercial value	100%	No commercial value

No.	Property	Market value in existing state as at 30 November 2006	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 30 November 2006
10	The Whole of 30th Floor, Langham Place Office Tower, No. 8 Argyle Street, Mong Kok, Kowloon	No commercial value	100%	No commercial value
11	The Whole of 31st Floor, Langham Place Office Tower, No. 8 Argyle Street, Mong Kok, Kowloon	No commercial value	100%	No commercial value
12	Rooms 1401-10, 14th Floor, One Pacific Place, No. 88 Queensway, Admiralty, Hong Kong	No commercial value	100%	No commercial value
13	The Whole of 11th Floor, Yuen Long Landmark, Nos. 115-127 Castle Peak Road, Yuen Long, New Territories	No commercial value	100%	No commercial value
14	Room 3103, 31st Floor, Hopewell Centre, No. 183 Queen's Road East, Wan Chai, Hong Kong	No commercial value	100%	No commercial value
15	The Whole of 12th and 13th Floors, Island Place Tower, No. 510 King's Road, North Point, Hong Kong	No commercial value	100%	No commercial value

No.	Property	Market value in existing state as at 30 November 2006	Interest attributable to the Group	Market Value in existing state attributable to the Group as at 30 November 2006
16	Advertising Right, Car Park Building, No. 2 Rumsey Street, Central, Hong Kong	No commercial value	100%	No commercial value
			Sub-Total	<u>No commercial value</u>
Group IV — Property Interests rented by the Group in the PRC				
17	Room 2306, Level 23, Peace World Plaza, Nos. 362-366 Huanshi East Road, Guangzhou, Guangdong Province, The PRC	No commercial value	100%	No commercial value
18	Room 611, level 6, Hua Ten Shang Wu Lou, No. 30 Zhong Fang Street, Chaoyang District, Beijing, The PRC	No commercial value	100%	No commercial value
19	Room 616, Level 6, Hua Ten Shang Wu Lou, No. 30 Zhong Fang Street, Chaoyang District, Beijing, The PRC	No commercial value	100%	No commercial value
			Sub-total	<u>No commercial value</u>
			Grand Total	<u><u>HK\$26,580,000</u></u>

VALUATION CERTIFICATE

Group I — Property Interests held by the Group in the PRC for owner occupation

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
1	Room 610, Level 6, Bright China Chang An Building, No. 7 Jianguomennei Main Street, Dongcheng district, Beijing, The PRC	<p>The property comprises an office unit in a 17-storey office building completed in 1996.</p> <p>The gross floor area of the property is approximately 112.80 sq.m. (1,214 sq.ft.).</p> <p>The land use rights of the property were granted for a term commencing on 21 August 1998 and expiring on 1 December 2043 for office uses.</p>	The property is occupied by the Group for office purposes.	HK\$2,250,000 (100% interest attributable to the Group: HK\$2,250,000)

Notes:

1. Pursuant to a Real Estate Ownership Certificate No. 0320133 issued by the Beijing Municipal Building and Land Administration Bureau and registered by the Beijing Municipal Building and Land Registration Centre on 7 December 1998, the ownership of the property with a gross floor area of 112.80 sq.m. is vested to Keira Limited in which the Company has a 100% interest.
2. We have been provided with a legal opinion on the title of the property by the Group's legal advisor which contains, inter-alia, the following information:
 - (i) the property is held by Keira Limited;
 - (ii) Keira Limited is entitled to occupy, use, lease, mortgage and transfer the property; and
 - (iii) the property is not subject to any mortgages.

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
2	Room No. 1309, Level 13, China Merchants Building, No. 66 Lujiazui Road, Pudong District, Shanghai, The PRC	<p>The property comprises an office unit in a 39-storey office building completed in 1997.</p> <p>The gross floor area of the property is approximately 80.38 sq.m. (865 sq.ft.).</p> <p>The land use rights of the property were granted for a term commencing on 4 August 1997 and expiring on 12 October 2042 for composite uses.</p>	The property is occupied by the Group for office purposes.	HK\$1,450,000 (100% Interest attributable to the Group; HK\$1,450,000)

Notes:

1. Pursuant to a Real Estate Title Certificate No. 004419 issued by Shanghai Municipal Land and Building Administration Bureau on 17 September 1997, the ownership of the property with a gross floor area of 80.38 sq.m. is vested to Berta Limited in which the Company has a 100% interest.
2. We have been provided with a legal opinion on the title of the property by the Group's legal advisor which contains, inter-alia, the following information:
 - (i) the property is held by Berta Limited;
 - (ii) Berta Limited is entitled to occupy, use, lease, mortgage and transfer the property; and
 - (iii) the property is not subject to any mortgages.

Group II - Property Interest held by the Group in the PRC for Investment

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
3	Room 611, Level 6, Bright China Chang An Building, No. 7 Jianguomennei Main Street, Dongcheng district, Beijing, The PRC	<p>The property comprises an office unit in a 17-storey office building completed in 1996.</p> <p>The gross floor area of the property is approximately 109.20 sq.m. (1,175 sq.ft.).</p> <p>The land use rights of the property were granted for a term commencing on 21 August 1998 and expiring on 1 December 2043 for office uses.</p>	<p>The property is leased out for a term of 1 year from 11 October 2006 at a monthly rent RMB19,656.</p>	<p>HK\$2,180,000 (100% Interest attributable to the Group: HK\$2,180,000)</p>

Notes:

1. Pursuant to a Real Estate Ownership Certificate No. 0320134 issued by the Beijing Municipal Building and Land Administration Bureau and registered by the Beijing Municipal Building and Land Registration Centre on 7 December 1998, the ownership of the property with a gross floor area of 109.20 sq.m. is vested to Keira Limited in which the Company has a 100% interest.
2. We have been provided with a legal opinion on the title of the property by the Group's legal advisor which contains, inter-alia, the following information:
 - (i) the property is held by Keira Limited;
 - (ii) Keira Limited is entitled to occupy, use, lease, mortgage and transfer the property; and
 - (iii) the property is not subject to any mortgages.
3. The outgoings from the rent received for the property include general maintenance expenses of approximately RMB6,000 per annum, City Real Estate Tax of approximately RMB18,000 per annum and sales tax of approximately RMB1,000 per month.

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
4	Unit B-70 (also known as Unit B30), Kings Garden Villa, No. 18- 22 Xiaoyun Road, Chaoyang District, Beijing, The PRC	<p>The property comprises 2-storey plus basement town house completed in 1997.</p> <p>The gross floor area of the property is approximately 362.04 sq.m. (3,897 sq.ft.).</p> <p>The land use rights of the property were granted for a term commencing on 7 March 2002 and expiring on 6 February 2064 for residential uses.</p>	<p>The property is leased out for a term of 3 year from 6 January 2006 at a monthly rent RMB31,340 inclusive of furniture, electrical appliances and three telephone lines.</p>	<p>HK\$8,200,000 (100% Interest attributable to the Group: HK\$8,200,000)</p>

Notes:

1. Pursuant to a Real Estate Title Certificate No. 0850007 issued by the Beijing Municipal Land Resources and Building Administration Bureau and registered by the Beijing Municipal Building and Land Ownership Registration Centre on 12 March 2002, the ownership of the property with a gross floor area of 362.04 sq.m. is vested to Calton International Limited in which the Company has a 100% interest.
2. We have been provided with a legal opinion on the title of the property by the Group's legal advisor which contains, inter-alia, the following information:
 - (i) the property is held by Calton International Limited;
 - (ii) Calton International Limited is entitled to occupy, use, lease, mortgage and transfer the property; and
 - (iii) the property is not subject to any mortgages.
3. The outgoings and disbursement from the rent received for the property include RMB75,000 to be the expenses for decorating the house and purchasing the furniture, general maintenance and air-conditioning maintenance expenses of approximately RMB28,000 per annum, City Real Estate Tax of approximately RMB51,000 per annum and sales tax of approximately RMB1,600 per month.

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
5	Unit D-73 (also known as Unit B33), Kings Garden Villa, No. 18-22 Xiaoyun Road, Chaoyang District, Beijing, The PRC	<p>The property comprises 2-storey plus basement town house completed in 1997.</p> <p>The gross floor area of the property is approximately 339.62 sq.m. (3,656 sq.ft.).</p> <p>The land use rights of the property were granted for a term commencing on 7 March 2002 and expiring on 6 February 2064 for residential uses.</p>	<p>The property is leased out for a term of 3 years from 14 December 2005 at a monthly rent RMB32,000 inclusive of furniture and electrical appliances, management fee and TV cable fee.</p>	<p>HK\$7,700,000 (100% interest attributable to the Group: HK\$7,700,000)</p>

Notes:

1. Pursuant to a Real Estate Title Certificate No. 0850008 issued by the Beijing Municipal Land Resources and Building Administration Bureau and registered by the Beijing Municipal Building and Land Ownership Registration Centre on 12 March 2002, the ownership of the property with a gross floor area of 339.62 sq. m. is vested to Kingsway Developments Limited in which the Company has a 100% interest.
2. We have been provided with a legal opinion on the title of the property by the Group's legal advisor which contains, inter-alia, the following information:
 - (i) the property is held by Kingsway Developments Limited;
 - (ii) Kingsway Development Limited is entitled to occupy, use, lease, mortgage and transfer the property; and
 - (iii) the property is not subject to any mortgages.
3. The outgoings and disbursement from the rent received for the property include management fee of RMB3,283 per month, TV cable fee of RMB172 per month, general maintenance and air-conditioning maintenance expenses of approximately RMB28,000 per annum, City Real Estate Tax of approximately RMB50,000 per annum and sales tax of approximately RMB1,500 per month.

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
6	Unit Nos. 3017-3018, Level 30, Office Tower, CITIC Plaza, No. 233 Tianhe North Road, Tianhe District, Guangzhou, Guangdong Province, The PRC	<p>The property comprises an office unit in an 83-storey office building completed in 1997.</p> <p>The gross floor area of the property is approximately 224.72 sq.m. (2,419 sq.ft.).</p> <p>The land use rights of the property were granted for a term 50 years commencing on 30 September 1994 for office uses.</p>	<p>The property is leased out for a term of 3 years from 1 December 2004 at a monthly rent RMB31,011 exclusive of management fee.</p>	<p>HK\$4,800,000 (100% Interest attributable to the Group; HK\$4,800,000)</p>

Notes:

1. Pursuant to a Real Estate Title Certificate No.0663515 issued by the Guangzhou Municipal Land and Building Administration Bureau on 25 July 2000, the ownership of the property with a gross floor area of 224.74 sq.m. is vested to Prior Company Limited in which the Company has a 100% interest.
2. We have been provided with a legal opinion on the title of the property by the Group's legal advisor which contains, inter-alia, the following information:
 - (i) the property is held by Prior Company Limited;
 - (ii) Prior Company Limited is entitled to occupy, use, lease, mortgage and transfer the property; and
 - (iii) the property is not subject to any mortgages.
3. The outgoings from the rent received for the property include general maintenance expenses of approximately RMB6,000 per annum, City Real Estate Tax of approximately RMB47,000 per annum and sales tax of approximately RMB1,600 per month.

Group III — Property Interests rented by the Group in Hong Kong

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
7	The Whole of 17th-20th, 22nd, 26th-28th Floors, Wing On Centre, Nos. 110-114 Connaught Road Central and Nos. 209-211 Des Voeux Road Central, Hong Kong	<p>The property comprises a total 8 office floors in a commercial office building completed in about 1977.</p> <p>The gross floor area of the property is approximately 14,567.08 sq.m. (156,800 sq.ft).</p> <p>By a lease agreement dated 31 July 2006 made between The Wing On Company Limited as landlord and Pacific Century Insurance Company Limited as tenant, the property was leased to the tenant for a term commencing on 1 August 2006 and expiring on 31 July 2011 at a monthly rent of HK\$3,000,000 for the 1st to 3rd years and HK\$3,600,000 for the 4th to 5th years.</p>	Except 26th to 28th Floors are under decoration, the remaining floors are occupied by the Group for office purposes.	No commercial value

Notes:

Under the lease agreement, the tenant shall have a right to sublet not more than 25% of the total leased area anytime after the first forty-eight months of the lease term. Should the rent payable by the sub-tenant to the tenant exceed the then face rent payable by the tenant to the landlord, then the tenant shall pay over to landlord 50% of such excess amounts.

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
8	The Whole of Level 28 of the Office Tower, Langham Place, No. 8 Argyle Street, Mong Kok, Kowloon	<p>The property comprises an office floor in a office tower of a composite hotel, shopping commercial development completed in about 2004.</p> <p>The gross floor area of the property is approximately 1,616.31 sq.m. (17,398 sq.ft.).</p> <p>By a lease agreement dated 15 November 2005 made between Benington Limited and Renaissance City Development Company Limited as landlord and Pacific Century Insurance Company Limited as tenant, the property was leased to the tenant for a term commencing on 24 January 2005 and expiring on 23 January 2008 at a monthly rent of HK\$313,164.</p>	The property is occupied by the Group for office purposes.	No commercial value

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
9	The Whole of Level 29 of the Office Tower, Langham Place, No. 8 Argyle Street, Mong Kok, Kowloon	<p>The property comprises an office floor in a office tower of a composite hotel, shopping commercial development completed in about 2004.</p> <p>The gross floor area of the property is approximately 1,616.31 sq.m. (17,398 sq.ft.).</p> <p>By a lease agreement dated 15 November 2005 made between Benington Limited and Renaissance City Development Company Limited as landlord and Pacific Century Insurance Company Limited as tenant, the property was leased to the tenant for a term commencing on 1 March 2005 and expiring on 29 February 2008 at a monthly rent of HK\$313,164.</p>	The property is occupied by the Group for office purposes.	No commercial value

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
10	The Whole of Level 30 of the Office Tower, Langham Place, No. 8 Argyle Street, Mong Kok, Kowloon	<p>The property comprises an office floor in a office tower of a composite hotel, shopping commercial development completed in about 2004.</p> <p>The gross floor area of the property is approximately 1,616.31 sq.m. (17,398 sq.ft.).</p> <p>By a lease agreement dated 15 November 2005 made between Benington Limited and Renaissance City Development Company Limited as landlord and Pacific Century Insurance Company Limited as tenant, the property was leased to the tenant for a term commencing on 1 May 2005 and expiring on 30 April 2008 at a monthly rent of HK\$313,164.</p>	The property is occupied by the Group for office purposes.	No commercial value

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
11	The Whole of Level 31 of the Office Tower, Langham Place, No. 8 Argyle Street, Mong Kok, Kowloon	<p>The property comprises an office floor in a office tower of a composite hotel, shopping commercial development completed in about 2004.</p> <p>The gross floor area of the property is approximately 1,616.31 sq.m. (17,398 sq.ft.).</p> <p>By a lease agreement dated 15 November 2005 made between Benington Limited and Renaissance City Development Company Limited as landlord and Pacific Century Insurance Company Limited as tenant, the property was leased to the tenant for a term commencing on 1 July 2005 and expiring on 30 June 2008 at a monthly rent of HK\$417,552.</p>	The property is occupied by the Group for office purposes.	No commercial value

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
12	Suites 1401-10, 14th Floor, One Pacific Place, No. 88 Queensway, Admiralty, Hong Kong	<p>The property comprises an office floor in a office tower of a shopping commercial development completed in about 1988.</p> <p>The gross floor area of the property is approximately 1,582.77 sq.m. (17,037 sq.ft.).</p> <p>By a lease agreement dated 1 April 2004 made between Pacific Place Holdings Limited as landlord and Pacific Century Insurance Holdings Limited as tenant, the property was leased to the tenant for a term commencing on 1 April 2004 and expiring on 31 March 2007 at a monthly rent of HK\$305,000.</p>	The property is occupied by the Group for office purposes.	No commercial value

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
13	The Whole of 11th Floor, Yuen Long Landmark, Nos. 115-127 Castle Peak Road, Yuen Long, New Territories	<p>The property comprises an office floor in a commercial office building completed in about 1990.</p> <p>The gross floor area of the property is approximately 454.20 sq.m. (4,889 sq.ft.).</p> <p>By a lease agreement dated 2 February 2004 made between Sun Hung Kai Real Estate Agency Limited for and on behalf of Merit Success Company Limited as landlord and Pacific Century Insurance Company Limited as tenant, the property was leased to the tenant for a term commencing on 10 March 2004 and expiring on 9 March 2007 at a monthly rent of HK\$34,230.</p>	The property is occupied by the Group for office purposes.	No commercial value

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
14	Room 3103, 31st Floor, Hopewell Centre, No. 183 Queen's Road East, Wan Chai, Hong Kong	<p>The property comprises one office unit in a commercial building completed in about 1980.</p> <p>The gross floor area of the property is approximately 239.22 sq.m. (2,575 sq.ft.).</p> <p>By a lease agreement dated 28 September 2005 made between Singway (B.V.I.) Company Limited as landlord and Pacific Century Insurance Company Limited as tenant, the property was leased to the tenant for a term commencing on 1 September 2005 and expiring on 31 August 2008 at a monthly rent of HK\$33,732.50.</p>	The property is occupied by the Group for office purposes.	No commercial value

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
15	Units 1 to 10 on 12th and 13th Floors, Island Place Tower, No. 510 King's Road, North Point, Hong Kong	<p>The property comprises an office floor in a commercial office building completed in about 1997.</p> <p>The gross floor area of the property is approximately 3,015.98 sq.m. (32,464 sq.ft.).</p> <p>By a lease agreement dated 11 October 2006 made between Dah Sing Bank, Limited as landlord and Pacific Century Insurance Company Limited as tenant, the property was leased to the tenant for a term commencing on 31 October 2006 and expiring on 28th February 2007 at a monthly rent of HK\$827,790.</p>	The property is occupied by the Group for office purposes.	No commercial value

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
16	Advertising Right, Car Park Building, No. 2 Rumsey Street, Central, Hong Kong	<p>The property comprises a right to erect a neon sign and a front-lit banner on the external walls in a car park building.</p> <p>The two advertisement panels face east and north respectively. The dimension of the panels are approximately 47m (w) x 19m (h) and 65m (w) x 19m (h).</p> <p>By an agreement dated 29 June 2006 made between Hong Kong Asiarray Advertising Limited as landlord and Pacific Century Insurance Holdings Limited as tenant, the property was leased to the tenant for a term commencing on 1 July 2006 and expiring on 30 June 2009 at a monthly rental of HK\$185,000.</p>	The property is occupied by the Group for advertisement purposes.	No commercial value

Group IV — Property Interests rented by the Group in the PRC

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
17	Room 2306, Level 23, Peace World Plaza, Nos. 362-366 Huanshi East Road, Guangzhou, Guangdong Province, The PRC	<p>The property comprises an office unit in a 36-storey plus 2 basement commercial building completed in 1996.</p> <p>The gross floor area of the property is approximately 85.51 sq.m. (920 sq.ft.).</p> <p>By a lease agreement dated 15 September 2006 made between Guangzhou Peace World Plaza Company Limited as landlord and Pacific Century Insurance Company Limited Guangzhou Representative Office as tenant, the property was leased to the tenant for a term commencing on 16 November 2006 and expiring on 15 November 2008 at a monthly rent of RMB8,722.</p>	The property is occupied by the Group for office purposes.	No commercial value

Notes:

We have been provided with a legal opinion on the title of the property by the Group's legal advisor which contains, inter-alia, the following information:

- (i) the lease agreement has been registered with the Guangzhou Municipal Yue Xiu District Land Resources and Building Administration Bureau;
- (ii) the lessor has the right to lease the property; and
- (iii) the lease agreement is lawful and valid.

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
18	Room 611, level 6, Hua Ten Shang Wu Lou, No. 30 Zhong Fang Street, Chaoyang District, Beijing, The PRC	<p>The property comprises an office unit in a 11-storey office building believed completed in 1990's.</p> <p>The gross floor area of the property is approximately 18.02 sq.m. (194 sq.ft.).</p> <p>By a lease agreement made between Beijing Hua Teng Dan Bi Hua Property Management Company Limited as landlord representative and Yingbao (Beijing) Investment Consulting Company Limited as tenant, the property was leased to the tenant for a term commencing on 18 January 2006 and expiring on 18 January 2007 at a monthly rent of RMB1,667.</p>	The property is occupied by the Group for office purposes.	No commercial value

Notes:

We have been provided with a legal opinion on the title of the property by the Group's legal advisor which contains, inter-alia, the following information:

- (i) the lease agreement has not been registered with the relevant government authorities but such registration is not compulsory under the relevant PRC law;
- (ii) the lessor has the right to lease the property; and
- (iii) the lease agreement is lawful and valid.

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 30 November 2006
19	Room 616, Level 6, Hua Ten Shang Wu Lou, No. 30 Zhong Fang Street, Chaoyang District, Beijing, The PRC	<p>The property comprises an office unit in a 11-storey office building believed completed in 1990's.</p> <p>The gross floor area of the property is approximately 18.02 sq.m. (194 sq.ft.).</p> <p>By a lease agreement made between Beijing Hua Teng Dan Bi Hua Property Management Company Limited as landlord representative and Yingkang (Beijing) Investment Consulting Company Limited as tenant, the property was leased to the tenant for a term commencing on 18 January 2006 and expiring on 18 January 2007 at a monthly rent of RMB1,667.</p>	The property is occupied by the Group for office purposes.	No commercial value

Notes:

We have been provided with a legal opinion on the title of the property by the Group's legal advisor which contains, inter-alia, the following information:

- (i) the lease agreement has not been registered with the relevant government authorities but such registration is not compulsory under the relevant PRC law;
- (ii) the lessor has the right to lease the property; and
- (iii) the lease agreement is lawful and valid.

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement contained in this Circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO were as follows:

Long positions in ordinary shares of the Company:-

Name of Director	Number of shares held, capacity and nature of interest					Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Held by a trust			
YUEN Tin Fan, Francis <i>Note(a)</i>	—	—	—	21,204,800	21,204,800	2.60	
SO Wing Hung, Peter <i>Note(b)</i>	—	—	—	276,000	276,000	0.03	
ALLEN Peter Anthony	360,000	—	—	—	360,000	0.04	
	<u>360,000</u>	<u>—</u>	<u>—</u>	<u>21,480,800</u>	<u>21,840,800</u>	<u>2.67</u>	

Notes:

- (a) These shares are held under T.F. Yuen Trust, a discretionary trust of which Mr. YUEN Tin Fan, Francis is a founder.
- (b) These shares are held by a trust, the beneficiaries of which are the family members of Mr. SO Wing Hung, Peter.

Directors' rights to acquire shares of the Company

Name of Director	Date of grant of share options	Vesting period	Exercisable period	Number of	
				Exercise share options Price HKD	outstanding
YUEN Tin Fan, Francis	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	11,664,000
CHAN Ping Kan, Raymond	20 June 2003	20 June 2004 to 20 March 2006	20 June 2004 to 19 March 2011	1.62	8,000,000
ALLEN Peter Anthony	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	360,000
CHUNG Cho Yee, Mico	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	1,368,000
SO Wing Hung, Peter	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	4,000,000
	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	800,000

*Long positions in ordinary shares of the immediate holding company of the Company:-**Pacific Century Regional Developments Limited ("PCRD")*

Number of shares held, capacity and nature of interest

Name of Director	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Held by a trust	Total	Percentage of the holding company's issued share capital
ALLEN Peter Anthony	5,010,000	—	—	—	5,010,000	0.16
CHUNG Cho Yee, Mico	<u>8,000,000</u>	—	—	—	<u>8,000,000</u>	<u>0.26</u>
	<u>13,010,000</u>	—	—	—	<u>13,010,000</u>	<u>0.42</u>

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered into the register required to be kept under section 352 of the SFO.

(b) **Interests of Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Enlarged Group.

Name	<i>Notes</i>	Number of ordinary shares held	% of the Company's issued share capital
LI Tzar Kai, Richard	(1)	385,797,942(L)	47.33%(L)
PCRD	(2)(4)	383,797,942(L)	47.08%(L)
Ocean Star Investment Management Limited	(2)	383,797,942(L)	47.08%(L)
Ocean Star Management Limited	(2)	383,797,942(L)	47.08%(L)
OS Holdings Limited	(2)	383,797,942(L)	47.08%(L)
Star Ocean Ultimate Limited	(2)	383,797,942(L)	47.08%(L)
The Ocean Trust	(2)	383,797,942(L)	47.08%(L)
The Ocean Unit Trust	(2)	383,797,942(L)	47.08%(L)
The Starlite Trust	(2)	383,797,942(L)	47.08%(L)
The Starlite Unit Trust	(2)	383,797,942(L)	47.08%(L)
Pacific Century Group Holdings Limited	(2)(5)	383,797,942(L)	47.08%(L)
China Insurance (Holdings) Company, Limited	(3)(6)	91,060,000(L)	11.17%(L)
King System Limited	(3)	49,907,200(L)	6.12%(L)
Joyful Box Inc.	(3)	41,152,800(L)	5.05%(L)

Remark: (L) — Long position

Notes:

- (1) These interests represent Mr. LI Tzar Kai, Richard's deemed interests in: (a) 2,000,000 shares held by Pacific Century Diversified Limited, a wholly-owned subsidiary of Chiltonlink Limited, which is 100% owned by Mr. LI Tzar Kai, Richard; and (b) 383,797,942 shares indirectly held by the trustee of two unit trusts (see note 2 below), the units of which are held by two discretionary trusts of which Mr. LI Tzar Kai, Richard is the founder.
- (2) Each of Ocean Star Management Limited, OS Holdings Limited, Star Ocean Ultimate Limited, The Ocean Trust, The Ocean Unit Trust, The Starlite Trust, The Starlite Unit Trust and Pacific Century Group Holdings Limited ("PCGH") is deemed to have an interest under the SFO in the same 383,797,942 shares held by PCRD as it holds, directly or indirectly, a controlling interest in PCRD. Ocean Star Investment Management Limited is deemed under the SFO to have an interest in the same 383,797,942 shares held by PCRD by virtue of it being the manager of The Starlite Unit Trust and The Ocean Unit Trust which together hold 100% of the shares of PCGH. As at the Latest Practicable Date, PCGH's controlling interest in PCRD was held through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.33% of the shares of PCRD).
- (3) China Insurance (Holdings) Company, Limited is taken to have an interest under the SFO in the same 91,060,000 shares, in aggregate, beneficially owned by Joyful Box Inc. and King System Limited.
- (4) Messrs. YUEN Tin Fan, Francis and ALLEN Peter Anthony are two of the directors of PCRD.
- (5) Mr. ALLEN Peter Anthony is a director of PCGH.
- (6) Messrs. FENG Xiaozeng and ZHENG Changyong are directors of China Insurance (Holdings) Company, Limited.

Save as disclosed above, the Directors and the chief executives of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Enlarged Group.

3. SERVICE CONTRACTS

None of the Directors had, as at the Latest Practicable Date, a service contract or a proposed service contract with any member of the Group which does not expire or is not terminable by the Company within a year without payment of any compensation (other than statutory compensation).

4. LITIGATION

On 21 September 2000, a writ was issued against a number of persons, including Pacific Century Insurance Company Limited (a company incorporated in Bermuda and is 100% indirectly owned by the Company) (“PCI”) and certain insurance agents of PCI, by certain members of an insurance group operating in Hong Kong (the “Plaintiffs”), whereby the Plaintiffs sought, among other things, injunctive relief and damages against PCI in connection with PCI’s plan matching scheme and the purported use of certain documents and information.

On 24 July 2001, a High Court judge granted the Plaintiffs interim injunctive relief pending the trial of the action or further order. The interim injunctive relief restrains PCI, among others, from disclosing or otherwise making any use of certain documents and information, and accepting applications for life insurance policies in certain circumstances.

Having consulted legal counsel, the Group has determined that it will continue to vigorously defend these proceedings. In the opinion of the Directors and based on legal advice, it is unlikely that the final outcome of these proceedings would materially affect the financial position of the Group.

Save as disclosed, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

5. COMPETING INTERESTS

Pursuant to Rule 8.10 of 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 as at the Latest Practicable Date:

Name of Directors	Name of companies	Competing business	Nature of interest
FENG Xiaozeng	China Insurance (Holdings) Company, Limited	Insurance holding	As the chairman
	China Insurance International Holdings Company Limited	Insurance holding	As the chairman
	CITIC International Financial Holdings Limited	Financial holding	As non-executive director
	Tai Ping Life Insurance Company, Limited	Life insurance business	As a director

Name of Directors	Name of companies	Competing business	Nature of interest
	TaiPing Pension Company Limited	Pension insurance business	As a director
	China International Reinsurance Company Limited	Reinsurance business	As the chairman
	The Ming An Insurance Company (Hong Kong), Limited	General insurance business	As a director
	The Ming An (Holdings) Company Limited	Investment holding	As the chairman
ZHENG Changyong	China Insurance (Holdings) Company, Limited	Insurance holding	As a director
	China Insurance International Holdings Company Limited	Insurance holding	As a director
	China Insurance Service Japan Co., Limited	Insurance Agency	As a director
	China Insurance Co. (Singapore) Pte. Ltd.	General insurance business	As a director
	CIG Trustees Limited	Trustee corporate	As a director
	The Ming An Insurance Company (Hong Kong), Limited	General insurance business	As a director
	PT China Insurance Indonesia	General insurance businesses	As a director
	China Life Insurance (Overseas) Company Limited	Life insurance business	As an independent non-executive director

All of the above companies, except CITIC International Financial Holdings Limited and China Life Insurance (Overseas) Company Limited, are within the China Insurance (Holdings) Company Group which holds 11.17% interest in the Company as disclosed in the paragraph headed “Interest of Shareholders” in the section headed “Disclosure of Interests” above.

As the board of directors of the Company is independent from the board of directors of the above-mentioned 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-mentioned companies.

6. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinion and advise as at the date of this Circular, which is contained in this Circular:

Name	Qualification
Ernst and Young	Certified Public Accountants
PricewaterhouseCoopers	Certified Public Accountants
CB Richard Ellis	Property Valuer

Ernst and Young, PricewaterhouseCoopers and CB Richard Ellis have given and have not withdrawn their written consent to the issue of this Circular with the inclusions of their respective letters and references to their names in the form and context in which they appear.

7. EXPERT'S INTEREST IN ASSETS

As at the Latest Practicable Date, Ernst and Young, PricewaterhouseCoopers and CB Richard Ellis:

- (a) were not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2005, being the date to which the latest published audited accounts of the Company were made up; and
- (b) did not have any shareholding interest in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

- (a) a subscription agreement (the "Subscription Agreement") dated 3 June 2005 entered into between Praise Idea Holdings Limited ("Praise Idea"), Noblenew Investments Limited (a wholly-owned subsidiary of the Company) ("Noblenew") and Chow Tai Fook Enterprises Limited ("CTF") whereby Noblenew agreed to subscribe for and Praise Idea agreed to issue

an exchangeable note (the “Note”) in the principal amount of HK\$508,302,000.00. If Noblenew were to exercise in full its exchange rights under the Note, it would be entitled to indirectly control 22.09% of the issued share capital of 生命人壽保險股份有限公司 (Sino Life Insurance Co., Ltd.);

- (b) a deed of indemnity (the “Deed”) dated 3 June 2005 executed by CTF in favour of Noblenew in connection with the subscription of the Note;
- (c) a variation agreement (the “Variation Agreement”) dated 3 October 2005 entered into between Praise Idea, Noblenew and CTF to vary the terms of the Note;
- (d) a second variation agreement (the “Second Variation Agreement”) dated 12 December 2005 entered into between Praise Idea, Noblenew and CTF to vary the terms of the Note (as amended by the Variation Agreement);
- (e) a termination agreement dated 28 February 2006 entered into between Praise Idea, Noblenew and CTF whereby the Note (as amended by the Variation Agreement and Second Variation Agreement), the Subscription Agreement and the Deed were terminated with effect from 2 March 2006 conditional upon the payment of HK\$521,866,004.00 (being the principal amount of the Note and accrued interest) to Noblenew;
- (f) a provisional agreement for sale and purchase dated 24 August 2006 entered into between Pacific Century Insurance Company Limited (a wholly-owned subsidiary of the Company) (“PCI”) and Dah Sing Bank, Limited (“DSB”) whereby PCI agreed to sell and DSB agreed to purchase the property comprises Units 1 to 10, 12th and 13th Floor of Island Place Tower, No. 510 King’s Road, North Point, Hong Kong (“Disposed Property”) at a consideration of HK\$200,000,000.00;
- (g) an agreement for sale and purchase dated 29 September 2006 entered into between PCI and DSB in relation to the sale and purchase of the Disposed Property;
- (h) an assignment dated 31 October 2006 whereby PCI assigned the Disposed Property to DSB; and
- (i) the Share Purchase Agreement.

9. GENERAL

- (a) The secretary of the Company is Ms. CHENG Wan Seung, Ella who is a Chartered Accountant with the Institute of Newfoundland, Canada, and a member of The Hong Kong Institute of Certified Public Accountants.
- (b) The qualified accountant of the Company is Ms. CHEUNG Man Yi who is a fellow member of each of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants.

- (c) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The English version of this Circular shall prevail over the Chinese text.
- (e) As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which have since 31 December 2005 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.
- (f) Save as disclosed in section 5 above, none of the Directors and their respective associates (as defined under the Listing Rules) had any competing interest with the Group as at the Latest Practicable Date.
- (g) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group, which was subsisting and was significant in relation to the business of the Enlarged Group.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at Suite 1401-1410, 14th Floor, One Pacific Place, 88 Queensway, Admiralty, Hong Kong during normal business hours on any weekday other than public holidays, up to and including 6 February 2007:

- (a) the Memorandum and Bye-laws of the Company;
- (b) the material contracts referred to in the section headed "Material Contracts" to this Appendix;
- (c) the annual reports of the Group for the three financial years ended 31 December 2003, 31 December 2004 and 31 December 2005;
- (d) the accountants' report of HKL (King's Road) from PricewaterhouseCoopers, the text of which is set out in Appendix II to this Circular, and the statement of adjustments thereto from PricewaterhouseCoopers;
- (e) the letter from Ernst and Young regarding the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this Circular.
- (f) the valuation report from CB Richard Ellis on the properties of the Group, the text of which is set out in Appendix VI to this Circular;

- (g) the written consents referred to in section headed “Experts and Consents” of this Appendix;
and
- (h) disclosable transaction circular dated 14 September 2006 in relation to the disposal of 12th and 13th Floors of Island Place Tower, No. 510 King’s Road, North Point, Hong Kong.



PACIFIC CENTURY INSURANCE HOLDINGS LIMITED
(盈科保險集團有限公司) *

(An investment holding company incorporated in Bermuda with limited liability)

(Stock Code: 65)

NOTICE IS HEREBY GIVEN that the Special General Meeting of Pacific Century Insurance Holdings Limited (the “Company”) will be held at 10:30 a.m. on 6 February 2007 at Fuji Room, Level 5, One Pacific Place, 88 Queensway, Admiralty, Hong Kong for the purpose of consideration and, if thought fit, passing with or without modification the following resolution as an Ordinary Resolution of the Company:

“**THAT** the share purchase agreement dated 13 December 2006 entered into between HKL (Quarry Bay) Limited, Shabhala International Limited, The Hongkong Land Company, Limited and The Hongkong Land Property Company, Limited (copy of such share purchase agreement has been produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification) in relation to the acquisition by Shabhala International Limited, an indirect wholly owned subsidiary of the Company, of the entire issued share capital of HKL (King’s Road) Limited and related shareholder’s loans to HKL (King’s Road) Limited and to Foundasia (HK) Limited be and are hereby approved, ratified and confirmed in all respects and that all transactions contemplated under the said share purchase agreement be and are hereby approved, ratified and confirmed and that any two directors of the Company be and is hereby authorised to do or execute all such acts or such other documents which the directors may deem to be necessary, desirable or expedient to carry into effect or to give effect to the said share purchase agreement.”

By Order of the Board
Cheng Wan Seung, Ella
Company Secretary

Hong Kong, 19 January 2007

Registered office:
Canon’s Court
22 Victoria Street
Hamilton HM12
Berminda

*Head office and principal place
of business in Hong Kong:*
Suite 1401-1410
14th Floor
One Pacific Place
88 Queensway, Admiralty
Hong Kong

* *For identification purpose only*

NOTICE OF SGM

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer or attorney duly authorized.
3. A shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint another person as his/her proxy to attend and vote, on a poll, on his/her behalf. A shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the above meeting or any adjournment thereof.
5. Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or at any adjourned meeting and in such event, the form of proxy will be deemed to be revoked.
6. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of the said joint holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
7. The register of members of the Company will be closed from 5 February 2007 to 6 February 2007 (both dates inclusive). In order to determine the entitlement to attend and vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the branch share register of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:00 p.m. on 2 February 2007.