2. Summary of Significant Accounting Policies (Continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the revenue and profit and loss accounts 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal estimated useful lives used for this purpose are as follows:

Leasehold land	50 years or the lease terms, whichever is shorter
Buildings	40 years
Major computer equipment and software	3 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the revenue and profit and loss accounts is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investments

Bonds held to maturity are stated at amortised cost. Premiums and discounts are amortised over the period from the date of purchase to the date of maturity or redemption.

Other investments, including bonds purchased for trading purposes, equities, equity linked notes and unit trusts, are stated at market or fair value. Any realised and unrealised gains or losses arising from changes in the fair values of other investments are dealt with in the revenue and profit and loss accounts for the period in which they arise.

Real estate

Real estate represents the Group's interests in land and buildings held in respect of the Group's long term insurance business for investment purposes. Real estate is stated at cost less any provision for diminution in value deemed necessary by the directors. This treatment is commonly adopted by life insurance companies in Hong Kong for such assets held in respect of long term insurance business and is permitted under the Hong Kong Statement of Standard Accounting Practice 2.113 "Accounting for investment properties".

Prepayments

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

2. *Summary of Significant Accounting Policies (Continued)*

Premium receivables

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

Future insurance liabilities

Future insurance liabilities represent the net future policy liabilities as determined by the appointed actuary of the Group using the 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. Rentals applicable to such operating leases are charged to the revenue and profit and loss accounts on the straight-line basis over the lease terms.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the revenue and profit and loss accounts.

On consolidation, the financial statements of overseas subsidiaries are translated to Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Derivative financial instruments

Derivative financial instruments are stated at market or fair value at the balance sheet date. Realised and unrealised gains and losses from the derivative financial instruments are dealt with in the revenue and profit and loss accounts.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

2. Summary of Significant Accounting Policies (Continued)

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from bank repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

3. Turnover

Turnover represents gross insurance premiums written and contributions received in respect of retirement scheme management, commissions received and receivable in respect of general insurance business conducted under an agency agreement, and service fees from asset management business.

Revenue from the following activities has been included in turnover.

	Group	
	2000	1999
	HK$'000	HK$'000
Revenue from:		
Long term insurance business	**1,688,187**	1,487,824
General insurance business under an agency agreement	**7,945**	8,263
Asset management business	**184**	—
Turnover	**1,696,316**	1,496,087

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

4. Policyholders' Benefits

	Group	
	2000	1999
	HK$'000	HK$'000
Death and disability claims	**141,256**	138,116
Surrenders	**195,394**	154,837
Maturities and periodic payments	**63,875**	39,999
Policyholders' dividends	**99,005**	81,475
	499,530	414,427