

5. Operating Profit Before Tax

Operating profit before tax is arrived at after charging:

	Group	
	2000	1999
	HK\$'000	HK\$'000 (restated Note 11)
Auditors' remuneration	911	834
Depreciation	21,803	24,521
Amortisation of deferred acquisition costs	224,454	187,240
Operating lease rentals on land and buildings	48,972	37,538
Staff costs (directors' remuneration included, note 6)	154,387	120,405
Net retirement benefit scheme contributions (note 33)	21,381	16,991
Charge for bad and doubtful debts	—	4,627
Unrealised losses less gains arising from dealing in foreign currencies (note (i) below)	—	341
Unrealised losses less gains on other investments:		
Listed	7,658	—
Unlisted	22,537	—
Realised losses less gains arising from equity-linked financial products (note (ii) below)	46,626	—
and after crediting:		
Bad and doubtful debts written back	3,127	—
Dividend income from listed investments	11,731	2,199
Unrealised gains less losses arising from dealing in foreign currencies (note (i) below)	945	—
Unrealised gains less losses on other investments:		
Listed	—	11,158
Unlisted	—	20,762
Realised gains less losses on other listed investments	23,920	26,669
Realised gains less losses on listed bonds held-to-maturity	79,487	35,417
Realised gains less losses arising from derivative financial instruments (note (i) below)	3,752	—
Interest income from listed investments	74,054	53,015
Other interest income	95,363	84,655

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5. Operating Profit Before Tax (Continued)

Notes:

- (i) The Group's insurance liabilities are predominantly in United States dollars. It is the Group's policy to keep adequate assets in United States dollars in order to match its insurance liabilities. Where fixed interest securities (including bonds and equity linked notes) are denominated in currencies other than United States dollars, foreign currency forward contracts are bought to hedge back into United States dollars.
- (ii) Equity-linked financial products were employed, without leverage, solely for the purpose of gaining investment access into restricted equity markets, such as Taiwan and South Korea. They are in fact equivalent to local equities of these markets. They serve the same purpose as, for instance, ADR (American Depository Receipt).

The operating profit before tax by the following activity is analysed as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000 (restated Note 11)
Long term insurance business	160,017	230,903
General insurance business under an agency agreement	(3,111)	1,132
Asset management business	(3,227)	—
Operating profit before tax	153,679	232,035

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

6. Directors' Remuneration

	2000	1999
	HK\$'000	HK\$'000
Directors' remuneration:		
Fees	2,560	960
Other emoluments	27,680	20,963
	30,240	21,923

6. Directors' Remuneration (Continued)

The remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is analysed as follows:

	2000 HK\$'000	1999 HK\$'000 (restated)
Executive and non-executive directors:		
The aggregate of the directors' fees	2,200	600
The aggregate of the directors' basic salaries, housing allowance, other allowances and benefits in kind	15,925	15,044
The aggregate of contributions to retirement benefit schemes	1,470	1,382
The aggregate of bonuses paid or receivable by directors	10,285	4,537
	29,880	21,563
Independent non-executive directors:		
The aggregate of the directors' fees	360	360
	30,240	21,923

The independent non-executive directors have been appointed for an initial term of three years with effect from 8 June 1999, and entitles to an annual directors' fee of HK\$120,000 each. The non-executive director has been appointed for an initial term of three years with effect from 30 November 2000.

The remuneration of directors fell within the following bands:

	Number of directors	
	2000	1999 (restated)
Nil - HK\$1,000,000	13	11
HK\$5,500,001 - HK\$6,000,000	—	2
HK\$7,500,001 - HK\$8,000,000	2	—
HK\$9,500,001 - HK\$10,000,000	—	1
HK\$12,500,001 - HK\$13,000,000	1	—
	16	14

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

Details of the options granted to the directors are set out in note 26 to the financial statements and the section "Directors' and chief executive's rights to acquire shares" in the Report of the Directors.

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7. Five Highest Paid Employees

The five highest paid employees in the Group included three directors, further details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining two non-director, highest paid employees are as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
The aggregate of basic salaries, housing allowances, other allowances and benefits in kind	4,940	4,700
The aggregate of contributions to pension schemes	456	432
The aggregate of bonuses paid or receivable which are discretionary	302	150
	5,698	5,282

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2000	1999
HK\$2,000,001 - HK\$2,500,000	1	1
HK\$2,500,001 - HK\$3,000,000	—	1
HK\$3,000,001 - HK\$3,500,000	1	—
	2	2

8. Tax

	2000	1999
	HK\$'000	HK\$'000
Group:		
Hong Kong profits tax	—	—
Overseas tax	196	192
Overprovision in prior years	(559)	—
Associate	—	—
Tax charge/(credit) for the year	(363)	192

8. Tax (Continued)

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.

Hong Kong profits tax has not been provided because the Group has sufficient agreed tax losses brought forward from prior years to offset against any assessable profits arising in Hong Kong during the year. The overseas tax has been calculated on the estimated assessable profits for the year at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

9. Net Profit Attributable to Shareholders

The net profit/(loss) attributable to shareholders dealt with in the financial statements of the Group and the Company are as follows:

	2000 HK\$'000	1999 HK\$'000 (restated Note 11)
Group	154,274	232,083
Company	(4,091)	2,418

10. Dividend

The directors do not recommend payment of any dividend in respect of the year (1999: Nil).

11. Changes in Accounting Policies

In respect of the year ended 31 December 2000, the Group has changed its accounting policy relating to the profit recognition on the long term insurance business of the Group. Operating profits are arrived at annually by means of an actuarial valuation, determined by the appointed actuary of the Group using the Net Level Premium approach. The accounting principles and policies now used in assessing the profits differ in certain significant respects from the solvency-based approach used in prior years. In this connection, the accounting policies applied in respect of the treatment of premiums and commissions on reinsurance contracts that do not transfer significant underwriting risks, and the acquisition costs arising from the production of new business, have also been changed.

The major implication of the changes is that profits are expected to emerge on a level basis over the average life of the insurance contracts. The accounting practices previously adopted resulted in profits emerging generally towards the end of the life of the average insurance contract.

11. Changes in Accounting Policies (Continued)

Both the former and the new accounting policies used follow accounting principles generally accepted in Hong Kong for life insurance companies. However, in the opinion of the directors, the new accounting policies provide a clearer presentation of the results and financial position of the Group and are more consistent with those adopted by major international life insurance companies.

Details of the changes in accounting policies, together with their financial effects, are as follows:

(i) **Deferred acquisition costs ("DAC")**

In prior years, all acquisition costs related to the acquisition of new and/or the renewal of existing long term insurance business were expensed as incurred. Under the Group's new accounting policy, acquisition costs related to the production of new business are deferred in so far as there are sufficient margins in the future premiums of the new business to fund the amortisation of the DAC. DAC are stated at cost less accumulated amortisation, which is provided for on a straight-line basis over ten years.

(ii) **Future insurance liabilities**

In prior years, the Group's future insurance liabilities were determined by the appointed actuary of the Group based on valuation assumptions that were designed to show the Group's position on an insurance solvency basis. In the current year, the Group's appointed actuary has applied a new approach called the Net Level Premium approach where the assumptions used in assessing the actuarial valuation of liabilities reflect management's assessment of the most likely outcome of the future policy cash flows, subject to reasonable and prudent allowances.

(iii) **Reinsurance commissions**

In prior years, reinsurance commissions received under reinsurance contracts that do not transfer significant underwriting risk were recognised as income at the same time as the related reinsurance premiums. Under the new accounting policy, amounts received on these reinsurance contracts are included as a component of insurance liabilities in the balance sheet.

(iv) **Reinsurance premiums**

In prior years, reinsurance premiums, including those ceded under reinsurance contracts that do not transfer significant underwriting risk, were expensed as incurred. Under the new accounting policy, premiums on these reinsurance contracts are treated as adjustments to the amounts carried in the balance sheet in respect of the contracts concerned.