

28. Notes to the Consolidated Cash Flow Statement (Continued)

(b) Analysis of changes in financing activities

	Share capital and share premium account HK\$'000	Minority interests HK\$'000
At 1 January 1999	340,000	—
Net cash inflows from financing	517,130	1,035
Share of loss for the year	—	(240)
At 31 December 1999 and 1 January 2000	857,130	795
Share of loss for the year	—	(232)
	857,130	563

29. Contingent Liabilities

As at 31 December 2000, other than as set out below in note 30, the Group and the Company had no material contingent liabilities other than contingencies arising from the ordinary course of the long term insurance business (1999: Nil).

30. Pending Litigation

On 21 September 2000, a writ was issued against a number of persons, including Pacific Century Insurance Company Limited ("PCI"), a wholly-owned subsidiary of the Company, and certain insurance agents of the Group, by certain members of an insurance group operating in Hong Kong (the "Plaintiffs"), whereby the Plaintiffs are seeking, among other things, an injunction against PCI and consequential damages in connection with the purported use of certain information.

The court hearing of the above lawsuit is pending. The directors have consulted legal counsel and have been advised that the Group has a meritorious defense position against the allegations made. The Group therefore intends to defend its position vigorously against the claims. At present, the claims against the Group have not yet been finalised. The Group has been advised that, it has a good prospect of succeeding in its defence of these proceedings. Although significant doubt remains about the quantification of the claims against the Group, in the opinion of the Directors, it is quite unlikely that the final outcome of these proceedings will result in a material damages award against the Group.

Notes to Financial Statements

31 December 2000

31. Commitments

(a) Operating lease commitments

	Group	
	2000 HK\$'000	1999 HK\$'000
Annual commitments payable under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	255	18,285
In the second to fifth years, inclusive	54,212	20,021
	54,467	38,306

(b) Derivative financial instruments

— Foreign currency forward contracts

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 the 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 the future cash flows of the securities back into United States dollars. There was no outstanding foreign currency forward contract commitments as at 31 December 2000. As at 31 December 1999, the Group had such outstanding foreign currency forward contract commitments as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Commitments to sell foreign currencies	—	19,430
Commitments to purchase foreign currencies	—	19,661
Net exposure	—	(231)

— Future contracts

As at the balance sheet date, the Group had outstanding futures contract commitments to sell United States Treasury Notes amounting to HK\$19,815,000 (1999: Nil).

32. Related Party Transactions

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

	Notes	Group	
		2000 HK\$'000	1999 HK\$'000
Premium income in respect of group life and medical policies issued to:			
Pacific Century Asset Management (HK) Limited (trading as "Pacific Century Group")	(i)	3,432	1,310
PCCW Services Limited		1,003	—
Pacific Century Systems Limited		418	—
Morningstar Asia Limited		66	—
General insurance commission income received from			
The Ming An Insurance Company (H.K.) Limited	(ii)	7,945	8,079

Notes:

- (i) The Group entered into a number of group life and medical policies with certain companies related to the ultimate holding company of the Group, Pacific Century Group (Cayman Islands) Limited and its associates. In the opinion of the directors, the group life and medical policies for these related companies are negotiated on terms and conditions similar to those offered to other policyholders of the Group.
- (ii) Pursuant to an agency agreement dated 1 November 1994, Pacific Century Insurance Company Limited, a wholly-owned subsidiary of the Group, was appointed as an agent of The Ming An Insurance Company (H.K.) Limited ("Ming An"), a subsidiary of China Insurance H.K. (Holdings) Company Limited ("CIHK"), to introduce general insurance business to Ming An. CIHK is the holding company of Ming An, which is a substantial shareholder of the Company.

As a result of the performance of agency services in introducing general insurance business, the Group receives commission income from Ming An, which is calculated in accordance with the agency agreement.

- (b) On 27 April 2000, the Group allied with a fellow subsidiary, Pacific Century CyberWorks Limited ("PCCW"), and established a company, Advanced Internet Visions Limited ("AIV") (note 15). AIV then contracted with a corporation that is based in the United States ("US corporation"), which is an independent third party, to invest a total amount of US\$24 million (equivalent to HK\$186,720,000) in a newly incorporated company, MAL. MAL will be engaged in providing financial information and related services in Asia (outside Japan) by way of, among other things, printed materials, computer software products and/or Internet products, which are all provided exclusively by the US corporation.

The Group's attributable equity interest in MAL was originally approximately 15%, but was reduced to approximately 12% following the disposal on 7 November 2000 of an aggregate 10% equity interest in MAL, jointly by the Group and PCCW, to a company whose shares are listed on the Stock Exchange for a consideration of US\$2.4 million.

32. Related Party Transactions (Continued)

- (c) In connection with the investment in MAL described in (b) above, Pacific Century Insurance Company Limited, a wholly-owned subsidiary of the Group, gave an undertaking obliging the Group's associate to subscribe for 9,354,672 MAL shares (equivalent to HK\$93,546,720) according to its joint venture agreement dated 27 April 2000, on a basis pro rata to the shareholding of the Group in the associate.

This share subscription was completed in November 2000.

- (d) The Group provided secured loans to directors, employees and agents which are interest-bearing at the prevailing bank lending rate, secured by the underlying properties and motor vehicles, and are repayable on a monthly instalment basis.
- (e) As mentioned in note 22, as at 31 December 2000, the Group had a total amount of HK\$16,544,000 (1999: HK\$11,065,000) payable to related companies which arose from the ordinary and normal course of business conducted on terms similar to those offered to other customers of the Group.

The transactions mentioned in (a) to (d) above constitute connected transactions under The Rules Governing the Listing of Securities on the Stock Exchange.

33. Retirement Benefit Schemes

The Group operates mandatory provident fund ("MPF") schemes and defined contribution retirement schemes for eligible employees and agents. According to the terms of the MPF schemes, the Group and each of the eligible employees make monthly contributions at 5% of the eligible employee's basic monthly salary, limited to a maximum of HK\$1,000 each per month. The Group also makes contributions to the retirement schemes at rates ranging from 5% to 10% of the eligible employees' basic monthly salaries less contributions to the MPF schemes, and at the same rates for agents' income. Eligible employees and agents are required to make monthly contributions equivalent to 5% of their basic monthly salaries and income, respectively, less their contributions to the MPF schemes, if applicable. The assets of the schemes are held separately from those of the Group in funds under the control of the trustee. As at 31 December 2000, the forfeited contributions available to offset future contributions payable amounted to HK\$6,983,723 (1999: HK\$4,958,000).

33. Retirement Benefit Schemes (Continued)

The Group's contributions to the schemes are expensed as incurred. The aggregate of the Group's contributions, net of forfeited contributions, which have been dealt with in the revenue and profit and loss accounts of the Group for the year, amounted to:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Gross Group's contributions:		
Employees	8,798	7,731
Agents	14,566	11,607
	23,364	19,338
Less: Forfeited contributions utilised to offset Group's contributions for the year:		
Employees	—	—
Agents	(1,983)	(2,347)
	(1,983)	(2,347)
Net Group's contributions charged to the revenue and profit and loss accounts	21,381	16,991

34. Comparative Amounts

As further explained in note 11 to the financial statements, due to the changes in accounting policies during the current year, the presentation of the revenue and profit and loss accounts, the balance sheet and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

35. Approval of the Financial Statements

The financial statements were approved by the board of directors on 15 March 2001.