Notes to the Condensed Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The unaudited condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No.2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended December 31, 2000.

The unaudited condensed interim financial statements have been reviewed by the Audit Committee on August 23, 2001.

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.

2. 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.

	Unaudited six months ended	
	6/30/2001 HK$'000	6/30/2000 HK$'000
Revenue from:		
Long term insurance business	**952,355**	770,424
General insurance business under an agency agreement	**4,605**	3,963
Asset management business	**566**	0
Turnover	**957,526**	774,387

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

3. OPERATING PROFIT BEFORE TAX

Operating profit before tax is arrived at after charging:

	Unaudited six months ended	
	6/30/2001 HK$'000	6/30/2000 HK$'000
Auditors' remuneration	**511**	44
Depreciation	**12,322**	10,184
Amortisation of deferred acquisition costs	**128,254**	107,427
Operating lease rentals on land and buildings	**26,103**	22,845
Staff costs (directors' remuneration included)	**86,124**	74,997
Net retirement benefit scheme contributions	**8,001**	7,650
Unrealised losses less gains on other investments:		
Listed	**–**	6,849
Unlisted	**20,404**	–
Realised losses less gains arising from equity-linked financial products	**–**	566
Realised losses less gains on other listed investments	**1,535**	–
and after crediting:		
Dividend income from listed investments	**3,600**	6,332
Unrealised gains less losses arising from dealing in foreign currencies	**–**	945
Unrealised gains less losses on other investments:		
Listed	**36,895**	–
Unlisted	**–**	2,366
Realised gains less losses on other listed investments	**–**	59,603
Realised gains less losses on listed bonds held-to-maturity	**–**	20,229
Realised gains less losses arising from derivative financial instruments (note)	**976**	–
Realised gains less losses on equity-linked financial products	**1,386**	6,378
Interest income from listed investments	**40,547**	31,539
Other interest income	**46,156**	46,779

Note:
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.

3. OPERATING PROFIT BEFORE TAX (*Continued*)

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

	Unaudited six months ended	
	6/30/2001 HK$'000	6/30/2000 HK$'000
Long term insurance business	**73,970**	136,711
General insurance business under an agency agreement	**(836)**	(807)
Asset management business	**(3,168)**	(42)
Operating profit before tax	**69,966**	135,862

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

4. TAX

	Unaudited six months ended	
	6/30/2001 HK$'000	6/30/2000 HK$'000
Group:		
Hong Kong profits tax	**–**	–
Overseas tax	**51**	133
Underprovision in prior year		
– Hong Kong	**230**	–
– Overseas	**559**	–
Associate	**–**	–
Tax charge/(credit) for the period	**840**	133

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 subsidiary has sufficient agreed tax losses brought forward from prior years to offset against any assessable profit arising in Hong Kong during the year.

Hong Kong profits tax has been provided for the other wholly-owned subsidiary company which has assessable profits arising in Hong Kong. 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.

5. DIVIDEND

The directors do not recommend payment of any dividend in respect of the period (June 2000: Nil).

6. CHANGES IN ACCOUNTING POLICIES

In respect of the year ended December 31, 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.

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.