

Notes to the Condensed Consolidated Financial Statements (Continued)

6. CHANGES IN ACCOUNTING POLICIES (Continued)**(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.

The above changes in accounting policies have been applied retrospectively. A comparison of the account balances affected by the changes and their effects on the consolidated revenue and profit and loss accounts, consolidated balance sheet and retained profits is summarised as follows:

	Unaudited six months ended 6/30/2000		
	As previously reported HK\$'000	As restated HK\$'000	Profit/ (loss) effect HK\$'000
Effects on the consolidated revenue and profit and loss accounts:			
Reinsurance commission income	137,457	2,588	(134,869)
Reinsurance premiums	(226,931)	(70,902)	156,029
Change in deferred acquisition costs	-	64,932	64,932
Increase in future insurance liabilities	(211,437)	(213,971)	(2,534)
Total			83,558

Note: Reinsurance commission income is now included in "investment and other income".

6. CHANGES IN ACCOUNTING POLICIES (Continued)

	Unaudited six months ended 6/30/2000		
	As previously reported HK\$'000	As restated HK\$'000	Profit/ (loss) effect HK\$'000
Effect on retained profits/ (accumulated losses):			
As at January 1, 2000	(69,164)	665,970	735,134
As at June 30, 2000	(16,893)	801,799	818,692
	Unaudited as at 6/30/2000		
	As previously reported HK\$'000	As restated HK\$'000	Movement of assets/ (liabilities) HK\$'000
Effects on items of the consolidated balance sheet:			
Deferred acquisition costs	-	1,524,834	1,524,834
Other insurance liabilities	-	(45,782)	(45,782)
Future insurance liabilities	(2,236,205)	(2,896,565)	(660,360)
Retained profits/(accumulated losses)	(16,893)	801,799	818,692

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$68,903,000 (June 2000: HK\$135,829,000 (as restated)) and the weighted average number of 827,100,000 shares (June 2000: 827,100,000 shares*) in issue during the period, after adjusted to reflect the bonus issue during the period.

The diluted earnings per share for the periods ended June 30, 2000 and 2001 have not been presented because the effect arising from the deemed exercise of share options outstanding during these periods would have had an anti-dilutive effect on the basic earnings per share.

* Adjusted for bonus issue.

Notes to the Condensed Consolidated Financial Statements (Continued)

8. SHARE CAPITAL

	Unaudited as at 6/30/2001 HK\$'000	Audited as at 12/31/2000 HK\$'000
Authorised: 3,000,000,000 shares of HK\$1 each	3,000,000	3,000,000
Issued and fully paid 827,100,000 shares of HK\$1 each	827,100	689,250

On May 17, 2001, the Company allotted and issued 137,850,000 bonus shares to shareholders whose names appeared on the register of members of the Company on May 8, 2001 on the basis of one bonus share for every five existing issued shares held by the shareholders by way of capitalisation of a sum of HK\$137,850,000 standing to the credit of the share premium account.

9. DEFERRED ACQUISITION COSTS

	Unaudited as at 6/30/2001 HK\$'000	Audited as at 12/31/2000 HK\$'000
Balance at beginning of period	1,640,930	1,459,902
Additions	205,291	405,482
Less: Amortisation	(128,254)	(224,454)
Balance at end of period	1,717,967	1,640,930
Portion reclassified as current assets	(266,029)	(245,500)
Non-current portion	1,451,938	1,395,430

10. PREMIUM DEPOSITS

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

11. FUTURE INSURANCE LIABILITIES

	Unaudited as at 6/30/2001 HK\$'000	Audited as at 12/31/2000 HK\$'000
As at beginning of period	3,133,667	2,596,527
Increase for the period	211,002	531,286
Currency realignment	(293)	5,854
	3,344,376	3,133,667
Non-current portion of amounts payable under financial reinsurance contracts	29,628	56,689
At end of period	3,374,004	3,190,356

As at June 30, 2001, the current portion of amounts payable under financial reinsurance contracts amounted to HK\$51,690,000 (December 2000: HK\$48,168,000), which was included in other insurance liabilities.

12. INVESTMENTS

	Unaudited as at 6/30/2001 HK\$'000	Audited as at 12/31/2000 HK\$'000
Listed bonds, at market value		
Hong Kong	542,945	253,250
Elsewhere	1,532,428	851,577
	2,075,373	1,104,827
Listed equities, at market value		
Hong Kong	117,810	139,426
Elsewhere	47,799	200,988
	165,609	340,414
Listed unit trusts, at market value		
Hong Kong	-	22,800
Unlisted unit trusts, at fair value	465,212	234,874
Investments - current assets	2,706,194	1,702,915