notes to financial statements

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1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) on 17 May 1999. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Group offered an extensive range of whole life, endowment and term life insurance products to individuals in Hong Kong as well as other related products which included accident, medical and disability insurance to individuals, group life and accident, medical and disability insurance, and general insurance products through agency arrangements. The Group was also engaged in the administration of retirement schemes and asset management during the year.

During the year, the Group entered into an agreement for the transfer of its Mandatory Provident Fund business to HSBC Life (International) Limited ("HSBC Life"). The related activities have been accounted for as discontinuing operations in the preparation of the current financial statements and are set out in note 34 to the financial statements.

The Group operates in one reportable business segment, being the provision of financial services, and in one reportable geographical segment, being Hong Kong.

In the opinion of the directors, the ultimate holding company is Pacific Century Group (Cayman Islands) Limited, a company incorporated in the Cayman Islands.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 33: "Discontinuing operations"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 48 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on pages 49 and 50 of the financial statements and the notes thereto have been revised in accordance with the new requirements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and what disclosures are required. The principal impact of the SSAP is that more extensive disclosures concerning the Group's discontinuing operations are now included in note 34 to the financial statements.

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2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company's share option scheme, as detailed in note 27 to the financial statements. These disclosures are similar to those previously required by the Listing Rules to be included in the Report of the Directors, but which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong for long term insurance companies and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the revaluation of investments and derivative financial instruments, as further explained below, which differ in certain material respects from statutory financial statements prepared and filed with the Hong Kong Office of the Commissioner of Insurance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies are controlled directly or indirectly by the Company, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associate

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated revenue and profit and loss accounts and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to that 1 January 2001 is treated according to the main accounting policy described above.

notes to financial statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Profit recognition

The operating profits on the long term insurance business of the Group are arrived at annually by means of an actuarial valuation of future insurance liabilities, determined by the appointed actuary of the Group using a Net Level Premium approach. Detailed policies are as follows:

(i) acquisition costs relating to the production of new business are deferred to the extent that they can be recovered, and are shown explicitly as an asset in the balance sheet. Assumptions used in assessing the deferred acquisition costs reflect management's assessment of the most likely outcome of the future policy cash flows, subject to reasonable allowances for prudence purposes. All other acquisition costs and all maintenance costs are expensed as and when incurred;

(ii) amounts received on reinsurance contracts that do not transfer significant underwriting risk are included as a component of insurance liabilities in the balance sheet; and

(iii) premiums relating to reinsurance contracts that do not transfer significant underwriting risk are treated as adjustments to the amounts carried in the balance sheet in respect of the contracts concerned.

Premiums

Premiums in respect of traditional policies are recognised as income as they fall due, whereas those in respect of universal life, investment account and group policies are accounted for as they are received. Contributions received in respect of the group retirement scheme management business are accounted for as income as they are received.

Premiums on reinsurance contracts that transfer underwriting risk are expensed as incurred. Premiums on reinsurance contracts that do not transfer significant underwriting risk are treated as adjustments to the amounts carried on the balance sheet in respect of the contracts concerned.

Investment income

Investment income is accounted for on a receivable basis. Dividend income from investments is recognised on the date on which the related investments are quoted as ex-dividend. Interest income from investments is accrued up to the balance sheet date.

Commissions

Commissions to agents and other related policy acquisition costs are expensed as incurred.

Commissions received on reinsurance policies that transfer underwriting risk are recognised as income at the same time as the reinsurance premiums are accounted for. Amounts received on reinsurance contracts that do not transfer significant underwriting risk are included as a component of insurance liabilities in the balance sheet.

notes to financial statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred acquisition costs

The acquisition costs primarily 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 deferred acquisition costs ("DAC"). DAC include first year commissions and other costs related to the acquisition of new business.

DAC are carried at cost and amortised on a straight-line basis over ten years, adjusted for any unfavourable actual experience and any permanent impairment in value determined by reference to margins in the future premiums.

Insurance claims

Insurance claims are provided for as reported, whether admitted or not.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the revenue and profit and loss accounts in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the revenue and profit and loss accounts in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. 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
Computer equipment	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.

Software under development represents an expenditure incurred in developing software for internal use, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the computer hardware, software costs and subcontracting costs. Software under development is reclassified to computer equipment when completed and ready for use.

notes to financial statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at amortised cost less any impairment losses which reflect their credit risk. Amortised cost is cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount. An impairment loss is charged to the investment and profit and loss accounts in the period in which it arises, on an individual investment basis.

In situations where the circumstances and events which led to an impairment of a security held-to-maturity cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the reversal of the impairment is credited to the revenue and profit and loss accounts, on an individual investment basis, to the extent of the amount previously charged.

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 impairment losses. 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 SSAP13 "Accounting for investment properties".

Prepayments

Prepayments made in connection with the recruitment of agents are capitalised and amortised to the revenue and profit and loss accounts over the term of the contract with the agents.

Premiums receivable

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

Future insurance liabilities

Future insurance liabilities represent 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. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the revenue and profit and loss accounts on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the 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.

notes to financial statements

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and other allowances and are charged to the revenue and profit and loss accounts as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer's contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "ORSO Scheme") for those employees who were eligible to participate in this scheme. The ORSO Scheme operated in a similar way to the MPF Scheme, except that when an employee left the ORSO Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. With effect from 1 December 2000, the Group has operated both schemes and those employees who were eligible to participate in the ORSO Scheme are also eligible to participate in the MPF Scheme.

Share option scheme

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the revenue and profit and loss accounts or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the revenue and profit and loss accounts or the balance sheet.

Foreign currency transactions

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

Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency forward and futures contracts to hedge risk associated primarily with foreign currency and market fluctuations. Derivative financial instruments are revalued at fair value. Any gain or loss is recognised in the revenue and profit and loss accounts.

The fair value of foreign currency forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of futures contracts is the total of cash balances and variation margin at the balance sheet date.

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.

notes to financial statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and 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 banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER AND REVENUE

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.

An analysis of turnover, investment income, net gains and other income is as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Revenue from:		
Long term insurance business	1,697,137	1,970,829
General insurance business under an agency agreement	9,017	8,631
Asset management business	3,373	1,772
Turnover	1,709,527	1,981,232
Investment income:		
Interest income from listed investments	131,284	103,269
Interest income from banks and asset management businesses	13,346	41,129
Interest received from policy loans and loans to officers, employees and agents	19,931	28,497
Dividend income from listed investments	7,375	7,337
Investment handling charges	(6,538)	(10,203)
	165,398	170,029
Net gains:		
Unrealised gains on other listed investments	91,141	82,376
Realised gains arising from equity-linked financial products (note (i) below)	1,568	1,386
Realised gains arising from derivative financial instruments (note (ii) below)	—	1,364
Realised gains arising from dealing in foreign currencies (note (ii) below)	475	—
Unrealised gains arising from dealing in foreign currencies (note (ii) below)	—	180
Realised gains/(losses) on other listed investments	78,478	(37,401)
Unrealised losses on other unlisted investments	(18,015)	(32,484)
	153,647	15,421

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4. TURNOVER AND REVENUE (continued)

	Group 2002 HK$'000	Group 2001 HK$'000
Other income		
Cash values received from policies transferred from other insurance companies	833	43,538
Reinsurance commission income and refund	15,657	27,066
Others	6,509	10,208
	22,999	80,812
Investment income and net gains, and other income	342,044	266,262
Total revenue and net gains	2,051,571	2,247,494

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

Notes:

(i) The initial purpose of investing in short term equity-linked financial products is to enhance yield. However, if share prices drop to a certain level, it will increase the equity exposure.

(ii) The Group's insurance liabilities are predominantly denominated 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.

5. POLICYHOLDERS' BENEFITS

	Group 2002 HK$'000	Group 2001 HK$'000
Death and disability claims	188,151	188,192
Surrenders	443,193	370,501
Maturities and periodic payments	50,689	65,942
Policyholders' dividends	99,490	118,179
	781,523	742,814

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6. OPERATING PROFIT BEFORE TAX

Operating profit before tax is arrived at after charging:

	Group	
	2002 HK$'000	2001 HK$'000
Auditors' remuneration	955	900
Depreciation	24,080	24,583
Amortisation of deferred acquisition costs (note (i) below, and note 20)	346,486	266,219
Minimum lease payments under operating lease rentals on land and buildings	52,714	52,460
Staff costs (including directors' remuneration, note 8)	148,441	167,772
Retirement benefit scheme contributions:		
Employees	8,672	9,762
Agents	8,461	12,767
	17,133	22,529
Less: Forfeited contributions:		
Employees	—	(8,160)
Agents	(4,156)	(4,663)
	(4,156)	(12,823)
Net retirement benefit scheme contributions	12,977	9,706
	161,418	177,478
Loss on disposal of fixed assets	4,257	2,346
Provision for amount due from an associate (note (ii) below)	4,485	9,039
Provision for bad and doubtful debts	4,672	—
and after crediting:		
Bad and doubtful debts written back	—	1,861

Notes:

(i) The amortisation of deferred acquisition costs for the year is included in "Change in deferred acquisition costs" on the face of the profit and loss account, as disclosed in note 20 to the financial statements.

(ii) The provision of amount due from an associate for the year is included in "Other operating expenses" on the face of the profit and loss account.

notes to financial statements

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7. OPERATING PROFIT BEFORE TAX BY ACTIVITY

Pursuant to the requirements of the Listing Rules, the operating profit before tax is analysed by activity as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Long term insurance business	135,808	164,807
General insurance business under an agency agreement	(713)	(1,836)
Asset management business (note (i) below)	(6,544)	(5,810)
Operating profit before tax	128,551	157,161

Note:

	2002	2001
(i) Income from operations - asset management	20,492	13,049
Less: Intragroup income	(17,119)	(11,277)
	3,373	1,772
Operating expenses before tax	(9,917)	(7,582)
	(6,544)	(5,810)

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

8. DIRECTORS' REMUNERATION

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:

	2002 HK$'000	2001 HK$'000
Executive and non-executive directors:		
Fees	2,120	2,320
Basic salaries, housing allowances, other allowances and benefits in kind	16,878	15,925
Contributions to retirement benefit schemes	1,561	1,470
Bonuses paid or receivable by directors	10,490	10,396
	31,049	30,111
Independent non-executive directors:		
Fees	360	360
	31,409	30,471

The independent non-executive directors were appointed for an initial term of three years with effect from 8 June 1999, which was renewed for a further two years with effect from 8 June 2002. They are entitled 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.

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8. DIRECTORS' REMUNERATION (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil - HK$1,000,000	12	12
HK$3,500,001 - HK$4,000,000	2	—
HK$5,000,001 - HK$5,500,000	2	—
HK$7,500,001 - HK$8,000,000	—	2
HK$11,500,001 - HK$12,000,000	1	—
HK$12,500,001 - HK$13,000,000	—	1
	17	15

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2001: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two non-director, highest paid employees for previous year were as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	—	4,203
Bonuses paid or receivable which are discretionary	—	441
Contributions to retirement benefit schemes	—	388
	—	5,032

The number of non-director, highest paid employees whose remuneration fell within the following bands was as follows:

	Number of employees	
	2002	2001
HK$2,000,001 - HK$2,500,000	—	1
HK$2,500,001 - HK$3,000,000	—	1
	—	2

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10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits solely arising from the asset management business conducted in Hong Kong during the year. 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.

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. This subsidiary had sufficient agreed tax losses brought forward from prior years to offset any assessable profits for the long term insurance business and retirement scheme management arising in Hong Kong during the year.

	2002 HK$'000	2001 HK$'000
Group:		
Hong Kong	1,697	904
Elsewhere	55	80
Underprovision in prior year	927	792
Tax charge for the year	2,679	1,776

As at 31 December 2002, the Group and the Company did not have any significant unprovided deferred tax liabilities (2001: Nil).

The principal components of the deferred tax net asset not recognised are as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Accelerated depreciation allowances	983	1,354
Tax losses carried forward	(18,957)	(25,878)
Deferred tax net asset	(17,974)	(24,524)

11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

	2002 HK$'000	2001 HK$'000
Group	125,872	155,948
Company	6,466	(4,634)

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12. DIVIDEND

	2002 HK$'000	2001 HK$'000
Final dividend proposed - HK$0.01 (2001: Nil) per ordinary share	8,222	—

The final dividend of HK$0.01 per share has been proposed by the directors and is subject to approval by the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$125,872,000 (2001: HK$155,948,000) and the weighted average number of 823,845,000 ordinary shares (2001: 827,100,000 ordinary shares) in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2001 and 2002 have not been disclosed, because the effect arising from the deemed exercise of the share options outstanding during these years would have had an anti-dilutive effect on the basic earnings per share.

14. FIXED ASSETS

Group	Leasehold land and buildings HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Software under development HK$'000	Total HK$'000
Cost:						
At 1 January 2002	226,971	26,211	119,111	3,152	—	375,445
Additions	—	1,277	10,299	—	1,529	13,105
Disposals	—	(530)	(29,441)	—	—	(29,971)
At 31 December 2002	**226,971**	**26,958**	**99,969**	**3,152**	**1,529**	**358,579**
Accumulated depreciation:						
At 1 January 2002	18,680	20,533	84,047	2,536	—	125,796
Provided during the year	5,175	2,874	15,757	274	—	24,080
Disposals	—	(528)	(25,161)	—	—	(25,689)
At 31 December 2002	**23,855**	**22,879**	**74,643**	**2,810**	**—**	**124,187**
Net book value:						
At 31 December 2002	**203,116**	**4,079**	**25,326**	**342**	**1,529**	**234,392**
At 31 December 2001	208,291	5,678	35,064	616	—	249,649

notes to financial statements

31 December 2002

14. FIXED ASSETS (continued)

Details of the Group's leasehold land and buildings included above, which are held under medium term leases, are as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Hong Kong	216,520	216,520
Elsewhere	10,451	10,451
	226,971	226,971

15. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	Company 2001 HK$'000
Unlisted shares, at cost	365,724	365,614
Amounts due from subsidiaries	485,770	499,050
	851,494	864,664

The amounts due from subsidiaries are unsecured, interest-free and are not repayable in the next 12 months.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Bright Victory International Limited	British Virgin Islands	Ordinary US$7,743,935	100	—	Investment holding
Pacific Century Insurance Company Limited	Bermuda	Ordinary US$65,921,820 Redeemable US$9,000,000	—	100	Life assurance, administration of retirement schemes and other related businesses
Pacific Century Trustees Limited	Hong Kong	Ordinary HK$30,000,000	—	100	Provision of trustee services
Berta Company Limited	Hong Kong	Ordinary HK$2	—	100	Investment holding

notes to financial statements

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15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Calton International Limited	Hong Kong	Ordinary HK$2	—	100	Investment holding
Keira Limited	Hong Kong	Ordinary HK$2	—	100	Investment holding
Kingsway Developments Limited	Hong Kong	Ordinary HK$2	—	100	Investment holding
Prior Company Limited	Hong Kong	Ordinary HK$2	—	100	Investment holding
PCI Investment Management Limited	Hong Kong	Ordinary HK$10,000,000	100	—	Asset management
IGA Data Centre Limited	Hong Kong	Ordinary HK$2	—	100	Provision of information technology services
IGA Financial Services Limited	Hong Kong	Ordinary HK$2	—	100	Provision of financial services
PCI Moneycare Limited	Hong Kong	Ordinary HK$2	100	—	Dormant
PCI Services (H.K.) Limited	Hong Kong	Ordinary HK$110,000	100	—	Dormant

Note: The above subsidiaries operate principally in Hong Kong.

During the year, the Group increased its investment in a wholly-owned subsidiary, PCI Services (H.K.) Limited, from HK$2 to HK$110,000. Subsequent to year end, PCI Services (H.K.) Limited obtained a broker's licence effective from 14 January 2003, and became a member of the Hong Kong Confederation of Insurance Brokers. In addition, PCI Moneycare Limited obtained a money lender licence which is effective from 31 January 2002 to 1 February 2003.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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16. INTEREST IN AN ASSOCIATE

	Group 2002 HK$'000	2001 HK$'000
Share of net assets	—	—
Due from an associate	13,524	22,520
Provision for impairment	(13,524)	(9,039)
	—	13,481

The amount due from the associate was unsecured, interest-free and is not repayable in the next 12 months.

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activity
Advanced Internet Visions Limited ("AIV")	Corporate	British Virgin Islands	30	Dormant

17. INVESTMENTS

	Group 2002 HK$'000	2001 HK$'000
Bonds held-to-maturity, at amortised cost listed elsewhere than Hong Kong	137,493	—
Market value of listed held-to-maturity bonds	136,483	—

The held-to-maturity bonds analysed by category of issuer as at the balance sheet date were as follows:

	Group 2002 HK$'000	2001 HK$'000
Corporate entities	137,493	—

The maturity profile of the held-to-maturity bonds as at the balance sheet date was as follows:

	Group 2002 HK$'000	2001 HK$'000
With a residual maturity of:		
Five years or less but over one year	137,493	—

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18. LOANS

	Group	
	2002	2001
	HK$'000	HK$'000
Policy loans	164,739	147,290
Loans to officers, employees and agents	102,377	136,999
	267,116	284,289

The policy loans are made to policyholders and secured by the policies' cash surrender value. Policy loans are repayable at the discretion of the policy holders as long as the interest plus the principle of the loans do not equal or exceed the cash value or until the policy matures.

The Group provides loans to directors, employees and agents which are interest-bearing at the prevailing bank lending rates, some of which are secured by the underlying properties and/or motor vehicles, and are repayable by monthly instalments.

No loans had been provided to directors as at the current or prior year balance sheet dates.

19. REAL ESTATE

The Group's real estate is situated in the People's Republic of China and is held on medium and long term leases.

20. DEFERRED ACQUISITION COSTS

	Group	
	2002	2001
	HK$'000	HK$'000
Balance at beginning of year	1,673,418	1,640,930
Additions	180,586	298,707
Less: Amortisation	(346,486)	(266,219)
Change in deferred acquisition costs	(165,900)	32,488
Balance at 31 December	1,507,518	1,673,418
Current portion	(293,429)	(275,371)
Non-current portion	1,214,089	1,398,047

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21. SHORT TERM INVESTMENTS

	Group 2002 HK$'000	Group 2001 HK$'000
Listed bonds, at market value:		
Hong Kong	**578,792**	685,737
Elsewhere	**2,282,874**	2,000,572
	2,861,666	2,686,309
Listed equity investments, at market value:		
Hong Kong	**228,779**	34,357
Elsewhere	**6,307**	15,187
	235,086	49,544
Listed unit trusts, at market value:		
Hong Kong	**102,460**	—
Unlisted unit trusts, at fair value	**569,525**	523,377
	3,768,737	3,259,230

Listed bonds analysed by category of issuer as at the balance sheet date were as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Governments	**308,585**	477,832
Banks and other financial institutions	**886,079**	715,835
Corporate entities	**1,667,002**	1,492,642
Listed bonds	**2,861,666**	2,686,309

The maturity profile of the listed bonds as at the balance sheet date was as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
With a residual maturity of:		
Three months or less	**6**	29,951
One year or less but over three months	**86,048**	62,166
Five years or less but over one year	**1,527,705**	1,476,454
Over five years	**1,247,907**	1,117,738
Listed bonds	**2,861,666**	2,686,309

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21. SHORT TERM INVESTMENTS (continued)

During 2002, the Group sold US$23,000,000 (HK$179,377,000) nominal value of its US$37,000,000 holding of PCCW Capital Limited bonds and PCCW-HKTC Capital Limited bonds, recording a gain of HK$8,839,000.

As at 31 December 2002, the Group continues to hold bonds with a nominal amount of US$14,000,000 issued by PCCW Capital Limited, which have a maturity date in 2005. The market value of these bonds amounted to HK$122,425,000 (2001: HK$106,741,000) as at the balance sheet date.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Cash and bank balances	341,073	336,863	95	108
Time deposits	158,663	340,044	9,742	9,568
	499,736	676,907	9,837	9,676

The maturity profile of the time deposits as at the balance sheet date was as follows:

	Group		Company	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
With a residual maturity of:				
Three months or less	156,617	338,019	9,742	9,568
One year or less but over three months	2,046	2,025	—	—
	158,663	340,044	9,742	9,568

23. PREMIUM DEPOSITS

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

24. DUE TO RELATED COMPANIES

The amounts due to related companies arose from the ordinary and normal course of business with terms similar to those offered to other customers of the Group.

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25. FUTURE INSURANCE LIABILITIES

	Group 2002 HK$'000	Group 2001 HK$'000
As at 1 January	**3,578,132**	3,133,667
Increase for the year	**158,767**	445,367
Currency realignment	**609**	(902)
	3,737,508	3,578,132
Non-current portion of amounts payable under financial reinsurance contracts	**—**	8,967
At 31 December	**3,737,508**	3,587,099

As at 31 December 2002, the current portion of amounts payable under financial reinsurance contracts amounted to HK$9,670,000 (2001: HK$45,759,000), which is included in other insurance liabilities.

26. SHARE CAPITAL

	Company 2002 Number of shares	2002 Nominal value HK$'000	2001 Number of shares	2001 Nominal value HK$'000
Authorised:				
Ordinary shares of HK$1.00 each	**3,000,000,000**	**3,000,000**	3,000,000,000	3,000,000
Issued and fully paid:				
Ordinary shares of HK$1.00 each	**822,154,000**	**822,154**	827,100,000	827,100

Notes:

(i) During the year ended 31 December 2002, the Company repurchased certain of its own shares through the Stock Exchange as follows:

Month of purchase	Number of ordinary shares of HK$1 each	Lowest price per share HK$	Highest price per share HK$	Aggregate consideration paid HK$
February 2002	2,942,000	1.72	1.85	5,256,960
July 2002	350,000	1.55	1.70	577,360
September 2002	958,000	1.42	1.51	1,408,180
October 2002	656,000	1.34	1.42	907,100
November 2002	40,000	1.39	1.40	55,800
	4,946,000			8,205,400

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares and related expenses, in the amount of HK$3,299,000, was charged to the share premium account, as disclosed in the consolidated statement of changes in equity and in note 28.

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26. SHARE CAPITAL (continued)

The repurchases of the Company's shares during the year were effected by the directors pursuant to the mandate from shareholders received at previous annual general meetings, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

(ii) On 17 May 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 8 May 2001 on the basis of one bonus share for every five existing shares held by shareholders by way of capitalisation of a sum of HK$137,850,000 standing to the credit of the share premium account.

27. SHARE OPTION SCHEMES

The Company operates share option schemes for the purpose of attracting, retaining and motivating talented participants to strive for future developments and expansion of the Group. The schemes are designed to act as an incentive to encourage the participants and allow them to enjoy the results of the Company attained through their efforts and contribution.

The eligible participant of the share option scheme adopted on 16 June 1999 (the "old share option scheme") includes (a) any employee as well as any executive director of the Group; and (b) any agent who has agreed by a contract in writing to render full-time and exclusive services to the Group and (for new options only) who has or will have rendered such services for a continuous period of at least 12 months as at the date of grant. As the old share option scheme has been terminated with effect from 6 May 2002, no more options can be offered pursuant to this scheme but in respect of the outstanding options granted, the provisions of the old share option scheme shall remain in force. As at 31 December 2002, the number of shares issuable under the outstanding options was 55,535,430, which represented approximately 6.75% of the Company's shares in issue as at that date.

Eligible participants of a share option scheme adopted on 6 May 2002 (the "New Scheme") include (a) any employee or executive director of the Group; (b) any advisor or consultant to the Group (including any executive or employee of such advisor or consultant); and (c) any agent who has agreed by a contract in writing to render full-time and exclusive services to the Group. The New Scheme adopted on 6 May 2002, unless otherwise cancelled or amended, will be valid and effective for a period of 10 years commencing on that date. No options have been granted under the New Scheme and the total number of shares available for issue is 82,415,800, representing approximately 10% of the Company's issued share capital at the date of the annual report.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the New Scheme unless the Company obtains a fresh approval from its shareholders. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes shall not exceed 30% of the total number of shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant pursuant to the share option schemes within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors, and unless resolved otherwise commences on the first anniversary of the date of grant and ends on a date which is not later than five years from the relevant exercise date of the share options or 10 years from the date of grant of share options, if earlier.

The exercise price of the share options is determinable by the directors, and shall be at least the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer, and (iii) the nominal value of the Company's shares.

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27. SHARE OPTION SCHEMES (continued)

As at 31 December 2002, the Company had 55,535,430 (2001: 65,529,330) outstanding share options. Details of the share options outstanding during the year were as follows:

				Number of share options					
Name or category of participant	Date of grant of share options	Exercisable period of share options	Exercise price of share options HK$	Outstanding at 1 January 2002	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding at 31 December 2002
(i) Directors, chief executive and their associates									
In aggregate	7 July 1999	7 July 2000 to 6 July 2007	4.187	**1,458,000**	—	—	(1,458,000)	—	**—**
	7 July 1999	7 July 2000 to 6 July 2009	5.233	**48,000,000**	—	—	(4,560,000)	—	**43,440,000**
				49,458,000	—	—	**(6,018,000)**	—	43,440,000

Please refer to the section "Directors' and chief executive's rights to acquire shares or debentures" in the Report of the Directors for details of the individual directors' holdings.

(ii) Other employees									
In aggregate	7 July 1999	7 July 2000 to 6 July 2007	4.187	**2,809,200**	—	—	(453,600)	—	**2,355,600**
	7 Jul 1999	7 July 2000 to 6 July 2009	4.448	**835,800**	—	—	(403,800)	—	**432,000**
				3,645,000	—	—	**(857,400)**	—	2,787,600
(iii) Others (Agents)									
In aggregate	7 July 1999	7 July 2000 to 6 July 2007	4.187	**7,478,790**	—	—	(1,747,800)	—	**5,730,990**
	7 July 1999	7 July 2000 to 6 July 2009	4.448	**4,533,300**	—	—	(1,135,260)	—	**3,398,040**
	7 July 1999	7 July 2000 to 6 July 2009	5.233	**414,240**	—	—	(235,440)	—	**178,800**
				12,426,330	—	—	**(3,118,500)**	—	9,307,830
				65,529,330	—	—	**(9,993,900)**	—	55,535,430

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27. SHARE OPTION SCHEMES (continued)

The vesting period of the share options is as follows:

20% to 60% of the holders' entitlements to the outstanding share options granted became exercisable commencing on the first anniversary of the date of grant, and on subsequent second to fifth anniversaries of the date of grant, further 20% tranches of the holders' entitlements, as applicable, become exercisable.

During the year, no share options were granted, cancelled or exercised and 9,993,900 share options were lapsed.

28. RESERVES

The movements in the Group's consolidated reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 48 of the financial statements. The declaration of dividend is by way of distribution out of contributed surplus in the Group which is the same as the Company.

The contributed surplus of the Group represents the difference between the nominal value of the shares and the share premium account of the Group's then holding company acquired pursuant to the group reorganisation in 1999, over the nominal value of the Company's shares issued in exchange upon the reorganisation.

As detailed in note 3 to the financial statements, the Group eliminated goodwill against reserves in respect of acquisitions which occurred prior to 1 January 2001. The amount of goodwill remaining eliminated against consolidated retained profits, arising from the acquisition of a subsidiary prior to 1 January 2001, is HK$56,586,000 as at 1 January and 31 December 2002. The goodwill is stated at cost.

Company	Note	Share premium account HK$'000	Contributed surplus (Note (i)) HK$'000	(Accumulated losses)/Retained Profit HK$'000	Total HK$'000
At 1 January 2001		167,880	15,614	(1,673)	181,821
Net loss for the year		—	—	(4,634)	(4,634)
Capitalisation issue of shares	26	(137,850)	—	—	(137,850)
At 31 December 2001 and 1 January 2002		30,030	15,614	(6,307)	39,337
Shares repurchased and cancelled	26	(3,299)	—	—	(3,299)
Net profit for the year		—	—	6,466	6,466
Proposed final 2002 dividend		—	(8,222)	—	(8,222)
At 31 December 2002		26,731	7,392	159	34,282

Notes:

(i) The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation in 1999, over the nominal value of the Company's shares issued in exchange upon the reorganisation. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances.

(ii) The Company depends primarily on dividends from its life insurance subsidiary in order to pay dividends to shareholders. Hong Kong insurance legislation limits the extent of retained earnings that can be paid to the Company, through the use of minimum solvency margins and prudential regulations over the value of actuarial liabilities.

As at 31 December 2002, the Company had distributable reserves amounting to HK$7,551,000 (2001: HK$9,307,000).

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29. CONTINGENT LIABILITIES

As at 31 December 2002, 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 (2001: 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 PCI, by certain members of an insurance group operating in Hong Kong (the "Plaintiffs"), whereby the Plaintiffs sought, among other things, injunctive relief and damages against PCI in connection with PCI's plan matching scheme and the purported use of certain documents and information.

On 24 July 2001, a High Court judge granted the Plaintiffs interim injunctive relief pending the trial of the action or further order. The interim injunctive relief restrains PCI, among others, from disclosing or otherwise making any use of certain documents and information, and accepting applications for life insurance policies in certain circumstances.

Having consulted legal counsel, the Group has determined that it will continue to defend vigorously these proceedings. In the opinion of the directors and based on legal advice, it is unlikely that the final outcome of these proceedings would materially affect the financial position of the Group.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its real estate (note 19 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 2 to 3 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Within one year	980	159
In the second to fifth years, inclusive	1,725	—
	2,705	159

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 4 years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Within one year	30,975	54,704
In the second to fifth years, inclusive	2,476	33,477
	33,451	88,181

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32. COMMITMENTS

(a) In addition to the operating lease commitments detailed in note 31(b) above, the Group and the Company had the following capital commitment at the balance sheet date:

	Group and Company	
	2002 HK$'000	2001 HK$'000
Contracted, but not provided for, in respect of the purchase of computer equipment	2,071	—

(b) Derivative financial instruments

Foreign currency forward contracts

The Group's insurance liabilities are predominantly denominated 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 the future cash flows of securities back into United States dollars. There were no outstanding foreign currency forward contract commitments as at 31 December 2002 (2001: Nil).

33. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2002 HK$'000	2001 HK$'000
Premium income in respect of group life and medical policies issued to:	(i)		
Pacific Century Asset Management (HK) Limited (trading as "Pacific Century Group")		3,106	5,882
PCCW Services Limited		2,913	5,015
Pacific Century Systems Limited		486	507
Morningstar Asia Limited		184	127
Power Logistics Limited		78	126
The Hong Kong I-Education Limited		15	—
PCC Skyhorse Limited		246	—
Premium income in respect of group personal accident policy issued to Pacific Century Systems Limited		35	—
		7,063	11,657
General insurance commission income received from The Ming An Insurance Company (Hong Kong), Limited	(ii)	8,728	8,631

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33. RELATED PARTY TRANSACTIONS (continued)

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 (including the independent non-executive directors), the group life and medical policies for these related companies are negotiated and conducted on terms and conditions similar to those offered to other customers of the Group, in the ordinary and usual course of business of the Group and on terms that are fair and reasonable so far as the shareholders of the Company are concerned. The total amount of premium income derived therefrom did not exceed 2% of the total turnover of the Group for the year ended 31 December 2002.

(ii) Pursuant to an agency agreement dated 1 November 1994 and subsequently replaced by an Agency Agreement effective from 1 January 2001, Pacific Century Insurance Company Limited, a wholly-owned subsidiary of the Group, was, with effect from 1 January 2002 appointed as an underwriting agent of The Ming An Insurance Company (Hong Kong), Limited ("Ming An"), with authorisation to underwrite and to settle claims of certain types of general insurance business on behalf of Ming An. Ming An is a substantial shareholder of the Company.

The Agency Agreement has been entered into in accordance with the terms governing such transactions.

(b) On 27 April 2000, the Group allied with a fellow subsidiary, PCCW Limited ("PCCW"), and established a company, Advanced Internet Visions Limited ("AIV") (note 16). AIV acted as an investment vehicle for the holding of an interest in Morningstar Asia Limited ("MAL"), a company incorporated in Hong Kong. MAL is engaged in providing financial information and related services in Asia (excluding Japan) by way of, among other things, printed materials, computer software products and/or Internet products. The Group's attributable equity interest in MAL was approximately 12%. AIV disposed of all the interests in MAL on 31 October 2002 and became dormant.

(c) Pursuant to a system project agreement dated 31 December 2002 entered into with the Company, PCCW Business eSolutions (HK) Limited ("PCCWBeS"), an indirect wholly-owned subsidiary of PCCW, would arrange to implement an Insurance Imaging and Workflow System for the Group at a cash consideration of approximately HK$3,600,000 payable upon completion of different stages. As Pacific Century Regional Developments Limited is the controlling shareholder of both the Company and PCCW, PCCWBeS is a connected person of the Company under the Listing Rules and the entering into of the agreement constitutes a connected transaction to the Company. As at 31 December 2002, an accrued consideration of HK$1,529,000 was payable to PCCWBeS.

(d) The Group provides loans to employees and agents which are interest-bearing at the prevailing bank lending rates, some of which are secured by the underlying properties and/or motor vehicles, and are repayable on a monthly instalment basis.

(e) As mentioned in note 24, as at 31 December 2002, the Group had a total amount of HK$6,308,000 (2001: HK$11,420,000) 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 (c) above constitute connected transactions under the Listing Rules.

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34. DISCONTINUING OPERATIONS

In June 2002, Pacific Century Insurance Company Limited ("PCI") (an indirect wholly-owned subsidiary) entered into an agreement for the transfer of its Mandatory Provident Fund business (the "MPF business") to HSBC Life (International) Limited ("HSBC Life"). The disposal is consistent with the Company's long-term strategy to focus on providing an extensive range of whole life, endowment and term life insurance products to individuals in Hong Kong as well as being engaged in asset management. The transfer of the MPF business commenced in July 2002, and the Group plans to complete the transfer by the end of 2003.

The revenue, operating expenses and net loss of the MPF business for the years ended 31 December were as follows:

	2002 HK$'000	2001 HK$'000
REVENUE		
Turnover	87,667	135,527
Investment loss	(7,144)	(3,175)
Total revenue	80,523	132,352
OPERATING EXPENSES		
Policyholders' benefits	(97,033)	(6,727)
Agency commission and allowances	(858)	(1,842)
Management expenses	(1,329)	—
Total operating expenses	(99,220)	(8,569)
Decrease/(increase) in future insurance liabilities	18,432	(123,974)
OPERATING LOSS BEFORE TAX	(265)	(191)
Tax	(927)	—
NET LOSS FOR THE YEAR	(1,192)	(191)

The carrying amounts of the total assets and liabilities of the MPF business as at 31 December 2002 were as follows. Comparative information for the MPF business at 31 December 2001 is included in accordance with SSAP 33 "Discontinuing Operations".

	2002 HK$'000	2001 HK$'000
Total assets	145,677	163,849
Total liabilities	(111,392)	(128,372)
Net assets	34,285	35,477

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34. DISCONTINUING OPERATIONS (continued)

The net cash flows attributable to the MPF business were as follows:

	2002 HK$'000	2001 HK$'000
Operating	(16,844)	(128,573)
Investing	16,687	123,494
Financing	—	—
Net cash outflows	(157)	(5,079)

35. POST BALANCE SHEET EVENTS

A proposed increase in Hong Kong profits tax rate from 16% to 17.5% effective for the 2003/2004 fiscal year was announced in the Hong Kong 2003-04 Budget after the balance sheet date. The effect of the proposed tax rate change is that unrecognised deferred tax assets disclosed in note 10 increase by HK$1,685,000 for the year ended 31 December 2002 and by HK$1,647,000 for the year ended 31 December 2001. Under the proposed change the principal components of the deferred tax net asset not recognised are as follows:

	Group	
	2002 HK$'000	2001 HK$'000
Accelerated depreciation allowances	1,075	1,446
Tax losses carried forward	(20,734)	(27,617)
Deferred tax net asset	(19,659)	(26,171)

36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2003.