

# 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 to 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 31 December 2002 except that the following revised SSAP issued by the Hong Kong Society of Accountants has been adopted for the first time in the preparation of the current period condensed consolidated financial statements:

SSAP 12 (Revised): Income Taxes

## 2. 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:

	Unaudited six months ended	
	30/6/2003 HK\$'000	30/6/2002 HK\$'000
Revenue from:		
Life insurance business	<b>760,323</b>	770,291
Retirement scheme business	<b>17,207</b>	61,007
Long term insurance business	<b>777,530</b>	831,298
General insurance business under an agency agreement	<b>4,997</b>	4,863
Asset management business	<b>2,611</b>	1,563
Turnover	<b>785,138</b>	837,724

## notes to the condensed consolidated financial statements

### 2. TURNOVER AND REVENUE (continued)

	Unaudited six months ended	
	30/6/2003 HK\$'000	30/6/2002 HK\$'000
Investment income:		
Interest income from listed investments	<b>76,409</b>	70,757
Interest income from banks and asset management businesses	<b>4,246</b>	4,705
Interest received from policy loans and loans to officers, employees and agents	<b>10,188</b>	11,560
Dividend income from listed investments	<b>4,123</b>	9,193
Investment handling charges	<b>(3,015)</b>	(9,408)
	<b>91,951</b>	86,807
Net gains:		
Unrealised gains on other listed investments	<b>78,036</b>	30,174
Unrealised gains arising from dealing in foreign currencies	<b>44</b>	525
Realised gains on other listed investments	<b>36,798</b>	61,176
Unrealised gains on other unlisted investments	<b>31,663</b>	36,504
	<b>146,541</b>	128,379
Other income:		
Provision for premiums receivable written back	<b>6,184</b>	13,755
Reinsurance commission income and refund	<b>5,659</b>	6,242
Others	<b>5,511</b>	4,780
	<b>17,354</b>	24,777
Investment income and net gains, and other income	<b>255,846</b>	239,963
Total revenue and net gains	<b>1,040,984</b>	1,077,687

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

## notes to the condensed consolidated financial statements

### 3. OPERATING PROFIT BEFORE TAX

Operating profit before tax is arrived at after charging:

	Unaudited six months ended	
	30/6/2003 HK\$'000	30/6/2002 HK\$'000
Auditors' remuneration	18	34
Depreciation	9,085	12,591
Amortisation of deferred acquisition costs (note (i) below, and note 9)	159,094	140,294
Minimum lease payments under operating lease rentals on land and buildings	21,018	26,456
Staff costs (directors' remuneration included)	68,136	79,248
Loss on disposal of fixed assets	3,821	—
Provision for amount due from an associate	—	2,036
Provision for bad and doubtful debts	—	2,791
and after crediting:		
Bad and doubtful debts written back	851	—

Note:

- (i) The amortisation of deferred acquisition costs for the period/year is included in "Change in deferred acquisition costs" on the face of the profit and loss account, as disclosed in note 9 to the financial statements

## notes to the condensed consolidated financial statements

### 4. OPERATING PROFIT BEFORE TAX BY ACTIVITY

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

	Unaudited six months ended	
	30/6/2003 HK\$'000	30/6/2002 HK\$'000
Long term insurance business	113,243	88,229
General insurance business under an agency agreement	459	(140)
Asset management business (note (i) below)	(2,998)	(3,226)
Operating profit before tax	110,704	84,863
Note:		
(i) Income from operations - asset management	12,256	9,831
Less: Intragroup income	(9,645)	(8,268)
Operating expenses before tax	2,611 (5,609)	1,563 (4,789)
	(2,998)	(3,226)

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

## notes to the condensed consolidated financial statements

### 5. TAX

	Unaudited six months ended	
	30/6/2003 HK\$'000	30/6/2002 HK\$'000
Hong Kong profits tax	1,063	806
Overseas tax	99	29
Overprovision in prior year - Hong Kong	(545)	—
	617	835
Deferred taxation		
Current year	1,224	3,189
Attributable to a change in tax rate	1,777	—
	3,618	4,024

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 against any assessable profits for long term insurance business and retirement scheme management arising in Hong Kong during the period.

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits solely arising from asset management business conducted in Hong Kong during the period. Overseas tax has been calculated on the estimated assessable profits for the period at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

During the period, the Group adopted the revised SSAP 12 "Income Taxes" for the first time. To comply with SSAP, deferred tax is now provided on all temporary differences with limited exceptions, instead of being provided to the extent that it is probable a deferred tax liability will crystallise as was previously the case. The new accounting policy has been applied retrospectively. Comparative amounts for the period ended 30 June 2002 have been restated accordingly. Opening accumulated profits for the period ended 30 June 2002 have been increased by HK\$25,840,000 which is the cumulative effect of the change in policy on the results for periods prior to 1 January 2002. The effect of the change in the period ended 30 June 2003 is an increased charge to income taxes of HK\$3,001,000 (June 2002: HK\$3,189,000).

## notes to the condensed consolidated financial statements

### 6. DIVIDEND

The directors do not recommend payment of any dividend in respect of the period (June 2002: Nil).

### 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\$107,086,000 (June 2002: HK\$80,839,000) and the weighted average number of 821,796,000 shares (June 2002: 824,747,000 shares) in issue during the period.

The diluted earnings per share for the periods ended 30 June 2002 and 2003 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.

### 8. INVESTMENTS

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
Bonds held-to-maturity, at amortised cost listed elsewhere than Hong Kong	<b>137,476</b>	137,493
Market value of listed held-to-maturity bonds	<b>136,465</b>	136,483

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

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
Corporate entities	<b>137,476</b>	137,493

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

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
With a residual maturity of: Five years or less but over one year	<b>137,476</b>	137,493

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**9. DEFERRED ACQUISITION COSTS**

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
Balance at beginning of period/year	<b>1,507,518</b>	1,673,418
Additions	<b>81,128</b>	180,586
Less: Amortisation	<b>(159,094)</b>	(346,486)
Change in deferred acquisition costs	<b>(77,966)</b>	(165,900)
Balance at end of period/year	<b>1,429,552</b>	1,507,518
Current portion	<b>(299,603)</b>	(293,429)
Non-current portion	<b>1,129,949</b>	1,214,089

**10. SHORT TERM INVESTMENTS**

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
Listed bonds, at market value:		
Hong Kong	<b>597,514</b>	578,792
Elsewhere	<b>2,333,679</b>	2,282,874
	<b>2,931,193</b>	2,861,666
Listed equity investments, at market value:		
Hong Kong	<b>135,803</b>	228,779
Elsewhere	<b>145,635</b>	6,307
	<b>281,438</b>	235,086
Listed unit trusts, at market value:		
Hong Kong	—	102,460
Unlisted unit trusts, at fair value	<b>647,598</b>	569,525
	<b>3,860,229</b>	3,768,737

## notes to the condensed consolidated financial statements

### 10. SHORT TERM INVESTMENTS (continued)

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

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
Governments	<b>272,131</b>	308,585
Banks and other financial institutions	<b>1,047,231</b>	886,079
Corporate entities	<b>1,611,831</b>	1,667,002
Listed bonds	<b>2,931,193</b>	2,861,666

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

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
With a residual maturity of:		
Three months or less	<b>50,582</b>	6
One year or less but over three months	<b>92,596</b>	86,048
Five years or less but over one year	<b>1,271,096</b>	1,527,705
Over five years	<b>1,516,919</b>	1,247,907
Listed bonds	<b>2,931,193</b>	2,861,666

As at 30 June 2003, 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\$126,982,000 (December 2002: HK\$122,425,000) as at the balance sheet date. Subsequent to the balance sheet date, the Group sold US\$4,000,000 nominal value of its US\$14,000,000 holding of the said bonds, recording a gain of HK\$2,035,000. Moreover, the Group invested a total nominal amount of US\$4,000,000 bonds issued by PCCW Capital Limited, with maturity date in 2013 and the cost of these bonds amounted to HK\$31,046,000.

### 11. PREMIUM DEPOSIT

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



## notes to the condensed consolidated financial statements

### 12. FUTURE INSURANCE LIABILITIES

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
Balance at beginning of period/year	<b>3,737,508</b>	3,578,132
Increase for the period	<b>144,472</b>	158,767
Currency realignment	<b>(322)</b>	609
Balance at end of period/year	<b>3,881,658</b>	3,737,508

As at 30 June 2003, no current portion of amounts payable under financial reinsurance contracts was included in other insurance liabilities (December 2002: HK\$9,670,000).

### 13. SHARE CAPITAL

	<b>Unaudited as at 30/6/2003</b>		Audited as at 31/12/2002	
	<b>Number of shares</b>	<b>Nominal value HK\$'000</b>	Number of shares	Nominal value HK\$'000
Authorised:				
Ordinary shares of HK\$1.00 each	<b>3,000,000,000</b>	<b>3,000,000</b>	3,000,000,000	3,000,000
Issued and fully paid:				
Ordinary shares of HK\$1.00 each	<b>822,154,000</b>	<b>822,154</b>	822,154,000	822,154
Shares repurchased and cancelled (note (i) below)	<b>(804,000)</b>	<b>(804)</b>	—	—
	<b>821,350,000</b>	<b>821,350</b>	822,154,000	822,154

Note:

- (i) During the six months ended 30 June 2003, 804,000 ordinary shares of HK\$1.00 each were repurchased by the Company from the Stock Exchange in April 2003 at a price from HK\$1.60 to HK\$1.65 per share. The aggregate price paid by the Company for such repurchases was HK\$1,309,440.

## notes to the condensed consolidated financial statements

### **14. CONTINGENT LIABILITIES**

As at 30 June 2003, other than as set out below in note 15, the Group and the Company had no material contingent liabilities other than contingencies arising from the ordinary course of the long term insurance business (December 2002: Nil).

### **15. 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.

### **16. 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.

## notes to the condensed consolidated financial statements

### 16. DISCONTINUING OPERATIONS (continued)

The revenue, operating expenses and net profit of the MPF business for the periods ended 30 June were as follows:

	Unaudited six months ended	
	30/6/2003 HK\$'000	30/6/2002 HK\$'000
REVENUE		
Turnover	7,620	50,586
Investment gain	4,396	353
Total revenue	12,016	50,939
OPERATING EXPENSES		
Policyholders' benefits	(59,888)	(6,707)
Agency commission and allowances	(63)	(566)
Management expenses	(260)	—
Total operating expenses	(60,211)	(7,273)
Decrease/(increase) in future insurance liabilities	48,421	(43,303)
OPERATING PROFIT BEFORE TAX	226	363
Tax	—	—
NET PROFIT FOR THE PERIOD	226	363

The carrying amounts of the total assets and liabilities of the MPF business as at 30 June 2003 were as follows:

	Unaudited as at 30/6/2003	Audited as at 31/12/2002
Total assets	95,297	145,677
Total liabilities	(60,242)	(111,392)
Net assets	35,055	34,285

## notes to the condensed consolidated financial statements

### 16. DISCONTINUING OPERATIONS (continued)

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

	Unaudited six months ended	
	30/6/2003 HK\$'000	30/6/2002 HK\$'000
Operating	(50,322)	44,374
Investing	49,490	(43,533)
Financing	—	—
Net cash (outflow)/inflow	(832)	841

### 17. RELATED PARTY TRANSACTIONS

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

	Notes	Unaudited six months ended	
		30/6/2003 HK\$'000	30/6/2002 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)	2,690	3,096
PCCW Services Limited		1,603	1,884
Pacific Century Systems Limited		427	486
Morningstar Asia Limited		—	10
Power Logistics Limited		96	78
The HK I-Education Limited		16	15
Premium income in respect of group personal accident policy issued to Pacific Century Systems Limited		30	37
		4,862	5,606
General insurance business income received from The Ming An Insurance Company (Hong Kong), Limited	(ii)	4,469	4,863

## notes to the condensed consolidated financial statements

### 17. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The Group entered into a number of group life and medical as well as personal accident 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 and personal accident policies for these related companies are negotiated and conducted on terms and conditions similar to those offered to other policyholders 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 would not exceed 2% of the total turnover of the Group for the year ending 31 December 2003.
- (ii) Pursuant to an agency agreement dated 1 November 1994 and subsequently replaced by an Agency Agreement effective 1 January 2001, Pacific Century Insurance Company Limited, a wholly-owned subsidiary of the Group, was, effective as from 1 January 2001 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 businesses on behalf of Ming An. Ming An is a substantial shareholder of the Company.

The Agency Agreement is based on arm's length commercial terms in accordance with the prevailing market conditions.

- (b) On 27 April 2000, the Group allied with a fellow subsidiary, PCCW Limited ("PCCW"), and established a company, Advanced Internet Visions Limited ("AIV"). AIV acted as an investment vehicle for the holding of an interest in Morningstar Asia Limited ("MAL"), a company incorporated in Hong Kong. MAL was 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 was dissolved on 20 June 2003.
- (c) On 14 March 2003, the Company entered in to an agreement with PCCW-HKT Business Services Limited ("PCCW-HKT") whereby PCCW-HKT provided and installed a new PABX telephone system for the Group at a cash consideration, including connection and wiring work, of HK\$1,380,000. PCCW-HKT is an indirect wholly-owned subsidiary of PCCW and PCRD is the controlling shareholder of the Company and substantial shareholder of PCCW. Under the Listing Rules, PCCW-HKT is a connected person of the Company and accordingly the entering into of the agreement constitutes a connected transaction for the Company.

## notes to the condensed consolidated financial statements

### 17. RELATED PARTY TRANSACTIONS (continued)

- (d) 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 PCRD is the controlling shareholder of both the Company and a substantial shareholder of 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.
- (e) The Group provided loans to employees and agents which are interest-bearing at the prevailing bank lending rate, some of which are secured by the underlying properties and/or motor vehicles, and are repayable on a monthly instalment basis.
- (f) As at 30 June 2003, the Group had a total amount of HK\$5,520,000 (December 2002: HK\$6,308,000) 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 Listing Rules.

### 18. COMMITMENTS

- (a) Capital commitments

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
Contracted, but not provided for, in respect of the purchase of computer equipment	<b>1,983</b>	2,071
Authorised, but not contracted for, in respect of the purchase of furniture, fixture and equipment	<b>2,083</b>	—
	<b>4,066</b>	2,071

## notes to the condensed consolidated financial statements

### 18. COMMITMENTS (continued)

#### (b) Operating lease commitments

##### (i) As lessor

The Group leases its real estate 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 30 June 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
Within one year	<b>985</b>	980
In the second to fifth years, inclusive	<b>1,227</b>	1,725
	<b>2,212</b>	2,705

##### (ii) 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 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Unaudited as at 30/6/2003 HK\$'000</b>	Audited as at 31/12/2002 HK\$'000
Within one year	<b>12,265</b>	30,975
In the second to fifth years, inclusive	<b>315</b>	2,476
	<b>12,580</b>	33,451