Notes to financial statements

31 December 2003

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.

In June 2002, Pacific Century Insurance Company Limited ("PCI") (an indirect wholly owned subsidiary) entered into an agreement for the transfer for its Mandatory Provident Fund business (the "MPF business") to HSBC Life (International) Limited ("HSBC Life"). The related activities have been accounted for as discontinuing operations in the current financial statements, details of which 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 Holdings Limited, a company incorporated in the British Virgin Islands.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income Taxes" is effective for the first time for the current year's financial statements and has had a significant impact thereon.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable beyond reasonable doubt that the deferred tax asset or liability would crystallise in the foreseeable future; and

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

The related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 19 to the financial statements.

Further details of these changes and the prior year adjustment arising from them are included in the accounting policy for deferred tax in note 3 and in note 19 to the financial statements.

Notes to financial statements

31 December 2003

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. They differ in certain material respects from the Company's 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 2003. 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 the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost 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 is 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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets on 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.

Notes to financial statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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-linked contracts 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

Commission 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. Commission payable to agents for the first policy year is included as a component of deferrable acquisition costs.

Deferred acquisition costs ("DAC")

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 new business to fund the amortisation of the DAC. DAC include first year commissions and other costs related to the acquisition of new business.

DAC are carried at cost and amortised on the 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.

Notes to financial statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 account 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 account 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 account 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 a straight-line basis so as 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 account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Notes to financial statements

31 December 2003

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 defined as 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 revenue and profit and loss account 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 held-to-maturity security 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 account, 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, unit trusts and mutual funds, 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 account 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 SSAP 13 "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 account over the term of the contract with the agent.

Premiums receivable

Premiums receivable 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 in force 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 a 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 account 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 account on a straight-line basis over the lease terms.

Notes to financial statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the revenue and profit and loss account, or in equity if it relates to items that are recognised in the same or a different period.

Deferred tax is provided, using the liability method, on all temporary differences as at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of any deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Conversely, any previously unrecognised deferred tax asset is recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the balance sheet date.

Notes to financial statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits schemes

The Group provides 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. 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 account 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 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 Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The financial impact of share options granted under the share option scheme 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 account 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 prior to their exercise date or which lapse, are deleted from the register of outstanding options.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Notes to financial statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies as 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 account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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 valued at fair value. Any gain or loss is recognised in the revenue and profit and loss account.

The fair value of foreign currency forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Fair values of futures contracts are the total of cash balances and variation margin as 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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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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 agency agreements, and service fees from asset management.

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

	Group	
	2003 HK$'000	2002 HK$'000
Revenue from:		
Life insurance business		
First year premium	292,281	235,243
Renewal premium	1,362,864	1,355,513
	1,655,145	1,590,756
Retirement scheme business	28,587	106,381
Long term insurance business	1,683,732	1,697,137
General insurance business under agency agreements	8,135	9,017
Asset management business	5,416	3,373
Turnover	1,697,283	1,709,527
Investment income:		
Interest income from listed investments	160,800	131,284
Interest income from banks and asset management businesses	10,260	13,346
Interest received from policy loans and loans to officers, employees and agents	21,819	19,931
Dividend income from listed investments	7,668	7,375
Investment handling charges	(9,478)	(6,538)
	191,069	165,398

Notes to financial statements

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4. TURNOVER AND REVENUE (continued)

	Group 2003 HK$'000	2002 HK$'000
Net gains:		
Unrealised gains on other listed investments	38,463	91,141
Realised gains on other unlisted investments	354	—
Realised gains arising from equity-linked financial products (note (i))	—	1,568
Realised gains/(losses) arising from dealing in foreign currencies (note (ii))	(65)	475
Realised gains on other listed investments	154,628	78,478
Unrealised gains/(losses) on other unlisted investments	106,953	(18,015)
	300,333	153,647
Other income:		
Cash values received from policies transferred from other insurance companies	672	833
Reinsurance commission income and refund	14,876	15,657
Others	8,042	6,509
	23,590	22,999
Investment income and net gains, and other income	514,992	342,044
Total revenue and net gains	2,212,275	2,051,571

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, the equity exposure will increase.

(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 2003 HK$'000	2002 HK$'000
Death and disability claims	176,167	188,151
Surrenders	335,600	443,193
Maturities and periodic payments	54,149	50,689
Policyholders' dividends	101,950	99,490
	667,866	781,523

Notes to financial statements

31 December 2003

6. OPERATING PROFIT BEFORE TAX

Operating profit before tax is arrived at after charging:

	Group	
	2003 HK$'000	2002 HK$'000
Auditors' remuneration	1,133	955
Depreciation	17,789	24,080
Amortisation of deferred acquisition costs (note (i), and note 20)	302,948	346,486
Minimum lease payments under operating lease rentals on land and buildings	34,074	52,714
Staff costs (including directors' remuneration, note 8)	155,554	148,441
Retirement benefit scheme contributions:		
Employees	7,705	8,672
Agents	8,375	8,461
	16,080	17,133
Less: Forfeited contributions:		
Employees	—	—
Agents	(1,791)	(4,156)
	(1,791)	(4,156)
Net retirement benefit scheme contributions	14,289	12,977
	169,843	161,418
Loss on disposal of fixed assets	6,868	4,257
Provision for an amount due from an associate (note (ii))	—	4,485
Provision for bad and doubtful debts	989	4,672

Notes:

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

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

Notes to financial statements

31 December 2003

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	
	2003 HK$'000	2002 HK$'000
Long term insurance business	233,876	135,808
General insurance business under agency agreements	(380)	(713)
Asset management business (note (i))	(7,640)	(6,544)
Operating profit before tax	225,856	128,551

Note:

	2003 HK$'000	2002 HK$'000
(i) Income from operations - asset management	25,614	20,492
Less: Intra-Group income	(20,198)	(17,119)
	5,416	3,373
Operating expenses before tax	(13,056)	(9,917)
	(7,640)	(6,544)

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

Notes to financial statements

31 December 2003

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2003 HK$'000	2002 HK$'000
Executive and non-executive directors:		
Fees	1,720	2,120
Salaries, allowances, and benefits in kind	13,407	16,878
Performance related bonuses	13,815	10,490
Contributions to retirement benefit schemes	1,021	1,561
	29,963	31,049
Independent non-executive directors:		
Fees	360	360
	30,323	31,409

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 was appointed for an initial term of three years with effect from 30 November 2000, which was renewed for a further two years with effect from 30 November 2003.

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

	Number of directors	
	2003	2002
Nil - HK$1,000,000	10	12
HK$3,500,001 - HK$4,000,000	—	2
HK$5,000,001 - HK$5,500,000	—	2
HK$7,000,001 - HK$7,500,000	2	—
HK$11,500,001- HK$12,000,000	—	1
HK$12,500,001- HK$13,000,000	1	—
	13	17

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

During the year, 16,000,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out in note 27 to the financial statements. No value in respect of the share options granted during the year has been charged to the revenue and profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

Notes to financial statements

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: five) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2002: Nil) non-directors, highest paid employees for the year were as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Salaries, housing allowances, and benefits in kind	2,679	—
Performance related bonuses	3,700	—
Contributions to retirement benefit schemes	245	—
	6,624	—

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

	Number of employees	
	2003	2002
HK$2,500,001 - HK$3,000,000	1	—
HK$3,500,001 - HK$4,000,000	1	—
	2	—

During the year, no share option was granted to the two non-directors, highest paid employees in respect of their services to the Group.

Notes to financial statements

31 December 2003

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits solely arising from the asset management business conducted in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the tax year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the financial year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated 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. Tax for the long term insurance business is computed at 17.5% (2002: 16%) of 5% of net premium (gross premium received less reinsurance premium ceded) from the life insurance business in accordance with Section 23(1)(a) of the Inland Revenue Ordinance rather than on taxable profits. This subsidiary has 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.

	2003 HK$'000	2002 HK$'000 (Restated)
Group:		
Current - Hong Kong		
Charge for the year	2,208	1,697
(Over)/underprovision in prior year	(545)	927
Current - Elsewhere	147	55
Deferred (note 19)	8,007	6,883
Total tax charge for the year	9,817	9,562

Notes to financial statements

31 December 2003

10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group - 2003

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	225,759		97		225,856	
Tax at the statutory rate	39,508	17.5	32	33.0	39,540	17.5
5% of net premium of life insurance business	11,108	4.9	—	—	11,108	4.9
Profit of life insurance business and other businesses not taxable at statutory rate	(39,674)	(17.6)	115	118.6	(39,559)	(17.5)
Effect on opening deferred tax of increase in rates	(1,777)	(0.8)	—	—	(1,777)	(0.8)
Adjustments in respect of current tax of previous periods	(545)	(0.2)	—	—	(545)	(0.2)
Tax losses not recognised	1,050	0.5	—	—	1,050	0.5
Tax charge at the Group's effective rate	9,670	4.3	147	151.5	9,817	4.3

Group - 2002

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	129,088		(537)		128,551	
Tax at the statutory rate	20,654	16.0	(177)	33.0	20,477	15.9
5% of net premium of life insurance business	9,181	7.1	—	—	9,181	7.1
Profit of life insurance business and other businesses not taxable at statutory rate	(22,742)	(17.6)	232	(43.2)	(22,510)	(17.5)
Adjustments in respect of current tax of previous periods	927	0.7	—	—	927	0.7
Tax losses not recognised	1,487	1.2	—	—	1,487	1.2
Tax charge at the Group's effective rate	9,507	7.4	55	(10.2)	9,562	7.4

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11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

	2003 HK$'000	2002 HK$'000 (Restated)
Group	216,039	118,989

	2003 HK$'000	2002 HK$'000
Company	95,623	6,466

12. DIVIDEND

	2003 HK$'000	2002 HK$'000
Proposed final - HK$0.06 (2002: HK$0.01) per ordinary share	49,281	8,222

The proposed final dividend for the year is subject to the approval of 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$216,039,000 (2002 (restated): HK$118,989,000) and the weighted average of 821,571,000 (2002: 823,845,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the current year is based on the net profit attributable to shareholders for the year of HK$216,039,000. The weighted average number of ordinary shares used in the calculation is 821,571,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 1,623,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Diluted earnings per share amount for the year ended 31 December 2002 has not been disclosed, as no diluting events existed during that year.

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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:						
As at 1 January 2003	226,971	26,958	99,969	3,152	1,529	358,579
Additions	—	2,038	6,454	453	2,454	11,399
Disposals	—	(4,047)	(31,809)	(949)	—	(36,805)
Transfers	—	3,582	—	—	(3,582)	—
As at 31 December 2003	**226,971**	**28,531**	**74,614**	**2,656**	**401**	**333,173**
Accumulated depreciation:						
As at 1 January 2003	23,855	22,879	74,643	2,810	—	124,187
Provided during the year	5,152	3,252	9,218	167	—	17,789
Disposals	—	(3,817)	(25,215)	(764)	—	(29,796)
As at 31 December 2003	**29,007**	**22,314**	**58,646**	**2,213**	**—**	**112,180**
Net book value:						
As at 31 December 2003	**197,964**	**6,217**	**15,968**	**443**	**401**	**220,993**
As at 31 December 2002	203,116	4,079	25,326	342	1,529	234,392

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

	Group 2003 HK$'000	Group 2002 HK$'000
Hong Kong	**216,520**	216,520
Elsewhere	**10,451**	10,451
	226,971	226,971

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15. INTERESTS IN SUBSIDIARIES

	Company 2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	365,924	365,724
Amounts due from subsidiaries	478,754	485,770
	844,678	851,494
Provision for impairment	—	—
	844,678	851,494

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 and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Bright Victory International Limited	British Virgin Islands/Hong Kong	Ordinary US$7,743,935	100	—	Investment holding
Pacific Century Insurance Company Limited	Bermuda/ Hong Kong	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
PCI Investment Management Limited	Hong Kong	Ordinary HK$10,000,000	100	—	Asset management

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. INVESTMENTS

	Group 2003 HK$'000	Group 2002 HK$'000
Bonds held-to-maturity, at amortised cost listed elsewhere than Hong Kong	136,876	137,493
Market value of listed held-to-maturity bonds	135,870	136,483

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

	Group 2003 HK$'000	Group 2002 HK$'000
Corporate entities	136,876	137,493

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

	Group 2003 HK$'000	Group 2002 HK$'000
With a residual maturity of:		
Five years or less but over one year	136,876	137,493

17. LOANS

	Group 2003 HK$'000	Group 2002 HK$'000
Policy loans	194,868	164,739
Loans to officers, employees and agents	78,191	102,377
	273,059	267,116

The policy loans are made to policyholders and secured by the policies' cash surrender value. Policy loans are repayable at the discretion of the policyholders as long as the interest plus the principal 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.

Notes to financial statements

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18. REAL ESTATE

The Group's real estate is situated in Mainland China and is held under the following lease terms:

	2003 HK$'000	2002 HK$'000
Long term leases	3,589	3,589
Medium term leases	11,730	11,730
	15,319	15,319

19. DEFERRED TAX

The movement in the deferred tax asset during the year was as follows:

Deferred tax asset

Group

	2003 Losses available for offset against future taxable profits HK$'000
As at 1 January 2003	
As previously reported	—
Prior year adjustment:	
SSAP 12 - restatement of deferred tax	18,957
As restated	18,957
Deferred tax charged to the profit and loss account during the year	(8,007)
Gross and net deferred tax asset as at 31 December 2003	10,950

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19. DEFERRED TAX (continued)

Deferred tax asset

Group

	2002 Losses available for offset against future taxable profits HK$'000
As at 1 January 2002	
As previously reported	—
Prior year adjustment:	
SSAP 12 - restatement of deferred tax	25,840
As restated	25,840
Deferred tax charged to the profit and loss account during the year	(6,883)
Gross and net deferred tax asset as at 31 December 2002	18,957

As at 31 December 2003, there were no significant unrecognised deferred tax liabilities (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such amount be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax asset as at 31 December 2003 and 2002 by HK$10,950,000 and HK$18,957,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been decreased by HK$8,007,000 and HK$6,883,000, respectively, and the consolidated retained profits as at 1 January 2003 and 2002 have been increased by HK$18,957,000 and HK$25,840,000, respectively, as detailed in the consolidated statement of changes in equity.

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20. DEFERRED ACQUISITION COSTS

	Group	
	2003 HK$'000	2002 HK$'000
Balance as at beginning of year	1,507,518	1,673,418
Additions	198,703	180,586
Less: Amortisation	(302,948)	(346,486)
Change in deferred acquisition costs	(104,245)	(165,900)
Balance as at 31 December	1,403,273	1,507,518
Current portion	(301,257)	(293,429)
Non-current portion	1,102,016	1,214,089

21. SHORT TERM INVESTMENTS

	Group	
	2003 HK$'000	2002 HK$'000
Listed bonds, at market value:		
Hong Kong	917,683	578,792
Elsewhere	2,551,492	2,282,874
	3,469,175	2,861,666
Listed equity investments, at market value:		
Hong Kong	148,628	228,779
Elsewhere	190,106	6,307
	338,734	235,086
Listed unit trusts, at market value:		
Hong Kong	—	102,460
Unlisted unit trusts, at fair value	628,322	569,525
Unlisted mutual fund, at fair value	251,525	—
	4,687,756	3,768,737

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21. SHORT TERM INVESTMENTS (continued)

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

	Group	
	2003	**2002**
	HK$'000	**HK$'000**
Governments	624,798	308,585
Banks and other financial institutions	1,220,333	886,079
Corporate entities	1,624,044	1,667,002
Listed bonds	3,469,175	2,861,666

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

	Group	
	2003	**2002**
	HK$'000	**HK$'000**
With a residual maturity of:		
Three months or less	2,025	6
One year or less but over three months	8,725	86,048
Five years or less but over one year	1,585,349	1,527,705
Over five years	1,873,076	1,247,907
Listed bonds	3,469,175	2,861,666

As at 31 December 2003, the Group held bonds with a nominal amount of US$10,000,000 (2002: 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$92,929,000 (2002: HK$122,425,000) as at the balance sheet date.

During 2003, the Group sold US$4,000,000 (equivalent to HK$31,199,000) nominal value of its US$14,000,000 holding of PCCW Capital Limited bonds. In addition, the Group also sold US$4,000,000 (equivalent to HK$31,194,000) nominal value of its US$4,000,000 holding of PCCW-HKTC Capital Limited bonds which were purchased during the year. The Group recorded a gain totaling HK$10,087,000 from these two sales transactions for the year.

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22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
Cash and bank balances	310,111	341,073	138	95
Time deposits	178,869	158,663	12,567	9,742
	488,980	499,736	12,705	9,837

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

	Group		Company	
	2003 HK$'000	2002 HK$'000	2003 HK$'000	2002 HK$'000
With a residual maturity of:				
Three months or less	176,800	156,617	12,567	9,742
One year or less but over three months	2,069	2,046	—	—
	178,869	158,663	12,567	9,742

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	
	2003 HK$'000	2002 HK$'000
As at 1 January	3,737,508	3,578,132
Increase for the year	425,586	158,767
Currency realignment	(11,471)	609
As at 31 December	4,151,623	3,737,508

As at 31 December 2003, there is no current portion of amounts payable under financial reinsurance contracts (2002: HK$9,670,000), included in other insurance liabilities.

26. SHARE CAPITAL

	Company			
	2003		2002	
	Number of shares	Nominal value HK$'000	Number of shares	Nominal value HK$'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	821,350,000	821,350	822,154,000	822,154

During the year, the movements in share capital were as follows:

804,000 ordinary shares of HK$1.00 each were repurchased by the Company in April 2003 at prices ranging 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.

The repurchased shares were cancelled 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$512,000, was charged to the share premium account, as disclosed in the consolidated statement of changes in equity and in note 28 to the financial statements.

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

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27. SHARE OPTION SCHEMES

The Company operates share option schemes for the purpose of attracting, retaining and motivating talented participants to strive for future development and the 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.

Eligible participants of the share option scheme adopted on 16 June 1999 (the "Old Share Option Scheme") included (a) any employee as well as any executive director of the Group; and (b) any agent who had agreed by a contract in writing to render full-time and exclusive services to the Group and (for new options only) who had or would 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 was terminated with effect from 6 May 2002, no further options may be offered pursuant to this scheme, however for outstanding options in existence, the provisions of the Old Share Option Scheme remain in force.

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 was adopted on 6 May 2002, and unless otherwise cancelled or amended, will be valid and effective for a period of 10 years commencing from that date. During the year, a total of 40,180,000 share options were granted under the New Scheme.

As at 31 December 2003, the number of shares issuable under the New Scheme and the Old Share Option Scheme was 73,222,990, which represented approximately 8.91% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 73,222,990 additional ordinary shares of the Company and additional share capital of HK$73,222,990 and share premium of HK$168,689,663 (before issue expenses).

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.

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31 December 2003

27. SHARE OPTION SCHEMES (continued)

Each grant of options to a director, chief executive, substantial shareholder or any of their respective associates are subject to approval by the independent non-executive directors (excluding the independent non-executive director who is the grantee of the options) where any grant of options granted to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the securities issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value (based on the closing price of the Company's shares as at the date of each grant) in excess of HK$5 million, are subject to shareholders' approval in a general meeting. All connected persons of the Company must abstain from voting at such 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 must 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.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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27. SHARE OPTION SCHEMES (continued)

As at 31 December 2003, the Company had 73,222,990 (2002: 55,535,430) outstanding share options. Details of the share options outstanding during the year ended 31 December 2003 were as follows:

(i) Directors

Name of director	Number of share options: As at 1 January 2003	Granted during the year	Lapsed during the year	As at 31 December 2003	Date of grant of share options	Vesting period	Exercisable period of share options	Exercise price of share options HK$	Price of Company's shares as at grant date of options HK$
YUEN Tin Fan, Francis	19,440,000	—	—	19,440,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—
CHAN Ping Kan, Raymond	—	8,000,000	—	8,000,000	20 June 2003	20 June 2004 to 20 March 2006	20 June 2004 to 19 March 2011	1.62	1.61
ALLEN Peter Anthony	600,000	—	—	600,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—
CHEUNG Sum, Sam	—	4,000,000	—	4,000,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	2.05
CHUNG Cho Yee, Mico	2,280,000	—	—	2,280,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—
SO Wing Hung, Peter	—	4,000,000	—	4,000,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	2.05
BONNER John Todd [a]	16,560,000	—	(16,560,000)	—	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—
YANG Fan Shing, Andrew [b]	4,560,000	—	(4,560,000)	—	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—
	43,440,000	16,000,000	(21,120,000)	38,320,000					
(ii) Other employees									
In aggregate	2,355,600	—	(655,200)	1,700,400	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—
	432,000	—	(64,800)	367,200	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—
	—	9,420,000	—	9,420,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	2.05
	2,787,600	9,420,000	(720,000)	11,487,600					
(iii) Others (Agents)									
In aggregate	5,730,990	—	(426,600)	5,304,390	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—
	3,398,040	—	(84,000)	3,314,040	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—
	178,800	—	(51,840)	126,960	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—
	—	14,760,000	(90,000)	14,670,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	2.05
	9,307,830	14,760,000	(652,440)	23,415,390					
Total	55,535,430	40,180,000	(22,492,440)	73,222,990					

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27. SHARE OPTION SCHEMES (continued)

No share option was cancelled during the year ended 31 December 2003.

The price of the Company's shares disclosed as at the date of the grant of the share option was the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

Notes:

(a) Mr. BONNER John Todd resigned as a director of the Company effective 1 May 2003. His share options lapsed on 1 June 2003.

(b) Mr. YANG Fan Shing, Andrew resigned as a director of the Company effective 9 June 2003. His share options lapsed on 9 July 2003.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 47 of the financial statements.

The Group's contributed surplus 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 2003. The goodwill is stated at cost.

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28. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus (note (i)) HK$'000	(Accumulated losses)/retained profits HK$'000	Total HK$'000
Balance as at 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 (note (ii))		—	(8,222)	—	(8,222)
As at 31 December 2002		26,731	7,392	159	34,282
Shares repurchased and cancelled	26	(512)	—	—	(512)
Net profit for the year		—	—	95,623	95,623
Proposed final 2003 dividend		—	—	(49,281)	(49,281)
As at 31 December 2003		26,219	7,392	46,501	80,112

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 prudent regulations over the value of actuarial liabilities.

As at 31 December 2003, the Company had distributable reserves amounting to HK$53,893,000 (2002: HK$7,551,000).

29. CONTINGENT LIABILITIES

As at 31 December 2003, 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 (2002: Nil).

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31 December 2003

30. PENDING LITIGATION

On 21 September 2000, a writ was issued against a number of persons, including PCI 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 18 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from two to three 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.

As at 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Within one year	1,231	980
In the second to fifth years, inclusive	1,016	1,725
	2,247	2,705

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31. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

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

As at 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Within one year	19,397	30,975
In the second to fifth years, inclusive	32,081	2,476
	51,478	33,451

32. COMMITMENTS

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

	Group and Company	
	2003 HK$'000	2002 HK$'000
Contracted, but not provided for:		
Purchase of computer equipment	—	2,071
Service charge under an healthcare agreement	2,941	—

(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 2003 (2002: Nil).

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33. RELATED PARTY TRANSACTIONS

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

	Notes	Group 2003 HK$'000	Group 2002 HK$'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")		2,465	3,106
PCCW Services Limited		1,603	2,913
Pacific Century Systems Limited		427	486
Morningstar Asia Limited		98	184
Power Logistics Limited		96	78
The Hong Kong I-Education Limited		16	15
PCC Skyhorse Limited		(53)	246
Premium income in respect of group personal accident policy issued to:			
Pacific Century Systems Limited		32	35
		4,684	7,063
General insurance commission income received from The Ming An Insurance Company (Hong Kong), Limited	(ii)	6,961	8,728

Notes:

(i) The Group entered into a number of group life and medical policies with certain companies which are associates of Mr. Richard Li and Pacific Century Regional Developments Limited. 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 2003.

(ii) Pursuant to an agency agreement dated 1 November 1994 and subsequently replaced by an Agency Agreement effective from 1 January 2001, PCI was, with effect 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.

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

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33. RELATED PARTY TRANSACTIONS (continued)

(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 into 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.

(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, arranged 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. 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 2003, there was no accrued consideration payable to PCCWBeS (2002: HK$1,529,000).

(e) 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.

(f) As mentioned in note 24 to the financial statements, as at 31 December 2003, the Group had a total amount of HK$7,086,000 (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.

Notes to financial statements

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34. DISCONTINUING OPERATIONS

In June 2002, PCI entered into an agreement for the transfer of its MPF business to 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 2004.

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

	2003 HK$'000	2002 HK$'000
REVENUE		
Turnover	9,399	87,667
Investment gain/(loss)	11,771	(7,144)
Total revenue	21,170	80,523
OPERATING EXPENSES		
Policyholders' benefits	(90,020)	(97,033)
Agency commission and allowances	(69)	(858)
Management expenses	(1,738)	(1,329)
Total operating expenses	(91,827)	(99,220)
Decrease in future insurance liabilities	69,738	18,432
OPERATING LOSS BEFORE TAX	(919)	(265)
Tax	—	(927)
NET LOSS FOR THE YEAR	(919)	(1,192)

Notes to financial statements

31 December 2003

34. DISCONTINUING OPERATIONS (continued)

The carrying amounts of the total assets and liabilities of the MPF business as at 31 December 2003 and 31 December 2002 were as follows:

	2003 HK$'000	2002 HK$'000
Total assets	73,052	145,677
Total liabilities	(39,141)	(111,392)
Net assets	33,911	34,285

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

	2003 HK$'000	2002 HK$'000
Operating	(72,551)	(16,844)
Investing	70,960	16,687
Financing	—	—
Net cash outflows	(1,591)	(157)

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 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, a prior year adjustment has been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 February 2004.