

Pacific Century Insurance Holdings Limited

The directors of Pacific Century Insurance Holdings Limited (the "Company") would like to present the Interim Report and unaudited condensed accounts of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004. The consolidated results, consolidated statement of changes in equity and consolidated cash flow statement for the Group for the six months ended 30 June 2004, and the consolidated balance sheet as at 30 June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 14 to 32 of this report.

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Management discussion and analysis

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The consolidated net loss of the Group for the six months ended 30 June 2004 was HK\$ 118.3 million as compared to a profit of HK\$107.1 million for the same period in 2003. The consolidated net loss of the Group was after taking account of a marked to market unrealised net provision of HK\$142.4 million against the Group's investment portfolio on general and shareholders' funds.

For the period under review, first year premium from life insurance business increased by 17.8% to HK\$120.6 million, renewal premium from life insurance business increased by 3.9% to HK\$683.6 million and total premium from life insurance business increased by 5.8% to HK\$804.1 million. Policy conservation rate improved from 72% to 85% and renewal ratio improved from 95% to 98%. Expenses Ratio improved from 117% to 109%. Claim ratio went up to 92% from 78% but was still below our pricing basis.

Total operating expenses for the six months ended 30 June 2004 were reduced by 10.7% to HK\$624.3 million, mainly due to lower surrenders on life insurance business and savings in rental expenses and staff costs.

During the period under review, both the equity and bond markets were range bound with significant short term movement caused by highly volatile energy prices and speculation on interest rate rises and terrorist attacks. Our conservative investment strategy of keeping a high level of cash and short term bonds, limiting the equity exposure to less than 10% of the portfolio and a gradual increase in the investment in selective hedge funds was effective in limiting the downside in this highly uncertain investment environment. Since our investment portfolio is stated at market or fair value, the net investment loss on general and shareholders' funds of the Group was HK\$14.6 million, after taking account of an unrealised net provision of HK\$142.4 million.

Going forward while we continue with this prudent approach, we will increase the equity exposure by capitalising on any significant downturn in equity markets to build up a core portfolio of stocks with solid fundamentals. Our move into hedge funds which generated an annualised return of approximately 7% for the first half was rewarding and will continue. We believe that the world economy will continue to grow while addressing the short term economic imbalances and that our investment strategy, together with the team of experienced and capable investment managers, will generate in the medium and long term satisfactory returns to shareholders.

The Group managed its mortality and morbidity risks through setting up adequate reinsurance with reputable international reinsurers; investment risks through setting up prudent investment policy and making use of Value at Risk technique; and business risks through performing regular financial projections using third-party actuarial software.

CAPITAL ADEQUACY AND FINANCING

The Group's capital and reserves substantially exceeded the statutory capital adequacy requirements of the relevant regulatory authorities. During the first six months of the year, the Group had no borrowings and continued to generate positive cashflow. As at 30 June 2004, net cash generated from the Group's operating activities including investment amounted to HK\$288.9 million.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group has not experienced any exchange rate exposure, as our policies are mainly denominated in US Dollars and are currency matched with our investment portfolio.

2 Management discussion and analysis

SIGNIFICANT INVESTMENTS HELD

The following table shows the asset distribution of the general and shareholders' funds of the Group (excluding segregated funds):

	Fixed Interest	Mortgage & Loans	Cash	Equities	Others	Total
By Currency						
US\$	54.6%	3.2%	5.9%	5.1%	10.1%	78.9%
HK\$	5.4%	1.6%	6.2%	1.3%	0.1%	14.6%
Others	0.8%	0.0%	2.4%	3.3%	0.0%	6.5%
Total	60.8%	4.8%	14.5%	9.7%	10.2%	100.0%
By Geographical Area						
US	19.0%	0.0%	0.0%	1.4%	3.6%	24.0%
Europe	7.8%	0.0%	0.0%	0.0%	0.0%	7.8%
Japan	1.2%	0.0%	0.0%	0.0%	1.1%	2.3%
HK/China	12.6%	4.8%	14.5%	4.9%	0.4%	37.2%
Other Asia	18.6%	0.0%	0.0%	3.3%	0.0%	21.9%
Others	1.6%	0.0%	0.0%	0.1%	5.1%	6.8%
Total	60.8%	4.8%	14.5%	9.7%	10.2%	100.0%

AGENCY OPERATION

First year premium received from life insurance business was HK\$120.6 million, representing an increase of 17.8% over the same period last year. Renewal premium from life insurance business increased by 3.9% to HK\$683.6 million and total premium income from life insurance business increased by 5.8% to HK\$804.1 million.

During the period under review, the Group sold 14,866 policies and the number of agents in service as at the end of June was 1,138. Despite a drop in the number of agents and the number of policies sold, the annualised first year premium of the new policies sold during the period increased by 16.5% to HK\$122.7 million and the average productivity in terms of annualised first year premium per agent increased by 32.6% to HK\$17,100 per month.

It is the Group's intention to recruit both experienced and new agents and increase agent productivity. In order to enhance the quality of our agents, we provide comprehensive training on product knowledge and selling skills. In addition, we continue to take extra steps to provide superior services to our customers, design new products to suit customers' needs and enhance our corporate image to facilitate our agency force to generate new business.

Management discussion and analysis

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CHANGES IN THE COMPOSITION OF THE ENTERPRISE DURING THE INTERIM PERIOD

During the first six months of the year, there was no change in the composition of the Group and there were no acquisitions and disposals of subsidiaries and associated companies. The Group is principally engaged in the provision of an extensive range of whole life, endowment and term life insurance products to individuals in Hong Kong. The Group also provides a range of other related products, including accident, medical and disability insurance to individuals, group life and accident, medical and disability insurance, group retirement scheme management and general insurance products through agency arrangements. In addition, the Group engages in asset management business.

SEGMENTAL INFORMATION

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

(A) Long Term Business - Life Operations

We have introduced four new products and relaunched two existing products in the first half of 2004. The following are a brief description of the products launched:

- (i) Compass Target Saving Plan - this limited payment participating whole life product offers high investment return with guaranteed cash value and guaranteed periodic cash bonus. It is designed to meet long term protection and savings needs;
- (ii) Extra Care Protector @ 80 Plan - this product is a non-participating dread disease rider which covers 45 critical illnesses up to the insured age 80 with level premium;
- (iii) Well Being 5-year Endowment Plan - this is a single premium participating 5 year endowment plan;
- (iv) Pop Up Whole Life Saving Plan - this is a limited payment participating whole life product with high guaranteed cash values;
- (v) Smile Investment Life Insurance Plan - this is a non-participating unit-linked product designed to meet the needs of more sophisticated policyholders; and
- (vi) Wealth Accumulator Plan - this is a non-participating unit-linked product designed to meet saving needs of policyholders.

We have revamped the inflation protection of our products to better serve the inflation protection needs of our policyholders. Several new products are in the pipeline and we will continue to expand our product range and introduce new products to our customers to cater for their needs.

We aim to continually improve our service standards. For the six months ended 30 June 2004, we have established the Agency Service Centre to provide more efficient services to our agents. We are also expanding our premium collection facilities to enhance the services provided to our policyholders.

4 Management discussion and analysis

SEGMENTAL INFORMATION (continued)

(B) Long Term Business - Group Insurance

Total premium generated for the six months ended 30 June 2004 was HK\$32.0 million, an increase of 8.9% over the same period last year.

In January 2004, we successfully implemented our electronic claim settlement notices to improve our claim service efficiency.

In May 2004, we launched an optional clinical benefit for our Advantage Care Employee Benefit Plans to provide more flexibility to suit market needs.

We continue to promote our products and provide training programmes to equip our agents with updated knowledge to facilitate them in generating new business. In addition, we will expand our Health Care Card facilities to provide better services to our clients.

(C) Mandatory Provident Fund

As at 30 June 2004, there were 3,380 members with funds of HK\$32.2 million remained to be transferred to HSBC Life (International) Limited ("HSBC Life"). We are working with HSBC Life in transferring these remaining members and assets and it is expected that the whole process will be completed in 2005.

(D) General Insurance

The Division continued to act as an Underwriting Agent for Ming An Insurance Company (Hong Kong), Limited and General Agent for Asia Insurance Co. Ltd. The brokerage arm has been operating for over 1 year and has generated satisfactory results. For the six months under review, the Division received a total brokerage commission of HK\$5.9 million, representing an increase of 18.2% compared to the same period last year.

During the period under review, we have launched several promotional campaigns and contests to foster agents' production. We have also introduced a General Insurance scheme to the staff of our selected corporate clients.

We will continue to revamp our training courses to improve the technical knowledge of our agents and to better assist them in selling General Insurance products.

(E) PCI Investment Management Limited (PCIIM)

Total assets under management continued to grow steadily. Including the US\$500 million Synthetic Collateralised Debt Obligation (CDO) where PCIIM acts as the portfolio manager, funds under management was HK\$9.5 billion, increased by 5.4% from last year end. In early January, we successfully launched the PCIIM Emerging Market Bond Fund. In April, we launched the Eastern Explorer — a multi-strategy hedge fund focused mainly on Asian financial markets.

We have recently linked up with The Bank of East Asia, Limited to distribute our PCIIM funds. In addition, we will explore opportunities to widen our investment products and services. In order to achieve satisfactory performance for our clients, we will strengthen our investment team with experts specialising on technical analysis and risk management.

Management discussion and analysis

SEASONALITY/CYCLICALITY OF INTERIM OPERATIONS

Business is usually slower at the beginning of the year when both the calendar and Chinese New Year holidays shorten the market calendar. With the improved economy in Hong Kong and strong growth of the life insurance industry, we expect our business will grow steadily in the second half of the year.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRAINING SCHEMES

High quality employees are one of the most valuable assets in the financial services industry. Staff training and development will continue to take precedence as one of the management objectives.

The Group had 300 employees as at 30 June 2004, a decrease of 11.2% as compared to 31 December 2003. Staff costs for the first six months of 2004 was HK\$59.3 million, a decrease of 13.0% from the same period last year.

Regular training programmes are provided to employees. We place a high value on our employees and we encourage them to be the best in their roles. To achieve this, we provide training in diversified fields that address both personal developments needs and work practicability. In addition, our employees are encouraged to attend external courses to improve their knowledge which are relevant to their job duties.

We are committed to providing a suitable environment to continuously develop, motivate and retain talented and devoted individuals who contribute values to our Group.

The Group has also adopted an incentive management bonus scheme to motivate and reward employees based on merits and performance.

CORPORATE CITIZENSHIP

We are committed to giving back to the community. During the period under review, our corporate-giving focus was mainly children related; our supportive staff and agents donated HK\$1 million to the Community Chest to better the lives of thousands of children. Our Group has also donated 80 "TopMed Outpatient Plans" to 2 charitable organizations. We continue to execute our duties as a responsible corporate citizen by carrying out different volunteering activities.

DETAILS OF CHARGES ON GROUP ASSETS

As at 30 June 2004, the Group has no debt and has not committed to any borrowing facilities. There are no charges on any of the Group's assets.

FUTURE PLANS

The Group continues to strive at building up one of the largest and high calibre team of professional agents serving its customers with an extra step of caring by meeting each and every customer's unique needs in protection and financial planning.

In terms of business growth, the Group will explore various opportunities and channels to expand its business scope not only in products but its geographical presence in particular in the life insurance market in China.

6 Management discussion and analysis

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (June 2003: Nil).

INVESTOR RELATIONS

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: "0065"). Investor enquiries regarding the Company should be addressed to:

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Other information

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DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the directors' and chief executive's or their associates' interests in the share capital and underlying shares of the Company or its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Held by a trust		
YUEN Tin Fan, Francis	(a)	—	—	—	2,704,800	2,704,800	0.33
SO Wing Hung, Peter	(b)	—	—	—	276,000	276,000	0.03
ALLEN Peter Anthony		360,000	—	—	—	360,000	0.04
		360,000	—	—	2,980,800	3,340,800	0.40

Notes:

- (a) These shares are held under T.F. Yuen Trust, a discretionary trust of which Mr. YUEN Tin Fan, Francis is a founder.
- (b) These shares are held by a trust, the beneficiaries of which are the family members of Mr. SO Wing Hung, Peter.

The interests of the directors and the chief executive in the share options of the Company are separately disclosed in the section "Share Option Schemes".

8 Other information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Long positions in ordinary shares of the immediate holding company of the Company:

Pacific Century Regional Developments Limited ("PCRD")

Name of director	Number of shares held, capacity and nature of interest					Total	Percentage of the holding company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Held by a trust			
ALLEN Peter Anthony	5,010,000	—	—	—	—	5,010,000	0.16
CHUNG Cho Yee, Mico	8,000,000	—	—	—	—	8,000,000	0.26
	13,010,000	—	—	—	—	13,010,000	0.42

Long positions in underlying shares of the immediate holding company of the Company:

As at 30 June 2004, details of share options granted to the directors of the Company under the share option schemes of the immediate holding company of the Company were as follows:

PCRD

Name of director	Date of grant of share options	Exercisable period	Exercise price SGD	Number of Share Options				Outstanding as at 30 June 2004
				Outstanding as at 1 January 2004	Granted during the period	Exercised during the period	Lapsed/cancelled during the period	
ARENA Alexander Anthony	24 November 1999	25 October 2001 to 24 October 2009	0.7584	15,300,000	—	—	—	15,300,000

Save as disclosed above, none of the directors and/or the chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

For the six-month period ended 30 June 2004, the Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2004, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

Other information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the following companies or persons (other than a director or chief executive) had an interest or short position in the shares and the underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
LI Tzar Kai, Richard	(1)	370,352,700 (L)	45.08% (L)
PCRD	(2)	370,352,700 (L)	45.08% (L)
Ocean Star Investment Management Limited	(2)	370,352,700 (L)	45.08% (L)
Ocean Star Management Limited	(2)	370,352,700 (L)	45.08% (L)
OS Holdings Limited	(2)	370,352,700 (L)	45.08% (L)
Star Ocean Ultimate Limited	(2)	370,352,700 (L)	45.08% (L)
The Ocean Trust	(2)	370,352,700 (L)	45.08% (L)
The Ocean Unit Trust	(2)	370,352,700 (L)	45.08% (L)
The Starlite Trust	(2)	370,352,700 (L)	45.08% (L)
The Starlite Unit Trust	(2)	370,352,700 (L)	45.08% (L)
Pacific Century Group Holdings Limited	(2)	370,352,700 (L)	45.08% (L)
Pacific Century International Limited	(2)	370,352,700 (L)	45.08% (L)
Pacific Century Group (Cayman Islands) Limited	(2)	370,352,700 (L)	45.08% (L)
Anglang Investments Limited	(2)	370,352,700 (L)	45.08% (L)
China Insurance (Holdings) Company, Limited	(3)	91,060,000 (L)	11.08% (L)
King System Limited	(3)	49,907,200 (L)	6.08% (L)
Joyful Box Inc.	(3)	41,152,800 (L)	5.00% (L)
Andregina Holdings Limited	(4)	63,445,242 (L)	7.72% (L)
YANG Fan Shing, Andrew	(4)	63,445,242 (L)	7.72% (L)
Value Partners Limited	(5)	49,404,000 (L)	6.01% (L)
CHEAH Cheng Hye	(5)	49,404,000 (L)	6.01% (L)
J.P.Morgan Chase & Co.		58,212,000 (L)	7.09% (L)
J.P.Morgan Chase & Co.		5,944,000 (P)	0.72% (P)

Remarks: (L) - Long Position, (P) - Lending Pool

10 Other information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Notes:

- (1) These shares are indirectly held by the trustee of two unit trusts, the units of which are held by two discretionary trusts of which Mr. Li Tzar Kai, Richard is the founder.
- (2) Each of Ocean Star Investment Management Limited, Ocean Star Management Limited, OS Holdings Limited, Star Ocean Ultimate Limited, The Ocean Trust, The Ocean Unit Trust, The Starlite Trust, The Starlite Unit Trust, Pacific Century Group Holdings Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited ("PCGCI"), Anglang Investments Limited ("Anglang") is taken to have an interest under the SFO in the same 370,352,700 shares held by PCRD. PCGCI holds the entire issued share capital of Anglang and holds approximately 37.5% of PCRD. Anglang holds approximately 37.8% of PCRD.
- (3) China Insurance (Holdings) Company, Limited is taken to have an interest under the SFO in the same 91,060,000 shares, in aggregate, beneficially owned by Joyful Box Inc. and King System Limited.
- (4) Mr. YANG Fan Shing, Andrew is taken to have an interest under the SFO in the same 63,445,242 shares held by Andregina Holdings Limited.
- (5) Mr. CHEAH Cheng Hye is taken to have an interest under the SFO in the same 49,404,000 shares held by Value Partners Limited.

No share options of the Company were held by the above shareholders as at the balance sheet date.

Other information

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SHARE OPTION SCHEMES

As at 30 June 2004, the Company had 74,221,990 (as at 31 December 2003: 73,222,990) outstanding share options. Details of the share options outstanding during the period ended 30 June 2004 were as follows:

(i) Directors

Name of director	Number of share options					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	
	As at 1 January 2004	Granted during the period	Exercised during the period	Lapsed during the period	As at 30 June 2004					At grant date of share options HK\$	At exercise date of share 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	—
	38,320,000	—	—	—	38,320,000						

(ii) Other employees

In aggregate	1,700,400	—	—	(172,800)	1,527,600	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—
	367,200	—	—	—	367,200	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—
	9,420,000	—	(130,000)	(1,070,000)	8,220,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	2.05	3.46
	—	2,640,000	—	—	2,640,000	2 March 2004	2 March 2005 to 2 March 2007	2 March 2005 to 1 March 2012	3.84	3.775	—
	11,487,600	2,640,000	(130,000)	(1,242,800)	12,754,800						

12 Other information

SHARE OPTION SCHEMES (continued)

(iii) Others (Agents)

	Number of share options				As at 30 June 2004	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	
	As at 1 January 2004	Granted during the period	Exercised during the period	Lapsed during the period						At grant date of share options HK\$	At exercise date of share options HK\$
In aggregate	5,304,390	—	—	(71,400)	5,232,990	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—
	3,314,040	—	—	(46,800)	3,267,240	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—
	126,960	—	—	—	126,960	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—
	14,670,000	—	—	(150,000)	14,520,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	2.05	—
	23,415,390	—	—	(268,200)	23,147,190						
Total	73,222,990	2,640,000	(130,000)	(1,511,000)	74,221,990						

During the period ended 30 June 2004, 130,000 share options were exercised under the share option scheme adopted on 6 May 2002 and 2,640,000 share options were granted. No share option was cancelled and 1,511,000 share options were lapsed.

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 of the Company's shares on the trading day immediately before the date on which the share options were granted. The price of the Company's shares disclosed as at the date of the exercise of the share options was the weighted average of the Stock Exchange closing prices of the Company's shares immediately before the dates on which the share options were exercised.

The directors do not consider it appropriate to disclose the theoretical value of the share options granted during the six months ended 30 June 2004 because the directors are of the view that the theoretical value of the share options generally depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. Accordingly, the directors believe that any calculation of the value of share options will not be meaningful and may be misleading to shareholders in these circumstances.

Other information

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AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters for the six months ended 30 June 2004.

CORPORATE GOVERNANCE

The audit committee of the Company has reviewed the interim results for the six months ended 30 June 2004. All of the members of the audit committee are comprised of independent non-executive directors with related financial management expertise.

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30 June 2004, in compliance with Appendix 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period ended 30 June 2004, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's shares.

14 Condensed consolidated revenue and profit and loss account

for the six months ended 30 June 2004

	Notes	Unaudited six months ended	
		30/6/2004 HK\$'000	30/6/2003 HK\$'000
REVENUE			
Turnover		826,277	785,138
Investment income, net (losses)/gains, and other income		(4,388)	255,846
Total revenue and gains, net	2	821,889	1,040,984
Less: Reinsurance premiums		(77,286)	(87,081)
Net revenue		744,603	953,903
OPERATING EXPENSES			
Policyholders' benefits	3	(293,474)	(343,126)
Agency commission and allowances		(135,491)	(113,764)
Change in deferred acquisition costs	4	(59,511)	(77,966)
Management expenses		(134,661)	(160,050)
Other operating expenses		(1,131)	(3,821)
Total operating expenses		(624,268)	(698,727)
Increase in future insurance liabilities	5	(231,516)	(144,472)
OPERATING (LOSS)/PROFIT BEFORE TAX	6,7	(111,181)	110,704
Tax	8	(7,145)	(3,618)
NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS		(118,326)	107,086
DIVIDEND	9	—	—
(LOSS)/EARNINGS PER SHARE - BASIC	10	(14.41 cents)	13.03 cents
- DILUTED		(14.12 cents)	N/A

Condensed consolidated balance sheet

as at 30 June 2004

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	Notes	Unaudited 30/6/2004 HK\$'000	Audited 31/12/2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		216,439	220,993
Investments	11	137,488	136,876
Loans		266,147	273,059
Real estate		15,319	15,319
Deferred tax asset		5,482	10,950
Deferred acquisition costs	12	1,051,302	1,102,016
		1,692,177	1,759,213
CURRENT ASSETS			
Deferred acquisition costs	12	292,460	301,257
Premiums receivable		42,158	58,246
Prepayments and other debtors		119,739	128,690
Short term investments	13	4,606,769	4,687,756
Cash and cash equivalents		775,427	488,980
		5,836,553	5,664,929
CURRENT LIABILITIES			
Claims payable		(84,990)	(79,733)
Premium deposits	14	(96,698)	(83,104)
Accrued expenses and other creditors		(162,986)	(197,465)
Tax payable		(3,068)	(1,470)
Due to related companies		(5,847)	(7,086)
		(353,589)	(368,858)
NET CURRENT ASSETS		5,482,964	5,296,071
TOTAL ASSETS LESS CURRENT LIABILITIES		7,175,141	7,055,284
NON-CURRENT LIABILITIES			
Future insurance liabilities	15	(4,395,100)	(4,151,623)
Policyholders' dividends and bonuses		(610,574)	(566,854)
		(5,005,674)	(4,718,477)
		2,169,467	2,336,807

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Condensed consolidated balance sheet (continued)

as at 30 June 2004

	Notes	Unaudited 30/6/2004 HK\$'000	Audited 31/12/2003 HK\$'000
<hr/>			
CAPITAL AND RESERVES			
Issued capital	16	821,480	821,350
Reserves		1,347,987	1,466,176
Proposed final dividend		—	49,281
<hr/>			
		2,169,467	2,336,807
<hr/>			

Consolidated statement of changes in equity

for the six months ended 30 June 2004

	Note	Unaudited					Total HK\$'000
		Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Proposed dividends HK\$'000	Retained profits HK\$'000	
As at 1 January 2004		821,350	26,219	152,178	49,281	1,287,779	2,336,807
Final 2003 dividend declared		—	—	—	(49,281)	—	(49,281)
Issue of shares	16	130	137	—	—	—	267
Net loss for the period		—	—	—	—	(118,326)	(118,326)
As at 30 June 2004		821,480	26,356	152,178	—	1,169,453	2,169,467

		Unaudited					Total HK\$'000
		Issued capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Proposed dividends HK\$'000	Retained profits HK\$'000	
As at 1 January 2003		822,154	26,731	152,178	8,222	1,121,021	2,130,306
Final 2002 dividend declared		—	—	—	(8,222)	—	(8,222)
Share repurchase expenses		—	(7)	—	—	—	(7)
Shares repurchased and cancelled		(804)	(505)	—	—	—	(1,309)
Net profit for the period		—	—	—	—	107,086	107,086
As at 30 June 2003		821,350	26,219	152,178	—	1,228,107	2,227,854

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Condensed consolidated cash flow statement

for the six months ended 30 June 2004

	Unaudited six months ended	
	30/6/2004 HK\$'000	30/6/2003 HK\$'000
NET CASH FROM OPERATING ACTIVITIES	288,904	272,303
NET CASH USED IN INVESTING ACTIVITIES	(2,724)	(5,128)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	267	(1,316)
NET INCREASE IN CASH AND CASH EQUIVALENTS	286,447	265,859
Cash and cash equivalents as at beginning of period	486,911	497,690
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD	773,358	763,549
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	628,974	397,286
Non-pledged time deposits with original maturity of less than three months when acquired	144,384	366,263
	773,358	763,549

Notes to the condensed consolidated financial statements

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

The unaudited condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 2.125 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31 December 2003.

The unaudited condensed interim financial statements have been reviewed by the Audit Committee on 6 August 2004.

2. TOTAL REVENUE AND GAINS, NET

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 (losses)/gains and other income is as follows:

	Unaudited six months ended	
	30/6/2004	30/6/2003
	HK\$'000	HK\$'000
Revenue from:		
Life insurance business		
First year premium	120,566	102,306
Renewal premium	683,554	658,017
	804,120	760,323
Retirement scheme business	11,756	17,207
	815,876	777,530
Long term insurance business	5,908	4,997
General insurance business under agency agreements	4,493	2,611
Asset management business	826,277	785,138
Turnover	826,277	785,138

20 Notes to the condensed consolidated financial statements

2. TOTAL REVENUE AND GAINS, NET (continued)

	Unaudited six months ended	
	30/6/2004 HK\$'000	30/6/2003 HK\$'000
Investment income:		
General and shareholders' funds		
Interest income from listed investments	96,353	76,262
Interest income from banks and asset management businesses	290	4,244
Interest received from policy loans and loans to officers, employees and agents	8,900	10,188
Dividend income from listed investments	7,473	4,123
Investment handling charges	(2,035)	(1,552)
(Provision)/write-back for bad and doubtful debts	(17,867)	851
Others	765	608
	93,879	94,724
Segregated funds (note(i))		
Interest income from listed investments	89	147
Interest income from banks and asset management businesses	—	2
Investment handling charges	(1,550)	(1,463)
Others	779	668
	(682)	(646)
Investment income	93,197	94,078
Net (losses)/gains:		
Realised gains/(losses)		
General and shareholders' funds		
Realised gains on other listed investments	30,632	36,810
Realised gains on other unlisted investments	3,248	—
	33,880	36,810
Segregated funds (note(i))		
Realised losses on other listed investments	(19)	(12)
Realised gains on other unlisted investments	1,589	—
	1,570	(12)
Net realised gains	35,450	36,798

Notes to the condensed consolidated financial statements

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2. TOTAL REVENUE AND GAINS, NET (continued)

	Unaudited six months ended	
	30/6/2004	30/6/2003
	HK\$'000	HK\$'000
Net (losses)/gains:		
Unrealised (losses)/gains		
General and shareholders' funds		
Unrealised (losses)/gains on other listed investments	(133,914)	78,136
Unrealised gains arising from dealing in foreign currencies	—	44
Unrealised (losses)/gains on other unlisted investments	(8,478)	12,851
	(142,392)	91,031
Segregated funds (note(i))		
Unrealised losses on other listed investments	(121)	(100)
Unrealised (losses)/gains on other unlisted investments	(9,600)	18,812
	(9,721)	18,712
Net unrealised (losses)/gains	(152,113)	109,743
Net (losses)/gains	(116,663)	146,541
Investment income and net (losses)/gains		
General and shareholders' funds	(14,633)	222,565
Segregated funds (note(i))	(8,833)	18,054
	(23,466)	240,619
Other income:		
Provision for premiums receivable written back	4,114	6,184
Reinsurance commission income and refund	4,756	5,659
Others	10,208	3,384
Other income	19,078	15,227
Investment income and net (losses)/gains, and other income	(4,388)	255,846
Total revenue and net gains	821,889	1,040,984

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

Note:

- (i) The investment income and net losses amounted to a net loss of HK\$8,833,000 (2003: net gain of HK\$18,054,000) on segregated funds will be offset by a change in future insurance liabilities relevant to segregated fund policies, and has no impact on consolidated revenue and profit and loss accounts.

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3. POLICYHOLDERS' BENEFITS

	Unaudited six months ended	
	30/6/2004	30/6/2003
	HK\$'000	HK\$'000
Life insurance business:		
Death and disability claims	93,819	76,041
Surrenders	90,208	116,478
Maturities and periodic payments	42,248	25,696
Policyholders' dividends	47,424	47,754
	273,699	265,969
Retirement scheme business:		
Surrenders	19,775	77,157
	293,474	343,126

4. CHANGE IN DEFERRED ACQUISITION COSTS

	Unaudited six months ended	
	30/6/2004	30/6/2003
	HK\$'000	HK\$'000
Additions	(92,879)	(81,128)
Less: Amortisation	152,390	159,094
	59,511	77,966

5. INCREASE IN FUTURE INSURANCE LIABILITIES

	Unaudited six months ended	
	30/6/2004	30/6/2003
	HK\$'000	HK\$'000
Life insurance business	243,151	191,714
Retirement scheme business	(11,635)	(47,242)
	231,516	144,472

Notes to the condensed consolidated financial statements

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6. OPERATING (LOSS)/PROFIT BEFORE TAX

Operating (loss)/profit before tax is arrived at after charging:

	Unaudited six months ended	
	30/6/2004	30/6/2003
	HK\$'000	HK\$'000
Auditors' remuneration	752	18
Depreciation	7,603	9,085
Amortisation of deferred acquisition costs (note (i), and note 12)	152,390	159,094
Minimum lease payments under operating lease rentals on land and buildings	10,198	21,018
Staff costs (directors' remuneration included)	59,281	68,136
Loss on disposal of fixed assets	—	3,821
and after crediting:		
Gain on disposal of fixed assets	325	—

Note:

- (i) The amortisation of deferred acquisition costs for the period is included in "Change in deferred acquisition costs" on the face of the profit and loss account, as disclosed in note 12 to the financial statements

7. OPERATING (LOSS)/PROFIT BEFORE TAX BY ACTIVITY

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

	Unaudited six months ended	
	30/6/2004	30/6/2003
	HK\$'000	HK\$'000
Life insurance business	(110,540)	115,361
Retirement scheme business	(1,262)	(2,118)
General insurance business under agency agreements	2,801	459
Asset management business (note (i))	(2,180)	(2,998)
Operating (loss)/profit before tax	(111,181)	110,704
Note:		
(i) Income from operations - asset management	15,692	12,256
Less: Intra-Group Income	(11,199)	(9,645)
	4,493	2,611
Operating expenses before tax	(6,673)	(5,609)
	(2,180)	(2,998)

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

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8. TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits solely arising from the asset management business conducted in Hong Kong during the period. 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% 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 period.

	Unaudited six months ended	
	30/6/2004	30/6/2003
	HK\$'000	HK\$'000
Current - Hong Kong		
Charge for the period	1,578	1,063
Overprovision in prior year	—	(545)
Current - Elsewhere	99	99
Deferred		
Charge for the period	5,468	3,001
Total tax charge for the period	7,145	3,618

9. DIVIDEND

The directors do not recommend payment of any dividend in respect of the period. (June 2003: Nil).

10. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$118,326,000 (June 2003: net profit of HK\$107,086,000) and the weighted average of 821,369,000 (June 2003: 821,796,000 shares) ordinary shares in issue during the period.

The calculation of diluted loss per share for the current period is based on the net loss attributable to shareholders for the period of HK\$118,326,000. The weighted average number of ordinary shares used in the calculation is 821,369,000 ordinary shares in issue during the period, as used in the basic loss per share calculation, and the weighted average of 16,749,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

Diluted earnings per share for the six months ended 30 June 2003 has not been disclosed, as no diluting events existed during that period.

Notes to the condensed consolidated financial statements

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11. INVESTMENTS

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
Bonds held-to-maturity, at amortised cost listed elsewhere than Hong Kong	137,488	136,876
Market value of listed held-to-maturity bonds	136,477	135,870

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

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
Corporate entities	137,488	136,876

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

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
With a residual maturity of:		
Five years or less but over one year	137,488	136,876

12. DEFERRED ACQUISITION COSTS

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
Balance as at beginning of period/year	1,403,273	1,507,518
Additions	92,879	198,703
Less: Amortisation	(152,390)	(302,948)
Change in deferred acquisition costs	(59,511)	(104,245)
Balance as at end of period/year	1,343,762	1,403,273
Current portion	(292,460)	(301,257)
Non-current portion	1,051,302	1,102,016

26 Notes to the condensed consolidated financial statements

13. SHORT TERM INVESTMENTS

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
Listed bonds, at market value:		
Hong Kong	726,119	917,683
Elsewhere	2,505,194	2,551,492
	3,231,313	3,469,175
Listed equity investments, at market value:		
Hong Kong	71,542	148,628
Elsewhere	210,502	190,106
	282,044	338,734
Listed unit trusts, at market value:		
Hong Kong	—	—
Unlisted unit trusts, at fair value	550,143	628,322
Unlisted mutual funds, at fair value	543,269	251,525
	4,606,769	4,687,756

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

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
Governments	465,461	624,798
Banks and other financial institutions	1,344,516	1,220,333
Corporate entities	1,421,336	1,624,044
Listed bonds	3,231,313	3,469,175

Notes to the condensed consolidated financial statements

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13. SHORT TERM INVESTMENTS (continued)

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

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
With a residual maturity of:		
Three months or less	7,786	2,025
One year or less but over three months	55,824	8,725
Five years or less but over one year	1,417,043	1,585,349
Over five years	1,750,660	1,873,076
Listed bonds	3,231,313	3,469,175

As at 30 June 2004, the Group held bonds with a nominal amount of US\$10,000,000 (December 2003: US\$10,000,000) issued by PCCW Capital Limited, which have a maturity date in 2005. The market value of these bonds amounted to HK\$92,906,000 (December 2003: HK\$92,929,000) as at the balance sheet date. During the periods ended 30 June 2004 and 2003, the Group had not sold or purchased any PCCW Capital Limited bonds.

14. PREMIUM DEPOSITS

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

15. FUTURE INSURANCE LIABILITIES

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
Life insurance business		
Balance as at beginning of period/year	3,959,568	3,492,814
Increase for the period/year	243,151	478,225
Currency realignment	11,961	(11,471)
Balance as at end of period/year	4,214,680	3,959,568
Retirement scheme business		
Balance as at beginning of period/year	192,055	244,694
Decrease for the period/year	(11,635)	(52,639)
Balance as at end of period/year	180,420	192,055
Balance as at end of period/year	4,395,100	4,151,623

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16. SHARE CAPITAL

	Unaudited as at 30/6/2004		Audited as at 31/12/2003	
	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	821,350,000	821,350
Exercise of share options	130,000	130	—	—
	821,480,000	821,480	821,350,000	821,350

During the period, 130,000 share options were exercised by eligible option holders at a subscription price of HK\$2.05 per share for a total cash consideration of HK\$266,500 resulting in the issue of 130,000 new ordinary shares of HK\$1.00 each.

Save as disclosed above, at no time during the period was there any purchase, sale or redemption by the Company, or any of its subsidiary companies, of the Company's shares.

17. CONTINGENT LIABILITIES

As at 30 June 2004, the Group and the Company had no material contingent liabilities other than as set out below in note 18 and contingencies arising from the ordinary course of the long term insurance business (December 2003: Nil).

18. 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 vigorously defend 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.

Notes to the condensed consolidated financial statements

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19. 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 in 2005.

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

	Unaudited six months ended	
	30/6/2004	30/6/2003
	HK\$'000	HK\$'000
REVENUE		
Turnover	546	7,620
Investment gain	64	4,396
Total revenue	610	12,016
OPERATING EXPENSES		
Policyholders' benefits	(8,772)	(59,888)
Agency commission and allowances	(1)	(63)
Management expenses	(5)	(260)
Total operating expenses	(8,778)	(60,211)
Decrease in future insurance liabilities	8,296	48,421
OPERATING PROFIT BEFORE TAX	128	226
Tax	—	—
NET PROFIT FOR THE PERIOD	128	226

The carrying amounts of the total assets and liabilities of the MPF business as at 30 June 2004 were as follows:

	Unaudited as at	Audited as at
	30/6/2004	31/12/2003
Total assets	64,676	73,052
Total liabilities	(30,637)	(39,141)
Net assets	34,039	33,911

30 Notes to the condensed consolidated financial statements

19. DISCONTINUING OPERATIONS (continued)

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

	Unaudited six months ended	
	30/6/2004 HK\$'000	30/6/2003 HK\$'000
Operating	(50)	(832)
Investing	—	—
Financing	—	—
Net cash outflow	(50)	(832)

20. RELATED PARTY TRANSACTIONS

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

	Notes	Unaudited six months ended	
		30/6/2004 HK\$'000	30/6/2003 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)	1,833	2,690
PCCW Services Limited		1,884	1,603
Pacific Century Systems Limited		482	427
Power Logistics Limited		68	96
The HK I-Education Limited		3	16
Premium income in respect of group personal accident policy issued to:			
Pacific Century Systems Limited		2	30
		4,272	4,862
General insurance business income received from The Ming An Insurance Company (Hong Kong), Limited	(ii)	5,242	4,469

Notes to the condensed consolidated financial statements

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20. RELATED PARTY TRANSACTIONS (continued)

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 would not exceed 2% of the total turnover of the Group for the year ending 31 December 2004.
- (ii) Pursuant to an agency agreement dated 1 November 1994 and subsequently replaced by an Agency Agreement effective from 1 January 2001, Pacific Century Insurance Company Limited, a wholly-owned subsidiary of the Group, was, with effect from 1 January 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.

- (b) 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 are repayable on a monthly instalment basis.

The transactions mentioned in (a) above constitute connected transactions under the Listing Rules.

21. COMMITMENTS**(a) Capital commitments**

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
<hr/>		
Contracted, but not provided for:		
Service charge under an healthcare agreement	2,101	2,941
Authorised, but not contracted for:		
Purchase of computer equipment	2,695	—
	<hr/> 4,796 <hr/>	2,941

32 Notes to the condensed consolidated financial statements

21. 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 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 30 June 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
Within one year	1,140	1,231
In the second to fifth years, inclusive	475	1,016
	1,615	2,247

(ii) 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 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited as at 30/6/2004 HK\$'000	Audited as at 31/12/2003 HK\$'000
Within one year	18,358	19,397
In the second to fifth years, inclusive	23,951	32,081
	42,309	51,478