

Pacific Century Insurance Holdings Limited

The board of directors (the “Board”) 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 2005. The consolidated results, consolidated statement of changes in equity and consolidated cash flow statement for the Group for the six months ended 30 June 2005, and the consolidated balance sheet as at 30 June 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 19 to 58 of this report.

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Management discussion and analysis

Operational Review

The Group continues to maintain growth momentum and achieved 47% increase in annualised first year premium on individual new business to HK\$180.3 million for the period under review. As a result of adoption of HKFRS 4 since 1 January 2005, the effect of which is summarised in note 1 to the condensed consolidated financial statements, single and first year premium increased 10.3% to HK\$120.6 million, renewal premium increased 5.1% to HK\$718.4 million and total premium increased by 5.8% to HK\$839.0 million.

Investment income, net gains, and other income were HK\$228.7 million as compared to a net loss of HK\$0.9 million for the same period last year. Annualised yield on the general and shareholders' funds was 5.7% for the six months ended 30 June 2005.

Management expenses increased 7.3% to HK\$147.2 million, mainly due to higher rental and agency related costs as a result of expansion. Expense ratio increased slightly to 112.2% from 110.1% for the same period last year. However, total operating expenses only increased 1.0% to HK\$614.2 million.

New policy conservation rate improved from 85.2% to 88.3% and renewal ratio improved from 98.4% to 98.8%. Claim ratio went up to 99.6% from 93.6% but was still below our pricing assumption.

The consolidated net profit of the Group for the six months ended 30 June 2005 was HK\$71.3 million as compared to net loss of HK\$120.8 million for the same period last year. The Board has declared an interim dividend for the six months ended 30 June 2005 of HK\$0.01 per share (2004 : nil).

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.

Agency Operations

The number of agents as at 30 June 2005 increased to 1,404 from 1,268 as at end of 2004, representing a net increase of 10.7%. Individual annualised first year premium for the first six months of 2005 was HK\$180.3 million, an increase of 47.0% over the same period of 2004. The agency force has been stabilised for the period under review with an annualised agent turnover rate of 37%. Agent productivity in terms of annualised first year premium per agent was HK\$23,300 per month, an increase of 36.3% as compared to same period last year.

Looking ahead, we will continue to expand our agency force, recruit more new and experienced agents, and provide superior service and training programmes to our agents to improve productivity.

Management discussion and analysis *(continued)*

Life Operations

As at 30 June 2005, the total number of inforce policies was 281,386 compared to 277,489 at end of 2004. During the first six months of 2005, 16,899 new policies were sold as compared to 14,866 for the same period of 2004. Single and first year premium of Individual Business increased 9.6% to HK\$117.2 million, renewal premium increased 6.7% to HK\$697.9 million and total premium increased 7.1% to HK\$815.2 million. New policy conservation rate improved from 85.2% to 88.3% and renewal ratio improved from 98.4% to 98.8%.

We introduced three new products in the first half of 2005, which have been well received by our customers. The following is a brief description of the products launched: -

- (i) Easy Life Saving Plan – this is a single premium whole life plan with guaranteed cash value;
- (ii) Wealth Smart Plan – this is a regular premium non-participating unit-linked product designed to meet medium to long term savings needs of policyholders;
- (iii) Compass Target Saving Plan – this is an extension of current products to a 12-year payment term. It is a participating whole life product that offers high investment return with guaranteed cash value and guaranteed periodic cash bonus. It is designed to meet long term protection and savings needs.

A project was launched in the first half of 2005 to revamp our computer system to provide effective and efficient service to our policyholders. It is expected that the whole project will be completed in the next three years.

Group Insurance

Total premium generated for the six months ended 30 June 2005 was HK\$23.9 million, a decrease of 25.5% over the same period last year.

In April 2005, we successfully implemented an internet enquiry service to provide policy benefits, billing and claim information to agents and clients.

We will continue to promote our products and provide training programmes to equip our agents with updated knowledge to facilitate them in generating new business.

Mandatory Provident Fund

As at 30 June 2005, there were 1,912 members with funds of HK\$21.4 million remaining 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 within this year.

Management discussion and analysis *(continued)*

General Insurance

The General Insurance 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\$5.6 million, representing a decrease of 5.3% compared to the same period last year.

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.

PCI Investment Management Limited (“PCIIM”)

The first half of 2005 was an extremely difficult and volatile period for investment. While short term interest rate in the US rose gradually from 2.25% to 3.25% over the period, the benchmark 10-year treasury yield shot up sharply in March before easing back in the second quarter. In addition, credit spread widened dramatically when the news of auto sector rating downgrade broke out. Global stock markets also experienced significant swings but closed virtually unchanged in US dollar terms for the first six months of 2005.

Recent data showed that the global economy is still in relatively good shape amid rising interest rates and high oil prices. Inflation so far has been well contained. Many corporates are expected to continue to achieve earnings growth.

Our investment focus in the second half year will still be Asian markets as we believe improving domestic economies, strong liquidity flow and currency appreciation potential will continue to underpin these markets. We will closely monitor our portfolio mix with a view to achieving our target return of 7% per annum in the medium to long term.

As of the end of June 2005, there were a total of HK\$11.7 billion funds under management, representing an increase of 3.5% from the end of last year, or 23.2% over the last 12 months.

In April 2004, we launched Eastern Explorer, a multi-strategy alternative investment fund with a focus on Asian financial markets. The fund has performed well and has achieved consistent positive returns since launch. The satisfactory performance of this fund has attracted a lot of interest and enquiries from local and overseas investors.

Management discussion and analysis *(continued)*

China Investment

In June this year, the Group subscribed for an Exchangeable Note for HK\$508.3 million. The Note gives the Group the right to exchange into the entire issued share capital of two PRC companies which together hold a 22.09% interest in Sino Life Insurance Co., Ltd. (“Sino Life”). In the event that 3 representatives from the Group are not appointed to the board of Sino Life by 3 October 2005, the Note will be cancelled and the Group will receive back the principal plus 2 months of interest. The appointment of our representatives to the board of Sino Life is now pending for approval by the China Insurance Regulatory Commission. Because of the controls on foreign ownership of insurance business currently existing under the PRC law, there is no certainty as to if and when the Group will be able to exercise its exchange right.

Sino Life is a company incorporated in the PRC in 2002 and is principally engaged in the provision of individual and group life business in the PRC. Sino Life already had branches in Shanghai, Beijing, Nanjing, Hangzhou, Chengdu, Wuhan, Shenyang and Dalian as at the end of last year and plans to open more branches in 2005 and beyond.

The Group believes that Sino Life has a strong capital base and has set up a good platform which can expand its life insurance business rapidly in the PRC. This investment provides a good opportunity for the Group to participate indirectly in the anticipated rapidly expanding market in the PRC, which we expect to generate a good return to the Group in the long term.

Human Resources

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 294 employees as at 30 June 2005, an increase of 2.1% over 288 at end of 2004. Total remuneration (excluding directors’ fees) for the first six months of 2005 was HK\$61.5 million, as compared to HK\$60.9 million for the same period last year. The Group ensures that the pay levels of its employees are competitive and rewarded on a performance related basis.

We place a high value on our employees and encourage them to enhance their knowledge in job related fields and management skills for their personal career developments.

Management discussion and analysis *(continued)*

Capital Adequacy and Financing

The Group's capital and reserves substantially exceeded the solvency margin requirements of the local regulatory authority. Net cash generated from the Group's operating activities including investment amounted to HK\$257.9 million for the period under review.

As at 30 June 2005, the Group has interest-bearing loans representing a 10-year bond issued in December 2004 as disclosed in the Group's 2004 annual report.

As at 30 June 2005, the gearing ratio of the Group was 31.9%. Gearing ratio is the ratio of interest-bearing loans to capital and reserves.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group sold life insurance policies in US\$ or HK\$ and its liabilities were all denominated in these currencies. As at 30 June 2005, majority of the Group's assets are denominated in either US\$ or HK\$ with the exception of HK\$630.0 million equivalent held in Asian equities and Asian currencies. As the surplus of the Group far exceeded the amount of foreign currency assets held, hedging of foreign currencies were deemed unnecessary.

Risk Management

(a) Insurance risks

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents, and related risks. The Group retains a maximum of US\$100,000 for each risk it insures, with the excess being reinsured through surplus treaty, coinsurance treaties, facultative reinsurance, and catastrophe treaties with reputable international reinsurers. Consequently, total claims payable in any given year can be predicted with a high degree of precision. Over the last five years, the actual claims in each year have been better than expected. As part of our quality control process, the Group regularly invites reinsurers to audit our underwriting and claim practices and procedures, to ensure that they meet the highest industry standards.

(b) Product risks

Our products are designed to meet our internal profitability requirements. Our Product Actuary and senior management sign off and approve individual products. Profitability levels on new and existing products are reviewed from time to time to ensure that desired profit requirements can be maintained. When actual experience shows significant deviation from the pricing assumptions, the products will be revised to reflect the updated experience.

Management discussion and analysis *(continued)*

Risk Management *(continued)*

(c) Business risks

The Group uses third-party actuarial software “Prophet” to perform, on a regular basis, long-term projections of our profit and loss positions using a variety of business scenarios. Such long-term projections have enabled the Group to better understand the impact of the changing business environment on our financial results and capital requirement and have, over the years, assisted us in our decision making in anticipation of such changes.

(d) Investment risks

In response to the rising interest rate environment, we have always adopted a prudent and conservative investment strategy. Invested assets required to support the Group's insurance liabilities are mainly managed by PCIIM. During 2004, the Group repositioned its asset allocations for General and Shareholders' funds to cater for a possible upward interest rate movement. With current bond holdings of 45.1% of the total portfolio, coupled with the shortened duration of approximately 4 years, the financial effect of interest rate increases will be greatly reduced. Equity investments now made up 15.5% of our investment portfolio. The Group also invested 12.9% of its portfolio in hedge funds, which performed well. Discussions of financial risk management are disclosed in note 18 to the condensed consolidated financial statements.

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\$	39.6%	2.7%	8.2%	6.8%	13.0%	70.3%
HK\$	5.5%	1.2%	11.0%	3.1%	0.1%	20.9%
Others	0.0%	0.0%	3.2%	5.6%	0.0%	8.8%
Total	45.1%	3.9%	22.4%	15.5%	13.1%	100.0%
By Geographical Area						
US	10.2%	0.0%	0.0%	1.4%	4.5%	16.1%
Europe	5.6%	0.0%	0.0%	0.4%	0.0%	6.0%
Japan	0.0%	0.0%	0.0%	0.0%	0.9%	0.9%
HK/China	11.6%	3.9%	22.4%	8.1%	3.1%	49.1%
Other Asia	13.7%	0.0%	0.0%	5.5%	0.0%	19.2%
Others	4.0%	0.0%	0.0%	0.1%	4.6%	8.7%
Total	45.1%	3.9%	22.4%	15.5%	13.1%	100.0%

Management discussion and analysis *(continued)*

Details of charges on Group Assets

As at 30 June 2005, there were no charges on any of the Group's assets.

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. 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 also engages in asset management business.

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.

Corporate Citizenship

We are committed to giving back to the community. We would continue to execute our duties as a responsible corporate citizen by carrying out different volunteering activities.

Future Plans

We believe that the demand for insurance protection in Hong Kong will continue to grow, in particular, the Government of the Hong Kong Special Administrative Region is now advancing its health care reform plan and has released a consultation paper on "Building a Healthy Tomorrow".

We will continue to expand our strong base in Hong Kong by recruiting more high calibre professional agents to serve our customers by "Taking An Extra Step", developing more new products to suit different needs of our customers and setting up new channels to expand our business scope.

In addition, we will continue to devote our resources and effort to develop our business in China.

Management discussion and analysis *(continued)*

Interim Dividend

The Board has declared an interim dividend for the six months ended 30 June 2005 of HK\$0.01 per share (2004 : nil). The dividend will be payable on or about Friday, 30 September 2005 to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 23 September 2005.

Closure of Register of Members

The Register of Members of the Company will be closed from Tuesday, 20 September 2005 to Friday, 23 September 2005, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend mentioned above, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 16 September 2005.

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:

Investor Relations
Pacific Century Insurance Holdings Limited
Suite 1401-1410
14/F., One Pacific Place
88 Queensway, Admiralty
Hong Kong

Tel: (852) 2591-8888 or
E-mail Address: pcimkt@pcihl.com
Information may also be assessed on our Internet homepage at
<http://www.pcihl.com>

Other information

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2005, 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 Issuers (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)	—	—	—	21,204,800	21,204,800	2.58
SO Wing Hung, Peter	(b)	—	—	—	276,000	276,000	0.03
Peter Anthony ALLEN		360,000	—	—	—	360,000	0.04
		360,000	—	—	21,480,800	21,840,800	2.65

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 note 24 to the condensed consolidated financial statements.

Other information *(continued)*

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			
Peter Anthony ALLEN	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 PCRD:

Details of share options granted to the directors of the Company under the share option schemes of PCRD were as follows:

Name of director	Date of grant of share options	Vesting Period	Exercisable Period	Exercise price SGD	Number of Share Options				
					Outstanding as at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding as at 30 June 2005
Alexander Anthony ARENA	24 November 1999	25 October 2001 to 25 October 2005	25 October 2001 to 24 October 2009	0.7584	15,300,000	—	—	—	15,300,000

Save as disclosed above, as at 30 June 2005, 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.

Other information *(continued)*

Director's Rights to Acquire Shares

Save as disclosed in the heading "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above and the heading "Share Option Schemes" in note 24 to the condensed consolidated financial statements, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules on 9 August 2004. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2005 and all of them confirmed that they have fully complied with the required standard set out in the Model Code.

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

As at 30 June 2005, 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)	385,797,942 (L)	46.97% (L)
PCRD	(2)	383,797,942 (L)	46.73% (L)
Ocean Star Investment Management Limited	(2)	383,797,942 (L)	46.73% (L)
Ocean Star Management Limited	(2)	383,797,942 (L)	46.73% (L)
OS Holdings Limited	(2)	383,797,942 (L)	46.73% (L)
Star Ocean Ultimate Limited	(2)	383,797,942 (L)	46.73% (L)
The Ocean Trust	(2)	383,797,942 (L)	46.73% (L)
The Ocean Unit Trust	(2)	383,797,942 (L)	46.73% (L)
The Starlite Trust	(2)	383,797,942 (L)	46.73% (L)
The Starlite Unit Trust	(2)	383,797,942 (L)	46.73% (L)
Pacific Century Group Holdings Limited	(2)	383,797,942 (L)	46.73% (L)
China Insurance (Holdings) Company, Limited	(3)	91,060,000 (L)	11.09% (L)
King System Limited	(3)	49,907,200 (L)	6.08% (L)
Joyful Box Inc.	(3)	41,152,800 (L)	5.01% (L)

Remarks: (L) – Long Position

Other information *(continued)*

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares *(continued)*

Notes:

- (1) These interests represent Mr. Li Tzar Kai, Richard's deemed interests in: (a) 2,000,000 shares held by Pacific Century Diversified Limited, a wholly-owned subsidiary of Chiltonlink Limited, which is 100% owned by Mr. Li Tzar Kai, Richard; and (b) 383,797,942 shares indirectly held by the trustee of two unit trusts (see note 2 below), 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 Management Limited, OS Holdings Limited, Star Ocean Ultimate Limited, The Ocean Trust, The Ocean Unit Trust, The Starlite Trust, The Starlite Unit Trust and Pacific Century Group Holdings Limited ("PCGH") is deemed to have an interest under the SFO in the same 383,797,942 shares held by PCRD as it holds, directly or indirectly, a controlling interest in PCRD. Ocean Star Investment Management Limited is deemed under the SFO to have an interest in the same 383,797,942 shares held by PCRD by virtue of it being the manager of The Starlite Unit Trust and The Ocean Unit Trust which together hold 100% of the shares of PCGH. As at 30 June 2005, PCGH's controlling interest in PCRD was held through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.33% 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.

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

Share Option Schemes

The share options granted during the period to the directors, employees and others are detailed in note 24 to the condensed consolidated financial statements.

Other information *(continued)*

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2005, the Company repurchased its shares through the Stock Exchange as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate price paid HK\$'000
		Highest HK\$	Lowest HK\$	
January 2005	160,000	3.00	2.975	480
May 2005	810,000	3.125	3.10	2,516
	970,000			2,996

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\$2,039,000, was charged to the share premium account. Further details of these transactions are set out in note 23 to the condensed consolidated financial statements.

The repurchase of the Company's shares during the six months ended 30 June 2005 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.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2005.

Corporate Governance

The Company is committed in maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole.

Other information *(continued)*

Corporate Governance *(continued)*

Board of Directors

The Board consists of the Chairman, the Managing Director, seven executive directors, one non-executive director and three independent non-executive directors. The Board sets the overall direction, strategy and policies for the Company.

As at 8 August 2005, the Board comprised of the following directors:

Chairman:

- YUEN Tin Fan, Francis

Managing Director:

- CHAN Ping Kan, Raymond

Executive Directors:

- SO Wing Hung, Peter (*Chief Operating Officer*)
- CHEUNG Sum, Sam (*Chief Financial Officer*)
- Peter Anthony ALLEN
- Alexander Anthony ARENA
- CHUNG Cho Yee, Mico
- FENG Xiaozeng
- ZHENG Chang Yong

Non-Executive Director:

- WANG Xianzhang

Independent Non-Executive Directors:

- Professor CHANG Hsin Kang
- Timothy George FRESHWATER
- Professor WONG Yue Chim, Richard

Other information *(continued)*

Corporate Governance *(continued)*

Board of Directors *(continued)*

The role of the Chairman is separate from that of the Managing Director so as to strengthen their respective independence of responsibilities. Whilst the Chairman is responsible for overseeing effective functioning of the Board, with good corporate governance practices and procedures, the Managing Director is responsible for the day to day management of the Company.

The non-executive directors, with a majority of independent non-executive directors, are all seasoned individuals from diversified backgrounds and industries. With their expertise, they offer independent judgement and advice on the overall management of the Company and the independent non-executive directors are also responsible to maintain a balance between the interests of the minority shareholders and the Company as a whole.

Meetings of the Board are held regularly and at least four times a year at approximately quarterly intervals. All directors have full and timely access to all relevant information prior to each board meeting.

The Board has appointed a number of committees consisting of certain executive and independent non-executive directors. The following are the principal committees:

Executive Committee

The Executive Committee of the Board meets regularly and operates as a general management committee under the direct authority of the Board. It is responsible for the implementation of the strategy and policies set by the Board under the leadership of the Chairman.

Members of the Executive Committee include:

- YUEN Tin Fan, Francis *(Chairman)*
- CHAN Ping Kan, Raymond *(Managing Director)*
- SO Wing Hung, Peter *(Chief Operating Officer)*
- CHEUNG Sum, Sam *(Chief Financial Officer)*

Other information *(continued)*

Corporate Governance *(continued)*

Investment Committee

The Investment Committee meets on a regular basis to review the current investment climate and make investment decisions in accordance with such policies and directions as the Board may from time to time determine. The Investment Committee comprises of all the members of the Executive Committee and two senior management of PCIIM whom have extensive experience in the investment industry:

- YUEN Tin Fan, Francis (*Chairman*)
- CHAN Ping Kan, Raymond (*Managing Director*)
- SO Wing Hung, Peter (*Chief Operating Officer*)
- CHEUNG Sum, Sam (*Chief Financial Officer*)
- FUNG Yiu Fai, Herman (*Managing Director of PCIIM*)
- WU Chi Keung, Walter (*Executive Director of PCIIM*)

Audit Committee

The Audit Committee is responsible for reviewing the financial reporting and internal controls of the Company. All of the three members of the Audit Committee are independent non-executive directors and they possess appropriate professional qualifications and experience in financial matters.

Members of the Audit Committee include:

- Professor WONG Yue Chim, Richard (*Chairman*)
- Professor CHANG Hsin Kang
- Timothy George FRESHWATER

The Audit Committee meets at least four times a year to review, together with the senior management and the internal auditors, the financial statements and the internal audit reports, the accounting principles and practices adopted by the Company, statutory compliance and other financial reporting matters.

The Audit Committee is also responsible for making recommendations to the Board on the appointment, re-appointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of the auditor.

Other information *(continued)*

Corporate Governance *(continued)*

Nomination Committee

The Nomination Committee was established in November 2004 with the following members:

- Professor CHANG Hsin Kang (*Chairman*)
- Timothy George FRESHWATER
- Professor WONG Yue Chim, Richard
- YUEN Tin Fan, Francis

The Nomination Committee reviews the structure, size and composition of the Board on a regular basis and makes recommendations to the Board regarding any proposed changes, identifies individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships. It is also responsible for assessing the independence of independent non-executive directors and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

Remuneration Committee

The Remuneration Committee was established in November 2004 with the following members:

- Timothy George FRESHWATER (*Chairman*)
- Professor CHANG Hsin Kang
- Professor WONG Yue Chim, Richard
- YUEN Tin Fan, Francis

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policy, and for overseeing the remuneration packages of directors and senior management are in place. It also provides effective oversight and administration of the Company's share option scheme and any other share incentive schemes or other equity based schemes.

Other information *(continued)*

Corporate Governance *(continued)*

Financial Reporting

The Company aims to present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Company has been voluntarily publishing financial results on a quarterly basis, so as to keep the shareholders abreast of the most updated performance of the Company.

Internal Controls

The Board is responsible for ensuring that a system of effective internal controls is maintained and for reviewing its effectiveness. Measures have been put in place so as to safeguard shareholders' investments and the Company's assets, to ensure proper maintenance of accounting records and to ensure compliance with the relevant legislation and regulations.

The internal control system is designed to provide reasonable, but not absolute, assurance. The system aims to manage, instead of eliminate, risks of failure in achieving the Company's objectives.

The Company's internal audit function, under the supervision of the Chief Internal Auditor, reviews the internal control system and evaluates its adequacy, effectiveness and compliance. The Chief Internal Auditor reports directly to the Audit Committee and presents the internal audit reports to the Audit Committee twice a year.

Code on Corporate Governance Practices

The Board is of the view that during the six months ended 30 June 2005, the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Review of Interim Results

The unaudited interim results for the six months ended 30 June 2005 have been reviewed by the Audit Committee which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

Condensed consolidated revenue and profit and loss account

For the six months ended 30 June 2005

	Notes	Unaudited six months ended	
		30/6/2005 HK\$'000	30/6/2004 HK\$'000 (RESTATED)
CONTINUING OPERATIONS			
REVENUE			
Turnover		854,160	804,243
Investment income, net gains/(losses), and other income		228,676	(873)
Total revenue and gains, net	2	1,082,836	803,370
Less: Reinsurance premiums		(68,378)	(77,286)
Net revenue		1,014,458	726,084
OPERATING EXPENSES			
Policyholders' benefits	3	(281,126)	(274,894)
Agency commission and allowances		(157,628)	(135,490)
Change in deferred acquisition costs	4	(28,103)	(59,511)
Management expenses		(147,206)	(137,240)
Other operating expenses		(123)	(1,131)
Total operating expenses		(614,186)	(608,266)
Increase in future insurance liabilities	5	(296,931)	(231,711)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	6	103,341	(113,893)
Net finance costs	7	(23,169)	—
PROFIT/(LOSS) BEFORE TAX	8	80,172	(113,893)
Tax	9	(9,216)	(7,046)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS		70,956	(120,939)
DISCONTINUED OPERATION			
NET PROFIT FROM DISCONTINUED OPERATION	10	307	128

Condensed consolidated revenue and profit and loss account *(continued)*

For the six months ended 30 June 2005

	Notes	Unaudited six months ended	
		30/6/2005 HK\$'000	30/6/2004 HK\$'000 (RESTATED)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		71,263	(120,811)
INTERIM DIVIDEND	11	8,213	—
EARNINGS/(LOSS) PER SHARE	12		
- BASIC FOR NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		8.68 CENTS	(14.71 CENTS)
- BASIC FOR NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS		8.64 CENTS	(14.72 CENTS)
- DILUTED FOR NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		8.55 CENTS	(14.41 CENTS)
- DILUTED FOR NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS		8.51 CENTS	(14.43 CENTS)

Condensed consolidated balance sheet

As at 30 June 2005

	Notes	UNAUDITED 30/6/2005 HK\$'000	AUDITED 31/12/2004 HK\$'000 (RESTATED)
NON-CURRENT ASSETS			
Fixed assets		216,188	215,885
Investments	13	645,332	137,105
Loans	14	267,265	257,117
Real estate		15,319	15,319
Deferred acquisition costs	15	998,894	1,023,228
		2,142,998	1,648,654
CURRENT ASSETS			
Deferred acquisition costs	15	282,399	286,168
Premiums receivable		46,185	74,048
Prepayments and other debtors		172,601	132,171
Short term investments	16	—	5,782,493
Available-for-sale investments	17	5,269,726	—
Derivative financial instrument	19	906	—
Cash and cash equivalents		1,513,333	1,301,545
		7,285,150	7,576,425
Non-current assets classified as held for sale	10	59,404	—
		7,344,554	7,576,425
CURRENT LIABILITIES			
Claims payable		(76,966)	(73,973)
Premium deposits	20	(90,482)	(88,356)
Accrued expenses and other creditors		(190,756)	(246,486)
Tax payable		(13,633)	(4,800)
Due to related companies		(5,606)	(5,901)
		(377,443)	(419,516)
NET CURRENT ASSETS		6,907,707	7,156,909

Condensed consolidated balance sheet *(continued)*

As at 30 June 2005

	Notes	UNAUDITED 30/6/2005 HK\$'000	AUDITED 31/12/2004 HK\$'000 (RESTATED)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,110,109	8,805,563
NON-CURRENT LIABILITIES			
Interest-bearing loans		(768,889)	(768,991)
Future insurance liabilities under investment contracts	21	(491,121)	(482,225)
Future insurance liabilities under insurance contracts	22	(4,700,602)	(4,405,391)
Policyholders' dividends and bonuses		(716,066)	(668,302)
		(6,676,678)	(6,324,909)
Liabilities directly associated with non-current assets classified as held for sale	10	(22,214)	—
		(6,698,892)	(6,324,909)
		2,411,217	2,480,654
CAPITAL AND RESERVES			
Issued capital	23	821,348	820,938
Reserves		1,581,656	1,577,622
Proposed dividend		8,213	82,094
		2,411,217	2,480,654

Condensed consolidated cash flow statement

For the six months ended 30 June 2005

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000
NET CASH FROM OPERATING ACTIVITIES	257,917	288,904
NET CASH USED IN INVESTING ACTIVITIES	(7,955)	(2,724)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	(180)	267
NET INCREASE IN CASH AND CASH EQUIVALENTS	249,782	286,447
Cash and cash equivalents as at beginning of period	1,299,466	486,911
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD	1,549,248	773,358
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,005,285	628,974
Non-pledged time deposits with original maturity of less than three months when acquired	543,963	144,384
	1,549,248	773,358

Notes to the condensed consolidated financial statements

1. Summary of Significant Accounting Policies

Basis of preparation

The unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with 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 2004, except for the changes in accounting policies following the adoption on 1 January 2005 of the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRSs”) as set out below.

Premiums of group insurance contracts

To 31 December 2004

Premiums in respect of group policies are accounted for as they are received.

From 1 January 2005

Premiums in respect of group policies are recognised as income as and when they fall due.

Insurance Contract

From 1 January 2005

In general, for insurance contracts and investment contracts with discretionary participation features (“DPF”), the accounting policy adopted is consistent with that of the previous financial year, including the recognition of premiums as turnover. The adoption of HKFRS 4, Insurance Contracts, resulted in the reclassification of investment contracts without DPF, previously classified as insurance contracts, as investment contracts, to be accounted for under the provisions of HKAS 39, Financial Instruments: Recognition and Measurement.

Insurance and investment contracts - Classification

The Group issues contracts that transfer insurance risk or financial risk or both.

1. Summary of Significant Accounting Policies *(continued)*

Basis of preparation *(continued)*

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance and investment contracts contain DPF. This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on:
 - i. the performance of a specified pool of contracts or a specified type of contract;
 - ii. realised and/or unrealised investment returns on a specified pool of assets held by the Group; or
 - iii. the profit or loss of the Group, fund or other entity that issues the contract.

Under HKFRS 4, contracts that do not transfer significant insurance risk are classified as investment contracts. For investment contracts without DPF, receipts are not booked as premiums and investment income, disbursements are not booked as policyholders' benefits and increase in future insurance liabilities in the profit and loss account but are booked directly into the balance sheet. This reclassification does not affect the profit or loss of the Group.

The effects of the adoption of HKFRS 4 has reduced total premium by HK\$58,242,000 (2004: HK\$22,915,000), policyholders' benefits by HK\$30,169,000 (2004: HK\$18,580,000), change of future insurance liabilities by HK\$31,429,000 (2004: increase of HK\$195,000), and investment and other income by HK\$3,356,000 (2004: increase of HK\$4,530,000) for the current period.

1. Summary of Significant Accounting Policies *(continued)*

Basis of preparation *(continued)*

Share Option Scheme

To 31 December 2004

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 change is recorded in the revenue and profit and loss account or balance sheet for their cost.

From 1 January 2005

The Group recognises an expense of the employees' and directors' share options by using the Black-Scholes option-pricing model. The Group has taken advantage of the transitional provisions of HKFRS 2, Share Based Payment, in respect of share options and has applied HKFRS 2 only to share options granted after 7 November 2002 that had not vested on or before 1 January 2005.

The effect of the revised policy has decreased consolidated profits for the current period by HK\$3,731,000 (2004: HK\$2,485,000) and opening accumulated profits for the current period have been decreased by HK\$4,970,000 due to an increase in the employee benefits expense.

The effect of the revised policy due to the adoption of HKFRS 2 on basic earnings per share has reduced the basic earnings per share by HK0.45 cent (2004: HK0.30 cent) to HK8.68 cents and has reduced the diluted earnings per share by HK0.45 cent (2004: HK0.30 cent) to HK8.55 cents for the six months ended 30 June 2005.

Investments

To 31 December 2004

Investments in bonds purchased for trading purposes, equities, unit trusts and mutual funds, are stated at market or fair value. Any realised or unrealised gains or losses arising from changes in the fair values are dealt with in the revenue and profit and loss account for the period in which they arise.

1. Summary of Significant Accounting Policies *(continued)*

Basis of preparation *(continued)*

From 1 January 2005

All investments are initially recognised at cost. After initial recognition, investments classified as held for trading and available-for-sale are measured at fair value. Gains or losses on investments held for trading are recognised as income. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

In accordance with the provisions of HKAS 39, the Group's investments, previously classified as held for trading, amounted to HK\$5,269,726,000 as at 30 June 2005, have been redesignated as available-for-sale.

The Group has invested in an exchangeable note, the component parts of which are an investment element and an option to convert the shares in the future. The basic note will be held as an available-for-sale investment and the option will be held as a derivative.

The effect of the revised policy HKAS 39 has increased the current period's profit by HK\$62,947,000.

Derivative financial instruments and hedging

To 31 December 2004

The Group uses derivative financial instruments such as foreign currency forward contracts, treasury lock agreements and cross currency swap to hedge risks associated primarily with foreign currency, interest rate 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.

From 1 January 2005

Derivatives are recognised initially, and are subsequently remeasured, at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its derivative as hedge of highly probable forecast transactions (cash flow hedge).

1. Summary of Significant Accounting Policies *(continued)*

Basis of preparation *(continued)*

The Group documents at the inception of the transaction the relationship between hedging instruments and hedge items, as well as its risk management objective and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The fair values of derivative instruments used for hedging purposes are disclosed in note 19.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Notes to the condensed consolidated financial statements (continued)

2. Total Revenue and Gains, Net

Turnover represents gross insurance premiums written and 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/(losses) and other income is as follows:

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000 (Restated)
Revenue from:		
Life insurance contracts		
Single premium	11,489	3,107
First year premium	109,156	106,300
Renewal premium	718,381	683,554
	839,026	792,961
General insurance commissions under agency agreements	5,597	5,908
Asset management fees	8,343	4,493
Fees on investment contracts	1,194	881
Turnover	854,160	804,243
Investment income:		
General and shareholders' funds		
Interest income from listed investments	81,341	96,354
Interest income from banks and asset management businesses	9,735	290
Interest received from policy loans and loans to officers, employees and agents	11,112	8,900
Dividend income from listed investments	14,230	7,473
Investment handling charges	(2,507)	(2,035)
Provision for bad and doubtful debts	(1,037)	(17,867)
Others	968	765
	113,842	93,880
Segregated funds (note(i))		
Interest income from banks and asset management businesses	4	—
Investment handling charges	(976)	(960)
Others	350	779
	(622)	(181)
Investment income	113,220	93,699

Notes to the condensed consolidated financial statements *(continued)*

2. Total Revenue and Gains, Net *(continued)*

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000 (Restated)
Net gains/(losses):		
Realised gains		
General and shareholders' funds		
Realised gains on other listed investments	84,901	30,632
Realised gains on other unlisted investments	5,789	3,248
Net realised gains	90,690	33,880
Unrealised gains/(losses)		
General and shareholders' funds		
Unrealised losses on other listed investments	—	(133,914)
Unrealised losses on other unlisted investments	(2,893)	(8,478)
Segregated funds (note(i))		
Unrealised gains/(losses) on other unlisted investments	3,331	(4,453)
Net unrealised gains/(losses)	438	(146,845)
Net gains/(losses)	91,128	(112,965)
Investment income and net gains/(losses)		
General and shareholders' funds	201,639	(14,632)
Segregated funds (note(i))	2,709	(4,634)
	204,348	(19,266)

Notes to the condensed consolidated financial statements *(continued)*

2. Total Revenue and Gains, Net *(continued)*

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000 (Restated)
Other income:		
Provision for premiums receivable written back	9,889	4,114
Reinsurance commission income and refund	4,891	4,756
Others	9,548	9,523
Other income	24,328	18,393
Investment income and net gains/(losses), and other income	228,676	(873)
Total revenue and net gains	1,082,836	803,370

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

Note:

- (i) The investment income and net gains amounted to a net gain of HK\$2,709,000 (2004: net loss of HK\$4,634,000) 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.

3. Policyholders' Benefits

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000 (Restated)
Life insurance business:		
Death and disability claims	91,808	93,819
Surrenders	83,852	89,743
Maturities and periodic payments	46,252	42,248
Policyholders' dividends	59,214	49,084
	281,126	274,894

4. Change in Deferred Acquisition Costs

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000
Additions	(114,948)	(92,879)
Less: Amortisation	143,051	152,390
	28,103	59,511

5. Increase in Future Insurance Liabilities

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000 (Restated)
Life insurance business	296,931	231,711

6. Profit/(Loss) Before Tax from Continuing Operations

Profit/(loss) before tax from continuing operations is arrived at after charging:

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000 (Restated)
Auditors' remuneration	653	747
Depreciation	7,533	7,603
Amortisation of deferred acquisition costs (note (i) and note 15)	143,051	152,390
Minimum lease payments under operating lease rentals on land and buildings	12,832	10,198
Staff costs (directors' remuneration included)	62,377	61,766
and after crediting:		
Gain on disposal of fixed assets	91	325

Notes to the condensed consolidated financial statements *(continued)*

6. Profit/(Loss) Before Tax from Continuing Operations *(continued)*

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 15 to the condensed consolidated financial statements.

7. Net Finance Costs

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000
Finance cost		
Interest on interest-bearing loans	(23,285)	—
Finance income		
Net interest income on derivative financial instrument (note (i) and note 19)	116	—
	(23,169)	—

Note:

- (i) The Group has entered into a cross currency swap contract, effective from 17 June 2005, as a cash flow hedge, to hedge any foreign currency fluctuations during the term of the interest-bearing loan denominated in USD, as disclosed in note 19 to the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements *(continued)*

8. Profit/(Loss) Before Tax by Activity

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

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000 (Restated)
Life insurance contracts	78,131	(114,005)
Retirement scheme business	(881)	(1,390)
General insurance business under agency agreements	2,652	2,801
Asset management business (note (i))	(924)	(2,180)
Fees on investment contracts	1,194	881
Profit/(loss) before tax	80,172	(113,893)
<i>Note:</i>		
(i) Income from operations – asset management	24,795	15,692
Less: Intra-Group Income	(16,452)	(11,199)
Operating expenses before tax	8,343 (9,267)	4,493 (6,673)
	(924)	(2,180)

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

9. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits solely arising from the asset management business conducted in Hong Kong during the period.

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, as defined by the Inland Revenue Ordinance, 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.

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000 (Restated)
Current - Hong Kong		
Charge for the period	9,216	1,578
Deferred		
Charge for the period	—	5,468
Total tax charge for the period	9,216	7,046

10. Discontinued Operation

In June 2002, Pacific Century Insurance Company Limited (“PCI”), a wholly-owned subsidiary of the Group, 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	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000 (Restated)
REVENUE		
Turnover	103	—
Investment gain	266	134
Total revenue	369	134
OPERATING EXPENSES		
Agency commission and allowances	—	(1)
Management expenses	—	(5)
Total operating expenses	—	(6)
OPERATING PROFIT BEFORE TAX	369	128
Tax	(62)	—
NET PROFIT FOR THE PERIOD	307	128

Notes to the condensed consolidated financial statements (continued)

10. Discontinued Operation (continued)

The carrying amounts of the total assets and liabilities of the MPF business as at 30 June 2005 were as follows:

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000 (Restated)
Investments	21,395	—
Cash	37,994	—
Other debtors	15	—
Non-current assets classified as held for sale	59,404	—
Claims payable	(382)	—
Premium deposits	(21,473)	—
Accrued expenses and other creditors	(359)	—
Liabilities directly associated with non-current assets classified as held for sale	(22,214)	—
Net assets attributable to discontinued operation	37,190	—

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

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000
Operating	(358)	(50)
Investing	—	—
Financing	—	—
Net cash outflow	(358)	(50)

Notes to the condensed consolidated financial statements (continued)

11. Dividend

	Unaudited six months ended	
	30/6/2005 HK\$'000	30/6/2004 HK\$'000
Interim – HK\$0.01 (2004: nil) per ordinary share	8,213	—

The board has declared an interim dividend for the six months ended 30 June 2005 of HK\$0.01 per share (2004: nil). The dividend will be payable on or about Friday, 30 September 2005 to shareholders whose names appear on the Register of Members of the Company at the close of business on Friday, 23 September 2005.

12. Earnings/(Loss) Per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$71,263,000 (June 2004: net loss of HK\$120,811,000), net profit attributable to shareholders from continuing operations for the period of HK\$70,956,000 (June 2004: net loss of HK\$120,939,000) and the weighted average of 821,383,000 (June 2004: 821,369,000 shares) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the current period is based on the net profit attributable to shareholders for the period of HK\$71,263,000 (June 2004: net loss of HK\$120,811,000) and net profit attributable to shareholders from continuing operations for the period of HK\$70,956,000 (June 2004: net loss of HK\$120,939,000). The weighted average number of ordinary shares used in the calculation is 821,383,000 (June 2004: 821,369,000 shares) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 12,550,000 (June 2004: 16,749,000 shares) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

Notes to the condensed consolidated financial statements (continued)

13. Investments

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Bonds held-to-maturity, at amortised cost listed elsewhere than Hong Kong	137,030	137,105
Unlisted exchangeable note available-for-sale, investment element at cost (note (i), and note 19)	508,302	—
	645,332	137,105
Market value of listed held-to-maturity bonds	136,023	136,098

Note:

- (i) The Group has subscribed for an exchangeable note on 3 June 2005, the components parts of which are an investment element and an option to convert the shares in the future. The option is held as a derivative, as disclosed in note 19 to the condensed consolidated financial statements.

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

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Corporate entities	137,030	137,105

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

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
With a residual maturity of: Three years or less but over two years	137,030	137,105

Notes to the condensed consolidated financial statements (continued)

13. Investments (continued)

The maturity profile of the available-for-sale exchangeable note as at the balance sheet date was as follows:

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
With a residual maturity of:		
Over five years	508,302	—

14. Loans

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Policy loans	225,691	216,173
Loans to officers, employees and agents	41,574	40,944
	267,265	257,117

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.

Notes to the condensed consolidated financial statements *(continued)*

14. Loans *(continued)*

The maturity profile of the loans to officers, employees and agents as at the balance sheet date was as follows:

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
With a residual maturity of:		
One year or less	713	220
Two years or less but over one year	726	523
Three years or less but over two years	1,840	1,645
Four years or less but over three years	1,118	1,906
Five years or less but over four years	78	200
Over five years	37,099	36,450
	41,574	40,944

15. Deferred Acquisitions Costs

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Balance as at beginning of period/year	1,309,396	1,403,273
Additions	114,948	211,225
Less: Amortisation	(143,051)	(305,102)
Change in deferred acquisition costs	(28,103)	(93,877)
Balance as at end of period/year	1,281,293	1,309,396
Current portion	(282,399)	(286,168)
Non-current portion	998,894	1,023,228

16. Short Term Investments

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Listed bonds, at market value:		
Hong Kong	—	769,310
Elsewhere	—	2,303,271
	—	3,072,581
Listed equity investments, at market value:		
Hong Kong	—	145,390
Elsewhere	—	1,225,433
	—	1,370,823
Unlisted unit trusts, at fair value	—	681,947
Unlisted mutual funds, at fair value	—	657,142
	—	5,782,493

All short term investments of HK\$5,782,493 as at 31 December 2004 were reclassified as available-for-sale investments as at 1 January 2005.

Notes to the condensed consolidated financial statements *(continued)*

16. Short Term Investments *(continued)*

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

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Governments	—	431,430
Banks and other financial institutions	—	1,209,908
Corporate entities	—	1,431,243
Listed bonds	—	3,072,581

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

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
With a residual maturity of:		
One year or less	—	300,278
Two years or less but over one year	—	238,545
Three years or less but over two years	—	178,058
Four years or less but over three years	—	368,780
Five years or less but over four years	—	294,220
Over five years	—	1,692,700
Listed bonds	—	3,072,581

Notes to the condensed consolidated financial statements *(continued)*

17. Available-for-sale Investments

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Listed bonds, at market value:		
Hong Kong	801,409	—
Elsewhere	2,180,866	—
	2,982,275	—
Listed equity investments, at market value:		
Hong Kong	187,422	—
Elsewhere	505,332	—
	692,754	—
Unlisted unit trusts, at fair value	703,822	—
Unlisted mutual funds, at fair value	890,875	—
	5,269,726	—

Notes to the condensed consolidated financial statements *(continued)*

17. Available-for-sale Investments *(continued)*

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

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Governments	464,084	—
Banks and other financial institutions	1,231,052	—
Corporate entities	1,287,139	—
Listed bonds	2,982,275	—

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

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
With a residual maturity of:		
One year or less	375,866	—
Two years or less but over one year	367,572	—
Three years or less but over two years	197,580	—
Four years or less but over three years	418,102	—
Five years or less but over four years	298,490	—
Over five years	1,324,665	—
Listed bonds	2,982,275	—

As at 30 June 2005, the Group held bonds with a nominal amount of US\$10,000,000 (December 2004: US\$10,000,000 classified as short term investments) issued by PCCW Capital Limited, which have a maturity date in 2005. The market value of these bonds amounted to HK\$94,441,000 (December 2004: HK\$93,085,000 classified as short term investments) as at the balance sheet date. During the periods ended 30 June 2005 and 2004, the Group had not sold or purchased any PCCW Capital Limited bonds.

18. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of investments in bonds, equities, hedge funds, cash and bank deposits. The main objective is to generate sufficient return to meet future obligations arising from the insurance and investment contracts, and to minimise short term profit fluctuation due to change in investment environment, and also to meet statutory solvency under certain equity price and interest rate movements. The most important components of this financial risk are interest rate risk, equity price risk, currency risk, credit risk and liquidity risk.

(1) Interest rate risk

In response to the rising interest rate environment, the Group maintains a short average duration of about 4 years on its bond holdings. This would reduce the adverse impact on capital value of our bond portfolio arising from upward interest rate movement.

(2) Equity price risk

The Group has actively refined its investment model through the use of the Value at Risk (VaR) technique to measure portfolio risks and performance. As of 30 June 2005, the value at risk on its equity portfolio, being measured at 95% confidence level for a monthly time span, was 3.6% of the equity portfolio size. The similar value at risk on its hedge fund portfolio was 1.3% of the hedge fund portfolio size.

(3) Currency risk

It is the Group's policy to match its assets and liabilities by currency to minimise its exposure to currency risks. The Group sells policies denominated in Hong Kong dollars and US dollars and its assets are quite well matched with the liabilities. As at 30 June 2005, the Group had 3.2% cash in Asian currencies (other than Hong Kong dollars) and 5.6% investments in Asian equities (other than Hong Kong and China). The Group believes that the currency risks in equities are reflected in their share price and therefore exposure to such Asian currencies were not hedged.

(4) Credit risk

It is the Group's investment policy to invest in investment grade bonds to limit exposure to credit risk. The Group allows a maximum of 5% of invested assets to be invested in non-investment grade bonds.

18. Financial Risk Management Objectives and Policies (continued)

(5) Liquidity risk

The Group performed projections periodically to analyse its financial condition and ensure that there would not be liquidity problem in the coming three years, both for inforce business and as a going concern basis.

(6) Resilience test

The Group performs resilience tests to satisfy itself that on statutory basis, the assets would exceed the liabilities under certain equity price and interest rate movements.

19. Derivative Financial Instrument

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Unlisted cross currency swap, at fair value (note (i))	906	—
Unlisted exchangeable note, derivative element at fair value (note (ii))	—	—
	906	—

Notes:

- (i) The notional amount of the cross currency swap are US\$100 million and HK\$777.7 million which indicates the nominal value of the transaction outstanding as at the balance sheet date; it does not represent the amount at risk.
- (ii) The option embedded in the exchangeable note to convert the shares in the future has zero fair value as at 30 June 2005 since the Group is at present not able to exercise its exchange right because of the controls on foreign ownership of insurance business currently existing under PRC law.

Notes to the condensed consolidated financial statements *(continued)*

20. Premium Deposits

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

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

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000 (Restated)
With a residual maturity of:		
One year or less	14,542	16,322
Two years or less but over one year	19,292	19,135
Three years or less but over two years	19,959	15,660
Four years or less but over three years	12,789	16,806
Five years or less but over four years	7,392	6,188
Over five years	16,508	14,245
	90,482	88,356

21. Future Insurance Liabilities under Investment Contracts

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000 (Restated)
Balance as at beginning of period/year	482,225	255,551
Increase for the period/year	9,539	226,720
Currency realignment	(643)	(46)
Balance as at end of period/year	491,121	482,225

22. Future Insurance Liabilities under Insurance Contracts

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000 (Restated)
Life insurance business		
Balance as at beginning of period/year	4,405,391	3,896,072
Increase for the period/year	296,931	505,751
Currency realignment	(1,720)	3,568
Balance as at end of period/year	4,700,602	4,405,391

23. Share Capital

	Unaudited as at 30/6/2005		Audited as at 31/12/2004	
	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	821,348,000	821,348	820,938,000	820,938
	821,348,000	821,348	820,938,000	820,938

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

- (a) A total of 970,000 ordinary shares of HK\$1.00 each were repurchased by the Company during the period at prices ranging from HK\$2.975 to HK\$3.125 per share. The aggregate price paid by the Company for such repurchases, before share repurchase expenses, was HK\$2,995,450.

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\$2,039,000, was charged to the share premium account, as disclosed in the consolidated statement of changes in equity.

Notes to the condensed consolidated financial statements *(continued)*

23. Share Capital *(continued)*

(b) The subscription rights attaching to 1,380,000 share options were exercised at the subscription price of HK\$2.05 per share (note 24), resulting in the issue of 1,380,000 shares of HK\$1.00 each for a total cash consideration, before expenses, of HK\$2,829,000.

A summary of the transactions during the period with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
As at 1 January 2005	820,938,000	820,938	23,452	844,390
Shares repurchased and cancelled (a)	(970,000)	(970)	(2,026)	(2,996)
	819,968,000	819,968	21,426	841,394
Share options exercised (b)	1,380,000	1,380	1,449	2,829
	821,348,000	821,348	22,875	844,223
Shares repurchase expenses (a)	—	—	(13)	(13)
As at 30 June 2005	821,348,000	821,348	22,862	844,210

Share options

Details of the Company's share option scheme and the share options issued under the scheme, are included in note 24 to the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements (continued)

24. Share Option Schemes

As at 30 June 2005, the Company had 72,277,790 (as at 31 December 2004: 70,654,390) outstanding share options. Details of the share options outstanding during the period ended 30 June 2005 were as follows:

(i) Directors

Name of director	Number of share options				As at 30 June 2005	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 1 January 2005	Granted during the period	Exercised during the period	Lapsed during the period						As at grant date of options HK\$	As at exercise 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	–	–
Peter Anthony ALLEN	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	–	–
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	–	–
	–	800,000	–	–	800,000	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	3.6	–
	38,320,000	800,000	–	–	39,120,000						

Notes to the condensed consolidated financial statements (continued)

24. Share Option Schemes (continued)

(ii) Other employees

	Number of share options				As at 30 June 2005	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 1 January 2005	Granted during the period	Exercised during the period	Lapsed during the period						As at grant date of options HK\$	As at exercise date of options HK\$
In aggregate	1,108,800	–	–	(82,800)	1,026,000	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	–	–
	5,470,000	–	(570,000)	(80,000)	4,820,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	–	3.3658
	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	–	–
	1,080,000	–	–	–	1,080,000	4 October 2004	4 October 2005 to 4 October 2007	4 October 2005 to 3 October 2012	2.825	–	–
	–	210,000	–	–	210,000	19 May 2005	19 May 2006 to 19 May 2008	19 May 2006 to 18 May 2013	3.125	3.125	–
	10,666,000	210,000	(570,000)	(162,800)	10,143,200						

(iii) Others (Agents)

In aggregate	5,232,990	–	–	(41,400)	5,191,590	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	–	–
	3,238,440	–	–	(2,400)	3,236,040	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	–	–
	13,070,000	–	(810,000)	–	12,260,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	–	3.4605
	–	2,200,000	–	–	2,200,000	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	3.6	–
	21,668,390	2,200,000	(810,000)	(43,800)	23,014,590						
Total	70,654,390	3,210,000	(1,380,000)	(206,600)	72,277,790						

24. Share Option Schemes *(continued)*

The fair value of options granted in the period under the Scheme was HK\$3,987,000.

The fair value calculated is inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The significant assumptions used to estimate the fair value of the options granted in the period are as follows:

Exercise price	3.675	3.125
Risk-free interest rate (%)	3.794%	3.783%
Expected life (years)*	7.0	7.0
Expected volatility (%)	36.07%	24.87%

* Expected life is not a single input parameter but a function of behavioural assumptions.

The risk-free rate was determined from the Hong Kong Exchange Fund Notes. Expected volatility is estimated by considering historic average of the Company's share price volatility. In addition, expected dividend yield was based on historic levels of dividend.

No share option was cancelled during the period ended 30 June 2005.

The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

The 1,380,000 share options exercised during the period resulted in the issue of 1,380,000 ordinary shares of the Company and new share capital of HK\$1,380,000 and share premium of HK\$1,449,000 (before issue expenses), as detailed in note 23 to the condensed consolidated financial statements.

Notes to the condensed consolidated financial statements (continued)

25. Contingent Liabilities

As at 30 June 2005, the Group and the Company had no material contingent liabilities other than as set out below in note 26 and contingencies arising from the ordinary course of the long term insurance business (December 2004: Nil).

26. 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.

27. Related Party Transactions

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

		Unaudited six months ended	
Notes		30/6/2005 HK\$’000	30/6/2004 HK\$’000
Premium income in respect of group life and medical policies issued to:			
Pacific Century Asset Management (HK) Limited	(i)	1,520	1,833
PCCW Services Limited		2,089	1,884
		3,609	3,717
General insurance business income received from			
The Ming An Insurance Company (Hong Kong), Limited	(ii)	4,245	5,242

27. 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 2005.
- (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.

On 8 November 2004, PCI and Ming An entered into a supplemental agreement to amend the duration of the Agency Agreement for not more than three years for the sole purpose of complying with Rule 14A.35 of the Listing Rules (the "Supplemental Agreement"). Pursuant to the Supplemental Agreement, the terms of the Agency Agreement have been amended to not more than three years which will expire on 31 March 2007 and will be automatically renewed for another three years until being terminated pursuant to the terms of the Agency Agreement with effect from 8 November 2004.

- (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/or motor vehicles, and are repayable on a monthly instalment basis.

The related party transactions in respect of item (a) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

28. Commitments

(a) Capital commitments

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Contracted, but not provided for, in respect of the purchase of: furniture, fixture and equipment	4,076	1,356
Authorised, but not contracted for, in respect of the purchase of: computer equipment	20,653	—
furniture, fixture and equipment	10,635	—
	31,288	—
	35,364	1,356

(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 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Within one year	916	1,313
In the second to fifth years, inclusive	577	846
	1,493	2,159

28. Commitments *(continued)*

(b) Operating lease commitments *(continued)*

(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 five years.

As at 30 June 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited as at 30/6/2005 HK\$'000	Audited as at 31/12/2004 HK\$'000
Within one year	36,328	20,699
In the second to fifth years, inclusive	43,280	16,797
	79,608	37,496