



# PACIFIC CENTURY INSURANCE HOLDINGS LIMITED

(盈科保險集團有限公司)\*

(An investment holding company incorporated in Bermuda with limited liability)

(Stock Code: 65)

## ANNOUNCEMENT AND RESUMPTION OF TRADING OF SHARES

### SUMMARY

Effective from 1 January 2005, the Group adopted, *inter alia*, the new accounting standard HKAS 39, pursuant to which the Group has the option to reclassify investments, previously held as trading assets under the prevailing standard effective for 2004, as available-for-sale investments. The adoption of, transition to and application of the requirements of HKAS 39 were new to the Group's accounting staff. During preparation for the Group's annual audit the accounting treatment has been found to have been incorrectly applied. Carrying values for available-for-sale investments acquired prior to 1 January 2005 had inadvertently not been adjusted at that date to reflect unrealised gains or losses up to that date, with the result that net gains on such investments sold during the nine months ended 30 September 2005 were overstated. This inadvertent error resulted in material misstatements of the Group's unaudited net profit from ordinary activities attributable to shareholders in the results announced by the Group for the quarter ended 31 March 2005, the six months ended 30 June 2005, the quarter ended 30 September 2005 and the nine months ended 30 September 2005.

The Company regrets that the error occurred. Restated financial results of the Group for the quarter ended 31 March 2005, the six months ended 30 June 2005, the quarter ended 30 September 2005 and the nine months ended 30 September 2005 are set out in this announcement. The Board considers that the best way to ensure that shareholders and the investing public are apprised of the financial position of the Group is to restate the financial results on two bases. First, the results have been prepared and set out in accordance with the accounting standards adopted by the Group before 1 January 2005 and without the application of any new accounting standards that are required to be adopted effective from 1 January 2005, so that investors are able to directly compare them on a consistent basis with last year's results. If the quarterly and interim results were restated on this basis, the unaudited net profit/(loss) from ordinary activities attributable to shareholders for the quarter ended 31 March 2005, the six months ended 30 June 2005, the quarter ended 30 September 2005 and the nine months ended 30 September 2005 would have been as follows:

	Three months ended		Six months ended		Three months ended		Nine months ended	
	31 March		30 June		30 September		30 September	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net profit/(loss) attributable to shareholders	(57,132)	110,284	12,837	(118,326)	49,238	170,245	62,075	51,919

Second, the results have been restated on the basis of the adoption of, *inter alia*, the new accounting standard HKAS 39, i.e. they comprise the figures which would have been set out in the announcements in question, if the error had not occurred. If the quarterly and interim results were restated on this basis, the unaudited net profit/(loss) from ordinary activities attributable to shareholders for the quarter ended 31 March 2005, the six months ended 30 June 2005, the quarter ended 30 September 2005 and the nine months ended 30 September 2005 would have been as follows:

	Three months ended		Six months ended		Three months ended		Nine months ended	
	31 March		30 June		30 September		30 September	
	2005	2005	2005	2005	2005	2005	2005	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Properly restated	Previously reported	Properly restated	Previously reported	Properly restated	Previously reported	Properly restated	Previously reported
Net profit/(loss) attributable to shareholders	(10,859)	50,177	(11,073)	71,263	19,083	33,707	8,010	104,970

There was no impact on the capital and total reserves of the Group as at 31 March, 30 June and 30 September 2005; however, the retained earnings for each quarter were overstated and the fair value gains/(losses) reserves in equity for each quarter were understated/overstated by the same corresponding amount.

Ernst & Young have confirmed that, in their opinion, in their capacity as the auditors of the Company and the Group, the incorrect booking of gains into the profit and loss account and the corresponding understatement/overstatement of the fair value gains/(losses) reserve in equity has no impact on the cash position, the capital and total reserves, the net assets, the overall investment return (including both the realised and unrealised return) or the solvency position of the Group. Watson Wyatt, actuarial consultants, has also confirmed that the misstatements have no impact on the Group's calculation of the value of the in-force business as at 31 December 2005. The above confirmations from Ernst & Young and Watson Wyatt indicate that the misstatements have no impact on the Group's embedded value as at 31 December 2005, which is intended to be announced on 23 February 2006 (the embedded value of the Group is the sum of the net asset value and the value of the in-force business).

At the Board's direction, additional internal control procedures have been implemented by the Group with a view to ensuring that the same error that has occurred should not happen again. The Company's management have confirmed to the Board that they are satisfied that no other material error has been discovered in the application of relevant accounting standards in the preparation of the Group's quarterly and interim results for 2005 contained in this announcement. Ernst & Young have confirmed to the Board that nothing has come to their attention that causes them to believe that any other material error has been made in the

application of the relevant accounting standards in the preparation of the quarterly and interim results for 2005 referred to in this announcement. However, in the circumstances, in addition the Board has engaged the services of PricewaterhouseCoopers, an international accounting firm, to conduct an independent review of the Group's internal control procedures.

Trading in the shares of the Company was suspended at the request of the Company with effect from 9:30 a.m. on 19 January 2006 pending the release of this announcement and will be resumed from 9:30 a.m. on 25 January 2006.

Reference is made to the unaudited quarterly results for the three months ended 31 March 2005, the unaudited interim results for the six months ended 30 June 2005, the unaudited quarterly results for the three months ended 30 September 2005 and the unaudited results for the nine months ended 30 September 2005 of Pacific Century Insurance Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**"). The Company's board of directors (the "**Board**") announces as follows:

Prior to 1 January 2005, the investments of the Group were classified into two categories for accounting purposes. One category of investments was those investments which were classified as held-to-maturity. The other category of investments was those investments, including bonds purchased for trading purposes, equities, equity linked notes, unit trusts and mutual funds ("**Other Investments**"), which were classified as investments for trading and accordingly were stated at market or fair value. Any realised and unrealised gains or losses arising from changes in the fair values of the Other Investments were dealt with in the revenue and profit and loss account for the period in which they arose, compliant with the prevailing accounting standard at the time.

Effective from 1 January 2005, the Group adopted, *inter alia*, the new accounting standard HKAS 39, pursuant to which the Group has the option to reclassify Other Investments as available-for-sale investments and recorded them at fair value. Under HKAS 39, gains or losses on available-for-sale investments are recognized 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 gains or losses previously reported as equity are recorded in the income statement.

The adoption of, transition to and application of the requirements of HKAS 39 were new to the Group's accounting staff. During preparation for the Group's annual audit the accounting treatment has been found to have been incorrectly applied. Carrying values for available-for-sale investments acquired prior to 1 January 2005 had inadvertently not been adjusted at that date to reflect unrealised gains or losses up to that date, with the result that net gains on such investments sold during the nine months ended 30 September 2005 were overstated. This inadvertent error resulted in material misstatements of the Group's unaudited net profit from ordinary activities attributable to shareholders in the results announced by the Group for the quarter ended 31 March 2005, the six months ended 30 June 2005, the quarter ended 30 September 2005 and the nine months ended 30 September 2005. The Company regrets that the error occurred.

Restated financial results of the Group for the quarter ended 31 March 2005, the six months ended 30 June 2005, the quarter ended 30 September 2005 and the nine months ended 30 September 2005 are set out in this announcement. The Board considers it very important to do everything possible now to allow shareholders and the investing public to fully understand the financial position of the Group. In the present circumstances the Board considers that the best way to ensure that shareholders and the investing public are now apprised of the financial position of the Group is to restate the previously erroneous financial results on two bases. First, the results have been prepared and set out in accordance with the accounting standards adopted by the Group before 1 January 2005 and without the application of any new accounting standards that are required to be adopted effective from 1 January 2005, so that investors are able to directly compare them on a consistent basis with last year's results. The Group's unaudited quarterly and interim results for 2005 (as restated), together with the results for 2004 for the corresponding periods, are as follows:

	Three months ended		Six months ended		Three months ended		Nine months ended	
	31 March		30 June		30 September		30 September	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE								
Turnover	439,263	399,832	911,208	826,277	493,968	449,722	1,405,176	1,275,999
Investment income, net gains/(losses), and other income	30,589	183,217	171,315	(4,388)	136,369	243,459	307,684	239,071
Total revenue and gains, net	469,852	583,049	1,082,523	821,889	630,337	693,181	1,712,860	1,515,070
Less:								
Reinsurance premiums	(35,300)	(40,987)	(68,378)	(77,286)	(37,294)	(36,223)	(105,672)	(113,509)
Net revenue	434,552	542,062	1,014,145	744,603	593,043	656,958	1,607,188	1,401,561
OPERATING EXPENSES								
Policyholders' benefits	(156,490)	(134,099)	(311,295)	(293,474)	(156,172)	(160,549)	(467,467)	(454,023)
Agency commission and allowances	(69,259)	(67,648)	(157,628)	(135,491)	(101,228)	(70,469)	(258,856)	(205,960)
Change in deferred acquisition costs	(26,636)	(33,012)	(28,103)	(59,511)	10,831	(30,789)	(17,272)	(90,300)
Management expenses	(69,974)	(76,846)	(143,475)	(134,661)	(76,982)	(63,118)	(220,457)	(197,779)
Other operating expenses	0	(607)	0	(1,131)	0	(401)	0	(1,532)
Total operating expenses	(322,359)	(312,212)	(640,501)	(624,268)	(323,551)	(325,326)	(964,052)	(949,594)
Increase in future insurance liabilities	(153,543)	(116,396)	(328,360)	(231,516)	(204,820)	(157,640)	(533,180)	(389,156)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(41,350)	113,454	45,284	(111,181)	64,672	173,992	109,956	62,811
Net finance costs	(11,556)	0	(23,169)	0	(11,034)	0	(34,203)	0
PROFIT/(LOSS) BEFORE TAX	(52,906)	113,454	22,115	(111,181)	53,638	173,992	75,753	62,811
Tax	(4,226)	(3,170)	(9,278)	(7,145)	(4,400)	(3,747)	(13,678)	(10,892)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(57,132)	110,284	12,837	(118,326)	49,238	170,245	62,075	51,919
INTERIM DIVIDEND	0	0	8,213	0	0	0	8,213	0

As the restated results show, if the accounting standards adopted for the 2004 results were applicable to the Group's quarterly and interim results for 2005, then the unaudited net profit/(loss) from ordinary activities attributable to shareholders for the quarter ended 31 March 2005, the six months ended 30 June 2005, the quarter ended 30 September 2005 and the nine months ended 30 September 2005 would have been HK\$(57,132,000), HK\$12,837,000, HK\$49,238,000 and HK\$62,075,000 respectively. Second, the Company also sets out below the Group's unaudited quarterly and interim results for 2005, restated *inter alia* on the basis that HKAS 39 is correctly applied as had been intended at the time the erroneous results were announced:

	Three months ended 31 March 2005		Six months ended 30 June 2005		Three months ended 30 September 2005		Nine months ended 30 September 2005	
	HK\$'000 Properly restated	HK\$'000 Previously reported	HK\$'000 Properly restated	HK\$'000 Previously reported	HK\$'000 Properly restated	HK\$'000 Previously reported	HK\$'000 Properly restated	HK\$'000 Previously reported
(Note)								
<b>CONTINUING OPERATIONS</b>								
<b>REVENUE</b>								
Turnover	408,996	408,996	854,160	854,160	459,871	459,871	1,314,031	1,314,031
Investment income, net gains, and other income	78,935	139,971	146,340	228,676	104,690	119,314	251,030	347,990
Total revenue and gains, net	487,931	548,967	1,000,500	1,082,836	564,561	579,185	1,565,061	1,662,021
Less:								
Reinsurance premiums	(35,300)	(35,300)	(68,378)	(68,378)	(37,294)	(37,294)	(105,672)	(105,672)
Net revenue	452,631	513,667	932,122	1,014,458	527,267	541,891	1,459,389	1,556,349
<b>OPERATING EXPENSES</b>								
Policyholders' benefits	(136,245)	(136,245)	(281,126)	(281,126)	(149,475)	(149,475)	(430,601)	(430,601)
Agency commission and allowances	(69,259)	(69,259)	(157,628)	(157,628)	(101,227)	(101,227)	(258,855)	(258,855)
Change in deferred acquisition costs	(26,636)	(26,636)	(28,103)	(28,103)	10,831	10,831	(17,272)	(17,272)
Management expenses	(71,617)	(71,617)	(147,206)	(147,206)	(78,752)	(78,752)	(225,958)	(225,958)
Other operating expenses	(531)	(531)	(123)	(123)	(5)	(5)	(128)	(128)
Total operating expenses	(304,288)	(304,288)	(614,186)	(614,186)	(318,628)	(318,628)	(932,814)	(932,814)
Increase in future insurance liabilities	(143,530)	(143,530)	(296,931)	(296,931)	(174,430)	(174,430)	(471,361)	(471,361)
<b>PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>	4,813	65,849	21,005	103,341	34,209	48,833	55,214	152,174
Net finance costs	(11,556)	(11,556)	(23,169)	(23,169)	(11,034)	(11,034)	(34,203)	(34,203)
<b>PROFIT/(LOSS) BEFORE TAX</b>	(6,743)	54,293	(2,164)	80,172	23,175	37,799	21,011	117,971
Tax	(4,226)	(4,226)	(9,216)	(9,216)	(4,400)	(4,400)	(13,616)	(13,616)
<b>NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>	(10,969)	50,067	(11,380)	70,956	18,775	33,399	7,395	104,355

Three months ended 31 March 2005		Six months ended 30 June 2005		Three months ended 30 September 2005		Nine months ended 30 September 2005	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Properly restated</i>	<i>Previously reported</i>	<i>Properly restated</i>	<i>Previously reported</i>	<i>Properly restated</i>	<i>Previously reported</i>	<i>Properly restated</i>	<i>Previously reported</i>

(Note)

**DISCONTINUED  
OPERATION**

NET PROFIT FROM DISCONTINUED OPERATION	<u>110</u>	<u>110</u>	<u>307</u>	<u>307</u>	<u>308</u>	<u>308</u>	<u>615</u>	<u>615</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>(10,859)</u>	<u>50,177</u>	<u>(11,073)</u>	<u>71,263</u>	<u>19,083</u>	<u>33,707</u>	<u>8,010</u>	<u>104,970</u>
INTERIM DIVIDEND	<u>0</u>	<u>0</u>	<u>8,213</u>	<u>8,213</u>	<u>0</u>	<u>0</u>	<u>8,213</u>	<u>8,213</u>

*Note:* The first quarter financials are split into continuing operations and discontinued operation, which are consistent with the presentation format for the interim and third quarter results.

In the opinion of management, there was no impact on the capital and total reserves of the Group as at 31 March, 30 June and 30 September 2005; however, the retained earnings for each quarter were overstated and the fair value gains/(losses) reserve in equity for each quarter were understated/overstated by the same corresponding amount. The following shows the unaudited movement in capital and total reserves:

	As at 31 March 2005		As at 30 June 2005		As at 30 September 2005	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Properly restated</i>	<i>Incorrectly booked</i>	<i>Properly restated</i>	<i>Incorrectly booked</i>	<i>Properly restated</i>	<i>Incorrectly booked</i>
CAPITAL AND RESERVES						
Issued capital	821,638	821,638	821,348	821,348	817,686	817,686
Retained earnings	1,386,163	1,447,199	1,377,736	1,460,072	1,396,819	1,493,779
Fair value gains / (losses) reserves	(47,916)	(108,952)	20,179	(62,157)	48,555	(48,405)
Other reserves	182,824	182,824	183,741	183,741	176,694	176,694
Proposed dividend	<u>82,094</u>	<u>82,094</u>	<u>8,213</u>	<u>8,213</u>	<u>0</u>	<u>0</u>
Capital and total reserves	<u>2,424,803</u>	<u>2,424,803</u>	<u>2,411,217</u>	<u>2,411,217</u>	<u>2,439,754</u>	<u>2,439,754</u>

Ernst & Young have confirmed that, in their opinion, in their capacity as the auditors of the Company and the Group, the incorrect booking of gains into the profit and loss account and the corresponding understatement/overstatement of the fair value gains/(losses) reserve in equity have no impact on the cash position, the capital and total reserves, the net assets, the overall investment return (including both the realised and unrealised return) or the solvency position of the Group. Watson Wyatt Insurance Consulting Ltd. (“Watson Wyatt”), actuarial consultants, has also confirmed that the misstatements have no impact on the Group’s

calculation of the value of the in-force business as at 31 December 2005. The above confirmations from Ernst & Young and Watson Wyatt indicate that the misstatements have no impact on the Group's embedded value as at 31 December 2005, which is intended to be announced on 23 February 2006 (the embedded value of the Group is the sum of the net asset value and the value of the in-force business).

At the Board's direction, additional internal control procedures have been implemented by the Group with a view to ensuring that the same error that has occurred should not happen again. The Company's management have confirmed to the Board that they are satisfied that no other material error has been made in the application of relevant accounting standards in the preparation of the Group's quarterly and interim results for 2005 contained in this announcement. Ernst & Young have confirmed to the Board that nothing has come to their attention to cause them to believe that any other material error has been made in the application of the relevant accounting standards in the preparation of the quarterly and interim results for 2005 referred to in this announcement. However, in the circumstances, in addition the Board has engaged the services of PricewaterhouseCoopers, an international accounting firm, to conduct an independent review of the Group's internal control procedures.

Trading in the shares of the Company was suspended at the request of the Company with effect from 9:30 a.m. on 19 January 2006 pending the release of this announcement and will be resumed from 9:30 am on 25 January 2006.

By order of the Board  
**Cheng Wan Seung, Ella**  
*Company Secretary*

Hong Kong, 24 January 2006

*\* For identification only*

*Executive Directors:*

YUEN Tin Fan, Francis (*Chairman*); CHAN Ping Kan, Raymond (*Managing Director*); 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 Changyong

*Non-Executive Director:*

WANG Xianzhang

*Independent Non-Executive Directors:*

Prof. CHANG Hsin Kang; Timothy George FRESHWATER; Prof. WONG Yue Chim, Richard

Please also refer to the published version of this announcement in The Standard.