

Report of the directors

The directors have pleasure in presenting their annual report and the audited financial statements of the Company and of the Group for the year ended 31 December 2004.

Principal activities

The principal activity of the Company is investment holding.

The Group is principally engaged in the provision of a range of whole life, endowment, unit-linked and term life insurance products to individuals in Hong Kong as well as being engaged in asset management. 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 and general insurance products through agency arrangements.

In June 2002, Pacific Century Insurance Company Limited ("PCI") (an indirect wholly-owned subsidiary of the Company) entered into an agreement for the transfer of its Mandatory Provident Fund business to HSBC Life (International) Limited ("HSBC Life"). The related activities have been accounted for as discontinuing operations in the preparation of the current financial statements, details of which are set out in note 36 to the financial statements.

Results and dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 45 to 84.

The directors recommend the payment of a final dividend of HK\$0.06 per ordinary share and a special final dividend of HK\$0.04 per ordinary share in respect of the year, to shareholders recorded on the register of members as at 25 April 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

Summary of financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and classified as appropriate, is set out on page 85. This summary does not form part of the audited financial statements.

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements, respectively.

Interest-bearing loans

During the year, an aggregate principal amount of HK\$780 million (US\$100 million) with coupon rate of 5.875% guarantee bonds (the “Bonds”) due in December 2014 were issued by a wholly-owned subsidiary of the Company. The Bonds are listed on the Main Board of the Singapore Exchange Securities Trading Limited and under the provision of Rule 144A of the United States Securities Act. The Group raised approximately HK\$767,186,000 (US\$98,648,000), net of expenses. The purpose of the issue was to be used to enter into the life insurance market in Mainland China and for working capital purposes. Details of the bonds are set out in note 26 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company’s bye-laws, or the Companies Act 1981 of Bermuda (as amended), which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

During the year, the Company repurchased its shares through The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid HK\$’000
		Highest HK\$	Lowest HK\$	
August 2004	1,800,000	2.825	2.675	4,989
September 2004	1,298,000	2.700	2.650	3,471
November 2004	194,000	3.000	2.975	582
	3,292,000			9,042

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\$5,791,000, was charged to the share premium account. Further details of these transactions are set out in note 28 to the financial statements.

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

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 year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the directors

Distributable reserves

As at 31 December 2004, the Company's reserves available for cash distribution and/or distribution in specie, after the proposed final dividend of HK\$49,256,000 and proposed special final dividend of HK\$32,838,000, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$20,820,000. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus may be distributed under certain circumstances. In addition, the Company's share premium account, in the amount of HK\$23,452,000 as at 31 December 2004, may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group supported a wide variety of charities and activities beneficial to the community. Charitable contributions made by the Group during the year amounted to HK\$354,000 (2003: HK\$371,000).

Major customers

In the year under review, the aggregate income attributable to the Group's five largest customers was less than 30% of the total income for the year.

Directors

The directors of the Company during the year and up to the date of this report were listed below:

Executive directors:

YUEN Tin Fan, Francis
CHAN Ping Kan, Raymond
ALLEN Peter Anthony
ARENA Alexander Anthony
CHEUNG Sum, Sam
CHUNG Cho Yee, Mico
SO Wing Hung, Peter
YANG Chao
ZHENG Chang Yong

Non-executive director:

WANG Xianzhang

Independent non-executive directors:

CHANG Hsin Kang
FRESHWATER Tim
WONG Yue Chim, Richard

The Company has received annual confirmations of independence from Prof. CHANG Hsin Kang, Mr. FRESHWATER Tim, and Prof. WONG Yue Chim, Richard and as at the date of this report still considers them to be independent.

Directors' service contracts

The Company has entered into service contracts with all the executive directors of the Company for the provision of management services to the Group, details of each of which are as follows:

- (1) Mr. CHAN Ping Kan, Raymond has entered into a service contract with the Group for a period which commenced from 4 March 2003 and which will expire on 31 March 2006.
- (2) Each of Mr. CHEUNG Sum, Sam and Mr. SO Wing Hung, Peter has entered into a service contract with the Group for an initial period which commenced from 15 March 2002 and which expired on 31 March 2004. Both Messrs. CHEUNG Sum, Sam and SO Wing Hung, Peter have renewed their service contracts for a further three years which commenced from 1 April 2004 and which will expire on 31 March 2007.
- (3) The service contract for each of the other executive directors is indefinite.

The non-executive director was appointed for an initial term of three years with effect from 30 November 2000. The term was renewed for a further two years with effect from 30 November 2003.

The independent non-executive directors were appointed for an initial term of three years with effect from 8 June 1999. The term was renewed for a further two years with effect from 8 June 2004.

Apart from the foregoing, there are no unexpired service contracts which are not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' remuneration

The directors' fees and other emoluments are determined by the Company's board of directors, under the power delegated by the shareholders at general meetings, with reference to directors' duties and responsibilities and the results of the Group.

Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Report of the directors

Directors' and chief executive's interests in shares and underlying shares

As at 31 December 2004, the directors' and chief executive's, or their associates', interests in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

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

Notes:

(a) These shares are held under T.F. Yuen Trust, a discretionary trust of which Mr. YUEN Tin Fan, Francis is a founder.

(b) These shares are held by a trust, the beneficiaries of which are the family members of Mr. SO Wing Hung, Peter.

The interests of the directors and the chief executive in the share options of the Company are separately disclosed in note 29 to the financial statements.

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

Pacific Century Regional Developments Limited ("PCRD")

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

Directors' and chief executive's interests in shares and underlying shares *(continued)*

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

As at 31 December 2004, details of share options granted to the directors under the share option schemes of the immediate holding company of the Company were as follows:

PCRD

Name of director	Date of grant of share options	Exercisable period	Exercise price SGD	Number of share options				
				Outstanding as at 1 January 2004	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Outstanding as at 31 December 2004
ARENA Alexander	24 November	25 October 2001 to	0.7584	15,300,000	—	—	—	15,300,000
Anthony	1999	24 October 2009						

Save as disclosed above, as at 31 December 2004, none of the directors or the chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' rights to acquire shares or debentures

Save as disclosed under the heading "Directors' and chief executive's interests in shares and underlying shares" above and in the share option scheme disclosures in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means 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.

Share option schemes

Concerning the share options granted during the year to the directors, employees and others, as detailed in note 29, the directors do not consider it appropriate to disclose a theoretical value of the options granted, because the directors are of the view that the theoretical value of the share options generally depends on a number of variables which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. Accordingly, the directors believe that any calculation of the value of options will not be meaningful and may therefore be misleading to shareholders in these circumstances.

Report of the directors

Connected transactions and continuing connected transactions

During the year, the connected transactions and the continuing connected transactions of the Company and the Group, are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules in note 35.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in note 35 to the financial statements and have confirmed that these continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Directors' interests in competing businesses

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the following directors have declared interests in the following businesses which are considered to compete, or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of director	Name of companies	Competing business	Nature of interest
YANG Chao (Note 1)	China Insurance (Holdings) Company, Limited	Insurance holding	As a director
	China Insurance International Holdings Company Limited	Insurance holding	As a director
	The Tai Ping Insurance Company, Limited	General insurance business	As a director
	The Tai Ping Life Insurance Company, Limited	Life insurance business	As a director
	The Tokio Marine & Fire Insurance Company (HK) Limited	General insurance business	As an independent non-executive director

Directors' interests in competing businesses *(continued)*

Name of director	Name of companies	Competing business	Nature of interest
ZHENG Chang Yong (Note 2)	China Insurance (Holdings) Company, Limited	Insurance holding	As a director
	China America Holding Company	Insurance holding	As a director
	China Insurance International Holdings Company Limited	Insurance holding	As a director
	China Insurance Service Japan Co., Ltd.	Insurance agency	As a director
	China Insurance Co. (Singapore) Pte. Ltd.	General insurance business	As a director
	CIG Trustees Limited	Trustee corporate	As a director
	The Ming An Insurance Company (Hong Kong), Limited	General insurance business	As a director
	PT China Insurance Indonesia	General insurance business	As a director
	China Life Insurance (Overseas) Company Limited	Life insurance business	As an independent non-executive director
	WANG Xianzhang	China Life Insurance Company Limited	Life insurance

Notes:

- (1) Mr. YANG Chao was appointed as an independent non-executive director of The Tokio Marine & Fire Insurance Company (HK) Limited on 1 November 2004 and resigned as a director of CIC Holdings (Europe) Limited on 8 October 2004.
- (2) Mr. ZHENG Chang Yong was appointed as an independent non-executive director of China Life Insurance (Overseas) Company Limited on 19 April 2004.

All of the above companies, except China Life Insurance (Overseas) Company Limited, China Life Insurance Company Limited and The Tokio Marine & Fire Insurance Company (HK) Limited, are within the China Insurance (Holdings) Company Group which holds an 11.09% interest in the Company as disclosed in the section headed "Substantial shareholders' and other persons' interests in shares and underlying shares" below.

As the board of directors of the Company is independent from the board of directors of the above-mentioned companies and the above directors do not control the board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of the above- mentioned companies.

Report of the directors

Substantial shareholders' and other persons' interests in shares and underlying shares

As at 31 December 2004, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
LI Tzar Kai, Richard	(1)	372,352,700 (L)	45.36% (L)
PCRD	(2)	370,352,700 (L)	45.11% (L)
Ocean Star Investment Management Limited	(2)	370,352,700 (L)	45.11% (L)
Ocean Star Management Limited	(2)	370,352,700 (L)	45.11% (L)
OS Holdings Limited	(2)	370,352,700 (L)	45.11% (L)
Star Ocean Ultimate Limited	(2)	370,352,700 (L)	45.11% (L)
The Ocean Trust	(2)	370,352,700 (L)	45.11% (L)
The Ocean Unit Trust	(2)	370,352,700 (L)	45.11% (L)
The Starlite Trust	(2)	370,352,700 (L)	45.11% (L)
The Starlite Unit Trust	(2)	370,352,700 (L)	45.11% (L)
Pacific Century Group Holdings Limited	(2)	370,352,700 (L)	45.11% (L)
Pacific Century International Limited	(2)	370,352,700 (L)	45.11% (L)
Pacific Century Group (Cayman Islands) Limited	(2)	370,352,700 (L)	45.11% (L)
Anglang Investments Limited	(2)	370,352,700 (L)	45.11% (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)
Andregina Holdings Limited	(4)	63,445,242 (L)	7.73% (L)
YANG Fan Shing, Andrew	(4)	63,445,242 (L)	7.73% (L)
Value Partners Limited	(5)	49,002,000 (L)	5.97% (L)
CHEAH Cheng Hye	(5)	49,002,000 (L)	5.97% (L)
J.P. Morgan Chase & Co.		46,874,000 (L)	5.71% (L)
J.P. Morgan Chase & Co.		2,142,000 (P)	0.26% (P)

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

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) 370,352,700 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, Pacific Century Group Holdings Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited ("PCGCI") and Anglang Investments Limited ("Anglang") is deemed to have an interest under the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO") in the same 370,352,700 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 370,352,700 shares held by PCRD by virtue of it being the investment manager of The Starlite Unit Trust and The Ocean Unit Trust which together hold 100% of the shares of Pacific Century Group Holdings Limited. PCGCI holds the entire issued share capital of Anglang and holds approximately 37.5% of the issued share capital of PCRD. Anglang holds approximately 37.8% of the issued share capital of PCRD.

Substantial shareholders' and other persons' interests in shares and underlying shares *(continued)*

Notes: (continued)

- (3) China Insurance (Holdings) Company, Limited is taken to have an interest under the SFO in the same 91,060,000 shares, in aggregate, beneficially owned by Joyful Box Inc. and King System Limited.
- (4) Mr. Andrew YANG Fan Shing is deemed to have an interest under the SFO in the same 63,445,242 shares held by Andregina Holdings Limited.
- (5) Mr. CHEAH Cheng Hye is deemed to have an interest under the SFO in the same 49,002,000 shares held by Value Partners Limited.

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

Save as disclosed above, as at 31 December 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests in shares, and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules, throughout the accounting period covered by the annual report.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

Audit committee

The Company has an audit committee, which was established in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises Prof. WONG Yue Chim, Richard (Chairman), Prof. CHANG Hsin Kang and Mr. Tim FRESHWATER, who are the independent non-executive directors of the Company.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

YUEN Tin Fan, Francis

Chairman

Hong Kong

23 February 2005