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)

UNAUDITED QUARTERLY RESULTS
FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2005

FINANCIAL HIGHLIGHTS

- Individual annualised first year premium increased 25.0% to HK$104.9 million for the three months ended 30 September 2005 compared with the same period last year.
- Single and first year premium increased 37.9% to HK$74.3 million, renewal premium increased 3.9% to HK$378.0 million and total premium increased 8.3% to HK$452.3 million compared with the same period last year.
- Key performance indicators continue to stay on track.
- Unaudited consolidated net profit was HK$33.7 million (2004: HK$169.0 million) and HK$105.0 million (2004: HK$48.2 million) for the three months and nine months ended 30 September 2005 respectively.

The board of directors (the "Board") of Pacific Century Insurance Holdings Limited (the "Company") is pleased to present the unaudited quarterly consolidated revenue and profit and loss account of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2005 together with comparative figures for the corresponding period in 2004 as follows:

CONSOLIDATED REVENUE AND PROFIT AND LOSS ACCOUNT

	Note	**THREE MONTHS ENDED 30 SEPTEMBER**		**NINE MONTHS ENDED 30 SEPTEMBER**	
		2005	**2004**	**2005**	**2004**
		HK$'000	*HK$'000* *(Restated)*	*HK$'000*	*HK$'000* *(Restated)*
CONTINUING OPERATIONS					
REVENUE					
Turnover	1	459,871	423,549	1,314,031	1,227,792
Investment income, net gains, and other income		119,314	235,575	347,990	234,702
Total revenue and gains, net		579,185	659,124	1,662,021	1,462,494
Less: Reinsurance premiums		(37,294)	(36,223)	(105,672)	(113,509)
Net revenue		541,891	622,901	1,556,349	1,348,985

OPERATING EXPENSES				
Policyholders' benefits	(149,475)	(152,541)	(430,601)	(427,435)
Agency commission and allowances	(101,227)	(70,469)	(258,855)	(205,959)
Change in deferred acquisition costs	10,831	(30,789)	(17,272)	(90,300)
Management expenses	(78,752)	(64,411)	(225,958)	(201,651)
Other operating expenses	(5)	(401)	(128)	(1,532)
Total operating expenses	(318,628)	(318,611)	(932,814)	(926,877)
Increase in future insurance liabilities	(174,430)	(131,657)	(471,361)	(363,368)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	48,833	172,633	152,174	58,740
Net finance costs	(11,034)	—	(34,203)	—
PROFIT BEFORE TAX	37,799	172,633	117,971	58,740
Tax	(4,400)	(3,697)	(13,616)	(10,743)
NET PROFIT FROM CONTINUING OPERATIONS	33,399	168,936	104,355	47,997
DISCONTINUED OPERATION				
NET PROFIT FROM DISCONTINUED OPERATION	308	66	615	194
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	33,707	169,002	104,970	48,191
INTERIM DIVIDEND	—	—	8,213	—
EARNINGS PER SHARE**				
- BASIC FOR NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	4.11 Cents	20.60 Cents	12.79 Cents	5.87 Cents
- BASIC FOR NET PROFIT FROM CONTINUING OPERATIONS	4.07 Cents	20.59 Cents	12.71 Cents	5.85 Cents

Note 1:

Revenue from:				
Life insurance contracts				
Single premium	5,074	2,798	16,563	5,905
First year premium	69,207	51,068	178,363	157,368
Renewal premium	378,020	363,878	1,096,401	1,047,432
	452,301	417,744	1,291,327	1,210,705
General insurance commissions under agency agreements	1,573	1,636	7,170	7,544
Asset management fees	4,197	2,743	12,540	7,236
Fees on investment contracts	1,800	1,426	2,994	2,307
	459,871	423,549	1,314,031	1,227,792

Impact of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively known as "HKFRS")

The following HKFRS are effective for the first time for the current period's financial statements and have had a significant impact thereon:

HKFRS 2 "Share-based Payment"
HKFRS 4 "Insurance Contracts"
HKAS 32 "Financial Instruments: Disclosure and Presentation"
HKAS 39 "Financial Instruments: Recognition and Measurement"

HKFRS 2 requires an expense to be recognised where the Group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"). The main impact of HKFRS 2 on the Group is the expensing of 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 in respect of share options and has applied HKFRS 2 only to share options granted after 7 November 2002 that had not been vested on or before 1 January 2005.

The effect of the revised policy has reduced consolidated profits for the nine months ended 30 September 2005 by HK$5,510,000 (2004: HK$3,728,000) and opening accumulated profits for the current period have been reduced 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 HK0.67 cent (2004: HK0.45 cent) to HK12.79 cents for the nine months ended 30 September 2005.

HKFRS 4 prescribes the classification, accounting treatment, financial statement presentation and disclosures relating to insurance contracts.

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 income. The adoption of HKFRS 4 resulted in the reclassification of investment contracts without DPF, previously classified as insurance contracts, as investment contracts, to be accounted for under HKAS 39.

Insurance and investment contracts - Classification

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

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 will not be booked as premiums and investment income, disbursements will not be booked as policyholders' benefits and increase in future insurance liabilities in the profit and loss account but will be booked directly into the balance sheet. This reclassification will not affect the profit or loss of the Group.

The effects of the adoption of HKFRS 4 has reduced total premium for nine months ended 30 September 2005 by HK$94,139,000 (2004: HK$50,514,000), policyholders' benefits by HK$36,866,000 (2004: HK$26,588,000), change of future insurance liabilities by HK$61,819,000 (2004: HK$25,788,000), and investment and other income by HK$4,546,000 (2004: HK$1,862,000) for the current period.

HKAS 32 and 39 prescribe classification, accounting treatment, financial statement presentation and disclosures relating to financial instruments.

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$5,519,047,000 as at 30 September 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$56,591,000.

BUSINESS REVIEW

For the three months ended 30 September 2005, the Group has continued to maintain positive growth momentum and achieved 25.0% increase in annualised first year premium on individual new business to HK$104.9 million. Single and first year premium increased 37.9% to HK$74.3 million, renewal premium increased 3.9% to HK$378.0 million and total premium increased 8.3% to HK$452.3 million.

For the nine months ended 30 September 2005, annualised first year premium on individual new business increased 38.0% to HK$285.2 million, single and first year premium increased 19.4% to HK$194.9 million, renewal premium increased 4.7% to HK$1.1 billion and total premium increased 6.7% to HK$1.3 billion. Total operating expenses increased 0.6% to HK$932.8 million and expense ratio increased to 112.7% from 108.9% in 2004. New policy conservation rate improved from 86.6% to 88.8% and renewal ratio decreased marginally from 99.3% to 99.2%. Claims ratio was 97.5%, which was better than our pricing assumption of 100% but higher than 92.4% for the same period last year. As at 30 September 2005, there were 1,573 agents in our agency force, representing an increase of 24% over the end of last year.

The unaudited consolidated net profit of the Group for the three months ended 30 September 2005 was HK$33.7 million (2004: HK$169.0 million). The decline in profit was due to better investment gains achieved in the third quarter of 2004. For the nine months ended 30 September 2005, the unaudited consolidated net profit of the Group was HK$105.0 million (2004: HK$48.2 million).

The Board is pleased that the Group has continued to achieve solid growth on new business as well as renewal business. Although expense ratio was slightly higher, the Board believes that this short term deterioration as a result of expansion will not have a significant impact on the profitability of the Group in the long term.

By order of the Board
CHENG Wan Seung, Ella
Company Secretary

Hong Kong, 8 November 2005

* *For identification purpose only*

** *Diluted earnings per share for the three months and nine months ended 30 September 2005 has not been disclosed as the dilutive effect arising from the deemed exercise of the share options outstanding during the three months and nine months ended 30 September 2005 was insignificant.*

The directors of the Company as at the date of this announcement are as follows:

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.