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)

ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

Financial Highlights

- Embedded value as at 31 December 2005: HK$4.947 per share, increased by 14.3% as compared to 2004.
- A year of good growth in its insurance business and solid investment performance, annualised first year premium on new business increased 24.5% to HK$323.7 million.
- Agency force increased 33.8% to around 1,700 agents.
- Key performance indicators continue to improve.
- Net profit for the year was HK$42.5 million (2004: HK$188.3 million). The drop in profit was primarily due to the reclassification of its investment portfolio from "trading" to "available-for-sale" under HKAS 39 and the adoption of other new accounting standards.
- As at 31 December 2005, the available-for-sale financial assets revaluation reserve balance was HK$187.5 million (2004: nil), which was booked as equity in the balance sheet. If the investment portfolio was not reclassified from "trading" to "available-for-sale", this reserve would have been reported as unrealised gains in the income statement.
- Proposed dividend: HK$0.04 per share (2004: final dividend of HK$0.06 per share and special dividend of HK$0.04 per share).

The directors of Pacific Century Insurance Holdings Limited (the "Company") are pleased to present the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 together with comparative figures for the financial year ended 31 December 2004:-

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* *(Restated)*
CONTINUING OPERATIONS			
REVENUE			
Turnover	2	1,826,885	1,688,832
Investment income, net gains, and other income	2	373,791	472,278
Total revenue and gains, net		2,200,676	2,161,110
Less: Reinsurance premiums		(154,807)	(156,767)
Net revenue		2,045,869	2,004,343
OPERATING EXPENSES			
Policyholders' benefits		(581,354)	(584,917)
Agency commission and allowances		(389,176)	(292,264)
Change in deferred acquisition costs		14,497	(93,877)
Management expenses		(303,608)	(304,215)
Total operating expenses		(1,259,641)	(1,275,273)
Increase in future insurance liabilities under investment contracts		(29,233)	(15,074)
Increase in future insurance liabilities under insurance contracts		(652,783)	(505,751)
Finance costs	3	(45,346)	(1,805)
PROFIT BEFORE TAX	4,5	58,866	206,440
Tax	6	(16,963)	(17,579)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		41,903	188,861
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation		599	(566)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		42,502	188,295

	Notes	2005	2004
		HK$'000	*HK$'000*
			(Restated)
DIVIDENDS	7		
Dividends paid		8,213	—
Dividends proposed		32,724	82,094
		40,937	82,094
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS	8		
BASIC			
- For profit for the year		5.18 cents	22.94 cents
- For profit from continuing operations		5.11 cents	23.01 cents
Diluted			
-For profit for the year		5.11 cents	22.54 cents
- For profit from continuing operations		5.04 cents	22.61 cents

CONSOLIDATED BALANCE SHEET
31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* *(Restated)*
NON-CURRENT ASSETS			
Property, plant and equipment		219,649	215,885
Investment properties		15,028	15,319
Deferred acquisition costs		1,037,714	1,023,228
Financial assets	9	1,016,725	394,002
Pledged deposits		15,751	—
Total non-current assets		2,304,867	1,648,434
CURRENT ASSETS			
Deferred acquisition costs		286,179	286,168
Premiums receivable		88,468	74,048
Prepayments and other debtors		210,162	132,171
Financial assets	9	5,887,859	5,782,713
Reinsurance assets		1,954	1,959
Tax recoverable		1,009	—
Cash and cash equivalents		1,357,684	1,301,545
		7,833,315	7,578,604
Assets of a disposal group classified as held for sale		59,773	—
Total current assets		7,893,088	7,578,604
CURRENT LIABILITIES			
Payable to policyholders		(147,520)	(162,329)
Accrued expenses and other creditors		(262,497)	(252,387)
Tax payable		(8,988)	(4,800)
		(419,005)	(419,516)
Liabilities directly associated with the assets classified as held for sale		(21,610)	—
Total current liabilities		(440,615)	(419,516)
NET CURRENT ASSETS		7,452,473	7,159,088
TOTAL ASSETS LESS CURRENT LIABILITIES		9,757,340	8,807,522

	Notes	2005	2004
		HK$'000	*HK$'000*
			(Restated)
NON-CURRENT LIABILITIES			
Derivative financial instrument		(3,313)	—
Interest-bearing loans		(768,140)	(768,991)
Future insurance liabilities under investment contracts		(546,802)	(482,225)
Future insurance liabilities under insurance contracts		(5,050,881)	(4,407,350)
Policyholders' dividends and bonuses		(771,653)	(668,302)
Total non-current liabilities		(7,140,789)	(6,326,868)
Net assets		2,616,551	2,480,654
EQUITY			
Issued capital		818,106	820,938
Reserves	10	1,765,721	1,577,622
Proposed dividends		32,724	82,094
Total equity		2,616,551	2,480,654

1.1 BASIS OF PREPARATION

This financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. The information has been prepared under the historical cost convention, except for the revaluation of available-for-sale financial assets, financial assets at fair value through profit and loss and derivative financial instruments, which have been measured at fair value. This accounting basis differs in certain material respects from the statutory financial statements of the Company's insurance subsidiary, which are prepared and filed with the Hong Kong Office of the Commissioner of Insurance. Disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell. This financial information is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except where otherwise indicated.

1.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) **HKFRS 4 — Insurance Contracts**

In the prior years, the Group used the revenue accounting practices currently adopted by insurance companies reporting under the Insurance Companies Ordinance of Hong Kong.

On 1 January 2005, the Group adopted HKFRS 4 retrospectively. The main features of HKFRS 4 include the definition of an insurance contract, the requirement for liability adequacy tests and impairment tests for reinsurance assets, and the prohibition of catastrophe and equalisation provisions. Based on this standard, the Group continued to account for insurance contracts and investment contracts with discretionary participation features ("DPF") using previously adopted accounting policies. In addition, insurance contracts and investment contracts without DPF, previously classified as insurance contracts in prior year, are reclassified as investment contracts upon adoption of HKFRS 4. Deposits collected and benefit payments of investment contracts are not accounted for through the income statement, but are accounted for by direct adjustment to the balance sheet.

The effects of adopting HKFRS 4 are summarised in note 1.3 below.

(b) **HKFRS 2 — Share-based Payment**

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium accounts were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee's share options.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

The Group has employee share options granted after 7 November 2002 that were not yet vested at 1 January 2005. As such, the adoption of HKFRS 2 has had an impact on the retained earnings as at 31 December 2003 and at 31 December 2004. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 1.3 below.

(c) **HKFRS 3 — Business Combinations**

HKFRS 3 has had no material impact on the Group.

(d) **HKFRS 5 — Non-current Assets Held for Sale and Discontinued Operations**

The Group has applied HKFRS 5 prospectively in accordance with the transitional provisions of HKFRS 5, which has resulted in a change in accounting policy on the recognition of a discontinued operation. Under the old SSAP 33 "Discontinuing Operations", the Group would have recognised a discontinued operation at the earlier of:

- the date the Group enters into a binding sale agreement; and
- the date the board of directors have approved and announced a formal disposal plan.

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or it has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations. It is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The principal impact of this change to the Group is one of presentation and disclosure.

(e) **HKAS 32 and HKAS 39 — Financial Instruments**

(i) *Bonds purchased for trading purposes, equities, unit trusts and mutual funds*

In prior years, investments in bonds purchased for trading purposes, equities, unit trusts and mutual funds, were classified as short term investments and were stated at their fair value on an individual basis with gains and losses recognised in the income statement.

Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of HK$5,393,543,000 were designated as available-for-sale financial assets under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these investments. Comparative amounts have been reclassified for presentation purposes.

(ii) *Derivative financial instruments*

In prior years, the Group used derivative financial instruments such as foreign currency forward contracts, treasury lock agreements and cross currency swaps to hedge risks associated primarily with foreign currency, interest rate and market fluctuations. Derivative financial instruments were valued at fair value. Any gain or loss was recognised in the income statement.

Upon the adoption of HKAS 32 and HKAS 39, a cross currency swap agreement entered by the Group during the year and designated as a hedge against certain interest bearing loans is recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity.

The effects of the above changes are summarised in note 1.3 below. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(f) **HKAS 40 — Investment Property**

In prior years, investment properties were held in respect of the Group's long term insurance business for investment purposes and was stated at cost less any impairment losses. This treatment was commonly adopted by life insurance companies in Hong Kong for such assets held in respect of long term insurance business and was permitted under Hong Kong Statement of Standard Accounting Practice 13 "Accounting for investment properties".

Upon the adoption of HKAS 40, the Group adopted the cost model for measurement of its investment properties and as such they are stated at cost less accumulated depreciation and any impairment losses.

1.3 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

As at 1 January 2005	Effect of adopting				
Effect of new policies (Increase/(decrease))	HKASs 32# and 39* Change in classification of investments	HKFRS 2# Equity-settled share option arrangements	HKFRS 4# Insurance contracts	HKFRS 5* A disposal group classified as held for sale	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Available-for-sale financial assets	5,393,543	—	—	—	5,393,543
Financial assets at fair value through profit or loss	388,950	—	—	(27,722)	361,228
Reinsurance assets	—	—	1,959	—	1,959
Prepayments and other debtors	—	—	—	(19)	(19)
Short term investments	(5,782,493)	—	—	—	(5,782,493)
Cash and cash equivalents	—	—	—	(37,255)	(37,255)
Assets of a disposal group classified as held for sale	—	—	—	64,996	64,996
					1,959
Liabilities/equity					
Payable to policyholders	—	—	—	(101)	(101)
Accrued expenses and other creditors	—	—	—	(3,831)	(3,831)
Liabilities directly associated with the assets classified as held for sale	—	—	—	31,651	31,651
Future insurance liabilities under investment contracts	—	—	—	(27,719)	(27,719)
Future insurance liabilities under insurance contracts	—	—	1,959	—	1,959
Share option reserve	—	10,150	—	—	10,150
Retained profits	—	(10,150)	—	—	(10,150)
					1,959

* *Adjustments taken effect prospectively from 1 January 2005*

\# *Adjustments/presentation taken effect retrospectively*

As at 31 December 2005			Effect of adopting				
Effect of new policies (Increase/ (decrease))	HKASs 32# and 39* Change in classification of investments	HKAS 39* Cash flow hedge	HKAS 40# Depreciation of investment properties	HKFRS 2# Equity- settled share option arrangements	HKFRS 4# Insurance contracts	HKFRS 5* A disposal group classified as held for sale	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets							
Investments properties	—	—	(291)	—	—	—	(291)
Available-for-sale financial assets	5,980,577	—	—	—	—	—	5,980,577
Financial assets at fair value through profit or loss	503,142	—	—	—	—	(21,166)	481,976
Derivative financial instrument	10,167	—	—	—	—	—	10,167
Reinsurance assets	—	—	—	—	1,954	—	1,954
Prepayments and other debtors	—	—	—	—	—	(258)	(258)
Short term investments	(6,493,886)	—	—	—	—	—	(6,493,886)
Cash and cash equivalents	—	—	—	—	—	(38,349)	(38,349)
Assets of a disposal group classified as held for sale	—	—	—	—	—	59,773	59,773
							1,663
Liabilities/equity							
Payable to policyholders	—	—	—	—	—	(57)	(57)
Accrued expenses and other creditors	—	—	—	—	—	(388)	(388)
Liabilities directly associated with the assets classified as held for sale	—	—	—	—	—	21,610	21,610
Derivative financial instrument	—	3,313	—	—	—	—	3,313
Future insurance liabilities under investment contracts	—	—	—	—	—	(21,165)	(21,165)
Future insurance liabilities under insurance contracts	—	—	—	—	1,954	—	1,954
Share option reserve	—	—	—	19,101	—	—	19,101
Hedging reserve	—	(937)	—	—	—	—	(937)
Available-for-sale financial assets revaluation reserve	187,510	—	—	—	—	—	187,510
Retained profits	(187,510)	(2,376)	(291)	(19,101)	—	—	(209,278)
							1,663

(b) **Effect on the balances of equity as at 1 January 2004 and at 1 January 2005**

Effect of new policies (Increase/(decrease))	**Effect of adopting HKFRS 2 Equity-settled share option arrangements** *HK$'000*	**Total** *HK$'000*
1 January 2004		
Share option reserve	2,138	2,138
Retained profits	(2,138)	(2,138)
		—
1 January 2005		
Share option reserve	10,150	10,150
Retained profits	(10,150)	(10,150)
		—

(c) **Effect on the consolidated income statement for the years ended 31 December 2005 and 2004**

	Effect of adopting					
Effect of new policies	**HKAS 39 Designation of available-for-sale financial assets** *HK$'000*	**HKAS 39 Cash flow hedge** *HK$'000*	**HKAS 40# Depreciation of investment properties** *HK$'000*	**HKFRS 2 Employee share option scheme** *HK$'000*	**HKFRS 4 Insurance contracts** *HK$'000*	**Total** *HK$'000*
Year ended 31 December 2005						
Decrease in turnover	—	—	—	—	(168,543)	(168,543)
Decrease in investment income, net gains and other income	(187,510)	(2,376)	—	—	—	(189,886)
Decrease in policyholders' benefits	—	—	—	—	112,751	112,751
Increase in management expenses	—	—	(291)	(8,951)	—	(9,242)
Increase in future insurance liabilities under investment contracts	—	—	—	—	(30,683)	(30,683)
Decrease in future insurance liabilities under insurance contracts	—	—	—	—	86,475	86,475
Total decrease in profit	(187,510)	(2,376)	(291)	(8,951)	—	(199,128)
Decrease in basic earnings per share	(22.86)cents	(0.29)cents	(0.04)cents	(1.09)cents	—	(24.28)cents
Decrease in diluted earnings per share	(22.53)cents	(0.29)cents	(0.03)cents	(1.08)cents	—	(23.93)cents

Effect of new policies	Effect of adopting HKFRS 2 Employee share option scheme	HKFRS 4 Insurance contracts	Total
	HK$'000	*HK$'000*	*HK$'000*
Year ended 31 December 2004			
Decrease in turnover	—	(265,519)	(265,519)
Decrease in policyholders' benefits	—	54,273	54,273
Increase in management expenses	(8,012)	—	(8,012)
Increase in future insurance liabilities under investment contracts	—	(15,074)	(15,074)
Decrease in future insurance liabilities under insurance contracts	—	226,320	226,320
Total decrease in profit	(8,012)	—	(8,012)
Decrease in basic earnings per share	(0.98) cents	—	(0.98) cents
Decrease in diluted earnings per share	(0.96) cents	—	(0.96) cents

2. REVENUE, INVESTMENT INCOME, NET GAINS, AND OTHER INCOME

Revenue, which is also the Group's turnover, represents gross premiums on insurance contracts, commissions received and receivable in respect of general insurance business conducted under agency agreements, and service fees from asset management.

An analysis of revenue, investment income, net gains and other income is as follows:

	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Revenue		
Life insurance contracts		
Single premium	30,018	11,464
First year premium	266,010	226,562
Renewal premium	1,500,071	1,421,606
	1,796,099	1,659,632
General insurance commissions under agency agreements	8,727	8,801
Asset management fees	16,188	10,406
Fees on investment contracts	5,871	9,993
Attributable to continuing operations reported in the consolidated income statement	1,826,885	1,688,832
Investment income		
Interest income	203,593	196,301
Dividend income	31,332	19,441
Investment handling charges	(4,671)	(7,384)
Write-back/(additional) provision for bad and doubtful debts	12,501	(22,174)
Others	2,544	3,067
Investment Income	245,299	189,251
Net gains	76,946	218,366
Investment income and net gains	322,245	407,617
Other income	51,546	64,661
Investment income, net gains, and other income	373,791	472,278

3. FINANCE COSTS

	Group 2005 HK$'000	Group 2004 HK$'000
Interest on interest-bearing loans	46,431	1,805
Interest income on cross currency swap, net (note (i))	(1,085)	—
	45,346	1,805

Note:

(i) The Group 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.

4. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Profit before tax from continuing operations is arrived at after charging:

	Group	
	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Depreciation	16,409	14,985
Amortisation of deferred acquisition costs	286,746	305,102

5. SEGMENT REPORTING

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

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising from the asset management business conducted in Hong Kong, and the long term insurance business during the year.

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% (2004: 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.

7. DIVIDENDS

	2005	**2004**
	HK$'000	*HK$'000*
Dividend paid — HK$0.01 (2004: Nil) per ordinary share	8,213	—
Dividends proposed — HK$0.04 (2004: HK$0.1) per ordinary share	32,724	82,094
	40,937	82,094

The proposed dividends for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit for the year attributable to ordinary equity holders. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Net profit/(loss) attributable to ordinary equity holders, used in the basic earnings/(loss) per share calculation:		
From continuing operations	41,903	188,861
From a discontinued operation	599	(566)
Net profit attributable to ordinary equity holders	42,502	188,295

	Number of shares	
	2005	**2004**
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	820,109,000	820,737,000
Effect of dilution — weighted average number of ordinary shares: Share options	12,062,000	14,599,000
	832,171,000	835,336,000

9. FINANCIAL ASSETS

	Group 2005 HK$'000	Group 2004 HK$'000
Total financial assets		
Policy loans	241,213	216,173
Loans to employees and agents	53,718	40,944
Held-to-maturity financial assets	136,953	137,105
Available-for-sale financial assets (short term investments: 2004)	5,980,557	5,393,543
Financial assets at fair value through profit or loss (short term investments: 2004)	481,976	388,950
Derivative financial instrument	10,167	—
	6,904,584	6,176,715
Current portion		
Loans to employees and agents	(1,522)	(220)
Available-for-sale financial assets (short term investments: 2004)	(5,394,194)	(5,393,543)
Financial assets at fair value through profit or loss (short term investments: 2004)	(481,976)	(388,950)
Derivative financial instrument	(10,167)	—
	(5,887,859)	(5,782,713)
Non-current portion	1,016,725	394,002

10. RESERVES

	2005 HK$'000	2004 HK$'000 (Restated)
Share premium account	14,462	23,452
Contributed surplus	152,178	152,178
Share option reserve	19,101	10,150
Hedging reserve	(937)	—
Available-for-sale financial assets revaluation reserve	187,510	—
Retained profits	1,393,407	1,391,842
	1,765,721	1,577,622

PROPOSED DIVIDENDS

The directors recommend the payment of a dividend of HK$0.04 per ordinary share in respect of the year to shareholders recorded on the register of members as at 21 April 2006, payable on or before 28 April 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

BUSINESS REVIEW

2005 has been a successful year for the Group. The number of agents grew to 1,696 as at year end, as compared to 1,268 a year before. Individual single and first year premium grew by 24.1%, renewal premium grew by 6.2% and total premium grew by 8.8%.

1. **Operational Review**

    The Group reported a net profit from ordinary activities attributable to shareholders of HK$42.5 million for the year ended 31 December 2005, representing a decrease of 77.4% from HK$188.3 million in 2004. Basic earnings per share was HK$0.05 as compared to HK$0.23 in 2004. The decrease in earnings was mainly due to the reclassification of the investment portfolio from "trading" to "available-for-sale" following adoption of the new accounting standard HKAS 39. As a result of this reclassification, there was a balance of HK$187.5 million in the available-for-sale financial assets revaluation reserve as at the end of 2005, which was booked as equity in the balance sheet. If the portfolio had not been reclassified from "trading" to "available-for-sale", this reserve would have been reported as unrealised gains in the income statement for 2005.

    The adoption of HKFRS 4 results in the classification of life insurance contracts into insurance contracts and investment contracts. Receipts and payments from investment contracts were previously reported as premiums and surrenders in the profit and loss accounts with an offset in the increase in future insurance liabilities. Starting from 2005, these receipts and payments, net of charges, were booked directly into the balance sheet. This change has had no effect on the net profit of the Group.

    On life insurance business, the Group achieved an annualised first year premium on new business of HK$323.7 million, representing a 24.5% growth from the restated figure of HK$260.0 million for 2004, following adoption of HKFRS 4. Single and first year premium increased 24.4% to HK$296.0 million, renewal premium increased 5.5% to HK$1,500.1 million and total premium increased 8.2% to HK$1,796.1 million.

    Investment income, net gains, and other income was HK$373.8 million only. However, it was mainly due to the reclassification of the investment portfolio from "trading" to "available-for-sale" as described above.

    Policyholders' benefits decreased by 0.6% to HK$581.4 million. Agency commission and allowances increased 33.2% to HK$389.2 million as compared to the previous year, which was attributable to the increase in number of agents and more new business transacted during the year.

Management expenses decreased by 0.2% to HK$303.6 million. Total operating expenses for the year were HK$1,259.6 million, or 1.2% below 2004, despite the Group's continued expansion of its operations. Expense Ratio has increased from 106.3% to 108.4%.

(a) *Agency Operations*

The number of agents as at 31 December 2005 increased to 1,696 from 1,268 in 2004. Agent productivity measured by Individual AFYP per Agent Month was HK$19,000, representing a 4.4% increase as compared to 2004.

In order to improve the professionalism and quality of our agents, we have set up the PCI Academy of Professional Development and a new training centre in Langham Place. The PCI Academy of Professional Development designs and provides different training programmes for our agents to improve their selling skills and product knowledge, and to attain professional qualifications in the insurance industry.

We have also expanded our Agency Development team to build a more efficient and effective communication channel and to provide better support to our agency force.

During the year, the Group has launched several new products to accommodate the different needs of our policyholders.

Looking ahead, we will continue to expand our agency force, both in quantity and quality, diversify our product range and improve productivity.

(b) *Life Operations*

As at 31 December 2005, the total number of inforce policies was 294,457 compared to 277,489 in 2004, an increase of 6.1%. We also managed to increase the total premium by 8.2%.

13th month persistency rate has improved from 86.6% to 88.8%. Renewal ratio continued to improve to 100.3% as compared to 98.9% for 2004. Claim ratio has also improved from 99.2% in 2004 to 95.5% in 2005.

c) *Group Insurance*

For the period under review, the Group Insurance Department recorded HK$41.8 million in premiums with a net loss of HK$1.4 million compared to HK$47.6 million and net profit of HK$0.7 million in 2004 respectively. The drop in premium and profit was due to fierce competition in the market place.

During 2005, systems were enhanced to provide internet enquiries of policy benefits, billing and claim information to agents, policyholders and their members for a faster and more efficient service.

d) *Retirement Scheme Business and Mandatory Provident Fund*

Since the conclusion of the Transfer Agreement with HSBC Life (International) Limited ("HSBC Life") in June 2002, the Group has successfully transferred 13,000 members and HK$180 million of assets to HSBC Life. Approximately HK$21 million and 1,800 members still remained with us as at 31 December 2005.

e) *General Insurance*

Total premiums for 2005 was HK$50.4 million of which HK$37.9 million came from our agency force and HK$12.4 million from PCI Services (H.K.) Ltd., a broking arm set up in 2003, representing an increase of 6.9% in total premiums as compared to 2004.

f) *PCI Investment Management Limited ("PCIIM")*

2005 was a year of consolidation for PCI Investment Management Limited. Total funds under management continued to grow, albeit modestly, to HK$11.6 billion as of the end of 2005. On 1 December 2005, PCIIM teamed up with Polaris, a Taiwanese financial services firm, to launch a Greater China hedge fund. The fund is sponsored by Gerken Capital Associates, an alternative asset manager based in San Francisco. The fund is structured for PCIIM to manage Hong Kong and China markets and for Polaris to focus on the Taiwan investments. Recent data suggested that global economic growth remains solid and more balanced going into 2006. While initial signs of a cooling-off in the US housing market have emerged, improved outlook in emerging Asia, Japan and Europe would help to counter-balance a moderate slowdown in US growth. However, we will continue to adopt a cautious approach in managing our portfolios as the current strained geopolitical situation in the Middle East, development of avian influenza and terrorist attack are all potential external shocks that can change the financial environment abruptly.

g) *Human Resources*

The Group had 303 employees as at 31 December 2005, an increase of 5.2% over 288 employees last year. Total remuneration (excluding Directors' fees) for the year was HK$125.1 million as compared to HK$155.6 million for 2004.

We place high value on our employees as they are our greatest assets to grow with the Group. We encourage our people to be the best in their roles by providing training in diversified fields that address both personal development and work skills. We also provide workshops for staff at different levels to build team spirit and morale. Our staff were rewarded based on Company performance as well as their personal performance and contribution.

2. **China Expansion Plan**

In June 2005, 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 three representatives from the Group were not appointed to the board of Sino Life by 28 February 2006, the Note will be cancelled and the Group will receive a refund of principal plus interest. The appointment of our representatives to the board of Sino Life is pending approval by the China Insurance Regulatory Commission. Because of the controls on foreign ownership of insurance business currently existing under PRC law, there is no certainty as to if and when the Group will be able to exercise its exchange right.

3. **Capital Adequacy and Financing**

As at 31 December 2005, the Group has cash and bank balances of HK$1,162.4 million and time deposits of HK$249.4 million. Invested assets increased by HK$859.0 million to HK$8,352.6 million, which was mainly due to premium income received.

As at 31 December 2005, the Group's total assets were HK$10,198.0 million and net assets were HK$2,616.6 million, an increase of 10.5% and 5.5% respectively as compared to 2004.

On a statutory reporting basis, the net assets of the Company's insurance subsidiary far exceed the statutory net surplus required by the Hong Kong Insurance Regulations. The Group performs resilience tests regularly to examine its solvency position for movements in equity markets and interest rates and any potential risks will be drawn to the attention of the management.

As at 31 December, 2005, the gearing ratio of the Group was 29.4%.

4. **Rating**

Fitch Ratings, Moody's Investors Service, The A.M. Best Company and Standard & Poor's have all reaffirmed their financial strength ratings of "A-", "Baa2", "A- (Excellent)" and "BBB-" on PCI in their 2005 annual review.

5. **Embedded Value**

Basis

Embedded value is the sum of the adjusted statutory net asset value plus the value of inforce business, adjusted for the cost of holding the required solvency margin.

The following are the key assumptions used:
Investment return:
7% per annum (2004: 7%)
Risk discount rate:
10% per annum (2004: 10%)

Embedded Value

The embedded value per share as at 31 December 2005 and the previous four years is as follows:

Year	Embedded value per share
	(HK$)
2005	4.947
2004	4.327
2003	3.940
2002	3.557
2001	3.917

Value of one year's new business

The value of one year's new business is the sum of the discounted projected future after-tax statutory profits generated from the new business written during the year, adjusted for the cost of holding the required solvency margin. The assumptions used are the same as those used in the calculation of embedded value. For the year ended 31 December 2005, the value of new business is HK$60,648,000.

The methodology and actuarial assumptions used in the calculation of embedded value and value of new business as at 31 December 2005 have been reviewed and considered as reasonable by Watson Wyatt, an internationally renowned actuarial consulting firm.

Sensitivity

The following reflect our estimates of the embedded values associated with the changes in the assumptions:

	HK$
Base scenario	4.947
12% risk discount rate	4.589
90% lapse rate	5.125
90% operating expenses	5.008
90% mortality/morbidity rate	5.078
6.75% investment rate (no adjustment on dividends)	4.755

Other than the sensitivity at the 12% risk discount rate all the other sensitivity results were performed by the Group and have not been reviewed by Watson Wyatt.

6. **Investment**

2005 was another volatile year for all financial markets as actions of the US Federal Reserve took centre stage. Most markets started the year with a lack of direction. In February, some higher than expected US inflation figures fueled concerns of more aggressive interest rate hikes and led to a sell-off in the fixed income markets. As a result of rising bond yields, equity markets worldwide moved sharply lower in March. However, the markets began to recover at the end of the second quarter because some softer than expected economic figures eased concerns of more aggressive monetary policy tightening. Although the markets performed well at the beginning of the third quarter, some harsh inflation comments by the Federal Reserve pushed prices significantly lower at the end of the third quarter. Weakness in both bond and equity markets continued for the month of October. Once again, the markets recuperated quickly and ended the year very strongly amid ample liquidity and on hopes that the current interest rate cycle would soon peak. Despite the rise in energy prices and higher interest rates, the US economy showed remarkable strength in 2005. There has also been some pick up in recovery momentum in both Japan and the European economy. We continued to see funds flow into emerging markets on improving fundamentals.

Apart from the China expansion plan, there were no other material acquisitions and disposals of subsidiaries and associated companies during the year.

7. **Details of Charges on Group Assets**

As at 31 December 2005, there were no charges on any of the Group's assets other than a US$2m (equivalent to HK$15.8m as a cash collateral) to the counterparty for the cross currency swap agreement entered by the Group during the year (2004: nil).

8. **Corporate Governance**

The Audit Committee of the Company has reviewed the financial statements for the year ended 31 December 2005.

At the annual general meeting (the "AGM") of the Company held on 25 April 2005, the Company's bye-laws have been amended, inter alia, to add the requirement for retirement of all the directors of the Company by rotation at least once every three years at the Company's AGM. Instead of having all directors to retire by rotation at the 2005 AGM, about one-third of the directors had first retired at the 2005 AGM held on 25 April 2005. Another one-third of the directors will retire at the forthcoming AGM in 2006 and the remaining directors will retire at the AGM in 2007. Save as the aforesaid, the Company has, for the year ended 31 December 2005, applied the principles and complied with the applicable provisions, and also complied with certain recommended best practices, of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In response to the discovery of certain 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 as announced by the Company on 24 January 2006, the Board has engaged the services of PricewaterhouseCoopers ("PwC"), an international accounting firm, to conduct an independent review of the Group's internal control procedures. The objective of the independent review was to assist the Board in identifying the causes of the misstatements and identifying areas for improvement in respect of the control environment and internal controls.

PwC has completed its review on internal controls over investment accounting and quarterly reporting and presented to the Board on 23 February 2006. The Board has considered and has resolved to adopt the findings and recommendations made by PwC.

Mr. Sam Cheung, the Chief Financial Officer and an Executive Director of the Company, has tendered his resignation with immediate effect. The Board has accepted his resignation.

With immediate effect, as an interim measure, Mr. Peter So, the Chief Operating Officer and Executive Director of the Company, has been appointed as Deputy Managing Director and acting Chief Financial Officer, pending appointment of a new Chief Financial Officer. Mr. Peter So has been directed by the Board to take day-to-day responsibility for the implementation, as a matter of priority, of PwC's recommendations with a view in ensuring that similar problems will not occur again. Mr. Peter So is an Associate of the Chartered Institute of Management Accountants and the Institute of the Financial Services. Mr. Peter So has considerable experience in management accounting, finance and investment operations.

In the interim, to ensure that Mr. Peter So is able to concentrate on this task, Mr. Raymond Chan, the Managing Director of the Company, will also take on the role of Chief Operating Officer of the Company.

9. **Purchase, Sale or Redemption of Listed Securities**

A total of 5,862,000 ordinary shares of HK$1.00 each were repurchased by the Company during the year at prices ranging from HK$2.80 to HK$3.15 per share. The aggregate price paid by the Company for such repurchases, before share repurchase expenses, was HK$17,954,000.

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$12,172,000, was charged to the share premium account.

The repurchases 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.

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

Hong Kong, 23 February 2006

* *For identification purpose only*

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 (Deputy Managing Director and acting 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.