

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 2005.

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 and unit-linked 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 term life, accident, medical and disability insurance to individuals, and employee groups, 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 a discontinued operation in the current year's financial statements, details of which are set out in note 13 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 51 to 134.

An interim dividend of HK\$0.01 per ordinary share was paid on 30 September 2005. The directors recommend the payment of a final dividend of HK\$0.04 per ordinary share in respect of the year, to shareholders recorded on the register of members on 21 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.

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 restated as appropriate, is set out on pages 135 to 136. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 17 and 19 to the financial statements, respectively.

Share capital and share options

Details of movements in the Company's share capital and share options during the year are set out in notes 39 and 40 to the financial statements, respectively.

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 certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and these shares were subsequently cancelled by the Company. Details of these transactions are as follows:

Month of purchase	Number of ordinary shares repurchased	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
January 2005	160,000	3.000	2.975	480
May 2005	810,000	3.125	3.100	2,516
August 2005	3,674,000	3.150	3.000	11,376
September 2005	1,218,000	2.975	2.800	3,582
	5,862,000			17,954

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. Further details of these transactions are set out in note 39 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 41(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2005, the Company's reserves available for cash distribution and/or distribution in specie, after the proposed final dividend of HK\$32,724,000, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK\$11,400,000. 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\$14,462,000 as at 31 December 2005, 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\$278,000 (2004: HK\$354,000).

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 *(Resigned on 23 February 2006)*

CHUNG Cho Yee, Mico

SO Wing Hung, Peter

FENG Xiaozeng *(Appointed on 8 August 2005)*

YANG Chao *(Resigned on 8 August 2005)*

ZHENG Changyong

Non-executive director:

WANG Xianzhang

Independent non-executive directors:

CHANG Hsin Kang

FRESHWATER Timothy George

WONG Yue Chim, Richard

Directors *(continued)*

In accordance with bye-law 100 of the Company's bye-laws, Messrs CHAN Ping Kan, Raymond and ALLEN Peter Anthony, and Professor CHANG Hsin Kang will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Messrs FENG Xiaozeng and WANG Xianzhang will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting in accordance with bye-law 102 of the Company's bye-laws.

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

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 13 of the annual report.

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) Mr SO Wing Hung, Peter has entered into a service contract with the Group which commenced from 1 April 2004 and which will expire on 31 March 2007.
- (3) There is no service contract entered into between the Company and Mr FENG Xiaozeng and he is not appointed for a specific term, but will retire at the annual general meeting in 2006 pursuant to bye-law 102 of the Company's bye-laws, at which time he will be eligible for re-election.
- (4) The service contract for each of the other executive directors is indefinite.

The non-executive director was appointed for a further two years' term with effect from 30 November 2005. The independent non-executive directors were appointed for a further two years' term 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 performance 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.

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

As at 31 December 2005, the interests of the directors and chief executive 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 (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Held by a trust		
YUEN Tin Fan, Francis	(a)	—	—	—	21,204,800	21,204,800	2.59
SO Wing Hung, Peter	(b)	—	—	—	276,000	276,000	0.03
ALLEN Peter Anthony		360,000	—	—	—	360,000	0.05
		360,000	—	—	21,480,800	21,840,800	2.67

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 40 to the financial statements.

Directors' and Chief Executive's Interests in Shares and Underlying Shares *(continued)*

Long positions in ordinary shares of the immediate holding company of the Company, Pacific Century Regional Developments Limited ("PCRD"):

Name of director	Number of shares held, capacity and nature of interest					Total	Percentage of the holding company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Held by a trust			
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

Long positions in underlying shares of PCRD:

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

Name of director	Date of grant of share options	Vesting period	Exercise period	Exercise price SGD	Number of share options				
					Outstanding as at 1 January 2005	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Outstanding as at 31 December 2005
ARENA Alexander Anthony	24 November 1999	25 October 2001 to 25 October 2005	25 October 2001 to 24 October 2009	0.7584	15,300,000	—	—	—	15,300,000

Save as disclosed above, as at 31 December 2005, none of the directors and/or the chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or 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.

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 40 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share Option Schemes

The directors have estimated the values of the share options granted during the year, calculated using the Black-Scholes option pricing model as at the date of the grant of the options:

	Number of options granted during the year	Theoretical value of share options HK\$
Grantee		
Mr SO Wing Hung, Peter	800,000	1,194,345
Other employees	210,000	227,591
Others (agents)	2,200,000	3,284,447
	3,210,000	4,706,383

The Black-Scholes option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options during the year were as follows:

Exercise price (HK\$)	3.125	3.675
Dividend yield (%)	1.874%	1.874%
Expected volatility (%)	43.60%	43.24%
Historical volatility (%)	43.60%	43.24%
Risk-free interest rate (%)	3.783%	3.794%
Expected life of option (year)	6-8	6-8
Weighted average share price at grant date (HK\$)	3.1295	3.6451

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the Black-Scholes option pricing model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of the assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Connected Transactions and Continuing Connected Transactions

During the year, the Company and the Group had connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules in note 46.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out in note 46 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

During the year, 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
FENG Xiaozeng (Note)	China Insurance (Holdings) Company, Limited	Insurance holding	As the chairman
	China Insurance International Holdings Company Limited	Insurance holding	As the chairman
	The Tai Ping Insurance Company, Limited	General insurance business	As a director
	Tai Ping Life Insurance Company, Limited	Life insurance business	As a director
	TaiPing Pension Company Limited	Pension insurance business	As a director
	China International Reinsurance Company Limited	Reinsurance business	As the chairman
	The Ming An Insurance Company (Hong Kong), Limited	General insurance business	As a director

Directors' Interests in Competing Businesses *(continued)*

Name of director	Name of companies	Competing business	Nature of interest
ZHENG Changyong	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

Note: The respective date of appointment of Mr FENG Xiaozeng's directorship in the above-mentioned companies are as follows:

Name of companies	Nature of interest	Date of appointment
China Insurance (Holdings) Company, Limited	As the chairman	12 May 2005
China Insurance International Holdings Company Limited	As the chairman	15 June 2005
The Tai Ping Insurance Company, Limited	As a director	17 November 2005
Tai Ping Life Insurance Company, Limited	As a director	10 June 2005
TaiPing Pension Company Limited	As a director	9 June 2005
China International Reinsurance Company Limited	As the chairman	17 August 2005
The Ming An Insurance Company (Hong Kong), Limited	As a director	12 September 2005

All of the above companies, except China Life Insurance (Overseas) Company Limited, are within the China Insurance (Holdings) Company Group, which holds an 11.13% 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.

Substantial Shareholders' and Other Persons' Interests in Shares

As at 31 December 2005, the following interests of 5% or more of the issued share capital 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)	385,797,942 (L)	47.16% (L)
PCRD	(2)	383,797,942 (L)	46.91% (L)
Ocean Star Investment Management Limited	(2)	383,797,942 (L)	46.91% (L)
Ocean Star Management Limited	(2)	383,797,942 (L)	46.91% (L)
OS Holdings Limited	(2)	383,797,942 (L)	46.91% (L)
Star Ocean Ultimate Limited	(2)	383,797,942 (L)	46.91% (L)
The Ocean Trust	(2)	383,797,942 (L)	46.91% (L)
The Ocean Unit Trust	(2)	383,797,942 (L)	46.91% (L)
The Starlite Trust	(2)	383,797,942 (L)	46.91% (L)
The Starlite Unit Trust	(2)	383,797,942 (L)	46.91% (L)
Pacific Century Group Holdings Limited	(2)	383,797,942 (L)	46.91% (L)
China Insurance (Holdings) Company, Limited	(3)	91,060,000 (L)	11.13% (L)
King System Limited	(3)	49,907,200 (L)	6.10% (L)
Joyful Box Inc.	(3)	41,152,800 (L)	5.03% (L)

Remark: (L) – Long position

Notes:

- (1) These interests represent Mr LI Tzar Kai, Richard's deemed interests in: (a) 2,000,000 shares held by Pacific Century Diversified Limited, a wholly-owned subsidiary of Chiltonlink Limited, which is 100% owned by Mr LI Tzar Kai, Richard; and (b) 383,797,942 shares indirectly held by the trustee of two unit trusts (see note 2 below), the units of which are held by two discretionary trusts of which Mr LI Tzar Kai, Richard is the founder.
- (2) Each of Ocean Star Management Limited, OS Holdings Limited, Star Ocean Ultimate Limited, The Ocean Trust, The Ocean Unit Trust, The Starlite Trust, The Starlite Unit Trust and Pacific Century Group Holdings Limited ("PCGH") is deemed to have an interest under the SFO in the same 383,797,942 shares held by PCRD as it holds, directly or indirectly, a controlling interest in PCRD. Ocean Star Investment Management Limited is deemed under the SFO to have an interest in the same 383,797,942 shares held by PCRD by virtue of it being the manager of The Starlite Unit Trust and The Ocean Unit Trust which together hold 100% of the shares of PCGH. As at 31 December 2005, PCGH's controlling interest in PCRD was held through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.33% of the shares of PCRD).
- (3) China Insurance (Holdings) Company, Limited is taken to have an interest under the SFO in the same 91,060,000 shares beneficially owned by Joyful Box Inc. and King System Limited in aggregate.

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 2005, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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 2006