1. Corporate Information

The Company was incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act 1981 (as amended) on 17 May 1999. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, 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) entered into an agreement for the transfer of its Mandatory Provident Fund business (the "MPF 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.

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

In the opinion of the directors, the parent and the ultimate holding company of the Group is OS Holdings Limited, which is incorporated in Bermuda.

2.1 Basis of Preparation

These financial statements have 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. They have 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 as further explained in note 2.5. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continued to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 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 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
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
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 20, 21, 23, 27, 28, 31, 33, 36, 37, 38, and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's and the Company's financial statements.

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 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 revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

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. The adoption of HKFRS 2 has had an impact on the retained profits 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 2.4 to the financial statements.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

(b) HKFRS 3 – Business Combinations

In prior years, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against the consolidated retained profits in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

The transitional provisions of HKFRS 3 have required goodwill previously eliminated against retained profits remains eliminated against retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. HKFRS 3 has had no material impact on the Group.

(c) HKFRS 4 – Insurance Contracts

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 with insignificant underwriting risks and investment contracts without DPF, previously classified as insurance contracts are reclassified as investment contracts upon the 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 2.4 to the financial statements.

(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 previous SSAP 33 "Discontinuing Operations", the Group would have recognised a discontinued operation at the earlier of:

- the date the Group entered into a binding sale agreement; and
- the date the board of directors had 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.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

(e) HKAS 32 and HKAS 39 – Financial Instruments

(i) Bonds purchased other than held to maturity, equities, unit trusts and mutual funds

In prior years, investments in bonds purchased other than held to maturity, 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 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 remaining securities held by the Group at 1 January 2005 in the amount of HK$388,950,000 were designated as fair value through profit or loss and are stated at fair value with gains or losses being recognised in the consolidated income statement.

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 agreements 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 was 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 2.4 to the financial statements. 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 were 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 the 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 the measurement of its investment properties and as such they are stated at cost less accumulated depreciation and any impairment losses. In accordance with the transitional provisions of HKAS 40, depreciation commences from 1 January 2005.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs that have been issued but not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006.

HKAS 1 Amendment	Capital Disclosures
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 1 Amendment	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 21 Amendment and HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions and HKFRS 1 Amendment do not apply to the activities of the Group.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 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 HK$'000	HKFRS 2# Equity-settled share option arrangements HK$'000	HKFRS 4# Insurance contracts HK$'000	HKFRS 5* A disposal group classified as held for sale HK$'000	Total 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

2.4 Summary of the Impact of Changes in Accounting Policies *(continued)*

(a) Effect on the consolidated balance sheet *(continued)*

As at 31 December 2005 Effect of new policies (Increase/(decrease))	Effect of adopting HKASs 32# and 39* Change in classification of investments HK$'000	HKAS 39* Cash flow hedge HK$'000	HKAS 40* Depreciation of investment properties HK$'000	HKFRS 2# Equity-settled share option arrangements HK$'000	HKFRS 4# Insurance contracts HK$'000	HKFRS 5* A disposal group classified as held for sale HK$'000	Total HK$'000
Assets							
Investment 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 instruments	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 instruments	—	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

2.4 Summary of the Impact of Changes in Accounting Policies *(continued)*

(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

2.4 Summary of the Impact of Changes in Accounting Policies *(continued)*

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

Effect of new policies	Effect of adopting HKFRS 2# Employee share option scheme HK$'000	HKFRS 4# Insurance contracts HK$'000	Total 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

* Adjustments taken effect prospectively from 1 January 2005.

Adjustments/presentation taken effect restrospectively.

2.5 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Prior to the adoption of HKFRS 3 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired.

2.5 Summary of Significant Accounting Policies *(continued)*

Profit recognition

The operating profits of the long term insurance business of the Group are arrived at annually by means of an actuarial valuation of future insurance liabilities, determined by the appointed actuary of the Group using a net level premium approach. Detailed policies are as follows:

(i) acquisition costs relating to the production of any new business are deferred to the extent that they can be recovered, and are shown explicitly as an asset in the balance sheet. Assumptions used in assessing the deferred acquisition costs reflect management's assessment of the most likely outcome of the future policy cash flows, subject to reasonable allowances for prudence purposes. All other acquisition costs and all maintenance costs are expensed as and when incurred;

(ii) amounts received on reinsurance contracts that do not transfer significant underwriting risk are included as a component of insurance liabilities in the balance sheet; and

(iii) premiums relating to reinsurance contracts that do not transfer significant underwriting risk are treated as adjustments to the amounts carried in the balance sheet in respect of the contracts concerned.

Premiums

Premiums in respect of traditional policies and group policies are recognised as income as and when they fall due, whereas those in respect of universal life and unit-linked contracts are accounted for as they are received.

Premiums on reinsurance contracts that transfer underwriting risk are expensed as incurred. Premiums on reinsurance contracts that do not transfer significant underwriting risk are treated as adjustments to the amounts carried on the balance sheet in respect of the contracts concerned.

Commissions

Commissions received on reinsurance policies that transfer underwriting risk are recognised as income at the same time as the reinsurance premiums are accounted for. Amounts received on reinsurance contracts that do not transfer significant underwriting risk are included as a component of insurance liabilities in the balance sheet. Commission payable to agents for the first policy year is included as a component of deferrable acquisition costs.

Deferred acquisition costs ("DAC")

The acquisition costs primarily related to the production of new business, are deferred in so far as there are sufficient margins in the future premiums of new business to fund the amortisation of the DAC. DAC include first year commissions and other costs related to the acquisition of new business.

DAC are carried at cost and amortised on the straight-line basis over 10 years, adjusted for any unfavourable actual experience and any permanent impairment in value determined by reference to margins in the future premiums.

2.5 Summary of Significant Accounting Policies *(continued)*

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and non-current assets/disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.5 Summary of Significant Accounting Policies *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Company that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis so as to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	50 years or the lease term, whichever is shorter
Buildings	40 years
Computer equipment	3 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

2.5 Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its investments in bonds, equities, unit trusts and mutual funds other than subsidiaries, as long term investments and short term investments.

Long term investments

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at amortised cost less any impairment losses which reflect their credit risk. Amortised cost is defined as cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount. An impairment loss is charged to the income statement in the period in which it arises, on an individual investment basis.

In situations where the circumstances and events which led to an impairment of a held-to-maturity security cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the reversal of the impairment is credited to the income statement, on an individual investment basis, to the extent of the amount previously charged.

Short term investments

Short term investments are investments in bonds other than for held to maturity, equities, unit trusts and mutual funds and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

2.5 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

The Group designates financial assets in bonds other than held to maturity, equities, unit trusts and mutual funds purchased for investment linked products at fair value through profit and loss. Gains or losses of these assets are recognised in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.5 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2005: *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in bonds other than held to maturity, equities, unit trusts and mutual funds that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised 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.

When the fair value of unlisted/unquoted securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

In accordance with the provisions of HKAS 39, the Group's investments at 1 January 2005 in the amount of HK$5,393,543,000, previously classified as short term investments, have been redesignated as available-for-sale.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2.5 Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005) *(continued)*

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through profit or loss.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.5 Summary of Significant Accounting Policies *(continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005) *(continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

The Group uses derivative financial instruments such as cross currency swap agreement to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives (including embedded derivatives) that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

2.5 Summary of Significant Accounting Policies *(continued)*

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005) *(continued)*
The fair value of cross currency swap agreement is determined by reference to the present value of estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges
Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

2.5 Summary of Significant Accounting Policies *(continued)*

Investment properties

Investment properties represents the Group's interests in land and buildings held in respect of the Group's long term insurance business for investment purposes. Investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis as to write off the cost of each investment property to its residual value over its estimated useful life. The principal annual rates used for this purpose are based on the remaining lease term of the land use rights.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the investment property is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Prepayments

Prepayments made in connection with the recruitment of agents are capitalised and amortised to the income statement over the term of the contract with the agent.

Premiums receivable

Premiums receivable represent premiums which are due for payment. The Group normally allows policyholders to make payment within a grace period of one month from the due date. The grace period may be extended by one further month by management purely on a discretionary basis. Insurance policies continue in force if default premiums are settled before the expiry of the grace period.

Future insurance liabilities

Future insurance liabilities represent net future policy liabilities as determined by the appointed actuary of the Group using a net level premium approach.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

2.5 Summary of Significant Accounting Policies *(continued)*

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences as at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Conversely, any previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2.5 Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*
Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets, against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefits
Share-based payment transactions
The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model, further details of which are given in note 40. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.5 Summary of Significant Accounting Policies *(continued)*

Employee benefits *(continued)*

Share-based payment transactions (continued)

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005 and to those granted on or after 1 January 2005.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and other allowances and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "ORSO Scheme") for those employees who were eligible to participate in this scheme. The ORSO Scheme operated in a similar way to the MPF Scheme, except that when an employee left the ORSO Scheme before his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. With effect from 1 December 2000, the Group has operated both schemes and those employees who were eligible to participate in the ORSO Scheme are also eligible to participate in the MPF Scheme.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.5 Summary of Significant Accounting Policies *(continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss with the exception of differences on cross currency swap agreements that provide a hedge against an interest bearing loan. These are taken directly to equity until the full repayment of the interest bearing loan, at which time they are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.5 Summary of Significant Accounting Policies *(continued)*

Product classification

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

Insurance contracts

Insurance contracts are defined as those contracts that transfer significant insurance risk at the inception of the contract. Such contracts may also transfer financial risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

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

Investment contracts are defined as those contracts that transfer financial risk with no significant insurance risk at the inception of the contract. Deposits collected and benefits payments are not accounted for in the income statement, but are accounted for directly in the balance sheet as a movement in the liabilities.

Insurance contracts liabilities

Insurance contracts with fixed and guaranteed terms

These are traditional insurance contracts that provide coverage for death, accident and sickness benefits. The provision for life insurance contracts with fixed level premiums is calculated on the basis of the prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing. The liability is determined as the sum of the expected discounted value of the benefit payments, less the expected discounted value of the theoretical premiums that would be required to meet the benefits, based on the valuation assumptions as to mortality and investment income that are established at the time the contract is issued, plus a margin for adverse deviation. Changes to the liabilities at each reporting date are recorded in the income statement as an expense. The liabilities on yearly renewable premium contracts are the liabilities for the unexpired risks carried at the balance sheet date.

The carrying value of the Group's insurance contracts with fixed and guaranteed term at the balance sheet date was HK$4,931,508,000 (net of reinsurer's share of liabilities).

Investment contracts liabilities

Liabilities for investment contracts are carried at fair values through accumulated cash flows or current unit fund values.

The carrying value of investment contracts at the balance sheet date was HK$567,967,000 (including the investment contracts of discontinued operation).

2.5 Summary of Significant Accounting Policies *(continued)*

Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services, investment management services and for surrenders. The fee is recognised as revenue in the period in which it is received.

Benefits and insurance claims

Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits recorded are then accrued to the liability.

3. Significant Accounting Judgements and Estimates

Estimation Uncertainty

Life insurance contracts

The estimation of the ultimate liability arising from claims made under life insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimation of the liability that the Group will ultimately pay for those claims.

Two major components in the estimation of the liabilities for insurance contracts are death benefits and investment returns. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group base these estimates on standard industry and national mortality tables that reflect historical mortality experience, adjusted where appropriate to reflect the Group's unique risk exposure. The estimated number of deaths determines the value of possible future benefits to be paid out which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums. Investment returns are based on the investment strategy of the company, with due regard to the expected return on assets backing the insurance contracts.

Estimates for future deaths and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability.

Impairment of available-for-sale financial assets

In determining the fair values, management evaluates the normal volatility in the share price, the financial health of the investees, the industry and sector performance like changes in operational and financial cash flows. Any indication of deterioration in the above factors can have a negative impact on the fair value.

The carrying value of the Group's available-for-sale financial assets at the balance sheet date was HK$5,980,577,000.

4. Revenue, Investment Income, Net Gains, and Other Income

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 turnover, investment income, net gains and other income is as follows:

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Turnover		
Life insurance contracts:		
Single premium	**30,018**	11,464
First year premium	**266,010**	226,562
Renewal premium	**1,500,071**	1,421,606
Gross premium (note 5)	**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		
General and shareholders' funds:		
Interest income from quoted bonds	**153,770**	171,374
Interest income from banks and asset management businesses	**26,241**	4,923
Interest received from policy loans and loans to employees and agents	**23,409**	19,849
Dividend income from listed and unlisted investments	**31,312**	19,441
Investment handling charges	**(3,008)**	(4,149)
Write-back/(additional) provision for bad and doubtful debts	**12,501**	(22,174)
Others	**1,888**	1,518
	246,113	190,782
Segregated funds (note (i)):		
Interest income from quoted investments	**114**	151
Interest income from banks and asset management businesses	**59**	4
Dividend income from listed investments	**20**	—
Investment handling charges	**(1,663)**	(3,235)
Others	**656**	1,549
	(814)	(1,531)
Total	**245,299**	189,251

4. Revenue, Investment Income, Net Gains, and Other Income *(continued)*

	Group	
	2005	2004
	HK$'000	HK$'000 (Restated)
Net gains		
Realised gains/(losses)		
General and shareholders' funds:		
Realised gains on other listed/quoted investments	—	144,439
Realised gains on other unlisted investments	—	13,779
Listed available-for-sale financial assets (transfer from equity)	**51,714**	—
Unlisted available-for-sale financial assets (transfer from equity)	**(10,083)**	—
Realised losses on embedded derivatives (note (ii))	**(38)**	—
	41,593	158,218
Segregated funds (note (i)):		
Unlisted available-for-sale financial assets (transfer from equity)	**(223)**	—
Realised losses on other unlisted investments	—	(19)
	(223)	(19)
Net realised gains	**41,370**	158,199
Unrealised gains/(losses)		
General and shareholders' funds:		
Unrealised losses on other listed/quoted investments	—	(28,494)
Unrealised gains on financial assets at fair value through profit or loss (Unlisted short term investments: 2004)	**5,374**	75,911
Unrealised losses on embedded derivatives (note (ii))	**(2,284)**	—
	3,090	47,417
Segregated funds (note (i)):		
Financial assets at fair value through profit or loss (Short term investments: 2004)	**32,486**	12,750
Net unrealised gains	**35,576**	60,167
Total	**76,946**	218,366

4. Revenue, Investment Income, Net Gains, and Other Income *(continued)*

	Notes	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Investment income and net gains:			
General and shareholders' fund		**290,796**	396,417
Segregated funds (note(i))		**31,449**	11,200
		322,245	407,617
Other income:			
Reinsurance commission income and refund		**20,964**	17,688
Others		**30,582**	46,973
Other income		**51,546**	64,661
Investment income, net gains, and other income attributable to continuing operations reported in the consolidated income statement		**373,791**	472,278
Investment income, net gains and other income attributable to a discontinued operation	13	**2,599**	3,964
		376,390	476,242

The Group's income all arises from its activities conducted in Hong Kong.

Notes:

(i) The investment income and net gains amounting to a net gain of HK$31,449,000 (2004 (restated): net gain of HK$11,200,000) on segregated funds will be offset by a change in future insurance liabilities and policyholders' benefits relevant to segregated fund policies, and has had no impact on the consolidated income statement.

(ii) The Group has invested in convertible bonds and callable bonds, which have a call option to convert the bond into the equity of the issuer at an established conversion rate.

5. Revenue on Life Insurance Contracts

	Group	
	2005	2004
	HK$'000	HK$'000 (Restated)
Gross earned premium on life insurance contracts:		
With fixed and guaranteed terms	**1,772,628**	1,637,952
Unit-linked	**23,471**	21,680
	1,796,099	1,659,632
Reinsurers' share of life insurance contracts premium:		
With fixed and guaranteed terms	**(149,426)**	(156,056)
Unit-linked	**(5,381)**	(711)
	(154,807)	(156,767)
Total revenue on life insurance contract	**1,641,292**	1,502,865

6. Policyholders' Benefits

	Group	
	2005	2004
	HK$'000	HK$'000 (Restated)
Death and disability claims	**193,345**	196,480
Surrenders	**171,628**	183,358
Maturities and periodic payments	**98,333**	103,640
Policyholders' dividends	**118,048**	101,439
	581,354	584,917
Gross policyholders' benefits paid:		
Unit-linked	**11,306**	8,721
With fixed and guaranteed terms	**615,689**	634,288
	626,995	643,009
Reinsurers' share of policyholders' benefits paid:		
With fixed and guaranteed terms	**(45,641)**	(58,092)
	(45,641)	(58,092)
Total net policyholders' benefits paid	**581,354**	584,917

7. Finance Costs

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on interest-bearing loans	**46,431**	1,805
Interest income on derivative financial instruments, 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 United States dollar ("US$"), as disclosed in note 35 to the financial statements.

8. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
Auditors' remuneration	**1,465**	1,065
Depreciation		
Property, plant and equipment (note 17)	**16,118**	14,985
Investment properties (note 19)	**291**	—
Amortisation of deferred acquisition costs (note (i) and note 20)	**286,746**	305,102
Minimum lease payments under operating lease rentals on land and buildings	**30,182**	19,498
Employee benefits expense (including directors' remuneration, note 10)		
Wages and salaries	**114,491**	141,832
Equity-settled share option expenses	**8,951**	8,012
Retirement benefits scheme contributions	**3,714**	8,080
Less: Forfeited contributions	**(344)**	(605)
Net retirement benefits scheme contributions (note (ii))	**3,370**	7,475
Total employee benefits expense	**126,812**	157,319
Retirement benefits scheme contributions for agents	**10,266**	8,902
Less: Forfeited contributions for agents	**(725)**	(846)
Net retirement benefits scheme contributions for agents (note (ii))	**9,541**	8,056
Gross rental income	**(985)**	(984)
Direct operating expenses arising (including repairs and maintenance) on rental-earning investment properties	**155**	488
Net rental income	**(830)**	(496)
Gain on disposal of items of property, plant and equipment	**(88)**	(99)

Note:

(i) The amortisation of deferred acquisition costs for the year is included in "Change in deferred acquisition costs" on the face of the consolidated income statement, as disclosed in note 20 to the financial statements.

(ii) As at 31 December 2005, the Group had forfeited contributions of HK$5,231,000 available to reduce its contributions to the pension scheme in future years (2004: HK$5,331,000).

9. Profit Before Tax by Activity

Pursuant to the requirements of the Listing Rules, the Group's profit before tax is analysed by activity as follows:

	Note	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Life insurance contracts		**63,360**	201,681
Retirement scheme business		**(1,003)**	(1,347)
General insurance business under agency agreements		**2,708**	2,716
Asset management business (note (i))		**(12,070)**	(6,603)
Fees on investment contracts		**5,871**	9,993
Profit before tax attributable to continuing operations reported in the consolidated income statement		**58,866**	206,440
Profit/(loss) before tax attributable to a discontinued operation	13	**661**	(566)
		59,527	205,874

Note:

		2005	2004
(i)	Income from operation: Asset management	**46,088**	41,282
	Less: Intra-Group income	**(29,900)**	(30,876)
		16,188	10,406
	Operating expenses before tax	**(28,258)**	(17,009)
		(12,070)	(6,603)

The Group's profit before tax arises mainly from its direct underwriting activities conducted in Hong Kong.

10. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Executive and non-executive directors:		
Fees	**1,320**	1,320
Salaries, allowances, and benefits in kind	**11,600**	11,383
Performance related bonuses*	**—**	11,609
Employee share option benefits	**2,439**	2,443
Contributions to retirement benefits schemes	**1,160**	1,138
	16,519	27,893
Independent non-executive directors:		
Fees	**360**	360
	16,879	28,253

* *Certain executive directors of the Company were entitled to bonus payments which were determined as a percentage of the profit after tax and before the performance related bonuses provision of the Group.*

The independent non-executive directors are entitled to an annual directors' fee of HK$120,000 each.

During the year, a director was granted share options, in respect of his services to the Group under one of the share option schemes of the Company, further details of which are set out in note 40 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of grant and included in the above directors' remuneration disclosures.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. Directors' Remuneration *(continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 HK$'000	2004 HK$'000
CHANG Hsin Kang	**120**	120
FRESHWATER Timothy George	**120**	120
WONG Yue Chim, Richard	**120**	120
	360	360

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

(b) Executive directors and a non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
2005						
Executive directors:						
YUEN Tin Fan, Francis	**200**	—	—	—	—	**200**
CHAN Ping Kan, Raymond	—	**5,000**	—	**671**	**500**	**6,171**
ALLEN Peter Anthony	**200**	—	—	—	—	**200**
ARENA Alexander Anthony	**200**	—	—	—	—	**200**
* CHEUNG Sum, Sam	—	**3,300**	—	**585**	**330**	**4,215**
CHUNG Cho Yee, Mico	**200**	—	—	—	—	**200**
SO Wing Hung, Peter	—	**3,300**	—	**1,183**	**330**	**4,813**
FENG Xiaozeng	**200**	—	—	—	—	**200**
YANG Chao	—	—	—	—	—	—
ZHENG Changyong	**200**	—	—	—	—	**200**
	1,200	**11,600**	—	**2,439**	**1,160**	**16,399**
Non-executive director:						
WANG Xianzhang	**120**	—	—	—	—	**120**
	1,320	**11,600**	—	**2,439**	**1,160**	**16,519**

10. Directors' Remuneration *(continued)*

(b) Executive directors and a non-executive director *(continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total emoluments HK$'000
2004						
Executive directors:						
YUEN Tin Fan, Francis	200	—	—	—	—	200
CHAN Ping Kan, Raymond	—	5,001	5,735	971	500	12,207
ALLEN Peter Anthony	200	—	—	—	—	200
ARENA Alexander Anthony	200	—	—	—	—	200
* CHEUNG Sum, Sam	—	3,191	2,937	736	319	7,183
CHUNG Cho Yee, Mico	200	—	—	—	—	200
SO Wing Hung, Peter	—	3,191	2,937	736	319	7,183
FENG Xiaozeng	—	—	—	—	—	—
YANG Chao	200	—	—	—	—	200
ZHENG Changyong	200	—	—	—	—	200
	1,200	11,383	11,609	2,443	1,138	27,773
Non-executive director:						
WANG Xianzhang	120	—	—	—	—	120
	1,320	11,383	11,609	2,443	1,138	27,893

** Note:* Mr CHEUNG Sum, Sam resigned as a director of the Company with effect from 23 February 2006.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

11. Five Highest Paid Employees

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees for the year were as follows:

	Group	
	2005	2004
	HK$'000	HK$'000 (Restated)
Salaries, housing allowances, and benefits in kind	**2,925**	2,925
Performance related bonuses	**7,650**	7,389
Employee share option benefits	**1,086**	1,614
Contributions to retirement benefits schemes	**270**	270
	11,931	12,198

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
HK$5,000,001 - HK$5,500,000	**1**	1
HK$6,500,001 - HK$7,000,000	**1**	—
HK$7,000,001 - HK$7,500,000	**—**	1
	2	2

12. 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 Group's asset management business conducted in Hong Kong, and the Group's 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.

	2005 HK$'000	2004 HK$'000
Group:		
Current - Hong Kong		
Charge for the year	**16,963**	6,629
Deferred (note 24)	**—**	10,950
Total tax charge for the year	**16,963**	17,579

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2005 HK$'000	**2005** %	2004 HK$'000 (Restated)	2004 %
Profit before tax (including profit/(loss) from a discontinued operation)	**59,527**		205,874	
Tax at the statutory rate	**10,417**	**17.5**	36,028	17.5
5% of net premium of life insurance business	**14,210**	**23.9**	13,697	6.6
Loss of life insurance business and other businesses not taxable at the statutory rate	**(7,602)**	**(12.8)**	(32,146)	(15.6)
Tax charge at the Group's effective rate	**17,025**	**28.6**	17,579	8.5
Tax charge attributable to a discontinued operation (note 13)	**(62)**	**(0.1)**	—	—
Tax charge attributable to continuing operations reported in the consolidated income statement	**16,963**	**28.5**	17,579	8.5

13. Discontinued Operation

In June 2002, Pacific Century Insurance Company Limited ("PCI"), a wholly-owned subsidiary of the Group, entered into an agreement for the transfer of its MPF business to HSBC Life. The disposal is consistent with the Company's long term strategy to focus on providing an extensive range of whole life, endowment and term life insurance products to individuals in Hong Kong. The transfer of the MPF business commenced in July 2002, and the Group plans to complete the transfer in 2006. As at 31 December 2005, the MPF business was classified as a disposal group held for sale.

The results of the MPF business for the year are presented below:

	2005 HK$'000	2004 HK$'000 (Restated)
REVENUE		
Interest income	**928**	55
Realised and unrealised gains on financial assets at fair value through profit or loss	**1,450**	3,576
Other income	**221**	333
Total revenue	**2,599**	3,964
OPERATING EXPENSES		
Policyholders' benefits	**(1,450)**	(3,656)
Agency commission and allowances	**(1)**	(2)
Management expenses	**(487)**	(872)
Total operating expenses	**(1,938)**	(4,530)
PROFIT/(LOSS) BEFORE TAX FROM THE DISCONTINUED OPERATION	**661**	(566)
Tax related to pre-tax profit	**(62)**	—
PROFIT/(LOSS) FOR THE YEAR FROM THE DISCONTINUED OPERATION	**599**	(566)

13. Discontinued Operation *(continued)*

The major classes of assets and liabilities of the MPF business classified as held for sale as at 31 December are as follows:

	2005 HK$'000	2004 HK$'000
ASSETS		
Financial assets at fair value through profit or loss	**21,166**	—
Time deposits with original maturity of more than three months when acquired	**2,102**	—
Cash and cash equivalents	**36,247**	—
Prepayments and other debtors	**258**	—
Assets classified as held for sale	**59,773**	—
LIABILITIES		
Claims payable	**52**	—
Premium deposits	**5**	—
Accrued expenses and other creditors	**388**	—
Future insurance liabilities under investment contracts	**21,165**	—
Liabilities directly associated with the assets classified as held for sale	**21,610**	—
Net assets directly associated with the disposal group	**38,163**	—

The net cash flows incurred by the MPF business are as follows:

	2005 HK$'000	2004 HK$'000
Operating	**1,094**	(76)
Investing	**—**	—
Financing	**—**	—
Net cash inflow/(outflow)	**1,094**	(76)
Earnings/(loss) per share:		
Basic, from the discontinued operation	**0.073 cents**	(0.069) cents
Diluted, from the discontinued operation	**0.072 cents**	(0.068) cents

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2005	2004
Net profit/(loss) attributable to ordinary equity holders from the discontinued operation	**HK$599,000**	HK$(566,000)
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
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**832,171,000**	835,336,000

14. Profit from Ordinary Activities attributable to Equity Holders

The profit from ordinary activities attributable to equity holders for the years ended 31 December 2005 and 31 December 2004 dealt with in the financial statements of the Group and the Company are as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Group	**42,502**	188,295

	2005 HK$'000	2004 HK$'000
Company	**31,517**	49,021

15. Dividends

	2005 HK$'000	2004 HK$'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 dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

16. Earnings Per Share attributable to Ordinary Equity Holders

The calculation of basic earnings per share 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 HK$'000	2004 HK$'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

17. Property, Plant and Equipment

Group

31 December 2005	**Leasehold land and buildings** HK$'000	**Computer equipment** HK$'000	**Furniture, fixtures and equipment** HK$'000	**Motor vehicles** HK$'000	**Software under development** HK$'000	**Total** HK$'000
As at 1 January 2005, net of accumulated depreciation	**192,914**	**4,414**	**18,204**	**353**	**—**	**215,885**
Additions	**—**	**2,678**	**17,418**	**—**	**—**	**20,096**
Disposals	**—**	**(80)**	**(134)**	**—**	**—**	**(214)**
Depreciation provided for during the year	**(5,150)**	**(2,975)**	**(7,902)**	**(91)**	**—**	**(16,118)**
As at 31 December 2005, net of accumulated depreciation	**187,764**	**4,037**	**27,586**	**262**	**—**	**219,649**
As at 31 December 2005:						
Cost	**226,971**	**28,146**	**97,529**	**452**	**—**	**353,098**
Accumulated depreciation	**(39,207)**	**(24,109)**	**(69,943)**	**(190)**	**—**	**(133,449)**
Net carrying amount	**187,764**	**4,037**	**27,586**	**262**	**—**	**219,649**

31 December 2004	Leasehold land and buildings HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Software under development HK$'000	Total HK$'000
As at 1 January 2004, net of accumulated depreciation	197,964	6,217	15,968	443	401	220,993
Additions	—	1,084	8,859	—	—	9,943
Disposals	—	—	(23)	—	(43)	(66)
Transfers	—	358	—	—	(358)	—
Depreciation provided for during the year	(5,050)	(3,245)	(6,600)	(90)	—	(14,985)
As at 31 December 2004, net of accumulated depreciation	192,914	4,414	18,204	353	—	215,885
As at 31 December 2004:						
Cost	226,971	29,668	82,190	2,263	—	341,092
Accumulated depreciation	(34,057)	(25,254)	(63,986)	(1,910)	—	(125,207)
Net carrying amount	192,914	4,414	18,204	353	—	215,885
As at 1 January 2004:						
Cost	226,971	28,531	74,614	2,656	401	333,173
Accumulated depreciation	(29,007)	(22,314)	(58,646)	(2,213)	—	(112,180)
Net carrying amount	197,964	6,217	15,968	443	401	220,993

17. Property, Plant and Equipment *(continued)*

Details of the Group's leasehold land and buildings included above, which are held under medium term leases and stated at cost, are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Hong Kong	**216,520**	216,520
Elsewhere	**10,451**	10,451
	226,971	226,971

18. Interests in Subsidiaries

	Company	
	2005	2004
	HK$'000	HK$'000 (Restated)
Unlisted shares, at cost	**385,025**	376,074
Amounts due from subsidiaries	**614,417**	537,123
Amount due to a subsidiary	**(138,175)**	—
	861,267	913,197
Provision for impairment	**—**	—
	861,267	913,197

The amounts due from/(to) subsidiaries are unsecured, interest-free and are not repayable within the next 12 months. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

18. Interests in Subsidiaries *(continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Bright Victory International Limited	British Virgin Islands/ Hong Kong	Ordinary US$7,743,935	100	—	Investment holding
Pacific Century Insurance Company Limited	Bermuda/ Hong Kong	Ordinary US$121,000,000 Redeemable US$9,000,000	—	100	Life assurance, administration of retirement schemes and other related businesses
Pacific Century Trustees Limited	Hong Kong	Ordinary HK$30,000,000	—	100	Provision of trustee services
PCI Investment Management Limited	Hong Kong	Ordinary HK$10,000,000	100	—	Asset management
PCI Capital Limited	British Virgin Islands	Ordinary US$1	—	100	Note issuance
Noblenew Investments Limited	British Virgin Islands	Ordinary US$1	100	—	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. Investment Properties

	2005 HK$'000	2004 HK$'000
Cost:		
As at 1 January and 31 December	**15,319**	15,319
Accumulated depreciation:		
As at 1 January	**—**	—
Depreciation provided for during the year	**(291)**	—
As at 31 December	**(291)**	—
Carrying amount as at 31 December	**15,028**	15,319

The investment properties had fair value of HK$16,650,000 as at 31 December 2005 (2004: HK$16,650,000) based on valuation performed by independent, professionally qualified valuers, based on current prices in actual market. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 44(a) to the financial statements.

The Group's investment properties are situated in Mainland China and are held under the following lease terms:

	2005 HK$'000	2004 HK$'000
Long term leases	**11,532**	11,730
Medium term leases	**3,496**	3,589
	15,028	15,319

20. Deferred Acquisition Costs

	Group	
	2005 HK$'000	2004 HK$'000
Balance as at beginning of the year	**1,309,396**	1,403,273
Additions	**301,243**	211,225
Less: Amortisation	**(286,746)**	(305,102)
Change in deferred acquisition costs	**14,497**	(93,877)
Balance as at 31 December	**1,323,893**	1,309,396
Current portion	**(286,179)**	(286,168)
Non-current portion	**1,037,714**	1,023,228

21. Financial Assets

	Notes	Group 2005 HK$'000	2004 HK$'000
Total financial assets			
Policy loans	22	**241,193**	216,173
Loans to employees and agents	23	**53,718**	40,944
Held-to-maturity financial assets	25	**136,953**	137,105
Available-for-sale financial assets (short term investments: 2004)	26	**5,980,577**	5,393,543
Financial assets at fair value through profit or loss (short term investments: 2004)	27	**481,976**	388,950
Derivative financial instruments	30	**10,167**	—
		6,904,584	6,176,715
Current portion:			
Loans to employees and agents	23	**(1,522)**	(220)
Available-for-sale financial assets (short term Investments: 2004)	26	**(5,394,194)**	(5,393,543)
Financial assets at fair value through profit or loss (short term investments: 2004)	27	**(481,976)**	(388,950)
Derivative financial instruments	30	**(10,167)**	—
		(5,887,859)	(5,782,713)
Non-current portion		**1,016,725**	394,002

22. Policy Loans

The policy loans are made to policyholders and are secured by the policies' cash surrender value. Policy loans are repayable at the discretion of the policyholders as long as the interest plus the principal of the loans do not equal or exceed the cash value or until the policy matures. The policy loans are interest bearing at 9% per annum.

23. Loans to Employees and Agents

	Group	
	2005	2004
	HK$'000	HK$'000
Loans to employees and agents	**53,718**	40,944
Current portion	**(1,522)**	(220)
Non-current portion	**52,196**	40,724

The Group provides loans to employees and agents which are interest-bearing at the prevailing bank lending rates, some of which are secured by the underlying properties and/or motor vehicles, and are repayable by monthly installments. The effective interest rates of loans to employees and agents ranged from 5% to 16% per annum.

No loans had been provided to directors as at the current or prior year's balance sheet dates.

24. Deferred Tax

The movement in the Group's deferred tax asset during the year was as follows:

Deferred tax asset

Group		Losses available for offset against future taxable profits
	2005 HK$'000	2004 HK$'000
As at 1 January	—	10,950
Deferred tax charged to the income statement during the year (note 12)	—	(10,950)
As at 31 December	—	—

As at 31 December 2005, there were no significant unrecognised deferred tax liabilities (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such an amount be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

25. Held-to-maturity Financial Assets

	Group	
	2005 HK$'000	2004 HK$'000
Held-to-maturity bonds, at amortised cost quoted in places other than Hong Kong	**136,953**	137,105
Market value of quoted held-to-maturity bonds as at 31 December	**135,949**	136,098

The held-to-maturity bonds analysed by category of issuer as at the balance sheet date were as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Corporate entities	**136,953**	137,105

26. Available-for-sale Financial Assets (Short Term Investments: 2004)

	Group	
	Available-for-sale financial assets	**Short term investments**
	2005	2004
	HK$'000	HK$'000
Quoted bonds, at market value:		
Hong Kong	**779,063**	769,310
Elsewhere	**1,992,591**	2,303,271
	2,771,654	3,072,581
Listed equity investments, at market value:		
Hong Kong	**300,587**	145,390
Elsewhere	**1,075,874**	1,225,433
	1,376,461	1,370,823
Unlisted unit trusts, at fair value	**409,287**	292,997
Unlisted mutual funds, at fair value	**836,812**	657,142
Unlisted equity investments, at fair value	**78,061**	—
Available-for-sale unlisted exchangeable note, investment element at cost (note (i))	**508,302**	—
Total available-for-sale financial assets	**5,980,577**	5,393,543
Portion classified as current assets	**(5,394,194)**	(5,393,543)
Non-current portion	**586,383**	—

Note:

(i) The Group subscribed for an exchangeable note on 3 June 2005, the component parts of which are an investment element and an option to convert into shares in the future. The basic note will be held as an available-for-sale financial asset and the option will be held as derivative. The investment element was carried at cost and the embedded option to convert the shares in the future has zero fair value as at 31 December 2005 since the Group is at present not able to exercise its exchange right because of the controls on foreign ownership of insurance business currently existing under PRC law.

26. Available-for-sale Financial Assets (Short Term Investments: 2004) *(continued)*

The quoted bonds analysed by category of issuer as at the balance sheet date were as follows:

	Group	
	Available-for-sale financial assets 2005 HK$'000	**Short term investments** 2004 HK$'000
Governments	**398,890**	431,430
Banks and other financial institutions	**1,272,608**	1,209,908
Corporate entities	**1,100,156**	1,431,243
Total	**2,771,654**	3,072,581

The maturity profile of the quoted bonds as at the balance sheet date was as follows:

	Group	
	2005 HK$'000	2004 HK$'000
With a residual maturity of:		
One year or less	**267,055**	300,278
Two years or less but over one year	**306,038**	236,496
Three years or less but over two years	**462,716**	180,107
Four years or less but over three years	**236,215**	368,780
Five years or less but over four years	**188,428**	294,220
Over five years	**1,311,202**	1,692,700
Quoted bonds	**2,771,654**	3,072,581

The effective interest rates of quoted bonds ranged from 1.76% to 8.63% per annum.

As at 31 December 2004, the Group held bonds issued by PCCW Capital with a nominal amount of US$10,000,000 which have a maturity date in 2005. The market value of these bonds amounted to HK$93,085,000 as at 31 December 2004. During 2005, the Group had redeemed US$10,000,000 (equivalent to HK$77,998,000) nominal value of all its holding of PCCW Capital Limited bonds. The Group recorded a gain totaling HK$23,552,000 from the sales transaction, of which HK$402,000 was recognised during the year.

During the year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$228,918,000 (2004: Nil). Realised gain of HK$41,408,000 (2004: Nil) was removed from equity during the year and recognised in the income statement for the year, leaving an unused unrealised gain reserve of HK$187,510,000 (2004:Nil).

26. Available-for-sale Financial Assets (Short Term Investments: 2004) *(continued)*

The above investments consist of investments in bonds purchased other than for held-to-maturity, equity securities, unit trusts and mutual funds which were designated as available-for-sale financial assets on 1 January 2005. Equity securities, unit trusts and mutual funds have no fixed maturity date or coupon rate.

The fair values of listed equity investments, quoted bonds, unit trusts and mutual funds are based on quoted market prices.

27. Financial Assets at Fair Value through Profit or Loss (Short Term Investments: 2004)

	Group	
	Financial assets at fair value through profit or loss	**Short term investments**
	2005	2004
	HK$'000	HK$'000
Unlisted unit trusts, at fair value	**481,976**	388,950

The above investments as at 31 December 2005 were designated as financial assets at fair value through profit or loss at the date of inception.

28. Cash and Cash Equivalents

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	**1,141,884**	1,072,041	**35**	18
Time deposits	**231,551**	229,504	**—**	—
	1,373,435	1,301,545	**35**	18
Less: Pledged time deposits:				
Pledged for cross currency swap agreements (note 30)	**(15,751)**	—	**—**	—
Cash and cash equivalents	**1,357,684**	1,301,545	**35**	18

28. Cash and Cash Equivalents *(continued)*

The maturity profile of the time deposits as at the balance sheet date were as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	HK$'000	HK$'000
With a residual maturity of:				
Three months or less	**231,551**	227,425	**—**	—
One year or less but over three months	**—**	2,079	**—**	—
	231,551	229,504	**—**	—

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

29. Financial Risk Management Objectives and Policies

(a) Regulatory framework

The operation of the Group are subject to local regulatory requirements in Hong Kong. The regulators are interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters and that the risk levels are at acceptable levels.

(b) Insurance risk

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents, and related risks. The Group retains a maximum of US$100,000 for each risk it insures, with the excess being reinsured through surplus treaties, coinsurance treaties, facultative reinsurance, and catastrophe treaties with reputable international reinsurers. Consequently, total claims payable in any given year can be predicted with a high degree of precision. Over the last five years, the actual claims in each year have been less than expected. As part of the Group's quality control process, the Group regularly invites reinsurers to audit its underwriting and claim practices and procedures, to ensure that they meet the highest industry standards.

(c) Investment securities

The Group limits its exposure by setting minimum limits of its portfolio mix in bonds and maximum limits of portfolio mix in equities and other investments. The Group also sets maximum limits on currency, maturity and credit limit on fixed income portfolios. The Group only deals with institutions with high creditworthiness.

29. Financial Risk Management Objectives and Policies *(continued)*

(d) Premium receivables

The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy documents or trust deed on the expiry of which either the premium is paid or the policy will be terminated or change to reduced paid up or term cover according to the provision of the policy.

(e) Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The Group's interest risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

(f) Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group structures levels of market risk it accepts through a Group market risk policy which includes determining what constitutes market risk for the Group, the basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; the net exposure limits by geographical segments for investments in countries other than Hong Kong and US; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.

(g) Currency risk

It is the Group's policy to match its assets and liabilities by currency to minimise its exposure to currency risks. The Group sells policies denominated in Hong Kong dollars and United States dollars and its assets are quite well matched with the liabilities. As at the balance sheet date, the Group had 13.7% investments in foreign currency equities (other than the United States, Hong Kong and Mainland China). The Group believes that the currency risk in equities is reflected in their share price and therefore its exposure to the foreign currencies was not hedged.

(h) Credit risk

It is the Group's investment policy to invest in investment grade bonds to limit exposure to credit risk. The Group allows a maximum of 5% of invested assets to be invested in non-investment grade bonds. As at 31 December 2005, the non-investment grade bonds held by the Group was approximately 2.9% of its invested assets and approximately 91.8% of the bonds held by the Group was investment grade bonds.

29. Financial Risk Management Objectives and Policies *(continued)*

(i) Price risk

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally for investment securities not held for the account of unit linked business.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limit on investment in each country, sector and market.

The Group has actively refined its investment model through the use of the Value at Risk (VaR) technique to measure portfolio risks and performance. As at the balance sheet date, the value at risk on its equity portfolio, being measured at 95% confidence level for a monthly time span, was 4.0% of the equity portfolio size. The similar value at risk on its hedge fund portfolio was 3.5% of the hedge fund portfolio size.

(j) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Group is the daily calls on its available cash resources in respect of claims arising from insurance and investment contracts and the maturity of debt securities.

The Group manages liquidity through a Group liquidity risk policy which includes determining what constitutes liquidity risk for the Group; the minimum proportion of funds to meet emergency calls; the setting up of contingency funding plans; specifying the sources of funding and the events that would trigger the plan; specifying the concentration of funding sources; the reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and the review of the Group's liquidity risk policy for pertinence and changing environment.

The table below analyses certain assets and liabilities of the Group as at 31 December 2005 into their relevant maturity groups based on the remaining period at the balance sheet date to their contractual maturities or expected repayment dates.

29. Financial Risk Management Objectives and Policies *(continued)*

(j) Liquidity risk *(continued)*

	1 year or less HK$'000	2 years or less but > 1 year HK$'000	3 years or less but > 2 years HK$'000	4 years or less but > 3 years HK$'000	5 years or less but > 4 years HK$'000	> 5 years HK$'000	Unit-linked HK$'000	Total HK$'000
Tax recoverable	1,009	—	—	—	—	—	—	1,009
Reinsurance assets	1,954	—	—	—	—	—	—	1,954
Prepayments and other debtors	210,162	—	—	—	—	—	—	210,162
Financial assets:								
Derivative financial instruments	—	852	455	903	2,212	5,745	—	10,167
Held-to-maturity financial assets	—	136,953	—	—	—	—	—	136,953
Assets at fair value through profit and loss	85,972	—	—	—	—	—	396,004	481,976
Available-for-sale financial assets – other than bonds	2,622,540	—	—	—	—	586,383	—	3,208,923
Available-for-sale financial assets – bonds	267,055	306,038	462,716	236,215	188,428	1,311,202	—	2,771,654
Loans to employees and agents	1,522	2,038	6,230	326	1,586	42,016	—	53,718
Pledged deposits	—	—	—	—	—	15,751	—	15,751
Cash and cash equivalents	1,351,475	—	—	—	—	—	6,209	1,357,684
Assets of a disposal group classified as held for sale	59,773	—	—	—	—	—	—	59,773
	4,601,462	445,881	469,401	237,444	192,226	1,961,097	402,213	8,309,724

29. Financial Risk Management Objectives and Policies *(continued)*

(j) Liquidity risk *(continued)*

	1 year or less HK$'000	2 years or less but > 1 year HK$'000	3 years or less but > 2 years HK$'000	4 years or less but > 3 years HK$'000	5 years or less but > 4 years HK$'000	> 5 years HK$'000	Unit-linked HK$'000	Total HK$'000
Future insurance liabilities under insurance contracts	319,160	1,359	1,838	3,460	3,618	4,603,996	117,450	5,050,881
Tax payable	8,988	—	—	—	—	—	—	8,988
Financial liabilities:								
Derivative financial instruments	—	—	—	—	—	3,313	—	3,313
Future insurance liabilities under investment contracts	—	—	—	113,107	6,691	144,591	282,413	546,802
Interest-bearing loans	—	—	—	—	—	768,140	—	768,140
Payable to policyholders	147,520	—	—	—	—	—	—	147,520
Accrued expenses and other creditors	262,497	—	—	—	—	—	—	262,497
Liabilities directly associated with the assets classified as held for sale	21,610	—	—	—	—	—	—	21,610
	759,775	1,359	1,838	116,567	10,309	5,520,040	399,863	6,809,751

30. Derivative Financial Instruments

	Group 2005 HK$'000	2004 HK$'000
Options embedded in convertible bonds	**4,223**	—
Options embedded in callable bonds	**5,944**	—
Unlisted cross currency swap agreement, at fair value (note (i))	**(3,313)**	—
	6,854	—
Portion classified as non-current financial liabilities – cross currency swap agreement	**3,313**	—
Current portion of derivative financial assets	**10,167**	—

30. Derivative Financial Instruments *(continued)*

Note:

(i) The notional amount of the cross currency swap agreement is US$100M (equivalent to HK$777.7M) which indicates the nominal value of the transaction outstanding as at the balance sheet date. It does not represent the amount at risk.

As at 31 December 2005, the Group pledged US$2,032,000 (equivalent to HK$15,751,000) as a cash collateral for the cross currency swap agreement, which has a maturity date at 17 December 2014 to the counterparty.

The carrying amounts of the cross currency swap agreement, embedded in exchangeable note convertible bonds and callable bonds are the same as their fair values.

Cross currency swap agreement – cash flow hedge

As at 31 December 2005, the Group held a cross currency swap agreement designated as hedge in respect of expected future currency fluctuations related to repayment of its interest-bearing loan of US$100M with maturity at 17 December 2014. The terms of the cross currency swap agreement is as follows:

Buy	**Maturity**	**Exchange rate**
US$	17 December 2014	7.777

The terms of the cross currency swap agreement have been negotiated to match the terms of the interest-bearing loan. The cash flow hedge of the expected future foreign currency fluctuations related to repayment of the interest-bearing loan was assessed to be highly effective and a net loss of HK$937,000 was included in the hedging reserve.

31. Payable to Policyholders

		Group	
	Notes	**2005** HK$'000	2004 HK$'000
Claims payable	32	**67,232**	73,973
Premium deposits	33	**80,288**	88,356
		147,520	162,329

32. Claims Payable

The provision for claims reported by policyholders, claims incurred but not reported may be analysed as follows:

	Group	
	2005 HK$'000	2004 HK$'000
As at 1 January	**73,973**	79,733
Provided during the year	**617,481**	573,262
Utilised during the year	**(621,645)**	(579,087)
Exchange realignment	**(104)**	65
Written back during the year	**(2,473)**	—
As at 31 December	**67,232**	73,973

33. Premium Deposits

Premium deposits are amounts that are left in deposits with the Group for the payment of future premiums.

	Group	
	2005 HK$'000	2004 HK$'000
As at 1 January	**88,356**	83,104
Discontinued operation as at 1 January	**(101)**	—
Received during the year	**593,156**	735,226
Utilised during the year	**(598,921)**	(730,018)
Exchange realignment	**(74)**	44
Written back during the year	**(2,128)**	—
As at 31 December	**80,288**	88,356

34. Accrued Expenses and Other Creditors

	Group	
	2005 HK$'000	2004 HK$'000
Other payables and accruals	**256,283**	246,486
Due to related companies	**6,214**	5,901
	262,497	252,387

The amounts due to related companies arose from the ordinary and normal course of business with terms similar to those offered to other customers of the Group.

35. Interest-Bearing Loans

On 17 December 2004, an indirect wholly-owned subsidiary of the Company, PCI Capital Limited ("PCI Capital"), issued an aggregate principal amount of US$100 million (approximately HK$780 million) with a coupon rate of 5.875% guarantee bonds (the "Bonds") due 17 December 2014 to independent third party investors. PCI Capital raised approximately HK$767,186,000 (US$98,648,000), net of expenses.

Interest on the bonds is payable on 17 June and 17 December of each year, beginning on 17 June 2005. The Bonds are fully and unconditionally guaranteed by Pacific Century Insurance Company Limited ("PCI"). PCI's guarantee is its unsecured and unsubordinated obligation which ranks equally with all of PCI's other existing and future unsecured and unsubordinated obligations. As required by the insurance laws of Hong Kong and Bermuda, PCI's guarantee is effectively junior to the liabilities of its long term business, to the extent of the assets maintained by PCI in respect of its long term business. 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 Bonds will fully mature on 17 December 2014. Accordingly, the Bonds have been classified as non-current liabilities as at the balance sheet date. The effective interest rate of the Bonds is 6.12% per annum.

36. Future Insurance Liabilities under Investment Contracts

Movements in future insurance liabilities under investment contracts are as follows:

	Group	
	2005 HK$'000	2004 HK$'000 (Restated)
As at 1 January	**482,225**	255,551
Discontinued operation at 1 January	**(27,719)**	—
Deposits	**173,693**	275,512
Withdrawal	**(104,026)**	(54,273)
Charges	**(5,871)**	(9,993)
Interest credited	**29,233**	15,074
Exchange realignment	**(733)**	354
As at 31 December	**546,802**	482,225

37. Future Insurance Liabilities under Insurance Contracts

	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
Insurance contracts liabilities	**4,917,990**	4,247,872
Coinsurance liabilities	**132,891**	159,478
Future insurance liabilities under insurance contracts	**5,050,881**	4,407,350
Reinsurer's share of liabilities	**(1,954)**	(1,959)
Net liabilities	**5,048,927**	4,405,391

Group

	Year 2005				Year 2004			
	Insurance contracts liabilities HK$'000	**Coinsurance liabilities** HK$'000	**Reinsurer's share of liabilities** HK$'000	**Net liabilities** HK$'000	Insurance contracts liabilities HK$'000 (Restated)	Coinsurance liabilities HK$'000 (Restated)	Reinsurer's share of liabilities HK$'000 (Restated)	Net liabilities HK$'000 (Restated)
Unit-linked	**117,450**	**—**	**(31)**	**117,419**	98,206	—	(27)	98,179
With fixed and guaranteed terms	**4,800,540**	**132,891**	**(1,923)**	**4,931,508**	4,149,666	159,478	(1,932)	4,307,212
Total	**4,917,990**	**132,891**	**(1,954)**	**5,048,927**	4,247,872	159,478	(1,959)	4,405,391

37. Future Insurance Liabilities under Insurance Contracts *(continued)*

Movements in future insurance liabilities under insurance contracts are as follows:

Group

	Year 2005				Year 2004			
	Insurance contracts liabilities HK$'000	**Coinsurance liabilities** HK$'000	**Reinsurer's share of liabilities** HK$'000	**Net liabilities** HK$'000	Insurance contracts liabilities HK$'000 (Restated)	Coinsurance liabilities HK$'000 (Restated)	Reinsurer's share of liabilities HK$'000 (Restated)	Net liabilities HK$'000 (Restated)
As at 1 January	**4,247,872**	**159,478**	**(1,959)**	**4,405,391**	3,709,270	188,735	(1,932)	3,896,073
Premium received	**1,259,558**	**(99,049)**	**(55,758)**	**1,104,751**	1,175,484	(109,547)	(47,220)	1,018,717
Liability for death, surrender and maturity	**(557,889)**	**32,890**	**12,751**	**(512,248)**	(593,317)	39,378	18,714	(535,225)
Benefit and claims experience variation	**(183,029)**	**—**	**43,006**	**(140,023)**	(342,351)	—	28,482	(313,869)
Investment income and change in unit price	**160,731**	**10,467**	**—**	**171,198**	295,216	12,401	—	307,617
Financing cost for coinsurance	**—**	**29,105**	**—**	**29,105**	—	28,511	—	28,511
Exchange realignment	**(9,253)**	**—**	**6**	**(9,247)**	3,570	—	(3)	3,567
As at 31 December	**4,917,990**	**132,891**	**(1,954)**	**5,048,927**	4,247,872	159,478	(1,959)	4,405,391

Life insurance contracts liabilities – assumptions and sensitivities

(a) Key assumptions

Liabilities on insurance contracts offered by the Group are predominantly conventional whole life insurance for which premiums are paid for a limited period of time or the whole of life, with fixed benefits paid upon death, surrender benefits increasing with the duration of policy. Some plans provide for guaranteed periodic payments. Most of the whole life insurance products are entitled to annual dividends and some with terminal dividend upon policy termination. For this block of policies and also for endowment and level term products, the assumptions used for the determination of future liabilities are:

Mortality rate: 150% 1993 Hong Kong Assured Life Mortality table, plus 0.2 per 1,000.

Interest rate: 5.5% for policies with dividend and 4.0% for policies without dividend.

The method of calculating the liabilities is net level premium reserve, with cash value floor plus an adjustment to remove future valuation strain.

For unit-linked funds, the liabilities are the fund account values.

37. Future Insurance Liabilities under Insurance Contracts *(continued)*

For insurance with pure risk coverage such as accident benefit, dread disease, medical insurance and disability insurance, the liabilities are the unearned gross premiums.

The Group's investment returns on the investment assets backing the insurance fund, including realised and unrealised gains and losses, for the past five years are:

2001	5.77%
2002	8.03%
2003	9.91%
2004	7.09%
2005	6.62%

The Group's actual claims as compared to the mortality experience assumed in the calculation of the future insurance contracts liabilities for the past five years are:

2001	63%
2002	92%
2003	65%
2004	58%
2005	51%

(b) Sensitivities

Assumptions	Insurance contracts liabilities
5.5%/4.0%, 100% valuation mortality	HK$5,048,927,000
5.0%/4.0%, 100% valuation mortality	HK$5,262,264,000
5.5%/4.0%, 110% valuation mortality	HK$5,118,933,000

38. Policyholders' Dividends and Bonuses

	Group	
	2005	2004
	HK$'000	HK$'000
As at 1 January	**668,302**	566,854
Provided during the year	**202,718**	190,801
Utilised during the year	**(97,389)**	(90,197)
Exchange realignment	**(1,978)**	844
As at 31 December	**771,653**	668,302

39. Share Capital

	Company			
	2005		2004	
	Number of shares	**Nominal value**	Number of shares	Nominal value
		HK$'000		HK$'000
Authorised:				
Ordinary shares of HK$1.00 each	**3,000,000,000**	**3,000,000**	3,000,000,000	3,000,000
Issued and fully paid:				
Ordinary shares of HK$1.00 each	**818,106,000**	**818,106**	820,938,000	820,938

During the year, the movements in share capital were as follows:

(a) 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, as disclosed in the consolidated statement of changes in equity and in note 41(b) to the financial statements.

(b) The subscription rights attaching to 3,030,000 share options were exercised at the subscription price of HK$2.05 per share (note 40), resulting in the issue of 3,030,000 shares of HK$1.00 each for a total cash consideration, before expenses, of HK$6,211,500.

39. Share Capital *(continued)*

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
As at 1 January 2004	821,350,000	821,350	26,219	847,569
Shares repurchased and cancelled	(3,292,000)	(3,292)	(5,750)	(9,042)
Share options exercised	2,880,000	2,880	3,024	5,904
	820,938,000	820,938	23,493	844,431
Share repurchase expenses	—	—	(41)	(41)
As at 31 December 2004	820,938,000	820,938	23,452	844,390
As at 1 January 2005	820,938,000	820,938	23,452	844,390
Shares repurchased and cancelled (a)	(5,862,000)	(5,862)	(12,092)	(17,954)
Share options exercised (b)	3,030,000	3,030	3,182	6,212
	818,106,000	818,106	14,542	832,648
Share repurchase expenses (a)	—	—	(80)	(80)
As at 31 December 2005	**818,106,000**	**818,106**	**14,462**	**832,568**

Share options

Details of the Company's share option schemes and the share options issued under the schemes, are included in note 40 to the financial statements.

40. Share Option Schemes

The Company operates share option schemes for the purpose of attracting, retaining and motivating talented participants to strive for future development and the expansion of the Group. The schemes are designed to act as an incentive to encourage the participants and allow them to enjoy the results of the Company attained through their efforts and contributions.

Eligible participants of the share option scheme adopted on 16 June 1999 (the "Old Share Option Scheme") included (a) any employee as well as any executive director of the Group; and (b) any agent who had agreed by a contract in writing to render full-time and exclusive services to the Group and (for new options only), who had or would have, rendered such services for a continuous period of at least 12 months as at the date of grant. As the Old Share Option Scheme was terminated with effect from 6 May 2002, no further options may be offered pursuant to this scheme, however for outstanding options in existence, the provisions of the Old Share Option Scheme remain in force.

Eligible participants of a share option scheme adopted on 6 May 2002 (the "New Scheme") include (a) any employee or executive director of the Group; (b) any advisor or consultant to the Group (including any executive or employee of this advisor or consultant); and (c) any agent who has agreed by a contract in writing to render full-time and exclusive services to the Group. The New Scheme was adopted on 6 May 2002, and unless otherwise cancelled or amended, will be valid and effective for a period of 10 years commencing from that date. During the year, a total of 3,210,000 share options were granted under the New Scheme.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the New Scheme unless the Company obtains a fresh approval from its shareholders. Notwithstanding the above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes shall not exceed 30% of the total number of shares in issue from time to time. The maximum number of shares issuable under share options to each eligible participant pursuant to the share option schemes within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Each grant of options to a director, chief executive, substantial shareholder or any of their respective associates is subject to approval by the independent non-executive directors (excluding the independent non-executive director who is the grantee of the options), where any grant of options granted to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the securities issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the shares of the Company in issue and having an aggregate value (based on the closing price of the Company's shares as at the date of each grant) in excess of HK$5 million, are subject to shareholders' approval in a general meeting. All connected persons of the Company must abstain from voting at such a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors, and unless resolved otherwise, commences on the first anniversary of the date of grant and ends on a date which is not later than five years from the relevant exercise date of the share options or 10 years from the date of grant of share options, if earlier.

40. Share Option Schemes *(continued)*

The exercise price of the share options is determinable by the directors, and must be at least the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer, and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As at 31 December 2005, the Company had 61,021,268 (2004: 70,654,390) outstanding share options. Details of the share options outstanding during the year ended 31 December 2005 were as follows:

(i) Directors

	Number of share options											Price of Company's shares #		
Name of director	As at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	Forfeited during the year	As at 31 December 2005	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options * HK$	As at grant date of options HK$	Immediately before the exercise date HK$	As at exercise date of options HK$
YUEN Tin Fan, Francis	19,440,000	—	—	—	(3,888,000)	—	15,552,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—
CHAN Ping Kan, Raymond	8,000,000	—	—	—	—	—	8,000,000	20 June 2003	20 June 2004 to 20 March 2006	20 June 2004 to 19 March 2011	1.62	—	—	—
ALLEN Peter Anthony	600,000	—	—	—	(120,000)	—	480,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—
CHEUNG Sum, Sam **	4,000,000	—	—	—	—	—	4,000,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	—	—
CHUNG Cho Yee, Mico	2,280,000	—	—	—	(456,000)	—	1,824,000	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—
SO Wing Hung, Peter	4,000,000	—	—	—	—	—	4,000,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	—	—
	—	800,000	—	—	—	—	800,000	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	3.6	—	—
	38,320,000	800,000	—	—	(4,464,000)	—	34,656,000							

** *Note:* Mr CHEUNG Sum, Sam resigned as a director of the Company with effect from 23 February 2006.

40. Share Option Schemes *(continued)*

(ii) Other employees

	Number of share options											Price of Company's shares #		
	As at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	Forfeited during the year	As at 31 December 2005	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options* HK$	As at grant date of options HK$	Immediately before the exercise date HK$	As at exercise date of options HK$
In aggregate	1,108,800	—	—	(82,800)	(615,600)	—	410,400	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—	—
	367,200	—	—	—	(146,880)	—	220,320	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—	—
	5,470,000	—	(810,000)	(260,000)	—	—	4,400,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	3.25	3.27
	2,640,000	—	—	—	—	—	2,640,000	2 March 2004	2 March 2005 to 2 March 2007	2 March 2005 to 1 March 2012	3.84	—	—	—
	1,080,000	—	—	—	—	—	1,080,000	4 October 2004	4 October 2005 to 4 October 2007	4 October 2005 to 3 October 2012	2.825	—	—	—
	—	210,000	—	—	—	—	210,000	19 May 2005	19 May 2006 to 19 May 2008	19 May 2006 to 18 May 2013	3.125	3.125	—	—
	10,666,000	210,000	(810,000)	(342,800)	(762,480)	—	8,960,720							

(iii) Others (agents)

	As at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	Forfeited during the year	As at 31 December 2005	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options* HK$	As at grant date of options HK$	Immediately before the exercise date HK$	As at exercise date of options HK$
In aggregate	5,232,990	—	—	(48,120)	(3,114,954)	—	2,069,916	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—	—
	3,238,440	—	—	(33,120)	(982,728)	—	2,222,592	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—	—
	126,960	—	—	(3,360)	(61,560)	—	62,040	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—
	13,070,000	—	(2,220,000)	—	—	—	10,850,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	3.12	3.13
	—	2,200,000	—	—	—	—	2,200,000	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	3.6	—	—
	21,668,390	2,200,000	(2,220,000)	(84,600)	(4,159,242)	—	17,404,548							
Total	70,654,390	3,210,000	(3,030,000)	(427,400)	(9,385,722)	—	61,021,268							

40. Share Option Schemes *(continued)*

Notes to the reconciliation of share options outstanding during the year:

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus shares, or other similar changes in the Company's share capital.*

\# *The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.*

\#\# *No share option was cancelled during the year ended 31 December 2005.*

The fair value of the share options granted during the year was HK$4,706,000 (2004: HK$5,377,000).

The fair value of equity-settled share options granted is estimated at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2005 and 31 December 2004.

	2005	**2005**	2004	2004
Exercise price (HK$)	**3.125**	**3.675**	2.825	3.840
Dividend yield (%)	**1.874%**	**1.874%**	1.874%	1.874%
Expected volatility (%)	**43.60%**	**43.24%**	46.70%	43.87%
Historical volatility (%)	**43.60%**	**43.24%**	46.70%	43.87%
Risk-free interest rate (%)	**3.783%**	**3.794%**	3.499%	3.338%
Expected life of option (year)	**6-8**	**6-8**	6-8	6-8
Weighted average share price at grant date (HK$)	**3.1295**	**3.6451**	2.8259	3.7918

The expected life of the options is based on the historical data and is not necessarily indicative of 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.

No other features of options grant was incorporated into the measurement of fair value.

The 3,030,000 share options exercised during the year resulted in the issue of 3,030,000 ordinary shares of the Company and new share capital of HK$3,030,000 and share premium of HK$3,181,500 (before issue expenses), as detailed in note 39 to the financial statements.

At the balance sheet date, the Company had 61,021,268 share options outstanding under the New Scheme and the Old Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 61,021,268 additional ordinary shares of the Company and additional share capital of approximately HK$61,021,000 and share premium of approximately HK$139,487,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 60,121,268 share options outstanding under the New Scheme and the Old Share Option Scheme, which represented approximately 7.34% of the Company's shares in issue as at that date.

41. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 55 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the Group's then holding company acquired pursuant to the group reorganisation in 1999, over the nominal value of the Company's shares issued in exchange upon the reorganisation.

As detailed in note 2.5 to the financial statements, the Group eliminated goodwill against reserves in respect of acquisitions which occurred prior to 1 January 2001. The amount of goodwill remaining eliminated against consolidated retained profits, arising from the acquisition of a subsidiary prior to 1 January 2001, was HK$56,586,000 as at 1 January and 31 December 2005. The goodwill is stated at cost.

41. Reserves *(continued)*

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus (note (i)) HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance as at 1 January 2004						
As previously reported		26,219	7,392	—	46,501	80,112
Prior year adjustments	2.4(b)	—	—	2,138	—	2,138
As restated		26,219	7,392	2,138	46,501	82,250
Issue of shares	39	3,024	—	—	—	3,024
Shares repurchased and cancelled	39	(5,750)	—	—	—	(5,750)
Share repurchase expenses	39	(41)	—	—	—	(41)
Equity-settled share option arrangements	2.4(c)	—	—	8,012	—	8,012
Net profit for the year		—	—	—	49,021	49,021
Proposed 2004 dividend	15	—	—	—	(82,094)	(82,094)
As at 31 December 2004 (as restated)		23,452	7,392	10,150	13,428	54,422
Balance as at 1 January 2005						
As previously reported		23,452	7,392	—	13,428	44,272
Prior year adjustments	2.4(b)	—	—	10,150	—	10,150
As restated		23,452	7,392	10,150	13,428	54,422
Issue of shares	39	3,182	—	—	—	3,182
Shares repurchased and cancelled	39	(12,092)	—	—	—	(12,092)
Share repurchase expenses	39	(80)	—	—	—	(80)
Equity-settled share option arrangements	2.4(c)	—	—	8,951	—	8,951
Net profit for the year		—	—	—	31,517	31,517
Dividends paid	15	—	—	—	(8,213)	(8,213)
Proposed 2005 dividend	15	—	—	—	(32,724)	(32,724)
As at 31 December 2005		**14,462**	**7,392**	**19,101**	**4,008**	**44,963**

Notes:

(i) The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the group reorganisation in 1999, over the nominal value of the Company's shares issued in exchange upon the reorganisation. Under the Bermuda Companies Act 1981 (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances.

(ii) The Company depends primarily on dividends from its life insurance subsidiary in order to pay dividends to shareholders. Hong Kong insurance legislation limits the extent of retained profits that can be paid to the Company, through the use of minimum solvency margins and prudent regulations over the value of actuarial liabilities.

As at 31 December 2005, the Company had distributable reserves amounting to HK$11,400,000 (2004: HK$20,820,000).

42. Contingent Liabilities

As at 31 December 2005, the Group and the Company had no material contingent liabilities other than as set out in note 43 and contingencies arising from the ordinary course of the Group's long term insurance business (2004: Nil).

43. Pending Litigation

On 21 September 2000, a writ was issued against a number of persons, including PCI and certain insurance agents of PCI, by certain members of an insurance group operating in Hong Kong (the "Plaintiffs"), whereby the Plaintiffs sought, among other things, injunctive relief and damages against PCI in connection with PCI's plan matching scheme and the purported use of certain documents and information.

On 24 July 2001, a High Court judge granted the Plaintiffs interim injunctive relief pending the trial of the action or further order. The interim injunctive relief restrains PCI, among others, from disclosing or otherwise making any use of certain documents and information, and accepting applications for life insurance policies in certain circumstances.

Having consulted the Group's legal counsel, the Group has determined that it will continue to vigorously defend itself against these proceedings. In the opinion of the directors and based on legal advice, it is unlikely that the final outcome of these proceedings would materially affect the financial position of the Group.

44. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 19 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2005 HK$'000	2004 HK$'000
Within one year	**1,239**	1,313
In the second to fifth years, inclusive	**1,806**	846
	3,045	2,159

44. Operating Lease Arrangements *(continued)*

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years.

As at 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	**46,390**	20,699
In the second to fifth years, inclusive	**165,158**	16,797
After five years	**19,670**	—
	231,218	37,496

45. Commitments

(a) In addition to the operating lease commitments detailed in note 44(b) above, the Group and the Company had the following commitments as at the balance sheet date:

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Contracted, but not provided for, in respect of the purchase of:		
Computer equipment	**217**	—
Furniture, fixture and equipment	**802**	1,356
	1,019	1,356
Authorised, but not contracted for, in respect of the purchase of:		
Computer equipment	**36,677**	—
	37,696	1,356

46. Related Party Transactions

(a) Details of the material transactions with companies related to the Group were as follows:

	Notes	Group 2005 HK$'000	Group 2004 HK$'000
Premium income in respect of group life			
and medical policies issued to:	(i)		
Pacific Century Asset Management (HK) Limited			
(trading as ''Pacific Century Group'')		**1,784**	1,833
PCCW Services Limited		**2,909**	1,972
Pacific Century Systems Limited		**471**	—
Power Logistics Limited		**73**	—
PCCW Directories Ltd.		**68**	72
		5,305	3,877
General insurance business income received from			
The Ming An Insurance Company (Hong Kong), Limited	(ii)	**6,471**	7,409
Title-sponsor of live concert shows			
Music Nation Productions Company Limited	(iii)	**800**	—

(a) *Notes:*

(i) The Group entered into a number of group life and medical policies with certain companies which are associates of Mr Richard Li and Pacific Century Regional Developments Limited. In the opinion of the directors (including the independent non-executive directors), the group life and medical policies for these related companies are negotiated and conducted on terms and conditions similar to those offered to other customers of the Group, in the ordinary and usual course of business of the Group and on terms that are fair and reasonable so far as the shareholders of the Company are concerned. The total amount of premium income derived therefrom did not exceed 2% of the total turnover of the Group for the year ended 31 December 2005. The Group has no amount due from these companies as at 31 December 2005 (2004: Nil).

(ii) Pursuant to an agency agreement dated 1 November 1994 and subsequently replaced by an Agency Agreement effective 1 January 2001, PCI was, with effect from 1 January 2001 appointed as an underwriting agent of The Ming An Insurance Company (Hong Kong), Limited ("Ming An"), with authorisation to underwrite and to settle claims of certain types of general insurance businesses on behalf of Ming An.

On 8 November 2004, PCI and Ming An entered into a supplemental agreement to amend the duration of the Agency Agreement for not more than three years for the sole purpose of complying with Rule 14A.35 of the Listing Rules (the "Supplemental Agreement"). Pursuant to the Supplemental Agreement, the terms of the Agency Agreement have been amended to not more than three years which will expire on 31 March 2007 and will be automatically renewed for another three years until being terminated pursuant to the terms of the Agency Agreement with effect from 8 November 2004. The amount due to Ming An was HK$3,823,000 (2004: HK$3,952,000) as at 31 December 2005 which is unsecured, interest-free and has a credit term of 90 days according to the Agency Agreement.

46. Related Party Transactions *(continued)*

(a) *Notes (continued):*

(iii) The Company entered into an agreement on 15 April 2005 with Music Nation Productions Company Limited ("Music Nation") to act as the sole and exclusive title-sponsor of all live concert shows (the "Concerts") performed by Mr TAM Wing Lun, Alan from 25 August 2005 to 3 September 2005. Music Nation is a private company owned by Mr LI Tzar Kai, Richard, a substantial shareholder of the Company. In the opinion of the directors (including the independent non-executive directors), the above-mentioned transaction was in the ordinary and usual course of business of the Company, on normal commercial terms and was fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with Rule of 14.07 and Rule 14A.31(2)(a) of the Listing Rules, the above-mentioned transaction is exempt from all the reporting, announcement and independent shareholders' approval requirements as each of the percentage ratios required to be calculated under the size tests is less than 0.1%. The Group has no amount due to Music Nation as at 31 December 2005 (2004: Nil).

(b) The Group provides loans to employees and agents which are interest-bearing at the prevailing bank lending rates, some of which are secured by the underlying properties and/or motor vehicles, and are repayable on a monthly instalment basis. Details of these loans are included in note 23 to the financial statements.

(c) Compensation of key management personnel of the Group:

	2005 HK$'000	2004 HK$'000
Short term employee benefits	**26,027**	37,531
Post-employment benefits	**1,630**	1,603
Share-based payments	**3,703**	4,199
Total compensation paid to key management personnel	**31,360**	43,333

Further details of directors' emoluments are included in note 10 to the financial statements.

The related party transactions in respect of item (a) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

47. Comparative Amounts

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

48. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 February 2006.