



PACIFIC CENTURY INSURANCE HOLDINGS LIMITED
(盈科保險集團有限公司)*

(An investment holding company incorporated in Bermuda with limited liability)

(Stock Code: 65)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

FINANCIAL HIGHLIGHTS

- Unaudited consolidated profit was HK\$188.1 million (2005: loss HK\$11.1 million).
- Group's total new individual business increased 64.8% to HK\$297.2 million in annualised first year premium ("AFYP") contributed from insurance contracts of HK\$157.8 million, up 28.7%, and investment contracts of HK\$139.4 million, up 141.7%.
- Interim dividend of HK\$0.03 per share.

The directors of Pacific Century Insurance Holdings Limited (the "Company") are pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 together with comparative figures for the corresponding period in 2005, as restated in the announcement on 24 January 2006, were as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

		For the six months ended 30 June	
		2006	2005
	<i>Notes</i>	(Unaudited)	(Unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
CONTINUING OPERATIONS			
REVENUE			
Turnover	2	932,962	854,160
Investment income, net gains and other income		<u>395,685</u>	<u>146,340</u>
Total revenue and gains, net		1,328,647	1,000,500
Less: Reinsurance premiums		<u>(65,701)</u>	<u>(68,378)</u>
Net revenue		<u>1,262,946</u>	<u>932,122</u>
Policyholders' benefits under insurance contracts		(324,410)	(275,525)
Policyholders' benefits under investment contracts		(4,735)	(5,601)
Agency commission and allowances		(217,030)	(157,628)
Change in deferred acquisition costs		31,230	(28,103)
Management expenses		(200,309)	(147,329)
Increase in future insurance liabilities under insurance contracts		(327,083)	(296,931)
Finance costs	3	<u>(21,866)</u>	<u>(23,169)</u>
PROFIT/(LOSS) BEFORE TAX	4, 5	198,743	(2,164)
Tax	6	<u>(11,288)</u>	<u>(9,216)</u>
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		187,455	(11,380)
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation		<u>652</u>	<u>307</u>
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS		<u>188,107</u>	<u>(11,073)</u>
INTERIM DIVIDEND	7	<u>24,150</u>	<u>8,213</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS			
BASIC	8		
- For profit/(loss) for the period		23.24 cents	(1.35) cents
- For profit/(loss) from continuing operations		<u>23.15 cents</u>	<u>(1.39) cents</u>
DILUTED			
- For profit/(loss) for the period		22.87 cents	(1.35) cents
- For profit/(loss) from continuing operations		<u>22.79 cents</u>	<u>(1.39) cents</u>

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2006**

	30	31
	June	December
	2006	2005
<i>Notes</i>	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	211,735	219,649
Investment properties	14,885	15,028
Deferred acquisition costs	1,065,901	1,037,714
Financial assets	10 522,091	1,016,725
Pledged deposit	<u>16,157</u>	<u>15,751</u>
Total non-current assets	<u>1,830,769</u>	<u>2,304,867</u>
CURRENT ASSETS		
Deferred acquisition costs	289,222	286,179
Premiums receivable	48,261	88,468
Prepayments and other debtors	198,046	210,162
Financial assets	10 6,265,796	5,887,859
Reinsurance assets	2,025	1,954
Tax recoverable	—	1,009
Cash and cash equivalents	<u>1,704,085</u>	<u>1,357,684</u>
	8,507,435	7,833,315
Assets of a disposal group classified as held for sale	<u>56,340</u>	<u>59,773</u>
Total current assets	<u>8,563,775</u>	<u>7,893,088</u>
CURRENT LIABILITIES		
Payable to policyholders	(151,260)	(147,520)
Accrued expenses and other creditors	(212,169)	(262,497)
Tax payable	<u>(19,251)</u>	<u>(8,988)</u>
	(382,680)	(419,005)
Liabilities directly associated with the assets classified as held for sale	<u>(17,531)</u>	<u>(21,610)</u>
Total current liabilities	<u>(400,211)</u>	<u>(440,615)</u>
NET CURRENT ASSETS	<u>8,163,564</u>	<u>7,452,473</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>9,994,333</u>	<u>9,757,340</u>
NON-CURRENT LIABILITIES		
Derivative financial instruments	(9,036)	(3,313)
Interest-bearing loans	(769,922)	(768,140)
Future insurance liabilities under investment contracts	(583,394)	(546,802)
Future insurance liabilities under insurance contracts	(5,384,023)	(5,050,881)
Policyholders' dividends and bonuses	<u>(825,396)</u>	<u>(771,653)</u>
Total non-current liabilities	<u>(7,571,771)</u>	<u>(7,140,789)</u>
Net assets	<u><u>2,422,562</u></u>	<u><u>2,616,551</u></u>

		30	31
		June	December
		2006	2005
	<i>Notes</i>	(Unaudited)	(Audited)
		<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY			
Issued capital		804,988	818,106
Reserves	11	1,593,424	1,765,721
Proposed dividends		<u>24,150</u>	<u>32,724</u>
Total equity		<u><u>2,422,562</u></u>	<u><u>2,616,551</u></u>

NOTES

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The basis of preparation and accounting policies adopted in the preparation of the interim financial statements are the same as those used in the preparation of the annual financial statements for the year ended 31 December 2005, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2006:

- HKAS 39 Amendment — The Fair Value Option
- HKAS 39 & HKFRS 4 Amendments — Financial Guarantee Contracts

The adoption of these amendments has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s interim financial statements.

2. TURNOVER

Turnover represents gross insurance 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 is as follows:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Life insurance contracts:		
Single premium	18,459	11,489
First year premium	138,220	109,156
Renewal premium	<u>762,666</u>	<u>718,381</u>
Gross premium	919,345	839,026
General insurance commissions under agency agreements	4,092	5,597
Asset management fees	7,301	8,343
Fees on investment contracts	<u>2,224</u>	<u>1,194</u>
Turnover	<u><u>932,962</u></u>	<u><u>854,160</u></u>

3. FINANCE COSTS

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on interest-bearing loans	23,170	23,285
Interest income on derivative financial instruments, net (note (i))	<u>(1,304)</u>	<u>(116)</u>
	<u><u>21,866</u></u>	<u><u>23,169</u></u>

Note:

- (i) *The Group has entered into a cross currency swap contract, effective 17 June 2005, as a cash flow hedge, to eliminate any foreign currency fluctuations during the term of the interest-bearing loans denominated in United States dollar.*

4. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Depreciation:		
Property, plant and equipment	8,279	7,533
Investment properties	143	—
Amortisation of deferred acquisition costs	153,261	143,051
Gain on disposal of items of property, plant and equipment	<u>(20)</u>	<u>(91)</u>

5. PROFIT/(LOSS) BEFORE TAX ATTRIBUTABLE TO CONTINUING OPERATIONS BY ACTIVITY

Pursuant to the requirements of the Listing Rules, the profit/(loss) before tax is analysed by activity as follows:

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Life insurance contracts	200,602	(4,205)
Retirement scheme business	(371)	(881)
General insurance business under agency agreements	1,098	2,652
Asset management business (note (i))	(6,335)	(924)
Fees on investment contracts	<u>3,749</u>	<u>1,194</u>
Profit/(loss) before tax attributable to continuing operations	<u>198,743</u>	<u>(2,164)</u>

Note:

(i) Income from operation: asset management	22,979	24,795
Less: Intra-group income	<u>(15,678)</u>	<u>(16,452)</u>
	7,301	8,343
Operating expenses before tax	<u>(13,636)</u>	<u>(9,267)</u>
	<u>(6,335)</u>	<u>(924)</u>

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

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits solely arising from the asset management business conducted in Hong Kong, and the long term insurance business during the period.

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% of 5% of net premium (gross premium received less reinsurance premium ceded) from the life insurance business in accordance with Section 23(1)(a) of the Inland Revenue Ordinance rather than on taxable profits.

7. DIVIDEND

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend — HK\$0.03 (2005: HK\$0.01) per ordinary share	<u>24,150</u>	<u>8,213</u>

The Board has declared an interim dividend for the six months ended 30 June 2006 of HK\$0.03 per share (2005: HK\$0.01). The dividend will be payable on or about 29 September 2006 to shareholders whose names appear on the Register of Members of the Company at the close of business on 22 September 2006.

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders for the period of HK\$188,107,000 (2005: loss of HK\$11,073,000), profit attributable to ordinary equity holders from continuing operations for the period of HK\$187,455,000 (2005: loss of HK\$11,380,000) and the weighted average of 809,576,000 (2005: 821,383,000 ordinary shares) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the current period is based on the profit attributable to ordinary equity holders for the period of HK\$188,107,000 and profit attributable to ordinary equity holders from continuing operations for the period of HK\$187,455,000. The weighted average number of ordinary shares used in the calculation is 809,576,000 ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 13,076,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

No diluted loss per share for the six months ended 30 June 2005 has been calculated as share options outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.

9. SEGMENT INFORMATION

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

10. FINANCIAL ASSETS

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Policy loans	255,165	241,193
Loans to employees and agents	54,581	53,718
Held-to-maturity financial assets	136,930	136,953
Available-for-sale financial assets	5,522,018	5,980,577
Financial assets at fair value through profit or loss	810,399	481,976
Derivative financial instruments	<u>8,794</u>	<u>10,167</u>
	<u>6,787,887</u>	<u>6,904,584</u>
Current portion:		
Loans to employees and agents	(2,577)	(1,522)
Available-for-sale financial assets	(5,444,026)	(5,394,194)
Financial assets at fair value through profit or loss	(810,399)	(481,976)
Derivative financial instruments	<u>(8,794)</u>	<u>(10,167)</u>
	<u>(6,265,796)</u>	<u>(5,887,859)</u>
Non-current portion	<u>522,091</u>	<u>1,016,725</u>

11. RESERVES

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Share premium account	4,797	14,462
Contributed surplus	152,178	152,178
Share option reserve	19,183	19,101
Hedging reserve	(8,174)	(937)
Available-for-sale financial assets revaluation reserve	(102,205)	187,510
Retained profits	<u>1,527,645</u>	<u>1,393,407</u>
	<u>1,593,424</u>	<u>1,765,721</u>

12. COMPARATIVE AMOUNT

Certain prior year/period comparative figures have been reclassified to conform with current period's presentation.

BUSINESS REVIEW

A strong performance drove sales of the Group's new insurance contracts to HK\$157.8 million in annualised first year premium ("AFYP"), representing an increase of 28.7%, while business in new investment contracts increased 141.7% to HK\$139.4 million in AFYP. Sales of investment contracts were not reflected in revenue as a result of the 2005 adoption of new accounting standards.

Group's single and first year premium increased 29.9% to HK\$156.7 million, with renewal premium increasing 6.2% to HK\$762.6 million. Total premium increased 9.6% to HK\$919.3 million.

Investment income, net gains and other income increased 170.4% to HK\$395.7 million (2005: HK\$146.3 million). Investment return on general and shareholders' funds stood at 9.8% p.a. (2005: 3.4% p.a.), excluding unrealised gains and losses on available-for-sale financial assets. Unrealised loss reserve for available-for-sale financial assets was HK\$102.2 million as at 30 June 2006, compared with an unrealised gain reserve of HK\$187.5 million as at 31 December 2005 due to the weak performance of the financial market in the second quarter.

Following an extensive review of the Group's financial assets, the Board has decided to redesignate certain assets from available-for-sale financial assets to financial assets at fair value through profit or loss. As part of the implementation of this decision, the Group sold US\$21.2 million of a unit trust managed by PCI Investment Management Limited ("PCIIM"), a Group company, on 26 June 2006 and purchased US\$29.0 million of the same unit trust on the same day. The unit trust of US\$21.2 million sold was previously classified as available-for-sale financial assets and the sale of this unit trust produced a realised gain of HK\$49.6 million which was recorded in the interim results of the Group. The US\$29.0 million unit trust purchased had been designated as financial assets at fair value through profit or loss and subsequent realised or unrealised gains or losses from this unit trust will be recognised in the profit and loss account in each financial period. An unrealised gain of HK\$10.4 million from this unit trust for the period from 26 June 2006 to 30 June 2006 was included in the interim results of the Group.

The expense ratio was 113.7% (2005: 112.2%). Total operating costs increased 16.5% to HK\$715.3 million, principally due to non-recurring costs, costs arising from the increase in the agency force and provisions in respect to the incentive scheme reflecting current year performance.

The Group's unaudited consolidated profit for the first six months of 2006 was HK\$188.1 million, compared with a loss of HK\$11.1 million for the corresponding period in 2005. The increase was mainly due to a higher volume of business and the release of formerly unrealised gains on investment.

The Board has declared an interim dividend of HK\$0.03 per share (2005: HK\$0.01 per share).

INDIVIDUAL LIFE INSURANCE

The Hong Kong insurance market continues to be very competitive with major acquisitions taking place during the first six months of the year. We are pleased to have achieved substantial growth in acquiring new business, as well as generating better-than-expected claims experience and persistency.

Single and first year premium from individual insurance contracts increased 30.6% to HK\$153.1 million, while renewal premium increased 5.2% to HK\$733.9 million. Total premium increased 8.8% to HK\$887.0 million. In addition, the total number of policies in-force was 303,578 as at 30 June 2006 compared with 294,457 at the end of 2005. The number of new policies sold during the six-month period was 21,051, compared with 16,899 for the same period last year.

Agents active in the Company as at 30 June 2006, numbered 1,802, compared with 1,696 as at 31 December 2005. Sales of insurance contracts increased 28.7% to HK\$157.8 million in AFYP, and investment contracts increased 141.7% to HK\$139.4 million in AFYP. Agent productivity was HK\$29,100 in AFYP, an increase of 24.9%, compared with the same period last year. LIMRA 13-month persistency rate was 88.8% (2005: 88.3%), while renewal ratio was 100.0% (2005: 101.0%) and claim ratio was 90.4% (2005: 99.6%).

We continue to introduce new products, including a revamped personal accident plan and new investment funds, to capitalise on evolving market opportunities. We have also launched a whole-life medical product that will pose an aggressive challenge to existing players in the market. Our strategic focus on managing our business to realise value continues, while we aim to make sure our product portfolio maintains a significant presence in the market and focus on new lines of business that promise sustainable profitability.

In addition, we aim to enhance our operational efficiency and service to policyholders with the planned development of a core computer system in 2007.

GROUP INSURANCE

Total premium generated for the six months ended 30 June 2006 was HK\$32.3 million, an increase of 35.3% over the same period last year.

In April 2006, we enhanced our internet inquiry service to make policy benefits, billing and claim information available online to agents, clients and brokers.

Training programs continue to update our agents' knowledge and skills to facilitate the generation of new business.

GENERAL INSURANCE

The division continued to act as an underwriting agent for Ming An Insurance Company (Hong Kong), Limited and a general agent for Asia Insurance Co. Ltd.. The Group also operates a brokerage arm that has enjoyed satisfactory results. For the six months under review, the division handled HK\$28.7 million of general insurance premiums, representing an increase of 13.4% compared with the same period last year.

MANDATORY PROVIDENT FUND

As at 30 June 2006, there were 1,622 members with funds of HK\$17.1 million remained to be transferred to HSBC Life (International) Limited ("HSBC Life"). We are working with HSBC Life in the transfer of these remaining members and assets. It is expected that the whole process will be completed within the year.

PCI INVESTMENT MANAGEMENT LIMITED (PCIIM)

The first half of 2006 was characterised by solid global growth and upward pressure on core inflation. Concerned by forecasts of rising inflation, global central banks have adopted more restrictive monetary policies. In this scenario, a wave of risk reduction began globally in May and continued into June. Emerging market securities were particularly hard hit, as asset price weakness induced more capital outflows.

While US economic growth is expected to slow down, we remain optimistic about the global economic outlook due to growing strength in other economies around the world. Heightened geopolitical tension, however, along with rising oil prices and concerns over weakening corporate profitability imply yet continuing volatility and pressure on asset markets.

Total assets under management continue to grow steadily. As at the end of June 2006, funds under management exceeded HK\$12 billion, representing an increase of 3.4% since the end of last year. We will explore more opportunities to widen our range of investment products and services to expand our business further.

DETAILS OF CHARGES ON GROUP ASSETS

As at 30 June 2006, no charges existed against any of the Group's assets other than a US\$2.1 million (equivalent to HK\$16.2 million) as cash collateral to the counterparty for the cross currency swap agreement entered by the Group in 2005.

CHANGES IN THE COMPOSITION OF THE ENTERPRISE DURING THE INTERIM PERIOD

During the first six months of the year, no change took place in the composition of the Group, which is principally engaged in the provision of an extensive range of whole life, endowment and term life insurance products to individuals in Hong Kong. The Group also provides a range of other related products, including accident, medical and disability insurance to individuals; group life, accident, medical and disability insurance; group retirement scheme management and general insurance products via agency arrangements. In addition, the Group engages in the asset management business.

SEASONALITY/CYCLICALITY OF INTERIM OPERATIONS

Business is usually slower during the first half of the year, when both the calendar and Chinese New Year holidays shorten the market's scope for sales. With Hong Kong's improved economy and strong growth in the life insurance industry, we expect our business to grow steadily as the year progresses.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 20 September 2006 to Friday, 22 September 2006, inclusive, during which no transfer of shares will be effected.

In order to qualify for the interim dividend mentioned above, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 19 September 2006.

CORPORATE CITIZENSHIP

As a responsible corporate entity, the Group is committed to the betterment of our society. We are actively involved in charity events and endorse volunteerism in the local communities.

FUTURE PLANS

We believe that the demand for insurance products in Hong Kong will continue to grow. The Hong Kong Government is now advancing its health care reform plan, which will create an increase in demand for medical products. In addition, we expect further growth in retirement and pension products as a result of an aging population.

We continue to build on our solid foundation through developing profitable products, strengthening and diversifying distribution capabilities and driving down unit costs. The Group is well positioned heading into the second half of 2006.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance with a view to enhancing the management of the Company as well as preserving the interests of the shareholders as a whole.

The Board is of the view that during the six months ended 30 June 2006, the Company has met the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Listing Rules. However the Board would like to highlight the following:

Code provision A.2.1

The code provision A.2.1 of the Code provides that the roles of the chairman and the chief executive officer (“CEO”) should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the CEO should be clearly established and set out in writing. Due to the recent restructuring of the Company, the Company does not officially have a position of CEO at the Group level but has a CEO at its principal subsidiary — Pacific Century Insurance Company Limited (“PCI”), who is largely responsible for the day to day management of the Group’s principal operating subsidiary. In this regard, the Company believes that it is in compliance with the meaning of the code provision A.2.1 because the present structure provides a proper segregation of duties between the Chairman of the Group and the CEO of PCI.

The unaudited interim results for the six months ended 30 June 2006 have been reviewed by the Company’s auditors, Ernst & Young, and have also been reviewed and approved by the Audit Committee of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

A total of 18,288,000 ordinary shares of HK\$1.00 each were repurchased by the Company during the period at prices ranging from HK\$3.15 to HK\$3.775 per share. The aggregate price paid by the Company for such repurchases, before share repurchase expenses, was HK\$65,326,000.

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\$17,601,000, was charged to the share premium account and the balance of HK\$29,719,000 was charged to the retained profits account.

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

Hong Kong, 10 August 2006

** For identification purpose only*

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

Executive Directors:

Yuen Tin Fan, Francis; Chan Ping Kan, Raymond; So Wing Hung, Peter

Non-Executive Directors:

Peter Anthony Allen; Chung Cho Yee, Mico; Feng Xiaozeng; Zheng Changyong

Independent Non-Executive Directors:

Prof. Chang Hsin Kang; Timothy George Freshwater; Wang Xianzhang; Prof. Wong Yue Chim, Richard

Please also refer to the published version of this announcement in The Standard.