

# Pacific Century Insurance Holdings Limited

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

Stock Code : 65

Interim Report 2006



## creating long term values



# Pacific Century Insurance Holdings Limited

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 Company’s announcement on 24 January 2006. The consolidated results, consolidated statement of changes in equity and consolidated cash flow statement for the Group for the six months ended 30 June 2006 and the consolidated balance sheet as at 30 June 2006 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 22 to 64 of this report.

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## 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.

The 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% per annum (2005: 3.4% per annum), 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 markets 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 the 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 continued 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.

## Human Resources

High-quality employees are among our most valuable assets in the financial services industry. Staff training and development will continue to remain uppermost on the management's priority list.

## Human Resources *(continued)*

The Group's employees numbered 294 as at 30 June 2006, representing a decrease of 3.0% against the 303 employees at the end of 2005. Total remuneration (excluding directors' fee) for the first six months of 2006 was HK\$87.3 million, as compared to HK\$61.5 million for the same period last year. We highly value our employees and encourage them to enhance their knowledge in job-related fields, as well as their management skills and personal career development.

## Capital Adequacy and Financing

As at 30 June 2006, the Group had cash and bank balances of HK\$561.9 million and time deposits of HK\$1,181.3 million. Invested assets increased by HK\$226.7 million to HK\$8,579.3 million (31 December 2005: HK\$8,352.6 million), which was mainly due to premium income received.

As at 30 June 2006, the Group's total assets were HK\$10,394.5 million, an increase of 1.9% (31 December 2005: HK\$10,198.0 million). Net assets were HK\$2,422.6 million, a decrease of 7.4% (31 December 2005: HK\$2,616.6 million). This decrease was a result of unrealised losses incurred, shares bought back and cancelled and shareholder dividend paid during the six months ended 30 June 2006.

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

As at 30 June 2006, the Group has interest-bearing loans of HK\$769.9 million with a coupon rate of 5.875% due in December 2014.

As at 30 June 2006, the gearing ratio of the Group was 31.8%. Gearing ratio is the ratio of interest-bearing loans to equity.

## Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group sold life insurance policies in US\$ or HK\$ and its liabilities were all denominated in these currencies. As at 30 June 2006, the majority of the Group's assets are denominated in either US\$ or HK\$ with the exception of HK\$898.2 million equivalent held in Asian equities and Asian currencies in the General Fund. As the surplus of the Group far exceeded the amount of foreign currency assets held, the hedging of foreign currencies was deemed unnecessary.

## Risk Management

### (a) Product risks

Our products are designed to meet our internal profitability requirements. Our Product Actuary and senior management sign off and approve our individual products. Profitability levels on new and existing products are reviewed from time to time to ensure that desired profit requirements can be maintained. When actual experience shows significant deviation from the pricing assumptions, the products will be revised to reflect the updated experience.

### (b) Business risks

The Group uses third-party actuarial software "Prophet" to perform, on a regular basis, long-term projections of our profit and loss positions using a variety of business scenarios. Such long-term projections have enabled the Group to better understand the impact of the changing business environment on our financial results and capital requirement and have, over the years, assisted us in our decision making in anticipation of such changes.

### (c) Investment risks

We have always adopted a prudent and relatively conservative investment strategy. Invested assets required to support the Group's insurance liabilities are mainly managed by PCIM. Our bond holdings currently stood at 41.7% of the total General Fund portfolio, with a duration of approximately three years. Equity investments made up 23.1% of our investment portfolio. The Group also invested 10.0% of its portfolio in hedge funds, which performed well during the six months ended 30 June 2006. Further details of the Group's financial risk management are disclosed in note 20 to the condensed consolidated interim financial statements.

## Significant Investments Held

The following table shows the asset distribution of the General Fund of the Group:

	Fixed Interest	Mortgages & Loans	Cash	Equities	Hedge Funds	Others	Total
<b>By Currency</b>							
US\$	30.2%	2.6%	11.2%	9.8%	10.0%	0.1%	63.9%
HK\$	11.5%	1.4%	9.9%	1.9%	0.0%	0.0%	24.7%
Others	0.0%	0.0%	0.0%	11.4%	0.0%	0.0%	11.4%
<b>Total</b>	<b>41.7%</b>	<b>4.0%</b>	<b>21.1%</b>	<b>23.1%</b>	<b>10.0%</b>	<b>0.1%</b>	<b>100.0%</b>
<b>By Geographical Area</b>							
US	9.4%	0.0%	0.0%	1.0%	4.6%	0.0%	15.0%
Europe	4.2%	0.0%	0.0%	0.4%	0.0%	0.0%	4.6%
Japan	2.1%	0.0%	0.0%	2.5%	0.0%	0.0%	4.6%
HK/China	11.8%	4.0%	21.1%	8.3%	2.9%	0.1%	48.2%
Other Asia	11.2%	0.0%	0.0%	9.8%	0.5%	0.0%	21.5%
Others	3.0%	0.0%	0.0%	1.1%	2.0%	0.0%	6.1%
<b>Total</b>	<b>41.7%</b>	<b>4.0%</b>	<b>21.1%</b>	<b>23.1%</b>	<b>10.0%</b>	<b>0.1%</b>	<b>100.0%</b>

## Details of charges on Group Assets

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

## Interim Dividend

The Board has declared an interim dividend of HK\$0.03 per ordinary share on 10 August 2006 in respect of the six months ended 30 June 2006 to shareholders recorded on the register of members as at 22 September 2006, payable on 29 September 2006.

## 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 ageing 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.

## Investor Relations

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: "0065"). Investor enquiries regarding the Company should be addressed to:

Investor Relations  
Pacific Century Insurance Holdings Limited  
Suite 1401-1410  
14/F., One Pacific Place  
88 Queensway, Admiralty  
Hong Kong

Tel: (852) 2591-8888

E-mail address: [pcimkt@pcihl.com](mailto:pcimkt@pcihl.com)

Information may also be accessed on our internet homepage at <http://www.pcihl.com>

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

As at 30 June 2006, the directors' and chief executive's or their associates' interests in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Long positions in ordinary shares of the Company:

Name of director	Notes	Number of shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Held by a trust		
YUEN Tin Fan, Francis	(a)	—	—	—	21,204,800	21,204,800	2.64
SO Wing Hung, Peter	(b)	—	—	—	276,000	276,000	0.03
Peter Anthony ALLEN		360,000	—	—	—	360,000	0.04
		<b>360,000</b>	<b>—</b>	<b>—</b>	<b>21,480,800</b>	<b>21,840,800</b>	<b>2.71</b>

Notes:

(a) These shares are held under the T.F. Yuen Trust, a discretionary trust of which Mr. YUEN Tin Fan, Francis is a founder.

(b) These shares are held by a trust, the beneficiaries of which are the family members of Mr. SO Wing Hung, Peter.

The interests of the directors and the chief executive in the share options of the Company are separately disclosed in note 26 to the condensed consolidated interim financial statements.

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

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

Name of director	Number of shares held, capacity and nature of interest				Total	Percentage of the holding company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Held by a trust		
Peter Anthony ALLEN	5,010,000	—	—	—	5,010,000	0.16
CHUNG Cho Yee, Mico	8,000,000	—	—	—	8,000,000	0.26
	<b>13,010,000</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13,010,000</b>	<b>0.42</b>

### Long positions in underlying shares of PCRD:

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

Name of director	Date of grant of share options	Vesting period	Exercise period	Exercise price	Number of share options				
					Outstanding as at 1 January 2006	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at 30 June 2006
				SGD					
*Alexander Anthony ARENA	24 November 1999	25 October 2001 to 25 October 2005	25 October 2001 to 24 October 2009	0.7584	15,300,000	—	—	—	15,300,000

Note: \*Mr. Alexander Anthony ARENA retired as a director of the Company on 21 April 2006.

Save as disclosed above, as at 30 June 2006, none of the directors and/or the chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Directors' Rights to Acquire Shares

Save as disclosed in the heading "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above and in the share option schemes disclosures in note 26 to the condensed consolidated interim financial statements, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") on 9 August 2004 as the Company's code of conduct for dealings in securities of the Company by the directors. The Company has made specific enquiries of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2006 and all of them confirmed that they have fully complied with the required standards set out in the Model Code.

## Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

As at 30 June 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
LI Tzar Kai, Richard	(1)	385,797,942 (L)	47.93% (L)
PCRD	(2)	383,797,942 (L)	47.68% (L)
Ocean Star Investment Management Limited	(2)	383,797,942 (L)	47.68% (L)
Ocean Star Management Limited	(2)	383,797,942 (L)	47.68% (L)
OS Holdings Limited	(2)	383,797,942 (L)	47.68% (L)
Star Ocean Ultimate Limited	(2)	383,797,942 (L)	47.68% (L)
The Ocean Trust	(2)	383,797,942 (L)	47.68% (L)
The Ocean Unit Trust	(2)	383,797,942 (L)	47.68% (L)
The Starlite Trust	(2)	383,797,942 (L)	47.68% (L)
The Starlite Unit Trust	(2)	383,797,942 (L)	47.68% (L)
Pacific Century Group Holdings Limited	(2)	383,797,942 (L)	47.68% (L)
China Insurance (Holdings) Company, Limited	(3)	91,060,000 (L)	11.31% (L)
King System Limited	(3)	49,907,200 (L)	6.20% (L)
Joyful Box Inc.	(3)	41,152,800 (L)	5.11% (L)

Remark: (L) – Long position

## Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares *(continued)*

Notes:

- (1) *These interests represent Mr. LI Tzar Kai, Richard's deemed interests in: (a) 2,000,000 shares held by Pacific Century Diversified Limited, a wholly-owned subsidiary of Chiltonlink Limited, which is 100% owned by Mr. LI Tzar Kai, Richard; and (b) 383,797,942 shares indirectly held by the trustee of two unit trusts (see note 2 below), the units of which are held by two discretionary trusts of which Mr. LI Tzar Kai, Richard is the founder.*
- (2) *Each of Ocean Star Management Limited, OS Holdings Limited, Star Ocean Ultimate Limited, The Ocean Trust, The Ocean Unit Trust, The Starlite Trust, The Starlite Unit Trust and Pacific Century Group Holdings Limited ("PCGH") is deemed to have an interest under the SFO in the same 383,797,942 shares held by PCRD as it holds, directly or indirectly, a controlling interest in PCRD. Ocean Star Investment Management Limited is deemed under the SFO to have an interest in the same 383,797,942 shares held by PCRD by virtue of it being the manager of The Starlite Unit Trust and The Ocean Unit Trust which together hold 100% of the shares of PCGH. As at 30 June 2006, PCGH's controlling interest in PCRD was held through its controlled corporations (being its wholly-owned subsidiaries, Borsington Limited, Pacific Century International Limited, Pacific Century Group (Cayman Islands) Limited and Anglang Investments Limited, which together controlled 75.33% of the shares of PCRD).*
- (3) *China Insurance (Holdings) Company, Limited is taken to have an interest under the SFO in the same 91,060,000 shares, beneficially owned by Joyful Box Inc. and King System Limited in aggregate.*

No share options of the Company were held by the above shareholders as at the balance sheet date.

Save as disclosed above, as at 30 June 2006, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## Share Option Schemes

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

	<b>Number of options granted during the period</b>	<b>Theoretical value of share options</b> HK\$
Grantee		
Other employees	120,000	149,576

The Black-Scholes option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options granted during the period and the share options outstanding during the period were detailed in note 26 to the condensed consolidated interim financial statements.

## Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30 June 2006, the Company repurchased its shares through the Stock Exchange as follows:

<b>Month of purchase</b>	<b>Number of ordinary shares repurchased</b>	<b>Price per share</b>		<b>Aggregate price paid</b> HK\$
		<b>Highest</b> HK\$	<b>Lowest</b> HK\$	
March 2006	18,288,000	3.775	3.15	65,326,250

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. Further details of these transactions are set out in note 25 to the condensed consolidated interim financial statements.

The repurchase of the Company's shares during the six months ended 30 June 2006 was effected by the directors pursuant to the mandate from shareholders received at the previous annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 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.

### Board of Directors

The Board consists of the Executive Chairman, two executive directors, four non-executive directors and four independent non-executive directors. The Board is responsible for leading and controlling the Company and collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs, including the monitoring of the performance of the management of the Company. The Board sets the overall direction, strategy and policies for the Company.

As at 10 August 2006, the Board comprised the following directors:

#### *Executive Chairman:*

- YUEN Tin Fan, Francis<sup>1</sup>

#### *Executive Directors:*

- CHAN Ping Kan, Raymond (Chief Executive Officer of Pacific Century Insurance Company Limited ("PCI"))<sup>2</sup>
- SO Wing Hung, Peter (Group Chief Financial Officer)<sup>3</sup>

#### *Non-Executive Directors:*

- Peter Anthony ALLEN<sup>4</sup>
- CHUNG Cho Yee, Mico<sup>5</sup>
- FENG Xiaozeng<sup>5</sup>
- ZHENG Changyong<sup>5</sup>

#### *Independent Non-Executive Directors:*

- Professor CHANG Hsin Kang
- Timothy George FRESHWATER
- WANG Xianzhang<sup>6</sup>
- Professor WONG Yue Chim, Richard

- Notes: 1 Realigned as Executive Chairman of the Company with effect from 6 June 2006.  
2 Realigned as Chief Executive Officer of PCI with effect from 6 June 2006.  
3 Realigned as Group Chief Financial Officer with effect from 6 June 2006.  
4 Re-designated as non-executive director of the Company with effect from 1 March 2006.  
5 Re-designated as non-executive director of the Company with effect from 17 March 2006.  
6 Re-designated as independent non-executive director of the Company with effect from 17 March 2006.

## Corporate Governance *(continued)*

### **Board of Directors** *(continued)*

The Chairman is responsible for providing leadership for the Board, ensuring that the Board works effectively and acts in the best interests of the Company, with good corporate governance practices and procedures and ensuring that appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board.

The non-executive directors are all seasoned individuals from diversified backgrounds and industries. With their expertise, they offer independent judgement and advice on the overall management of the Company and the independent non-executive directors are also responsible to maintain a balance between the interests of the minority shareholders and the Company as a whole.

Meetings of the Board are held regularly and at least four times a year at approximately quarterly intervals. All directors have full and timely access to all relevant information prior to each board meeting.

The Board has appointed a number of committees consisting of certain executive and independent non-executive directors. The following are the principal committees:

### **Executive Committee**

The Executive Committee of the Board meets on a monthly basis and at such other times as the Committee determines to be appropriate to carry out its responsibilities and operate as a general management committee under the direct authority of the Board. It is responsible for the implementation of the strategy and policies set by the Board under the leadership of the Chairman.

Members of the Executive Committee include:

- YUEN Tin Fan, Francis *(Executive Chairman)*
- CHAN Ping Kan, Raymond *(Chief Executive Officer of PCI)*
- SO Wing Hung, Peter *(Group Chief Financial Officer)*
- CHENG Koon Wing *(Appointed Actuary)* <sup>Note</sup>
- FUNG Yiu Fai, Herman *(Managing Director of PCIIM)* <sup>Note</sup>

*Note: Appointed as members of the Executive Committee with effect from 11 May 2006.*

## Corporate Governance *(continued)*

### Investment Committee

The Investment Committee meets on a monthly basis and at such other times as the Committee determines to be appropriate to carry out its responsibilities to make investment decisions in accordance with the policies and directions of the Board, to review the current investment climate and make appropriate adjustments to the Company's investments (if necessary), to manage the overall financial risk of investment portfolio including interest rate risk, market risk, currency risk as well as credit risk, and to review and approve special investment opportunities outside the investment mandate.

The Investment Committee comprises all the members of the Executive Committee and one senior management of PCIIM who has extensive experience in the investment industry:

- YUEN Tin Fan, Francis (*Executive Chairman*)
- CHAN Ping Kan, Raymond (*Chief Executive Officer of PCI*)
- SO Wing Hung, Peter (*Group Chief Financial Officer*)
- CHENG Koon Wing (*Appointed Actuary*) <sup>Note</sup>
- FUNG Yiu Fai, Herman (*Managing Director of PCIIM*)
- WU Chi Keung, Walter (*Executive Director of PCIIM*)

*Note: Appointed as a member of the Investment Committee with effect from 10 August 2006.*

### Audit Committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise.

All members of the Audit Committee are non-executive directors, the majority are independent non-executive directors and they possess appropriate professional qualifications and/or experience in financial matters.

Members of the Audit Committee include:

- Professor WONG Yue Chim, Richard (*Chairman*)
- Professor CHANG Hsin Kang
- Timothy George FRESHWATER
- Peter Anthony ALLEN <sup>Note</sup>

*Note: Appointed as a member of the Audit Committee with effect from 2 March 2006.*

## Corporate Governance *(continued)*

### **Audit Committee** *(continued)*

The Audit Committee meets as and when required to discharge its responsibilities, and to coincide with key periods in the Company's financial reporting cycle, and not less than two times a year in total.

The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, handling any questions of resignation or dismissal of the external auditors, ensuring the independence of external auditors, reviewing and monitoring the completeness, accuracy and fairness of the Company's annual reports and financial statements, half-year reports and quarterly reports, and any significant financial reporting judgements contained therein.

The Audit Committee is also responsible for overseeing the Company's financial reporting system and internal control procedures.

### **Nomination Committee**

The Nomination Committee was established in November 2004 with specific written terms of reference which deal clearly with its authority and duties. The majority of the members are independent non-executive directors:

- Professor CHANG Hsin Kang (*Chairman*)
- Timothy George FRESHWATER
- Professor WONG Yue Chim, Richard
- WANG Xianzhang *Note*
- YUEN Tin Fan, Francis

*Note: Appointed as a member of the Nomination Committee with effect from 17 March 2006.*

The Nomination Committee reviews the structure, size and composition of the Board on a regular basis and makes recommendations to the Board regarding any proposed changes, identifies individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. It is also responsible for assessing the independence of independent non-executive directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

## Corporate Governance *(continued)*

### Remuneration Committee

The Remuneration Committee was established in November 2004. The majority of the members are independent non-executive directors:

- Timothy George FRESHWATER (*Chairman*)
- Professor CHANG Hsin Kang
- Professor WONG Yue Chim, Richard
- WANG Xianzhang <sup>Note</sup>
- YUEN Tin Fan, Francis

*Note: Appointed as a member of the Remuneration Committee with effect from 17 March 2006.*

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policy, and for overseeing the remuneration packages of directors and senior management are in place. It also provides effective oversight and administration of the Company's share option scheme and any other share incentive schemes or other equity-based schemes.

### Financial Reporting

The Company aims to present a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Company has been voluntarily publishing financial results on a quarterly basis, so as to keep the shareholders abreast of the most updated performance of the Company.

### Internal Controls

The Board is responsible for ensuring that a sound and effective system of internal controls and risk management to safeguard the shareholders' investments and the Company's assets at all times. The Board at least annually conducts a fully adequate review of the effectiveness of the system of internal controls of the Group and report to shareholders that they have done so in the Corporate Governance Report.

The internal control system is designed to provide reasonable, but not absolute, assurance. The system aims to manage, instead of eliminate, risks of failure in achieving the Company's objectives.

The Company's internal audit function, under the supervision of the Chief Internal Auditor, reviews the internal control system and evaluates its adequacy, effectiveness and compliance. The Chief Internal Auditor reports directly to the Audit Committee and presents internal audit reports to the Audit Committee four times a year.

## Corporate Governance *(continued)*

### **Code on Corporate Governance Practices**

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 followings:

#### **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 – 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.

## Review of Interim Results

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.

To the board of directors of

## **Pacific Century Insurance Holdings Limited**

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

### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 22 to 64.

### **Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standard 700 “Engagements to Review Interim Financial Reports” issued by the HKICPA. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

**Ernst & Young**  
Certified Public Accountants

Hong Kong  
10 August 2006

# Condensed consolidated income statement

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
<b>CONTINUING OPERATIONS</b>			
REVENUE			
Turnover	2	<b>932,962</b>	854,160
Investment income, net gains and other income	2	<b>395,685</b>	146,340
Total revenue and gains, net	2	<b>1,328,647</b>	1,000,500
Less: Reinsurance premiums		<b>(65,701)</b>	(68,378)
Net revenue		<b>1,262,946</b>	932,122
Policyholders' benefits under insurance contracts	3	<b>(324,410)</b>	(275,525)
Policyholders' benefits under investment contracts		<b>(4,735)</b>	(5,601)
Agency commission and allowances		<b>(217,030)</b>	(157,628)
Change in deferred acquisition costs	12	<b>31,230</b>	(28,103)
Management expenses		<b>(200,309)</b>	(147,329)
Increase in future insurance liabilities under insurance contracts		<b>(327,083)</b>	(296,931)
Finance costs	4	<b>(21,866)</b>	(23,169)
PROFIT/(LOSS) BEFORE TAX	5, 6	<b>198,743</b>	(2,164)
Tax	7	<b>(11,288)</b>	(9,216)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		<b>187,455</b>	(11,380)
<b>DISCONTINUED OPERATION</b>			
Profit for the period from a discontinued operation	8	<b>652</b>	307
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS		<b>188,107</b>	(11,073)
INTERIM DIVIDEND	9	<b>24,150</b>	8,213
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS			
Basic	10		
– For profit/(loss) for the period		<b>HK 23.24 cents</b>	(HK 1.35 cents)
– For profit/(loss) from continuing operations		<b>HK 23.15 cents</b>	(HK 1.39 cents)
Diluted			
– For profit/(loss) for the period		<b>HK 22.87 cents</b>	(HK 1.35 cents)
– For profit/(loss) from continuing operations		<b>HK 22.79 cents</b>	(HK 1.39 cents)



# Condensed consolidated balance sheet

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As at 30 June 2006

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>211,735</b>	219,649
Investment properties		<b>14,885</b>	15,028
Deferred acquisition costs	12	<b>1,065,901</b>	1,037,714
Financial assets	13	<b>522,091</b>	1,016,725
Pledged deposit	19	<b>16,157</b>	15,751
<b>Total non-current assets</b>		<b>1,830,769</b>	2,304,867
<b>CURRENT ASSETS</b>			
Deferred acquisition costs	12	<b>289,222</b>	286,179
Premiums receivable		<b>48,261</b>	88,468
Prepayments and other debtors		<b>198,046</b>	210,162
Financial assets	13	<b>6,265,796</b>	5,887,859
Reinsurance assets	24	<b>2,025</b>	1,954
Tax recoverable		—	1,009
Cash and cash equivalents	19	<b>1,704,085</b>	1,357,684
<b>Total current assets</b>		<b>8,507,435</b>	7,833,315
Assets of a disposal group classified as held for sale	8	<b>56,340</b>	59,773
<b>Total current assets</b>		<b>8,563,775</b>	7,893,088
<b>CURRENT LIABILITIES</b>			
Payable to policyholders		<b>(151,260)</b>	(147,520)
Accrued expenses and other creditors		<b>(212,169)</b>	(262,497)
Tax payable		<b>(19,251)</b>	(8,988)
<b>Total current liabilities</b>		<b>(382,680)</b>	(419,005)
Liabilities directly associated with the assets classified as held for sale	8	<b>(17,531)</b>	(21,610)
<b>Total current liabilities</b>		<b>(400,211)</b>	(440,615)

# Condensed consolidated balance sheet *(continued)*

As at 30 June 2006

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
NET CURRENT ASSETS		<b>8,163,564</b>	7,452,473
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>9,994,333</b>	9,757,340
NON-CURRENT LIABILITIES			
Derivative financial instruments	21	<b>(9,036)</b>	(3,313)
Interest-bearing loans	22	<b>(769,922)</b>	(768,140)
Future insurance liabilities under investment contracts	23	<b>(583,394)</b>	(546,802)
Future insurance liabilities under insurance contracts	24	<b>(5,384,023)</b>	(5,050,881)
Policyholders' dividends and bonuses		<b>(825,396)</b>	(771,653)
Total non-current liabilities		<b>(7,571,771)</b>	(7,140,789)
Net assets		<b>2,422,562</b>	2,616,551
EQUITY			
Issued capital	25	<b>804,988</b>	818,106
Reserves		<b>1,593,424</b>	1,765,721
Proposed dividend		<b>24,150</b>	32,724
Total equity		<b>2,422,562</b>	2,616,551

**YUEN Tin Fan, Francis**

*Director*

**SO Wing Hung, Peter**

*Director*

# Condensed consolidated statement of changes in equity

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For the six months ended 30 June 2006

Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Hedging reserve HK\$'000	Available- for-sale financial assets	Retained profits HK\$'000	Proposed dividend HK\$'000	Total equity HK\$'000
						revaluation reserve HK\$'000			
(Unaudited)									
As at 1 January 2005	820,938	23,452	152,178	10,150	—	—	1,391,842	82,094	2,480,654
Change in fair value of available-for-sale financial assets	—	—	—	—	—	19,389	—	—	19,389
Net gain on a cash flow hedge	—	—	—	—	790	—	—	—	790
Total income recognised directly in equity	—	—	—	—	790	19,389	—	—	20,179
Loss for the period	—	—	—	—	—	—	(11,073)	—	(11,073)
Total income and expense for the period	—	—	—	—	790	19,389	(11,073)	—	9,106
Final 2004 dividend declared	—	—	—	—	—	—	—	(82,094)	(82,094)
Issue of shares	1,380	1,449	—	—	—	—	—	—	2,829
Share repurchase expenses	—	(13)	—	—	—	—	—	—	(13)
Shares repurchased and cancelled	(970)	(2,026)	—	—	—	—	—	—	(2,996)
Equity-settled share option arrangements	—	—	—	3,731	—	—	—	—	3,731
Interim 2005 dividend	9	—	—	—	—	—	(8,213)	8,213	—
As at 30 June 2005	821,348	22,862	152,178	13,881	790	19,389	1,372,556	8,213	2,411,217

# Condensed consolidated statement of changes in equity

(continued)

For the six months ended 30 June 2006

Notes	Issued	Share		Share		Available-	Retained	Proposed	Total
	share	premium	Contributed	option	Hedging	for-sale	profits	dividend	equity
	capital	account	surplus	reserve	reserve	financial	HK\$'000	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	assets	HK\$'000	HK\$'000	HK\$'000
	(note 25)	(note 25)				revaluation			
(Unaudited)									
As at 1 January 2006	818,106	14,462	152,178	19,101	(937)	187,510	1,393,407	32,724	2,616,551
Change in fair value of available-for-sale financial assets	—	—	—	—	—	(289,715)	—	—	(289,715)
Net loss on a cash flow hedge	—	—	—	—	(7,237)	—	—	—	(7,237)
Total expenses recognised directly in equity	—	—	—	—	(7,237)	(289,715)	—	—	(296,952)
Profit for the period	—	—	—	—	—	—	188,107	—	188,107
Total income and expense for the period	—	—	—	—	(7,237)	(289,715)	188,107	—	(108,845)
Final 2005 dividend declared	—	—	—	—	—	—	—	(32,724)	(32,724)
Issue of shares	25(b) 5,170	7,936	—	(2,414)	—	—	—	—	10,692
Share repurchase expenses	25(a) —	(282)	—	—	—	—	—	—	(282)
Shares repurchased and cancelled	25(a) (18,288)	(17,319)	—	—	—	—	(29,719)	—	(65,326)
Equity-settled share option arrangements	—	—	—	2,496	—	—	—	—	2,496
Interim 2006 dividend	9 —	—	—	—	—	—	(24,150)	24,150	—
As at 30 June 2006	804,988	4,797*	152,178*	19,183*	(8,174)*	(102,205)*	1,527,645*	24,150	2,422,562

\* These reserve amounts comprised the consolidated reserves of HK\$1,593,424,000 (31 December 2005: HK\$1,765,721,000) in the condensed consolidated balance sheet.

# Condensed consolidated cash flow statement

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For the six months ended 30 June 2006

	Notes	For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		<b>435,673</b>	257,917
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<b>(751)</b>	(7,955)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		<b>(87,640)</b>	(180)
NET INCREASE IN CASH AND CASH EQUIVALENTS		<b>347,282</b>	249,782
Cash and cash equivalents as at beginning of period		<b>1,393,931</b>	1,299,466
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD		<b>1,741,213</b>	1,549,248
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	<b>524,797</b>	969,370
Non-pledged time deposits with original maturity of less than three months when acquired	19	<b>1,179,288</b>	543,963
Cash and short term deposit attributable to a discontinued operation	8	<b>37,128</b>	35,915
		<b>1,741,213</b>	1,549,248

# Notes to the condensed consolidated interim financial statements

## 1. Basis of Preparation and Significant Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (the "HKAS") 34, "Interim Financial Reporting" issued by the HKICPA and the disclosure requirements set out in Appendix 16 of 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 – restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss;
- HKAS 39 & HKFRS 4 Amendments – Financial Guarantee Contracts – amend the scope of HKAS 39 to include financial guarantee contracts issued. The amendments address the treatment of financial guarantee contracts by the issuer. Under the amended HKAS 39 financial guarantee contracts are recognised initially at fair value and generally remeasured at the higher of (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue;

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. Revenue, Investment Income, Net Gains and Other Income

Revenue, which is also the Group's 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 revenue, investment income, net gains and other income is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Revenue:		
Life insurance contracts:		
Single premium	<b>18,459</b>	11,489
First year premium	<b>138,220</b>	109,156
Renewal premium	<b>762,666</b>	718,381
Gross premium	<b>919,345</b>	839,026
General insurance commissions under agency agreements	<b>4,092</b>	5,597
Asset management fees	<b>7,301</b>	8,343
Fees on investment contracts	<b>2,224</b>	1,194
Revenue attributable to continuing operations reported in the condensed consolidated income statement	<b>932,962</b>	854,160
Investment income:		
General and shareholders' funds:		
Interest income from quoted bonds	<b>75,854</b>	81,281
Interest income from banks and asset management	<b>25,359</b>	9,735
Interest received from policy loans and loans to employees and agents	<b>12,961</b>	11,112
Dividend income from listed and unlisted investments	<b>12,101</b>	14,230
Interest income from an exchangeable note	<b>13,564</b>	—
Investment handling charges	<b>(4,505)</b>	(2,507)
Others	<b>895</b>	(69)
	<b>136,229</b>	113,782
Segregated funds (note (i)):		
Interest income from banks and asset management	<b>129</b>	4
Dividend income from listed investments	<b>35</b>	—
Investment handling charges	<b>(877)</b>	(976)
Others	<b>374</b>	350
	<b>(339)</b>	(622)
Total investment income	<b>135,890</b>	113,160

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

	For the six months ended 30 June	
	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Net gains:		
Realised gains/(losses)		
General and shareholders' funds:		
Listed available-for-sale financial assets (transfer from equity)	<b>126,355</b>	1,276
Unlisted available-for-sale financial assets (transfer from equity)	<b>88,344</b>	2,690
Financial assets at fair value through profit or loss	<b>6,160</b>	3,099
Embedded derivatives (note (ii))	<b>(264)</b>	—
Net realised gains	<b>220,595</b>	7,065
Unrealised gains/(losses)		
General and shareholders' funds:		
Financial assets at fair value through profit or loss	<b>26,433</b>	(2,893)
Embedded derivatives (note (ii))	<b>(1,072)</b>	—
	<b>25,361</b>	(2,893)
Segregated funds (note (i)):		
Financial assets at fair value through profit or loss	<b>2,202</b>	3,331
Net unrealised gains	<b>27,563</b>	438
Total net gains	<b>248,158</b>	7,503
Investment income and net gains:		
General and shareholders' funds	<b>382,185</b>	117,954
Segregated funds (note (i))	<b>1,863</b>	2,709
	<b>384,048</b>	120,663
Other income:		
Reinsurance commission income and refund	<b>6,300</b>	4,891
Others	<b>5,337</b>	20,786
Total other income	<b>11,637</b>	25,677
Investment income, net gains and other income	<b>395,685</b>	146,340
Total revenue and gains, net attributable to continuing operations reported in the condensed consolidated income statement	<b>1,328,647</b>	1,000,500
Total revenue and gains, net attributable to a discontinued operation (note 8)	<b>2,618</b>	369
	<b>1,331,265</b>	1,000,869



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

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\$1,863,000 (six months ended 30 June 2005: net gain of HK\$2,709,000) on segregated funds will be offset by a change in future insurance liabilities and policyholders' benefits relevant to segregated fund policies, and has no impact on the condensed 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.*

## 3. Policyholders' Benefits under Insurance Contracts

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Death and disability claims	107,731	91,808
Surrenders	92,437	83,852
Maturities and periodic payments	62,336	46,252
Policyholders' dividends	61,906	53,613
	<b>324,410</b>	275,525

## 4. Finance Costs

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

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 ("US\$"), as disclosed in note 22 to the condensed consolidated interim financial statements.*

## 5. Profit/(Loss) Before Tax

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

	<b>For the six months ended 30 June</b>	
	<b>2006</b> <b>(Unaudited)</b> HK\$'000	2005 (Unaudited) HK\$'000
Auditors' remuneration	<b>1,712</b>	653
Depreciation:		
Property, plant and equipment	<b>8,279</b>	7,533
Investment properties	<b>143</b>	—
Amortisation of deferred acquisition costs (note (i) and note 12)	<b>153,261</b>	143,051
Minimum lease payments under operating lease rentals on land and buildings	<b>16,711</b>	12,832
Employee benefits expenses (including directors' remuneration)	<b>88,096</b>	62,377
Gain on disposal of items of property, plant and equipment	<b>(20)</b>	(91)

Note:

- (i) *The amortisation of deferred acquisition costs for the period is included in "Change in deferred acquisition costs" on the face of the condensed consolidated income statement, as disclosed in note 12 to the condensed consolidated interim financial statements.*

## 6. Profit/(Loss) Before Tax by Activity

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

	<b>For the six months ended 30 June</b>	
	<b>2006</b> <b>(Unaudited)</b> HK\$'000	2005 (Unaudited) HK\$'000
Life insurance contracts	<b>200,602</b>	(4,205)
Retirement scheme business	<b>(371)</b>	(881)
General insurance business under agency agreements	<b>1,098</b>	2,652
Asset management business (note (i))	<b>(6,335)</b>	(924)
Fees on investment contracts	<b>3,749</b>	1,194
Profit/(loss) before tax attributable to continuing operations reported in the condensed consolidated income statement	<b>198,743</b>	(2,164)
Profit before tax attributable to a discontinued operation (note 8)	<b>652</b>	369
	<b>199,395</b>	(1,795)
<i>Note:</i>		
(i) <i>Income from operations – asset management</i>	<b>22,979</b>	24,795
<i>Less: Intra-group income</i>	<b>(15,678)</b>	(16,452)
	<b>7,301</b>	8,343
<i>Operating expenses before tax</i>	<b>(13,636)</b>	(9,267)
	<b>(6,335)</b>	(924)

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

## 7. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 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.

	<b>For the six months ended 30 June</b>	
	<b>2006</b> <b>(Unaudited)</b> HK\$'000	2005 (Unaudited) HK\$'000
Current – Hong Kong profits tax	<b>11,288</b>	9,216

## 8. Discontinued Operation

In June 2002, 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 30 June 2006, the MPF business was classified as disposal group held for sale.

The results of the MPF business for the periods ended 30 June 2006 and 2005 are presented below:

	<b>For the six months ended 30 June</b>	
	<b>2006</b> <b>(Unaudited)</b> HK\$'000	2005 (Unaudited) HK\$'000
REVENUE		
Interest income	<b>746</b>	103
Realised and unrealised gain on financial assets at fair value through profit or loss	<b>1,745</b>	266
Other income	<b>127</b>	—
Total revenue	<b>2,618</b>	369
OPERATING EXPENSES		
Policyholders' benefits	<b>(1,745)</b>	—
Management expenses	<b>(221)</b>	—
Total operating expenses	<b>(1,966)</b>	—
PROFIT BEFORE TAX FROM THE DISCONTINUED OPERATION	<b>652</b>	369
Tax	—	(62)
PROFIT FOR THE PERIOD FROM THE DISCONTINUED OPERATION	<b>652</b>	307

## 8. Discontinued Operation *(continued)*

The major classes of the total assets and liabilities of the MPF business classified as held for sale as at 30 June 2006 and 31 December 2005 are as follows:

	<b>30 June 2006 (Unaudited)</b> HK\$'000	31 December 2005 (Audited) HK\$'000
<b>ASSETS</b>		
Financial assets at fair value through profit or loss	<b>17,095</b>	21,166
Time deposits with original maturity of more than three months when acquired	<b>2,102</b>	2,102
Cash and cash equivalents	<b>37,128</b>	36,247
Prepayments and other debtors	<b>15</b>	258
Assets classified as held for sale	<b>56,340</b>	59,773
<b>LIABILITIES</b>		
Claims payable	<b>3</b>	52
Premium deposits	<b>5</b>	5
Accrued expenses and other creditors	<b>429</b>	388
Future insurance liabilities under investment contracts	<b>17,094</b>	21,165
Liabilities directly associated with assets classified as held for sale	<b>17,531</b>	21,610
Net assets directly associated with the disposal group	<b>38,809</b>	38,163

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

	<b>For the six months ended 30 June 2006 (Unaudited)</b> HK\$'000	2005 (Unaudited) HK\$'000
Operating	<b>881</b>	(358)
Investing	—	—
Financing	—	—
Net cash inflow/(outflow)	<b>881</b>	(358)
Earnings per share:		
Basic, from the discontinued operation	<b>HK 0.081 cents</b>	HK 0.037 cents
Diluted, from the discontinued operation	<b>HK 0.079 cents</b>	HK 0.037 cents

## 8. Discontinued Operation *(continued)*

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

	<b>For the six months ended 30 June</b>	
	<b>2006 (Unaudited)</b>	2005 (Unaudited)
Profit attributable to ordinary equity holders from the discontinued operation	<b>HK\$652,000</b>	HK\$307,000
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>809,576,000</b>	821,383,000
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<b>822,652,000</b>	833,933,000

## 9. Dividend

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

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) on 10 August 2006.

## 10. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity holders for the period, and the weighted average number of ordinary shares in issue during the period.

## 10. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders *(continued)*

The calculation of diluted earnings per share for the six months ended 30 June 2006 is based on the profit attributable to ordinary equity holders for this period. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the six months ended 30 June 2006, as used in the basic earnings per share calculation for this period and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during this 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.

The calculations of basic and diluted earnings/(loss) per share are based on:

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	HK\$'000	HK\$'000
Earnings		
Profit/(loss) attributable to ordinary equity holders, used in the basic earnings/(loss) per share calculation:		
From continuing operations	<b>187,455</b>	(11,380)
From a discontinued operation	<b>652</b>	307
Profit/(loss) attributable to ordinary equity holders	<b>188,107</b>	(11,073)
	<b>Number of shares</b>	
	<b>30 June</b>	30 June
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	<b>809,576,000</b>	821,383,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	<b>13,076,000</b>	—
	<b>822,652,000</b>	821,383,000



## 11. 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.

## 12. Deferred Acquisition Costs

	<b>30 June</b> <b>2006</b> <b>(Unaudited)</b> HK\$'000	31 December 2005 (Audited) HK\$'000
At beginning of period/year	<b>1,323,893</b>	1,309,396
Additions	<b>184,491</b>	301,243
Less: Amortisation	<b>(153,261)</b>	(286,746)
Change in deferred acquisition costs	<b>31,230</b>	14,497
At end of period/year	<b>1,355,123</b>	1,323,893
Current portion	<b>(289,222)</b>	(286,179)
Non-current portion	<b>1,065,901</b>	1,037,714

### 13. Financial Assets

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
<b>Total financial assets:</b>			
Policy loans	14	<b>255,165</b>	241,193
Loans to employees and agents	15	<b>54,581</b>	53,718
Held-to-maturity financial assets	16	<b>136,930</b>	136,953
Available-for-sale financial assets	17	<b>5,522,018</b>	5,980,577
Financial assets at fair value through profit or loss	18	<b>810,399</b>	481,976
Derivative financial instruments	21	<b>8,794</b>	10,167
		<b>6,787,887</b>	6,904,584
<b>Current portion:</b>			
Loans to employees and agents	15	<b>(2,577)</b>	(1,522)
Available-for-sale financial assets	17	<b>(5,444,026)</b>	(5,394,194)
Financial assets at fair value through profit or loss	18	<b>(810,399)</b>	(481,976)
Derivative financial instruments	21	<b>(8,794)</b>	(10,167)
		<b>(6,265,796)</b>	(5,887,859)
<b>Non-current portion</b>		<b>522,091</b>	1,016,725

### 14. Policy Loans

The Group's 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.

## 15. Loans To Employees And Agents

	<b>30 June 2006 (Unaudited)</b> HK\$'000	31 December 2005 (Audited) HK\$'000
Loans to employees and agents	<b>54,581</b>	53,718
Current portion	<b>(2,577)</b>	(1,522)
Non-current portion	<b>52,004</b>	52,196

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 range from 5.0% to 16.0% per annum.

No loans had been provided to directors as at 30 June 2006 and 31 December 2005.

## 16. Held-to-maturity Financial Assets

	<b>30 June 2006 (Unaudited)</b> HK\$'000	31 December 2005 (Audited) HK\$'000
Held-to-maturity bonds, at amortised cost quoted in places other than Hong Kong	<b>136,930</b>	136,953
Market value of quoted held-to-maturity bonds as at period/year end	<b>136,930</b>	135,949

All the held-to-maturity bonds are issued by corporate entities.

## 17. Available-for-sale Financial Assets

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Quoted bonds, at market value (note (i)):		
Hong Kong	<b>935,729</b>	779,063
Elsewhere	<b>2,215,425</b>	1,992,591
	<b>3,151,154</b>	2,771,654
Listed equity investments, at market value:		
Hong Kong	<b>150,420</b>	300,587
Elsewhere	<b>1,151,906</b>	1,075,874
	<b>1,302,326</b>	1,376,461
Unlisted unit trusts, at fair value	<b>205,412</b>	409,287
Unlisted mutual funds, at fair value	<b>785,134</b>	836,812
Unlisted equity investments, at fair value	<b>77,992</b>	78,061
Available-for-sale unlisted exchangeable note, investment element at cost (note (ii))	—	508,302
Total available-for-sale financial assets	<b>5,522,018</b>	5,980,577
Portion classified as current assets	<b>(5,444,026)</b>	(5,394,194)
Non-current portion	<b>77,992</b>	586,383

The above investments consist of investments in bonds purchased other than for held-to-maturity, equity securities, unit trusts and mutual funds. 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.

## 17. Available-for-sale Financial Assets *(continued)*

The fair values of unlisted investments are 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.

When the fair value of unlisted investments cannot be reliably measured, they are stated at cost less any impairment losses.

Notes:

- (i) *The quoted bonds analysed by category of issuer as at the balance sheet date are as follows:*

	<b>30 June</b> <b>2006</b> <b>(Unaudited)</b> <i>HK\$'000</i>	31 December 2005 <i>(Audited)</i> <i>HK\$'000</i>
<i>Governments</i>	<b>334,997</b>	398,890
<i>Banks and other financial institutions</i>	<b>1,721,622</b>	1,272,608
<i>Corporate entities</i>	<b>1,094,535</b>	1,100,156
<b>Total</b>	<b>3,151,154</b>	2,771,654

*The effective interest rates of quoted bonds ranged from 1.08% to 8.63% per annum.*

- (ii) *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 was held as an available-for-sale financial asset and the option was held as derivative. The investment element was carried at cost and the embedded option to convert the shares in the future had zero fair value as at 31 December 2005 since the Group was not able to exercise its exchange right because of the controls on foreign ownership of the insurance business currently existing under PRC law. On 28 February 2006, the Group entered into a termination agreement to terminate the note and the principal amount of the note was repaid with accrued interest thereon.*

## 18. Financial Assets at Fair Value through Profit or Loss

	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Audited)
	HK\$'000	HK\$'000
Unlisted unit trusts, at fair value	<b>810,399</b>	481,976

The above investments as at 30 June 2006 were designated as financial assets at fair value through profit or loss at the date of inception of the investments.

## 19. Cash and Cash Equivalents

	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Audited)
	HK\$'000	HK\$'000
Cash and bank balances	<b>540,954</b>	1,141,884
Time deposits	<b>1,179,288</b>	231,551
	<b>1,720,242</b>	1,373,435
Less: Pledged deposit for cross currency swap agreement (note 21 (i))	<b>(16,157)</b>	(15,751)
Cash and cash equivalents	<b>1,704,085</b>	1,357,684

Cash at banks 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 deposit approximate to their fair values.

## 20. Financial Risk Management Objectives and Policies

### (a) Regulatory framework

The operations 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 claims 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 its 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.

### (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 deeds on the expiry of which either the premium is paid or the policy will be terminated or changed to reduce paid-up or term cover according to the provision of the policy.

## 20. Financial Risk Management Objectives and Policies *(continued)*

### (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 an 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 individual instruments or their issuers or factors affecting all instruments traded in the market.

The Group structures levels of market risk it accepts through its market risk policy which includes determining what constitutes market risk for the Group, the basis used to fairly 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 its 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 11.3% investments in foreign currency equities (other than the investments in 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 its exposure to credit risk. The Group allows a maximum of 5% of invested assets to be invested in non-investment grade bonds. As at 30 June 2006, the non-investment grade bonds held by the Group was approximately 0.9% of its invested assets and approximately 99.1% of the bonds held by the Group was investment grade bonds.



## 20. 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 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 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 7.8% of the equity portfolio size. The similar value at risk on its hedge fund portfolio was 4.2% 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 its 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 plans; specifying the concentration of funding sources; the reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with its liquidity risk policy and the review of the Group's liquidity risk policy for pertinence and changing environment.

## 20. Financial Risk Management Objectives and Policies *(continued)*

### (j) Liquidity risk *(continued)*

The tables below analyse certain assets and liabilities of the Group as at 30 June 2006 and 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.

As at 30 June 2006 (Unaudited)	2 years or less		3 years or less	4 years or less	5 years or less	> 5 years	Unit-linked	Total
	1 year or less	but >1 year	but >2 years	but >3 years	but >4 years			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS</b>								
Reinsurance assets	2,025	—	—	—	—	—	—	2,025
Premium receivable	48,261	—	—	—	—	—	—	48,261
Prepayments and other debtors	198,046	—	—	—	—	—	—	198,046
Financial assets:								
Derivative financial instruments	—	1,571	1,820	2,743	55	2,605	—	8,794
Held-to-maturity financial assets	—	136,930	—	—	—	—	—	136,930
Assets at fair value through profit or loss	65,049	—	—	—	—	—	745,350	810,399
Available-for-sale financial assets – other than bonds	2,292,872	—	—	—	—	77,992	—	2,370,864
Available-for-sale financial assets – bonds	767,740	398,132	528,479	309,335	92,235	1,055,233	—	3,151,154
Loans to employees and agents	2,577	1,723	4,924	287	11,502	33,568	—	54,581
Pledged deposit	—	—	—	—	—	16,157	—	16,157
Cash and cash equivalents	1,698,760	—	—	—	—	—	5,325	1,704,085
Assets of a disposal group classified as held for sale	56,340	—	—	—	—	—	—	56,340
	5,131,670	538,356	535,223	312,365	103,792	1,185,555	750,675	8,557,636
<b>LIABILITIES</b>								
Future insurance liabilities under insurance contracts	334,581	2,055	1,607	5,105	3,417	4,913,077	124,181	5,384,023
Tax payable	19,251	—	—	—	—	—	—	19,251
Financial liabilities:								
Derivative financial instruments	—	—	—	—	—	9,036	—	9,036
Future insurance liabilities under investment contracts	2,827	—	1,530	116,692	380	75,189	386,776	583,394
Interest-bearing loans	—	—	—	—	—	769,922	—	769,922
Payable to policyholders	151,260	—	—	—	—	—	—	151,260
Accrued expenses and other creditors	212,169	—	—	—	—	—	—	212,169
Liabilities directly associated with the assets classified as held for sale	17,531	—	—	—	—	—	—	17,531
	737,619	2,055	3,137	121,797	3,797	5,767,224	510,957	7,146,586

## 20. Financial Risk Management Objectives and Policies *(continued)*

### (j) Liquidity risk *(continued)*

As at 31 December 2005 (Audited)	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
<b>ASSETS</b>								
Tax recoverable	1,009	—	—	—	—	—	—	1,009
Reinsurance assets	1,954	—	—	—	—	—	—	1,954
Premium receivable	88,468	—	—	—	—	—	—	88,468
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 or 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 deposit	—	—	—	—	—	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
	4,689,930	445,881	469,401	237,444	192,226	1,961,097	402,213	8,398,192
<b>LIABILITIES</b>								
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

## 21. Derivative Financial Instruments

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Options embedded in convertible bonds	<b>4,921</b>	4,223
Options embedded in callable bonds	<b>3,873</b>	5,944
Unlisted cross currency swap agreement, at fair value (note (i))	<b>(9,036)</b>	(3,313)
	<b>(242)</b>	6,854
Portion classified as non-current financial liabilities – cross currency swap agreement	<b>9,036</b>	3,313
Current portion of derivative financial assets	<b>8,794</b>	10,167

Note:

(i) *The notional amount of the cross currency swap agreement is US\$100 million (equivalent to HK\$777.7 million) 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 30 June 2006, the Group pledged US\$2,080,000 (31 December 2005: US\$2,032,000) (equivalent to HK\$16,157,000 (31 December 2005: 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 convertible bonds and callable bonds are the same as their fair values.

## 21. Derivative Financial Instruments *(continued)*

### *Cross currency swap agreement – cash flow hedge*

As at 30 June 2006, the Group held a cross currency swap agreement designated as a hedge in respect of expected future currency fluctuations related to repayment of its interest-bearing loan of US\$100 million with maturity at 17 December 2014. The terms of the cross currency swap agreement are as follows:

<b>Buy</b>	<b>Maturity</b>	<b>Exchange rate</b>
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 effective and a net loss of HK\$7,237,000 (six months ended 30 June 2005: HK\$790,000) was included in the hedging reserve.

## 22. 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% guaranteed 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 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.

## 23. Future Insurance Liabilities under Investment Contracts

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

	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Audited)
	HK\$'000	HK\$'000
At beginning of period/year	<b>546,802</b>	482,225
Discontinued operation at beginning of period/year	—	(27,719)
Deposits	<b>127,856</b>	173,693
Withdrawal	<b>(96,523)</b>	(104,026)
Charges	<b>(2,224)</b>	(5,871)
Interest credited	<b>4,735</b>	29,233
Exchange realignment	<b>2,748</b>	(733)
At end of period/year	<b>583,394</b>	546,802

## 24. Future Insurance Liabilities under Insurance Contracts

	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Audited)
	HK\$'000	HK\$'000
Insurance contracts liabilities	<b>5,251,446</b>	4,917,990
Coinsurance liabilities	<b>132,577</b>	132,891
Future insurance liabilities under insurance contracts	<b>5,384,023</b>	5,050,881
Reinsurers' share of liabilities	<b>(2,025)</b>	(1,954)
Net liabilities	<b>5,381,998</b>	5,048,927

## 24. Future Insurance Liabilities under Insurance Contracts *(continued)*

	30 June 2006 (Unaudited)				31 December 2005 (Audited)			
	Insurance contracts	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities	Insurance contracts liabilities	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unit-linked	124,181	—	(28)	124,153	117,450	—	(31)	117,419
With fixed and guaranteed terms	5,127,265	132,577	(1,997)	5,257,845	4,800,540	132,891	(1,923)	4,931,508
Total	5,251,446	132,577	(2,025)	5,381,998	4,917,990	132,891	(1,954)	5,048,927

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

	30 June 2006 (Unaudited)				31 December 2005 (Audited)			
	Insurance contracts liabilities	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities	Insurance contracts liabilities	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of period/year	4,917,990	132,891	(1,954)	5,048,927	4,247,872	159,478	(1,959)	4,405,391
Premium received	643,561	(37,460)	(28,241)	577,860	1,259,558	(99,049)	(55,758)	1,104,751
Liability for death, surrender and maturity	(294,748)	17,956	14,268	(262,524)	(557,889)	32,890	12,751	(512,248)
Benefit and claims experience variation	(304,720)	—	13,907	(290,813)	(183,029)	—	43,006	(140,023)
Investment income and change in unit price	283,304	4,512	—	287,816	160,731	10,467	—	171,198
Financing cost for coinsurance	—	14,678	—	14,678	—	29,105	—	29,105
Exchange realignment	6,059	—	(5)	6,054	(9,253)	—	6	(9,247)
At end of period/year	5,251,446	132,577	(2,025)	5,381,998	4,917,990	132,891	(1,954)	5,048,927

## 24. Future Insurance Liabilities under Insurance Contracts *(continued)*

### 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 a cash value floor plus an adjustment to remove future valuation strain.

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

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/period are:

2002	8.03%
2003	9.91%
2004	7.09%
2005	6.62%
30 June 2006	2.21%



## 24. Future Insurance Liabilities under Insurance Contracts *(continued)*

### Life insurance contracts liabilities – assumptions and sensitivities *(continued)*

#### (a) Key assumptions *(continued)*

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/period are:

2002	92%
2003	65%
2004	58%
2005	51%
30 June 2006	56%

#### (b) Sensitivities

Assumptions	Insurance contracts liabilities
5.5%/4.0%, 100% valuation mortality	HK\$5,381,998,000
5.0%/4.0%, 100% valuation mortality	HK\$5,618,074,000
5.5%/4.0%, 110% valuation mortality	HK\$5,458,556,000

## 25. Share Capital

	30 June 2006 (Unaudited)		31 December 2005 (Audited)	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value 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	804,988,000	804,988	818,106,000	818,106

## 25. Share Capital *(continued)*

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

- (a) 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, as disclosed in the condensed consolidated statement of changes in equity.

- (b) The subscription rights attaching to 5,170,000 share options were exercised at the subscription prices of HK\$2.05 and HK\$2.825 per share (note 26), resulting in the issue of 5,170,000 shares of HK\$1.00 each for a total cash consideration, before expenses, of HK\$10,692,000, together with a release of the share option reserve amounting to HK\$2,414,000, which is credited to the share premium account.

A summary of the transactions during the period 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 2006	818,106,000	818,106	14,462	832,568
Shares repurchased and cancelled (a)	(18,288,000)	(18,288)	(17,319)	(35,607)
Share options exercised (b)	5,170,000	5,170	7,936	13,106
Shares repurchase expenses (a)	804,988,000	804,988	5,079	810,067
	—	—	(282)	(282)
<b>As at 30 June 2006</b>	<b>804,988,000</b>	<b>804,988</b>	<b>4,797</b>	<b>809,785</b>

### Share options

Details of the Company's share option schemes and the share options issued under the schemes, are included in note 26 to the condensed consolidated interim financial statements.

## 26. Share Option Schemes

As at 30 June 2006, the Company had 55,542,548 (31 December 2005: 61,021,268) outstanding share options. Details of the share options outstanding during the six months ended 30 June 2006 are as follows:

### (i) Directors

Name of director	Number of share options						As at 30 June 2006	Date of grant of share options	Vesting period	Exercise period of share options	Price of Company's shares			
	As at 1 January 2006	Granted during the period	Exercised during the period	Lapsed during the period	Forfeited during the period	Expired during the period					Exercise price of share options*	Immediately At grant date <sup>1</sup>	Before the exercise date <sup>2</sup>	At exercise date of options
											HKS	HKS	HKS	HKS
YUEN Tin Fan, Francis	15,552,000	—	—	—	—	—	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	—	—	—
Peter Anthony ALLEN	480,000	—	—	—	—	—	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	1,824,000	—	—	—	—	—	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	—	—	—
	34,656,000	—	—	—	—	—	34,656,000							

## 26. Share Option Schemes *(continued)*

### (ii) Other employees

	Number of share options						As at 30 June 2006	Date of grant of share options	Vesting period	Exercise period of share options	Exercise price of share options* HK\$	Price of Company's shares		
	As at 1 January 2006	Granted during the period	Exercised during the period	Lapsed during the period	Forfeited during the period	Expired during the period						At grant date <sup>†</sup> HK\$	Immediately before the exercise date <sup>†</sup> HK\$	At exercise date of options HK\$
In aggregate	410,400	—	—	—	—	—	410,400	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—	—
	220,320	—	—	(103,680)	—	—	116,640	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—	—
	4,400,000	—	(1,660,000)	(200,000)	—	—	2,540,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	3.38	3.39
	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	—	(120,000)	—	—	—	960,000	4 October 2004	4 October 2005 to 4 October 2007	4 October 2005 to 3 October 2012	2.825	—	3.75	3.75
	210,000	—	—	—	—	—	210,000	19 May 2005	19 May 2006 to 19 May 2008	19 May 2006 to 18 May 2013	3.125	—	—	—
	—	120,000	—	—	—	—	120,000	4 April 2006	4 April 2007 to 4 April 2009	4 April 2007 to 3 April 2014	3.68	3.70	—	—
	8,960,720	120,000	(1,780,000)	(303,680)	—	—	6,997,040							

### (iii) Others (Agents)

In aggregate	2,069,916	—	—	(85,920)	—	—	1,983,996	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	—	—	—
	2,222,592	—	—	(37,440)	—	—	2,185,152	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	—	—	—
	62,040	—	—	(1,680)	—	—	60,360	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	—	—	—
	10,850,000	—	(3,390,000)	—	—	—	7,460,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	—	3.67	3.69
	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	—	—	—
	17,404,548	—	(3,390,000)	(125,040)	—	—	13,889,508							
Total	61,021,268	120,000	(5,170,000)	(428,720)	—	—	55,542,548							

## 26. Share Option Schemes *(continued)*

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

- \* *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.*
- \*\* *Mr. CHEUNG Sum, Sam resigned as a director of the Company with effect from 23 February 2006.*
- # *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 period ended 30 June 2006.

The fair value of the share options granted during the period was HK\$150,000 (2005: HK\$3,987,000).

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 period ended 30 June 2006:

Exercise price (HK\$)	3.68
Dividend yield (%)	1.6273%
Expected volatility (%)	30.52%
Historical volatility (%)	30.52%
Risk-free interest rate (%)	4.575%
Expected life of option (year)	6-8
Weighted average share price at grant date (HK\$)	3.6517

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.

## 26. Share Option Schemes *(continued)*

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

The 5,170,000 share options exercised during the period resulted in the issue of 5,170,000 ordinary shares of the Company and new share capital of HK\$5,170,000 and share premium of HK\$7,936,000 (before issue expenses), as detailed in note 25 to the condensed consolidated interim financial statements.

At the balance sheet date, the Company had 55,542,548 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 55,542,548 additional ordinary shares of the Company and additional share capital of approximately HK\$55,542,548 and share premium of approximately HK\$133,310,000 (before issue expenses).

## 27. Contingent Liabilities

As at 30 June 2006, the Group and the Company had no material contingent liabilities other than as set out below in note 28 and contingencies arising from the ordinary course of the long term insurance business (31 December 2005: Nil).

## 28. 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 legal counsel, the Group has determined that it will continue to vigorously defend 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.

## 29. Operating Lease Commitments

### (a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits.

As at 30 June 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>30 June</b> <b>2006</b> <b>(Unaudited)</b> HK\$'000	31 December 2005 (Audited) HK\$'000
Within one year	<b>1,151</b>	1,239
In the second to fifth years, inclusive	<b>1,274</b>	1,806
	<b>2,425</b>	3,045

### (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 five years.

As at 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June</b> <b>2006</b> <b>(Unaudited)</b> HK\$'000	31 December 2005 (Audited) HK\$'000
Within one year	<b>52,146</b>	46,390
In the second to fifth years, inclusive	<b>148,991</b>	165,158
After five years	<b>2,810</b>	19,670
	<b>203,947</b>	231,218

### 30. Capital Commitments

In addition to the operating lease commitments in note 29(b) above, the Group and the Company had the following commitments as at the balance sheet date:

	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Audited)
	HK\$'000	HK\$'000
Contracted, but not provided for, in respect of the purchase of:		
Computer equipment	<b>17,208</b>	217
Furniture, fixture and equipment	<b>29,286</b>	802
	<b>46,494</b>	1,019
Authorised, but not contracted for, in respect of the purchase of:		
Computer equipment	<b>22,641</b>	36,677
Furniture, fixture and equipment	<b>50,714</b>	—
	<b>73,355</b>	36,677
	<b>119,849</b>	37,696

### 31. Related Party Transactions

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

		<b>For the six months</b>	
		<b>ended 30 June</b>	
	Notes	<b>2006</b>	2005
		<b>(Unaudited)</b>	(Unaudited)
		HK\$'000	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")		<b>1,672</b>	1,784
PCCW Services Limited		<b>7,351</b>	2,085
Pacific Century Systems Limited		<b>484</b>	471
Power Logistics Limited		<b>64</b>	73
PCCW Directories Limited		<b>68</b>	72
		<b>9,639</b>	4,485
General insurance business income received from			
The Ming An Insurance Company (Hong Kong), Limited	(ii)	<b>2,540</b>	4,245



## 31. Related Party Transactions *(continued)*

Notes:

- (i) *The Group entered into a number of group life and medical policies with certain companies which are associates of Mr. Li Tzar Kai, Richard and PCRD. 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 the premium income derived therefrom did not exceed 2% of the total turnover of the Group for the period ended 30 June 2006. The Group had no amount due from these companies as at 30 June 2006 (2005: 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\$4,119,000 (31 December 2005: HK\$3,823,000) as at 30 June 2006 which is unsecured, interest-free and has a credit term of 90 days according to the Agency Agreement.*

- (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 installment basis.*

### 31. Related Party Transactions *(continued)*

(c) Compensation of key management personnel of the Group

	<b>For the six months ended 30 June</b>	
	<b>2006</b> <b>(Unaudited)</b> HK\$'000	2005 (Unaudited) HK\$'000
Short term employee benefits	<b>8,810</b>	12,908
Post-employment benefits	<b>702</b>	815
Share-based payments	<b>1,173</b>	1,644
<b>Total compensation paid to key management personnel</b>	<b>10,685</b>	15,367

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

### 32. Comparative Amounts

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

### 33. Approval of the Interim Financial Report

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 10 August 2006.