PACIFIC CENTURY INSURANCE HOLDINGS LIMITED
(盈 科 保 險 集 團 有 限 公 司)*

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

(Stock Code: 65)

ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

Individual annualised first year premium ("AFYP") increased 58.8% to HK$693.2 million, contributed from insurance contracts of HK$363.2 million, up 12.2%, and investment contracts of HK$330.0 million, up 192.3% from 2005.

Single and first year premium increased 13.2% to HK$335.2 million, renewal premium increased 8.3% to HK$1,624.1 million and total premium increased 9.1% to HK$1,959.3 million as compared with 2005. Total turnover showed an increase of 9.1% to HK$1,993.9 million as compared to 2005.

Key performance indicators continue to be strong.

Audited consolidated profit was HK$322.4 million (2005:HK$42.5 million) for the year.

The directors of Pacific Century Insurance Holdings Limited (the "Company") are pleased to present the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 as set out thereafter, together with comparative figures for the financial year ended 31 December 2005, and the supporting information in notes 1.1 to 11 inclusive.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
CONTINUING OPERATIONS			
REVENUE			
Turnover	2	1,993,853	1,826,885
Investment income, net gains, and other income	2	919,198	373,791
Total revenue and gains, net		2,913,051	2,200,676
Less: Reinsurance premiums		(140,599)	(154,807)
Net revenue		2,772,452	2,045,869
Policyholders' benefits under insurance contracts		(701,529)	(581,354)
Policyholders' benefits under investment contracts		(104,193)	(29,233)
Agency commission and allowances		(491,963)	(389,176)
Change in deferred acquisition costs		120,885	14,497
Management expenses		(467,976)	(303,608)

	Notes	2006	2005
		HK$'000	*HK$'000*
Increase in insurance contract liabilities		(744,522)	(652,783)
Finance costs	3	(44,100)	(45,346)
PROFIT BEFORE TAX	4,5	339,054	58,866
Tax	6	(17,320)	(16,963)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		321,734	41,903
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation		715	599
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		322,449	42,502
DIVIDENDS	7		
Interim		24,348	8,213
Proposed final		—	32,724
		24,348	40,937
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
BASIC			
- For profit for the year		39.77 cents	5.18 cents
- For profit from continuing operations		39.68 cents	5.11 cents
Diluted			
- For profit for the year		39.18 cents	5.11 cents
- For profit from continuing operations		39.10 cents	5.04 cents

CONSOLIDATED BALANCE SHEET
31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		58,138	219,649
Investment properties		19,024	15,028
Deferred acquisition costs		1,150,314	1,037,714
Financial assets	9	3,985,028	3,788,359
Deferred tax asset		5,250	—
Pledged deposits		34,513	15,751
Total non-current assets		5,252,267	5,076,501
CURRENT ASSETS			
Deferred acquisition costs		294,464	286,179
Premiums receivable		69,968	88,468
Prepayments, deposits and other debtors		402,916	210,162
Financial assets	9	3,049,794	3,116,225
Reinsurance assets		1,918	1,954
Tax recoverable		—	1,009
Cash and cash equivalents		2,494,109	1,357,684
		6,313,169	5,061,681
Assets of a disposal group classified as held for sale		59,084	59,773
Total current assets		6,372,253	5,121,454
CURRENT LIABILITIES			
Payable to policyholders		(143,600)	(147,520)
Accrued expenses and other creditors		(367,303)	(262,497)
Tax payable		(17,718)	(8,988)
		(528,621)	(419,005)
Liabilities directly associated with the assets classified as held for sale		(19,364)	(21,610)
Total current liabilities		(547,985)	(440,615)
NET CURRENT ASSETS		5,824,268	4,680,839
TOTAL ASSETS LESS CURRENT LIABILITIES		11,076,535	9,757,340
NON-CURRENT LIABILITIES			
Derivative financial instrument		(31,811)	(3,313)
Interest-bearing loans		(770,979)	(768,140)
Investment contract liabilities		(807,376)	(546,802)
Insurance contract liabilities		(5,804,170)	(5,050,881)
Policyholders' dividends and bonuses		(914,489)	(771,653)
Total non-current liabilities		(8,328,825)	(7,140,789)
Net assets		2,747,710	2,616,551
EQUITY			
Issued capital		814,619	818,106
Reserves	10	1,933,091	1,765,721
Proposed final dividend		—	32,724
Total equity		2,747,710	2,616,551

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets at fair value through profit or loss and derivative financial instruments, which have been measured at fair value. Disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except where otherwise indicated.

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

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

(i) HKAS 39 Amendment - The Fair Value Option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss. The adoption of this amendment has had no material impact on the consolidated financial statements.

(ii) HKAS 39 & HKFRS 4 Amendments - Financial Guarantee Contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on the consolidated financial statements.

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

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

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

	2006 *HK$'000*	2005 *HK$'000*
Turnover		
Life insurance contracts:		
Single premium	31,245	30,018
First year premium	303,914	266,010
Renewal premium	1,624,154	1,500,071
Gross premium	1,959,313	1,796,099
General insurance commissions under agency agreements	9,332	8,727
Asset management fees	14,892	16,188
Fees on investment contracts	10,316	5,871
Revenue attributable to continuing operations reported in the consolidated income statement	1,993,853	1,826,885
Investment income		
Interest income	277,799	203,593
Dividend income	38,175	31,332
Investment handling charges	(9,226)	(4,671)
Write-back provision for bad and doubtful debts	52	12,501
Others	3,298	2,544
Investment Income	310,098	245,299
Net gains	558,930	76,946
Investment income and net gains	869,028	322,245
Other income	50,170	51,546
Investment income, net gains and other income	919,198	373,791

3. FINANCE COSTS

	2006 *HK$'000*	2005 *HK$'000*
Interest on interest-bearing loans	46,410	46,431
Interest income on derivative financial instruments, net (note (i))	(2,310)	(1,085)
	44,100	45,346

Note:

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

4. PROFIT BEFORE TAX

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

	2006	**2005**
	HK$'000	*HK$'000*
Depreciation:		
Property, plant and equipment	16,842	16,118
Investment properties	290	291
Amortisation of deferred acquisition costs	302,350	286,746
Gain on disposal of items of property, plant and equipment	(15,248)	(88)

5. SEGMENT REPORTING

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

6. TAX

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

The assessable profits of a wholly-owned subsidiary, which is engaged in the long term insurance business and retirement scheme management, are computed in accordance with the special provisions of the Hong Kong Inland Revenue Ordinance. Tax for the long term insurance business, as defined by the Inland Revenue Ordinance, is computed at 17.5% (2005: 17.5%) of 5% of net premium (gross premium received less reinsurance premium ceded) from the life insurance business in accordance with Section 23(1)(a) of the Inland Revenue Ordinance rather than on taxable profits.

	2006	**2005**
	HK$'000	*HK$'000*
Current taxation:		
Hong Kong profits tax	25,070	16,963
Overprovision in prior years	(2,500)	—
Deferred taxation	(5,250)	—
Total tax charge for the year	17,320	16,963

7. DIVIDENDS

	2006	**2005**
	HK$'000	*HK$'000*
Interim — HK$0.03 (2005: HK$0.01) per ordinary share	24,348	8,213
Proposed final — Nil (2005: HK$0.04) per ordinary share	—	32,724
	24,348	40,937

The directors did not recommend payment of final dividend for the year ended 31 December 2006.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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

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

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

	2006	**2005**
	HK$'000	*HK$'000*
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	321,734	41,903
From a discontinued operation	715	599
Net profit attributable to ordinary equity holders of the parent	322,449	42,502

	Number of shares	
	2006	**2005**
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	810,746,000	820,109,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	12,188,000	12,062,000
	822,934,000	832,171,000

9. FINANCIAL ASSETS

	2006 HK$'000	2005 HK$'000
Total financial assets:		
Policy loans	261,730	241,193
Loans to employees and agents	52,744	53,718
Held-to-maturity financial assets	137,048	136,953
Available-for-sale financial asset	4,484,508	5,980,577
Financial assets at fair value through profit or loss	2,093,256	481,976
Derivative financial instrument	5,536	10,167
	7,034,822	6,904,584
Current portion		
Loans to employees and agents	(3,581)	(1,522)
Held-to-maturity financial assets	(137,048)	—
Available-for-sale financial asset	(810,373)	(2,622,560)
Financial assets at fair value through profit or loss	(2,093,256)	(481,976)
Derivative financial instrument	(5,536)	(10,167)
	(3,049,794)	(3,116,225)
Non-current portion	3,985,028	3,788,359

10. RESERVES

	2006 HK$'000	2005 HK$'000
Share premium account	20,202	14,462
Contributed surplus	152,178	152,178
Share option reserve	15,541	19,101
Hedging reserve	(31,488)	(937)
Available-for-sale financial assets revaluation reserve	114,869	187,510
Retained profits	1,661,789	1,393,407
	1,933,091	1,765,721

11. COMPARATIVE AMOUNTS

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

Management discussions and analysis of operations (Unaudited)

2006 has been a successful year for the Company. Sales have surpassed all past years while key performance indicators continue to show improvements with investment return, policy persistency and claim experience all having performed better than expected.

1. **Operational Review**

   The Group reported a net profit from ordinary activities attributable to shareholders of HK$322.4 million for the year ended 31 December 2006, representing an increase of 658.6% from HK$42.5 million in 2005. Basic earnings per share was HK$0.40 as compared to HK$0.05 in 2005. The increase in earnings was mainly due to higher profit contribution from a larger inforce portfolio, good investment return for the year and the realisation of some of the past unrealised gains during the year.

   Individual annualised first year premium ("AFYP") increased 58.8% to HK$693.2 million, contributed from insurance contracts of HK$363.2 million, up 12.2%, and investment contracts of HK$330.0 million, up 192.3% from 2005.

   Single and first year premium increased 13.2% to HK$335.2 million, renewal premium increased 8.3% to HK$1,624.1 million and total premium increased 9.1% to HK$1,959.3 million as compared with 2005. Total turnover showed an increase of 9.1% to HK$1,993.9 million as compared to 2005.

   Investment income, net gains, and other income increased by 145.9% to HK$919.2 million. Unrealised gains reserve decreased to HK$114.9 million from HK$187.5 million in 2005.

   Policyholders' benefits increased by 32.0% to HK$805.7 million.

   Agency commission and allowances increased 26.4% to HK$492.0 million as compared to the previous year, which was attributable to the increase in number of agents and more new business transacted during the year.

   Management expenses increased by 54.1% to HK$468.0 million due to expansion of our operation and also special non-recurring expenses of HK$57.2 million, including the provision for settlement of the litigation as stated in section 8 "Litigation".

   Total operating expenses for the year were HK$1,644.8 million, 27.6% above 2005.

   Expense Index decreased to 110.8% if we excluded the non-recurring expenses, as compared to 115.0% in 2005. If the non-recurring expenses were taken into account, the Expense Index would be 128.8%.

(a) *Agency Operations*

The sales force continued to grow with the number of agents increased to 2,031 as compared to 1,696 in 2005. Agency productivity measured by total AFYP per agent month was HK$33,000, representing a growth of 26.9% from HK$26,000 in 2005.

(b) *Life Operations*

As at 31 December 2006, the total number of inforce policies was 316,970 as compared to 294,457 in 2005, an increase of 7.6%.

Whilst Renewal Ratio improved to 100.5% as compared to 100.3% for 2005, both 13th month and 25th month persistency rate have slightly decreased from 88.8% to 88.7% and 79.1% to 78.0% respectively. Claim ratio improved from 95.5% in 2005 to 88.6% in 2006.

A total of 3 products were introduced in 2006 to cater for needs of our existing and potential policyholders. One of these products is a whole life insurance product with built-in medical benefit which reimbursed hospitalization expenses subject to certain limits, with an optional rider to enhance the benefit levels. The other product is a personal accident coverage aiming to supplement our existing portfolio.

Starting in January of 2005, we worked on a project to implement a new policy administration system aiming to improve our operation efficiency and thus better serve our policyholders. The new system is targeted to be completed in 2007.

c) *Group Insurance*

For the year under review, the Group Insurance Department recorded HK$54.3 million in premiums with net profit of HK$2.0 million compared to HK$41.8 million in premiums with net loss of HK$1.4 million in 2005.

d) *Retirement Scheme Business and Mandatory Provident Fund*

Since the conclusion of the Transfer Agreement with HSBC Life (International) Limited ('HSBC Life') in June 2002, the Group has successfully transferred 13,000 members and HK$190 million of assets to HSBC Life. Approximately HK$24 million and 1,500 members still remained with us as at 31 December 2006.

e) *General Insurance*

Total premiums placed to general insurance companies for 2006 was HK$54.2 million of which HK$37.9 million came from agency operations and HK$16.3 million from PCI Services (H.K.) Ltd., a broking arm set up in 2003 to supplement the PCI agency operation, representing an increase of 7.5% in total premiums as compared to 2005. Total commission income from general insurance business for the year 2006 was HK$9.3 million as compared to HK$8.7 million in 2005.

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

2006 marked a year of solid growth for PCI Investment Management Limited (PCIIM). Excluding the US$500 million synthetic Collateralised Debt Obligation (CDO) transaction in which PCIIM serves as portfolio manager, total funds under management rose by almost 20% to over HK$9 billion at the end of 2006. As our fund size continues to grow, we have expanded our investment team with the aim of sustaining exceptional performance for our clients.

g) *Human Resources*

The Group had 294 employees as at 31 December 2006, a decrease of 3.0% over the 303 employees last year. Total remuneration (excluding Directors' fees) for the year was HK$200.6 million as compared to HK$135.6 million for 2005. The increase in total remuneration was mainly due to a staff bonus of HK$39.6 million paid and/or accrued for the year.

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

2. **China Expansion Plan**

On 28 February 2006, the Group redeemed the Exchangeable Note subscribed in June 2005 as the appointment of our representatives to the board of Sino Life Insurance Co. Ltd. had not been approved by the China Insurance Regulatory Commission. The Group will continue to look for suitable investment opportunities to gain access to the rapidly growing insurance market in China.

3. **Capital Adequacy and Financing**

As at 31 December 2006, the Group had cash and bank balances of HK$597.1 million and time deposits of HK$1,971.7 million. Invested assets increased by HK$1,289.0 million to HK$9,641.6 million, which was mainly due to premium income received.

As at 31 December 2006, the Group's total assets were HK$11,624.5 million and net assets were HK$2,747.7 million, an increase of 14.0% and 5.0% respectively as compared to 2005.

On a statutory reporting basis, the Group's net assets 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 31 December 2006, the gearing ratio of the Group was 28.1%.

Gearing Ratio is the ratio of interest-bearing loan to capital and reserves.

4. **Rating**

Fitch Ratings, Moody's Investors, The A.M. Best Company Service and Standard & Poor's have all reaffirmed their Insurer Financial Strength ratings of "A-", "Baa2", "A-(Excellent)" and "BBB-" respectively on Pacific Century Insurance Company Limited ("PCI") in their 2006 annual review.

5. **Embedded Value**

Basis

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

The following are the key assumptions used:

Investment return:
7% per annum (2005: 7%)
Risk discount rate:
10% per annum (2005: 10%)

Embedded Value

The embedded value per share for the year ended 31 December 2006 and the past four years were as follows:

Year	**Embedded value per share** *(HK$)*
2006	6.231
2005	4.947
2004	4.327
2003	3.940
2002	3.557

Value of one year's new business

The value of one year's new business is the sum of the discounted projected future after-tax statutory profits generated from the new business written during the year, adjusted for the cost of holding the required solvency margin. The assumptions used are the same as those used in the calculation of embedded value. For the year ended 31 December 2006, the value of new business was HK$125.5 million.

The methodology and actuarial assumptions used in the calculation of embedded value and value of new business as at 31 December 2006 have been reviewed and considered as reasonable by Watson Wyatt, an internationally renowned actuarial consulting firm.

Sensitivity

The followings reflect our estimates of the embedded values associated with the changes in the assumptions.

	HK$
Base scenario	6.231
12% risk discount rate	5.679
90% lapse rate	6.441
90% operating expenses	6.310
90% mortality/morbidity rate	6.483
6.75% investment rate (no adjustment on dividends)	5.943

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

6. **Investment**

Despite periods of significant volatility, 2006 turned out to be an exceptionally good year for investors in equities. While fears of a more aggressive Fed policy caused global equity markets to suffer a sharp correction during the May/June period, most stock markets ended the year strongly with the MSCI World Index rising by almost 18%.

The US economy experienced strong growth during the first quarter. A pick-up in core inflation came as a surprise to the market as inflation had stayed benign for an extended period of time. The Federal Reserve was forced to increase the Fed funds rate four times to 5.25% by the end of the first half. The over-riding theme in the second half was a meaningful moderation in the economy led by a long overdue slowdown in the housing sector. Weaker energy prices also helped lower headline inflation. Consequently, the Fed funds rate was left unchanged during the second half.

The US Treasury yield curve remained flat to slightly inverted throughout the year. Yields on benchmark 10-year Treasuries rose by over 80 basis points to around 5.2% in late June. With fears of a more aggressive Fed policy abating, the US Treasury market recovered a portion of its first half losses. The 10-year Treasury yield closed the year at 4.7%, 31 basis points higher than a year ago.

Among equity markets, both European and Asian markets outperformed the US. While US growth weakened during the second half, stronger economic data continued to emerge from both Europe and Asia. With attractive growth prospects, merger and acquisition activity also increased, attracting more capital flows into these regions. China, in particular, was the star performer during 2006.

We were quite conservative in managing our fixed-income portfolio in 2006. We also took advantage of the year-end rally to trim our equity exposure. As a result, we maintain a relatively high liquidity level, and will remain patient as we wait for a more opportunistic time to adjust our portfolio mix given the current unstable environment.

The following table shows the mix of the general and shareholders' fund portion of the invested assets of the Group as at 31 December, 2006:

		FIXED INTEREST	MORTGAGE & LOANS	CASH	EQUITIES	OTHERS	TOTAL
BY CURRENCY	US$	29.9%	2.3%	22.4%	9.0%	11.9%	75.5%
	HK$	12.1%	1.3%	5.0%	2.5%	—	20.9%
	Others	—	—	0.9%	2.7%	—	3.6%
	Total	42.0%	3.6%	28.3%	14.2%	11.9%	100.0%
BY GEOGRAPHIC AREA	US	8.9%	—	—	—	6.2%	15.1%
	Europe	4.5%	—	—	—	—	4.5%
	Japan	2.0%	—	—	—	—	2.0%
	HK/China	11.8%	3.6%	28.3%	9.4%	3.1%	56.2%
	Other Asia	11.8%	—	—	4.8%	1.3%	17.9%
	Others	3.0%	—	—	—	1.3%	4.3%
	Total	42.0%	3.6%	28.3%	14.2%	11.9%	100.0%

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

As at 31 December 2006, there were no charges on any of the Group's assets other than a US$3.2 million (equivalent to HK$24.5 million as a cash collateral) to the counterparty for the cross currency swap agreement entered into by the Group (2005: US$2 million) and a HK$10 million (2005: Nil) deposit pledged to a bank for the bank guarantee given in respect of a rental deposit for a tenancy agreement entered into by the Group.

8. **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 16 February 2007, PCI and certain insurance agents reached settlements with the Plaintiffs. Pursuant to such settlements, without any admission of liability or final determination of the merits of the parties' respective cases, an amount of HK$39,800,000 was paid to the Plaintiffs and the afore-mentioned legal proceedings by the Plaintiffs against PCI and those insurance agents who have entered into settlements with the Plaintiffs have been dismissed. Such amount was fully provided by the Group as at 31 December 2006.

9. **Post Balance Sheet Events**

(i) On 13 December 2006, the Group entered into a sale and purchase agreement with an independent third party to acquire of certain of its land and building situated in Hong Kong through acquisition of the entire issued share capital of HKL (King's Road) Limited and related shareholder's loans to HKL (King's Road) Limited and Foundasia (HK) Limited, for a cash consideration of HK$1,472,295,000. HKL (King's Road) Limited, through Foundasia (HK) Limited, owns the properties. This transaction was completed on 9 February 2007.

(ii) The litigation against PCI and certain insurance agents was settled on 16 February 2007. Please see section 8 "Litigation" for details.

10. **Prospect**

Looking forward, the Group expects the growth momentum to continue. The Group will strive to manage its business prudently with a view to create shareholder value in the form of significant growth in embedded value.

11. **Corporate Governance**

The Audit Committee of the Company has reviewed the financial statements for the year ended 31 December 2006.

The Company is committed to maintaining a high standards of corporate governance with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders.

The Company has also established a risk management committee on 13 November 2006 to oversee and enhance risk management initiatives across the Group. The risk management committee comprises two executive directors, one non-executive director and four senior executives of the Group.

Throughout the year, the Company had applied the principles and complied with the applicable provisions, and also complied with certain recommended best practices, of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. However, the Board would like to highlight the following:-

Code provision A.2.1

The code provision A.2.1 of the Code provides that the roles of the chairman and the chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the CEO should be clearly established and set out in writing. Since the management restructuring on 6 June 2006 that the Company has appointed a CEO at its principal subsidiary — Pacific Century Insurance Company Limited ("PCI"), who is largely responsible for the day to day management of the Group's principal operating subsidiary. In this regard, the Company believes that it is in compliance with the meaning of the code provision A.2.1 because the existing management structure provides a proper segregation of duties between the Executive Chairman of the Group and the CEO of PCI.

The Group aims at complying with the Corporate Governance practices being set out by the Stock Exchange at all time. To ensure that all our stakeholders are well informed, we have adopted the practice of disclosing key information of the Group on a quarterly basis.

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

A total of 18,288,000 ordinary shares of HK$1.00 each were repurchased by the Company during the year 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.

The repurchases of the Company's shares during the year were effected by the directors pursuant to the mandate from shareholders received at the previous annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

13. **General**

At the request of the Company, trading in the shares on the Stock Exchange was suspended with effect from 12:07 p.m. on 26 February 2007 pending the publication of an announcement in relation to price sensitive information. A separate announcement will be issued by the Company shortly in connection with this matter.

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

Hong Kong, 28 February 2007

* *For identification purpose only*

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

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

Non-Executive Directors:
Peter Anthony Allen; Chung Cho Yee, Mico; Feng Xiaozeng; Zheng Changyong

Independent Non-Executive Directors:
Prof. Chang Hsin Kang; Timothy George Freshwater; Wang Xianzhang; Prof. Wong Yue Chim, Richard

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