Notes to financial statements

31 December 2006

1. CORPORATE INFORMATION

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

During the year, the Group has been principally engaged in the provision of a range of whole life, endowment and unit-linked insurance products to individuals in Hong Kong as well as provision of asset management services. The Group also provides a range of other related products, including term life, accident, medical and disability insurance to individuals and employee groups, and general insurance products through agency arrangements.

In June 2002, Pacific Century Insurance Company Limited ("PCI") (an indirect wholly-owned subsidiary of the Group) entered into an agreement for the transfer of its Mandatory Provident Fund business (the "MPF business") to HSBC Life (International) Limited ("HSBC Life"). The related activities have been accounted for as a discontinued operation in the current year's financial statements, details of which are set out in note 13 to the financial statements.

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

In the opinion of the directors, the holding company of the Group is Pacific Century Regional Developments Limited which is incorporated in Singapore, and the ultimate holding company of the Group is OS Holdings Limited which is incorporated in Bermuda.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (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 as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except where otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions

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

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006 and 1 March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

FOREIGN CURRENCIES

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOODWILL

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

Prior to the adoption of HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisitions was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired.

DEFERRED ACQUISITION COSTS ("DAC")

The direct acquisition costs and a portion of indirect acquisition costs relating to the production of new business are deferred in so far as there are sufficient margins in the future premiums of the new business to fund the amortisation of the DAC. DAC include first year commissions and other costs related to the acquisition of new business. All other acquisition costs and all maintenance costs are expensed as and when incurred.

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

IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired assets.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RELATED PARTIES

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

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

(b) the party is an associate;

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (continued)

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

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

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

NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

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

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

INVESTMENTS AND OTHER FINANCIAL ASSETS

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS AND OTHER FINANCIAL ASSETS (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

Fair value

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

IMPAIRMENT OF FINANCIAL ASSETS

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

Assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF FINANCIAL ASSETS (continued)

Assets carried at amortised cost (continued)

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

Available-for-sale financial assets

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

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

DERECOGNITION OF FINANCIAL ASSETS

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL LIABILITIES AT AMORTISED COST (INCLUDING INTEREST-BEARING LOANS AND BORROWINGS)

Financial liabilities including amounts payable to policyholders, other payables, interest-bearing loans, and policyholders' dividends and bonuses are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading, unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

The fair value of cross currency swap agreements are determined by reference to the present value of estimated future cash flows.

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

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

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement;

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

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENT PROPERTIES

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. The Group's interests in land and buildings are held in respect of the Group's long term insurance business for investment purposes. Investment properties are stated at cost less accumulated depreciation and any impairment losses.

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

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

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

PREPAYMENTS

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

PREMIUMS RECEIVABLE

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

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROVISIONS

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

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

INSURANCE CONTRACT LIABILITIES

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

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

INVESTMENT CONTRACT LIABILITIES

Liabilities for investment contracts are carried at fair values through accumulated cash flows plus investment income credited to the contracts, either at the discretion of the Group or linked to the changes in unit fund values.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the balance sheet, known as deposit accounting.

Fees charged and investment income received are recognised in the income statement when earned.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REINSURANCE

The Group cedes insurance risk in the normal course of business for its insurance contracts. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the insurance contract liabilities and are in accordance with the reinsurance contract and are accounted for in the same period as the underlying claim.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the income statement.

Reinsurance arrangements do not relieve the Group from its obligations to policyholders.

OPERATING LEASES

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

INCOME TAX

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

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

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

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

EMPLOYEE BENEFITS

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model, further details of which are given in note 41. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

EMPLOYEE BENEFITS (continued)

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

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

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

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

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

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

Retirement benefits schemes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DIVIDENDS

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

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

BORROWING COSTS

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

PRODUCT CLASSIFICATION

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

Insurance contracts are those contracts for which the Group has accepted significant insurance risk from policyholders providing coverage for death, accident and sickness at the inception of the contract. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. The Group also accepts financial risk on insurance contracts. Financial risk is the risk of a possible future change in specified interest rate, security price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variables.

Investment contracts are those contracts that do not transfer significant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as insurance contracts after inceptions if insurance risk becomes significant.

PREMIUMS

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

Premiums on reinsurance contracts that transfer underwriting risk are expensed as incurred.

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

COMMISSIONS

Commission and bonus payable to agents for the first policy year is included as a component of deferrable acquisition costs.

Commissions received on reinsurance policies that transfer underwriting risk are recognised as income at the same time as the reinsurance premiums are accounted for.

FEES AND COMMISSION INCOME

Insurance and investment contract policyholders are charged for policy administration services and investment management services. The policy administration fee is recognised as revenue in the period in which it is received. Investment management fees related to asset management services are recognised over the period of the services provided.

REALISED GAINS AND LOSSES ON INVESTMENTS

Realised gains and losses on investments are determined as the difference between the sales proceeds and cost or amortised cost. For equity securities, unit trusts and mutual funds, the cost is determined by using a weighted average per portfolio.

INTEREST INCOME

Interest income is recognised on accrual basis using effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

RENTAL INCOME

Rental income is recognised on a time proportion basis over the lease terms.

DIVIDEND INCOME

Dividend income is recognised when the shareholders' right to receive payment has been established.

BENEFITS AND INSURANCE CLAIMS

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

LIFE INSURANCE CONTRACT LIABILITIES

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

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

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

A liability adequacy test is performed at each reporting date to verify whether the insurance liabilities, net of deferred acquisition cost, are adequate using current estimates of future cash flows under the insurance contracts. The liability value is adjusted if insufficient to meet future obligations, taking into account future premiums, investment income, benefits and expenses and cash flows from embedded options and guarantees. If the test shows that a deficiency exists, the shortfall is immediately recorded in the income statement. The liability adequacy test is performed at a company level.

The carrying value at the balance sheet date of life insurance contract liabilities is HK$5,804,170,000 (2005: HK$5,050,881,000).

FAIR VALUE OF FINANCIAL ASSETS AND DERIVATIVE FINANCIAL INSTRUMENTS DETERMINED USING VALUATION TECHNIQUES

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, a discounted cash flow analysis and/or option pricing models. For reference to similar instruments, instruments must have similar credit ratings.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

The carrying values at the balance sheet date of financial assets and derivative financial liabilities of HK$7,034,822,000 and HK$31,811,000, respectively (2005: HK$6,904,584,000 and HK$3,313,000, respectively), as disclosed in notes 21 and 30 to the financial statements.

4. 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:

	Group	
	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 (note 5)	**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		
General and shareholders' funds:		
Interest income from quoted bonds	**169,887**	153,770
Interest income from banks and asset management businesses	**67,732**	26,241
Interest received from policy loans and loans to employees and agents	**26,362**	23,409
Dividend income from listed and unlisted investments	**37,794**	31,312
Investment handling charges	**(7,308)**	(3,008)
Write-back of provision for bad and doubtful debts	**52**	12,501
Interest income on an exchangeable note	**13,564**	—
Others	**2,550**	1,888
	310,633	246,113
Segregated funds (note (i)):		
Interest income from quoted investments	**—**	114
Interest income from banks and asset management businesses	**254**	59
Dividend income from listed investments	**381**	20
Investment handling charges	**(1,918)**	(1,663)
Others	**748**	656
	(535)	(814)
Total investment income	**310,098**	245,299

4. REVENUE, INVESTMENT INCOME, NET GAINS, AND OTHER INCOME (continued)

	Group	
	2006 **HK$'000**	2005 HK$'000
Net gains		
Realised gains/(losses):		
General and shareholders' funds:		
Listed available-for-sale financial assets (transfer from equity)	**118,328**	51,714
Unlisted available-for-sale financial assets (transfer from equity)	**138,425**	(10,083)
Listed financial assets at fair value through profit or loss	**9,153**	—
Unlisted financial assets at fair value through profit or loss	**10,642**	—
Embedded derivatives (note (ii))	**(264)**	(38)
	276,284	41,593
Segregated funds (note (i)):		
Unlisted available-for-sale financial assets (transfer from equity)	**—**	(223)
Net realised gains	**276,284**	41,370
Unrealised gains/(losses):		
General and shareholders' funds:		
Listed financial assets at fair value through profit or loss	**39,949**	—
Unlisted financial assets at fair value through profit or loss	**133,750**	5,374
Embedded derivatives (note (ii))	**(2,579)**	(2,284)
	171,120	3,090
Segregated funds (note (i)):		
Unlisted financial assets at fair value through profit or loss	**119,396**	32,486
Net unrealised gains	**290,516**	35,576
Impairment losses:		
General and shareholders' funds:		
Impairment losses of an available-for-sale financial asset (transfer from equity)	**(7,870)**	—
Total net gains	**558,930**	76,946
Investment income and net gains:		
General and shareholders' fund	**750,167**	290,796
Segregated funds (note (i))	**118,861**	31,449
	869,028	322,245

4. REVENUE, INVESTMENT INCOME, NET GAINS, AND OTHER INCOME (continued)

	Note	Group	
		2006 **HK$'000**	2005 HK$'000
Other income			
Reinsurance commission income and refund		**19,250**	20,964
Others		**30,920**	30,582
Total other income		**50,170**	51,546
Investment income, net gains and other income attributable to continuing operations reported in the consolidated income statement		**919,198**	373,791
Investment income, net gains and other income attributable to a discontinued operation	13	**6,446**	2,599
		925,644	376,390

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$118,861,000 (2005: HK$31,449,000) on segregated funds has been offset by a change in insurance liabilities and policyholders' benefits relevant to the segregated fund policies, and has had no impact on the consolidated income statement.

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

5. REVENUE ON LIFE INSURANCE CONTRACTS

	Group	
	2006 **HK$'000**	2005 HK$'000
Gross earned premium on life insurance contracts:		
Unit-linked	**34,284**	23,471
With fixed and guaranteed terms	**1,925,029**	1,772,628
	1,959,313	1,796,099
Reinsurers' share of life insurance contracts premium:		
Unit-linked	**(907)**	(5,381)
With fixed and guaranteed terms	**(139,692)**	(149,426)
	(140,599)	(154,807)
Total revenue on life insurance contracts	**1,818,714**	1,641,292

6. POLICYHOLDERS' BENEFITS UNDER INSURANCE CONTRACTS

	Group	
	2006	2005
	HK$'000	HK$'000
Death and disability claims	**220,928**	193,345
Surrenders	**188,935**	171,628
Maturities and periodic payments	**155,441**	98,333
Policyholders' dividends	**136,225**	118,048
	701,529	581,354
Gross policyholders' benefits paid:		
Unit-linked	**18,573**	11,306
With fixed and guaranteed terms	**746,007**	615,689
	764,580	626,995
Reinsurers' share of policyholders' benefits paid:		
Unit-linked	**(223)**	—
With fixed and guaranteed terms	**(62,828)**	(45,641)
	(63,051)	(45,641)
Total net policyholders' benefits paid	**701,529**	581,354

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	HK$'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$"), as disclosed in notes 30 and 36 to the financial statements.

8. PROFIT BEFORE TAX

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

	Group	
	2006 **HK$'000**	2005 HK$'000
Auditors' remuneration	**2,594**	1,465
Depreciation:		
Property, plant and equipment (note 17)	**16,842**	16,118
Investment properties (note 19)	**290**	291
Amortisation of deferred acquisition costs (note (i) and note 20)	**302,350**	286,746
Minimum lease payments under operating lease rentals on land and buildings	**44,140**	30,182
Employee benefits expense (including directors' remuneration (note 10))		
Wages and salaries	**191,055**	124,949
Equity-settled share option expenses	**3,888**	8,951
Retirement benefits scheme contributions for employees	**7,782**	3,714
Less: Forfeited contributions for employees	**(486)**	(344)
Net retirement benefits scheme contributions for employees (note (ii))	**7,296**	3,370
Total employee benefits expense	**202,239**	137,270
Retirement benefits scheme contributions for agents	**13,284**	10,266
Less: Forfeited contributions for agents	**(724)**	(725)
Net retirement benefits scheme contributions for agents (note (ii))	**12,560**	9,541
Gross rental income	**(1,302)**	(985)
Direct operating expenses arising (including repairs and maintenance) on rental-earning investment properties	**424**	155
Net rental income	**(878)**	(830)
Gain on disposal of items of property, plant and equipment	**(15,248)**	(88)

Notes:

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

(ii) As at 31 December 2006, the Group had forfeited contributions totalling HK$1,206,000 available to reduce its contributions to the retirement benefits schemes in future years (2005: HK$5,231,000).

9. PROFIT BEFORE TAX BY ACTIVITY

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

	Note	Group	
		2006	2005
		HK$'000	HK$'000
Life insurance contracts		**355,952**	63,360
Retirement scheme business		**164**	(1,003)
General insurance business under agency agreements		**3,286**	2,708
Asset management business (note (i))		**(32,048)**	(12,070)
Fees on investment contracts		**11,700**	5,871
Profit before tax attributable to continuing operations reported in the consolidated income statement		**339,054**	58,866
Profit before tax attributable to a discontinued operation	13	**715**	661
		339,769	59,527

Note:

(i) Income from the asset management business is analysed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Income from operation	**55,355**	46,088
Less: Intra-group income	**(40,463)**	(29,900)
	14,892	16,188
Operating expenses before tax	**(46,940)**	(28,258)
	(32,048)	(12,070)

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

10. DIRECTORS' REMUNERATION

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

	2006 HK$'000	2005 HK$'000
Executive and non-executive directors:		
Fees	**740**	1,320
Salaries, allowances and benefits in kind	**8,999**	11,600
Performance related bonuses	**15,983**	—
Employee share option benefits	**881**	2,439
Contributions to retirement benefits schemes	**899**	1,160
	27,502	16,519
Independent non-executive directors:		
Fees	**950**	360
	28,452	16,879

The independent non-executive directors are entitled to an annual directors' fee between HK$200,000 to HK$250,000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

(a) Independent non-executive directors

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

	2006 HK$'000	2005 HK$'000
CHANG Hsin Kang	**250**	120
Timothy George FRESHWATER	**250**	120
WONG Yue Chim, Richard	**250**	120
WANG Xianzhang	**200**	—
	950	360

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

10. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Employee share option benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
2006						
Executive directors:						
YUEN Tin Fan, Francis	200	208	6,000	—	20	6,428
CHAN Ping Kan, Raymond	—	5,000	4,282	88	500	9,870
* CHEUNG Sum, Sam	—	491	—	195	49	735
SO Wing Hung, Peter	—	3,300	5,701	598	330	9,929
	200	8,999	15,983	881	899	26,962
Non-executive directors:						
Peter Anthony ALLEN	120	—	—	—	—	120
Alexander Anthony ARENA	60	—	—	—	—	60
CHUNG Cho Yee, Mico	120	—	—	—	—	120
FENG Xiaozeng	120	—	—	—	—	120
ZHENG Changyong	120	—	—	—	—	120
	540	—	—	—	—	540
	740	8,999	15,983	881	899	27,502

10. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

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

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

** Mr YANG Chao resigned as a director of the Company with effect from 8 August 2005.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: three) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (2005: two) non-director, highest paid employees for the year were as follows:

	Group	
	2006 **HK$'000**	2005 HK$'000
Salaries, housing allowances and benefits in kind	**2,925**	2,925
Performance related bonuses*	**41,103**	18,108
Employee share option benefits	**466**	1,086
Contributions to retirement benefits schemes	**270**	270
	44,764	22,389

* A provision of HK$41,102,000 (2005: HK$10,458,000) in the form of performance related bonus was accrued during the year for two executives of a subsidiary for their services according to the terms of the contracts.

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

	Number of employees	
	2006	2005
HK$8,500,001 to HK$9,000,000	**—**	1
HK$12,500,001 to HK$13,000,000	**—**	1
HK$17,500,001 to HK$18,000,000	**1**	—
HK$26,000,001 to HK$26,500,000	**1**	—
	2	2

12. 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 a rate of 17.5% (2005: 17.5%) of 5% of net premium (gross premium received less reinsurance premium ceded) of the life insurance business in accordance with Section 23(1)(a) of the Inland Revenue Ordinance rather than on taxable profits.

12. TAX (continued)

	Group 2006 HK$'000	Group 2005 HK$'000
Current taxation:		
Hong Kong profits tax	**25,070**	16,963
Overprovision in prior years	**(2,500)**	—
Deferred (note 31)	**(5,250)**	—
Total tax charge for the year	**17,320**	16,963

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

	2006		2005	
	HK$'000	**%**	HK$'000	%
Profit before tax (including profit from a discontinued operation)	**339,769**		59,527	
Tax at the statutory rate	**59,460**	**17.5**	10,417	17.5
5% of net premium of life insurance business	**17,251**	**5.1**	14,210	23.9
Results of life insurance business and other businesses not taxable at the statutory rate	**(59,391)**	**(17.5)**	(7,602)	(12.8)
Tax charge at the Group's effective rate	**17,320**	**5.1**	17,025	28.6
Tax charge attributable to a discontinued operation (note 13)	**—**	**—**	(62)	(0.1)
Tax charge attributable to continuing operations reported in the consolidated income statement	**17,320**	**5.1**	16,963	28.5

13. DISCONTINUED OPERATION

In June 2002, PCI 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 that focuses 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 2007. As at 31 December 2006, the MPF business was classified as a disposal group held for sale.

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

	2006 HK$'000	2005 HK$'000
INVESTMENT INCOME, NET GAINS AND OTHER INCOME		
Interest income	**1,529**	928
Realised and unrealised gains on financial assets at fair value through profit or loss	**4,656**	1,450
Other income	**261**	221
Total investment income, net gains and other income	**6,446**	2,599
OPERATING EXPENSES		
Policyholders' benefits	**(4,656)**	(1,450)
Agency commission and allowances	**(2)**	(1)
Management expenses	**(1,073)**	(487)
Total operating expenses	**(5,731)**	(1,938)
PROFIT BEFORE TAX FROM THE DISCONTINUED OPERATION	**715**	661
Tax	**—**	(62)
PROFIT FOR THE YEAR FROM THE DISCONTINUED OPERATION	**715**	599

13. DISCONTINUED OPERATION (continued)

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

	2006 HK$'000	2005 HK$'000
ASSETS		
Financial assets at fair value through profit or loss	**18,900**	21,166
Prepayments and other debtors	**15**	258
Time deposits with original maturity of more than three months when acquired	**2,194**	2,102
Cash and cash equivalents	**37,975**	36,247
Assets classified as held for sale	**59,084**	59,773
LIABILITIES		
Claims payable	**(29)**	(52)
Premium deposits	**(6)**	(5)
Accrued expenses and other creditors	**(430)**	(388)
Investment contract liabilities	**(18,899)**	(21,165)
Liabilities directly associated with the assets classified as held for sale	**(19,364)**	(21,610)
Net assets directly associated with the disposal group	**39,720**	38,163

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

	2006 HK$'000	2005 HK$'000
Operating	**1,728**	1,094
Investing	**—**	—
Financing	**—**	—
Net cash inflow	**1,728**	1,094
Earnings per share:		
Basic, from the discontinued operation	**0.088 cents**	0.073 cents
Diluted, from the discontinued operation	**0.087 cents**	0.072 cents

13. DISCONTINUED OPERATION (continued)

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

	2006	2005
Profit attributable to ordinary equity holders from the discontinued operation	**HK$715,000**	HK$599,000
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
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**822,934,000**	832,171,000

14. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of HK$142,030,000 (2005: HK$31,517,000) which has been dealt with in the financial statements of the Company.

15. DIVIDENDS

	2006 HK$'000	2005 HK$'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

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

The calculation of basic earnings per share amounts is based on the 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 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 assumed to have issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2006 **HK$'000**	2005 HK$'000
Earnings		
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
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

17. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2006	Leasehold land and buildings HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2006, net of accumulated depreciation	187,764	4,037	27,586	262	219,649
Additions	—	6,114	36,234	—	42,348
Disposals	(175,530)	(86)	(7,115)	—	(182,731)
Depreciation provided during the year	(3,911)	(2,669)	(10,171)	(91)	(16,842)
Transfer to investment properties (note 19)	(4,286)	—	—	—	(4,286)
At 31 December 2006, net of accumulated depreciation	4,037	7,396	46,534	171	58,138
At 31 December 2006:					
Cost	5,130	34,668	78,277	452	118,527
Accumulated depreciation	(1,093)	(27,272)	(31,743)	(281)	(60,389)
Net carrying amount	4,037	7,396	46,534	171	58,138

31 December 2005	Leasehold land and buildings HK$'000	Computer equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005, net of accumulated depreciation	192,914	4,414	18,204	353	215,885
Additions	—	2,678	17,418	—	20,096
Disposals	—	(80)	(134)	—	(214)
Depreciation provided during the year	(5,150)	(2,975)	(7,902)	(91)	(16,118)
At 31 December 2005, net of accumulated depreciation	187,764	4,037	27,586	262	219,649
At 31 December 2005:					
Cost	226,971	28,146	97,529	452	353,098
Accumulated depreciation	(39,207)	(24,109)	(69,943)	(190)	(133,449)
Net carrying amount	187,764	4,037	27,586	262	219,649
At 1 January 2005:					
Cost	226,971	29,668	82,190	2,263	341,092
Accumulated depreciation	(34,057)	(25,254)	(63,986)	(1,910)	(125,207)
Net carrying amount	192,914	4,414	18,204	353	215,885

17. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Group	
	2006 **HK$'000**	2005 HK$'000
Hong Kong	**—**	216,520
Elsewhere	**5,130**	10,451
	5,130	226,971

18. INTERESTS IN SUBSIDIARIES

	Company	
	2006 **HK$'000**	2005 HK$'000
Unlisted shares, at cost	**388,914**	385,025
Amounts due from subsidiaries	**655,639**	614,417
Amount due to a subsidiary	**(193,230)**	(138,175)
	851,323	861,267
Dividends receivable from a subsidiary	**100,671**	36,784
	951,994	898,051

The amounts due from/to subsidiaries are unsecured, interest-free and are not repayable within the next 12 months except the dividends receivable from a subsidiary is repayable within the next 12 months. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Bright Victory International Limited	British Virgin Islands/ Hong Kong	Ordinary US$7,743,935	100	—	Investment holding
Pacific Century Insurance Company Limited	Bermuda/ Hong Kong	Ordinary US$121,000,000 Redeemable US$9,000,000	—	100	Life assurance, administration of retirement schemes and other related businesses
Pacific Century Trustees Limited	Hong Kong	Ordinary HK$30,000,000	—	100	Provision of trustee services
PCI Investment Management Limited	Hong Kong	Ordinary HK$10,000,000	100	—	Asset management
PCI Capital Limited	British Virgin Islands	Ordinary US$1	—	100	Note issuance
PCI Wealth Management Limited	Hong Kong	Ordinary HK$150,000	—	100	Investment advisor
Shabhala International Limited	British Virgin Islands	Ordinary US$1	—	100	Investment holding

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

19. INVESTMENT PROPERTIES

	2006 HK$'000	2005 HK$'000
Cost:		
As at 1 January	**15,319**	15,319
Transfer from owner-occupied properties (note 17)	**5,321**	—
As at 31 December	**20,640**	15,319
Accumulated depreciation:		
As at 1 January	**(291)**	—
Depreciation provided during the year	**(290)**	(291)
Transfer from owner-occupied properties (note 17)	**(1,035)**	—
As at 31 December	**(1,616)**	(291)
Carrying amount as at 31 December	**19,024**	15,028

The investment properties had a fair value of HK$22,880,000 as at 31 December 2006 (31 December 2005: HK$16,650,000) based on the valuations performed by independent, professionally qualified valuers, based on current market prices in the actual market. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 45(a) to the financial statements.

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

	2006 HK$'000	2005 HK$'000
Long term leases	**11,334**	11,532
Medium term leases	**7,690**	3,496
	19,024	15,028

20. DEFERRED ACQUISITION COSTS

	Group	
	2006 **HK$'000**	2005 HK$'000
Balance as at 1 January	**1,323,893**	1,309,396
Additions	**423,235**	301,243
Less: Amortisation	**(302,350)**	(286,746)
Change in deferred acquisition costs	**120,885**	14,497
Balance as at 31 December	**1,444,778**	1,323,893
Current portion	**(294,464)**	(286,179)
Non-current portion	**1,150,314**	1,037,714

21. FINANCIAL ASSETS

	Notes	Group	
		2006 **HK$'000**	2005 HK$'000
Total financial assets:			
Policy loans	22	**261,730**	241,193
Loans to employees and agents	23	**52,744**	53,718
Held-to-maturity financial assets	24	**137,048**	136,953
Available-for-sale financial assets	25	**4,484,508**	5,980,577
Financial assets at fair value through profit or loss	26	**2,093,256**	481,976
Derivative financial instruments	30	**5,536**	10,167
		7,034,822	6,904,584
Current portion:			
Loans to employees and agents	23	**(3,581)**	(1,522)
Held-to-maturity financial assets	24	**(137,048)**	—
Available-for-sale financial assets	25	**(810,373)**	(2,622,560)
Financial assets at fair value through profit or loss	26	**(2,093,256)**	(481,976)
Derivative financial instruments	30	**(5,536)**	(10,167)
		(3,049,794)	(3,116,225)
Non-current portion		**3,985,028**	3,788,359

22. POLICY LOANS

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

23. LOANS TO EMPLOYEES AND AGENTS

	Group	
	2006 **HK$'000**	2005 HK$'000
Loans to employees and agents	**52,744**	53,718
Current portion	**(3,581)**	(1,522)
Non-current portion	**49,163**	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 are repayable by monthly instalments. The effective interest rates of loans to employees and agents ranged from 6.75% to 12% per annum.

No loans had been provided to directors as at the balance sheet dates of the current and prior years.

24. HELD-TO-MATURITY FINANCIAL ASSETS

	Group	
	2006 **HK$'000**	2005 HK$'000
Held-to-maturity bonds, at amortised cost		
quoted in places other than Hong Kong	**137,048**	136,953
Current portion	**(137,048)**	—
Non-current portion	**—**	136,953
Market value of quoted held-to-maturity bonds as at 31 December	**136,041**	135,949

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

	Group	
	2006 **HK$'000**	2005 HK$'000
Corporate entities	**137,048**	136,953

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006	2005
	HK$'000	HK$'000
Quoted bonds, at market value:		
Hong Kong	**1,035,497**	779,063
Elsewhere	**2,532,253**	1,992,591
	3,567,750	2,771,654
Listed equity investments, at market value:		
Hong Kong	**48,056**	300,587
Elsewhere	**202,172**	1,075,874
	250,228	1,376,461
Unlisted unit trusts, at fair value	**172,696**	409,287
Unlisted mutual funds, at fair value	**387,449**	836,812
Unlisted equity investment, at fair value	**106,385**	78,061
Available-for-sale unlisted exchangeable note, investment element at cost (note (i))	**—**	508,302
Total available-for-sale financial assets	**4,484,508**	5,980,577
Current portion	**(810,373)**	(2,622,560)
Non-current portion	**3,674,135**	3,358,017

Note:

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

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

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

	Group	
	2006 **HK$'000**	2005 HK$'000
Governments	**230,577**	398,890
Banks and other financial institutions	**2,225,113**	1,272,608
Corporate entities	**1,112,060**	1,100,156
Total	**3,567,750**	2,771,654

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

	Group	
	2006 **HK$'000**	2005 HK$'000
With a residual maturity of:		
One year or less	**1,070,246**	267,055
Two years or less but over one year	**806,613**	306,038
Three years or less but over two years	**275,848**	462,716
Four years or less but over three years	**151,301**	236,215
Five years or less but over four years	**125,700**	188,428
Over five years	**1,138,042**	1,311,202
Quoted bonds	**3,567,750**	2,771,654

The effective interest rates of quoted bonds ranged from 2.21% to 8.63% per annum and 94.1% of the bonds held by the Group were investment grade bonds.

During the year, the gross gain of the Group's available-for-sale financial assets recognised directly in equity amounted to HK$176,242,000 (2005: HK$228,918,000). Realised gain of HK$256,753,000 (2005: HK$41,408,000) and impairment losses of HK$7,870,000 (2005: Nil) were removed from equity during the year and recognised in the income statement for the year, with the remaining unrealised gain reserve at balance sheet date being HK$114,869,000 (2005: HK$187,510,000).

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.

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

The fair values of quoted bonds, unlisted unit trusts, unlisted mutual funds and listed equity investments are based on quoted market prices. The fair value of an unlisted available-for-sale equity investment has been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The directors believe that the estimated fair value resulting from the valuation technique, which is recorded in the consolidated balance sheet, and the related change in fair value, which is recorded in the consolidated statement of changes in equity, are reasonable, and that such estimated fair value was the most appropriate value at the balance sheet date.

Management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model for an unlisted equity investment and has quantified the effects of a reduction in fair value of approximately HK$25,943,000, using less favourable assumptions, and an increase in fair value of approximately HK$25,943,000, using more favourable assumptions.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006 **HK$'000**	2005 HK$'000
Unlisted unit trusts, at fair value	**1,211,664**	481,976
Listed equity investments, at market value:		
Hong Kong	**121,452**	—
Elsewhere	**112,765**	—
	234,217	—
Unlisted mutual funds, at fair value	**647,375**	—
Total	**2,093,256**	481,976

The above investments as at 31 December 2006 and 2005 were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss, with a view to profiting from their total return in the form of interest or dividend and changes in fair value in accordance with the Group's investment strategy.

27. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Deposits	**174,470**	25,392	**—**	—
Prepayments	**128,486**	120,403	**370**	370
Other debtors	**99,960**	64,367	**—**	—
	402,916	210,162	**370**	370

At 31 December 2006, included in deposits of HK$174,470,000 of which HK$147,230,000 is the deposit for the purchase of certain land and buildings as detailed in note 48 to the financial statements.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Cash and bank balances	**559,083**	1,141,884	**200**	35
Time deposits	**1,969,539**	231,551	**—**	—
	2,528,622	1,373,435	**200**	35
Less: Pledged deposits:				
Time deposits pledged for a bank guarantee	**(10,000)**	—	**—**	—
Cash and bank balances pledged for a cross currency swap agreement (note 30)	**(24,513)**	(15,751)	**—**	—
	(34,513)	(15,751)	**—**	—
Cash and cash equivalents	**2,494,109**	1,357,684	**200**	35

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

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

	Group		Company	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
With a residual maturity of:				
Three months or less	**1,959,539**	231,551	**—**	—
Five years or less but over two years	**10,000**	—	**—**	—
	1,969,539	231,551	**—**	—

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 deposits approximate to their fair values.

As at 31 December 2006, a HK$10,000,000 deposit was pledged to a bank for the bank guarantee given in respect of a rental deposit for a tenancy agreement entered by the Group. The tenancy agreement will expire on 31 July 2011.

29. 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 claim practices and procedures, to ensure that they meet the highest industry standards.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) CREDIT RISK

Investment securities

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

It is the Group's investment policy to invest in investment grade bonds to limit exposure to credit risk. The Group allows a maximum of 5% of invested assets to be invested in non-investment grade bonds. As at 31 December 2006, the amount of the non-investment grade bonds held by the Group was approximately 2.29% of its invested assets.

Premium receivables

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

(d) INTEREST RATE RISK

Interest rate risk is the risk that the value or the 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 the 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.

(e) CURRENCY RISK

It is the Group's policy to match its assets and liabilities by currency to minimise its exposure to currency risk. The Group sells policies denominated in Hong Kong dollars and United States dollars and its assets are appropriately invested to meet these liabilities. As at the balance sheet date, the Group had 2.7% of its investments denominated in foreign currency equities (other than those 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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(f) 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 risk by setting and monitoring objectives and constraints on investments and diversification plans, and to limit the investment in each country, sector and market.

The Group has actively refined its investment model through the use of the Value at Risk (VaR) technique to measure portfolio risks and performance. As at the balance sheet date, the value at risk on its equity portfolio, being measured at 95% confidence level for a monthly time span, was 6.0% of the equity portfolio size. The similar value at risk on its hedge fund portfolio was 3.2% of the hedge fund portfolio size.

(g) 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 changes in price are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. These risks have been discussed in the aforesaid sections.

(h) 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 to repay contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

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

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

The table below analyses certain assets and liabilities of the Group as at 31 December 2006 into their relevant maturity groups based on their remaining periods at the balance sheet date to their contractual maturities.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(h) LIQUIDITY RISK (continued)

As at 31 December 2006

	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
Reinsurance assets	1,918	—	—	—	—	—	—	1,918
Prepayments, deposits and other debtors	402,916	—	—	—	—	—	—	402,916
Financial assets:								
Derivative financial instruments	—	1,046	341	400	—	3,749	—	5,536
Held-to-maturity financial assets	137,048	—	—	—	—	—	—	137,048
Financial assets at fair value through profit or loss	1,288,705	—	—	—	—	—	804,551	2,093,256
Available-for-sale financial assets – other than bonds	810,373	—	—	—	—	106,385	—	916,758
Available-for-sale financial assets – bonds	1,070,246	806,613	275,848	151,301	125,700	1,138,042	—	3,567,750
Loans to employees and agents	3,581	4,633	946	1,524	10,883	31,177	—	52,744
Pledged deposits	—	—	—	—	10,000	24,513	—	34,513
Cash and cash equivalents	2,493,349	—	—	—	—	—	760	2,494,109
Assets of a disposal group classified as held for sale	59,084	—	—	—	—	—	—	59,084
	6,267,220	812,292	277,135	153,225	146,583	1,303,866	805,311	9,765,632
Insurance contract liabilities	324,273	2,337	3,600	3,842	4,966	5,317,126	148,026	5,804,170
Tax payable	17,718	—	—	—	—	—	—	17,718
Derivative financial instrument	—	—	—	—	—	31,811	—	31,811
Investment contract liabilities	774	—	110,415	6,671	—	68,891	620,625	807,376
Interest-bearing loans	—	—	—	—	—	770,979	—	770,979
Payable to policyholders	143,600	—	—	—	—	—	—	143,600
Accrued expenses and other creditors	367,303	—	—	—	—	—	—	367,303
Liabilities directly associated with the assets classified as held for sale	19,364	—	—	—	—	—	—	19,364
	873,032	2,337	114,015	10,513	4,966	6,188,807	768,651	7,962,321

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(h) LIQUIDITY RISK (continued)

As at 31 December 2005

	1 year or less HK$'000	2 years or less but > 1 year HK$'000	3 years or less but > 2 years HK$'000	4 years or less but > 3 years HK$'000	5 years or less but > 4 years HK$'000	> 5 years HK$'000	Unit-linked HK$'000	Total HK$'000
Tax recoverable	1,009	—	—	—	—	—	—	1,009
Reinsurance assets	1,954	—	—	—	—	—	—	1,954
Prepayments, deposits 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
Financial 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 deposits	—	—	—	—	—	15,751	—	15,751
Cash and cash equivalents	1,351,475	—	—	—	—	—	6,209	1,357,684
Assets of a disposal group classified as held for sale	59,773	—	—	—	—	—	—	59,773
	4,601,462	445,881	469,401	237,444	192,226	1,961,097	402,213	8,309,724
Insurance contract liabilities	319,160	1,359	1,838	3,460	3,618	4,603,996	117,450	5,050,881
Tax payable	8,988	—	—	—	—	—	—	8,988
Derivative financial instrument	—	—	—	—	—	3,313	—	3,313
Investment contract liabilities	—	—	—	113,107	6,691	144,591	282,413	546,802
Interest-bearing loans	—	—	—	—	—	768,140	—	768,140
Payable to policyholders	147,520	—	—	—	—	—	—	147,520
Accrued expenses and other creditors	262,497	—	—	—	—	—	—	262,497
Liabilities directly associated with the assets classified as held for sale	21,610	—	—	—	—	—	—	21,610
	759,775	1,359	1,838	116,567	10,309	5,520,040	399,863	6,809,751

30. DERIVATIVE FINANCIAL INSTRUMENTS

	Note	Group 2006 HK$'000	Group 2005 HK$'000
Options embedded in convertible bonds		**1,315**	4,223
Options embedded in callable bonds		**4,221**	5,944
Unlisted cross currency swap agreement, at fair value (note (i))		**(31,811)**	(3,313)
		(26,275)	6,854
Portion classified as non-current financial liabilities			
– cross currency swap agreement		**31,811**	3,313
Current portion of derivative financial assets	21	**5,536**	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 31 December 2006, the Group pledged US$3,153,000 (2005: US$2,032,000) (equivalent to HK$24,513,000 (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, options embedded in convertible bonds and callable bonds are the same as their fair values.

CROSS CURRENCY SWAP AGREEMENT – CASH FLOW HEDGE

As at 31 December 2006, the Group held a cross currency swap agreement designated as a hedge against expected future foreign currency fluctuations related to the repayment of its interest-bearing loan of US$100 million with maturity at 17 December 2014. The terms of the cross currency swap agreement is as follows:

Buy	Maturity	Exchange rate
US$	17 December 2014	7.777

The terms of the cross currency swap agreement have been negotiated to match the terms of the interest-bearing loan. The cash flow hedge of the expected future foreign currency fluctuations related to the repayment of the interest-bearing loan was assessed to be highly effective and a net loss of HK$30,551,000 (2005: HK$937,000) was included in the hedging reserve.

31. DEFERRED TAX ASSET

	Group: Accrued bonus available for offsetting against future taxable profit 2006 HK$'000	2005 HK$'000
At 1 January	—	—
Deferred tax credited to the income statement during the year (note 12)	**5,250**	—
At 31 December	**5,250**	—

The Group has tax losses arising in Hong Kong of HK$34,221,000 (2005: HK$33,651,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at 31 December 2006, there were no significant unrecognised deferred tax liabilities (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group had no liability to additional tax should such amounts be remitted.

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

32. PAYABLE TO POLICYHOLDERS

	Notes	Group 2006 HK$'000	2005 HK$'000
Claims payable	33	**68,646**	64,985
Premium deposits	34	**73,559**	80,288
Other payables		**1,395**	2,247
		143,600	147,520

Claims incurred but not reported amounted to HK$23,893,000 as at 31 December 2006 (2005: HK$21,097,000) and is included in claims payable.

The carrying amounts disclosed above reasonably approximate their fair values at the balance sheet date.

33. CLAIMS PAYABLE

The movement of the provision for claims reported by policyholders and claims incurred but not reported is analysed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
As at 1 January	**64,985**	69,936
Provided during the year	**255,365**	234,532
Utilised during the year	**(251,781)**	(239,384)
Exchange realignment	**77**	(99)
As at 31 December	**68,646**	64,985

34. PREMIUM DEPOSITS

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

	Group	
	2006	2005
	HK$'000	HK$'000
As at 1 January	**80,288**	88,356
From a discontinued operation as at 1 January	**—**	(101)
Received during the year	**790,350**	593,156
Utilised during the year	**(796,721)**	(598,921)
Exchange realignment	**58**	(74)
Written back during the year	**(416)**	(2,128)
As at 31 December	**73,559**	80,288

35. ACCRUED EXPENSES AND OTHER CREDITORS

	Group	
	2006	2005
	HK$'000	HK$'000
Commission payable	**102,985**	87,366
Due to related companies	**7,950**	6,214
Other payables and accruals	**256,368**	168,917
	367,303	262,497

The amounts due to related companies arose from the ordinary and normal course of business with terms similar to those offered to other customers of the Group. The carrying amounts disclosed above reasonably approximate to their fair values at the balance sheet date.

36. INTEREST-BEARING LOANS

On 17 December 2004, an indirect wholly-owned subsidiary of the Company, PCI Capital Limited ("PCI Capital"), issued, in an aggregate principal amount of US$100 million (approximately HK$780 million), certain guarantee bonds with a coupon rate of 5.875% (the "Bonds") due 17 December 2014 to independent third party investors, whereby 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 those of Bermuda, PCI's guarantee is effectively junior to the liabilities of its long term businesses, to the extent of the assets maintained by PCI in respect of its long term businesses. 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. The amortisation value of the interest-bearing loan is HK$770,979,000 as at 31 December 2006 (2005: HK$768,140,000).

37. INVESTMENT CONTRACT LIABILITIES

Movements in investment contract liabilities are as follows:

	Group	
	2006 **HK$'000**	2005 HK$'000
As at 1 January	**546,802**	482,225
From a discontinued operation at 1 January	**—**	(27,719)
Deposits	**339,596**	173,693
Withdrawals	**(177,465)**	(104,026)
Charges	**(10,316)**	(5,871)
Interest credited	**104,193**	29,233
Exchange realignment	**4,566**	(733)
As at 31 December	**807,376**	546,802

38. INSURANCE CONTRACT LIABILITIES

Insurance contract liabilities compose of liabilities for guaranteed benefits, liabilities for coinsurance payments and provision for policyholder dividends earned. Liabilities for guaranteed benefits take into account future guaranteed benefit payments and premium receipts. Liabilities for coinsurance payments are set aside to fund future payments on coinsurance arrangements. The provision for dividends represents half of the expected annual policyholder dividends payable in 2007 as this is considered to have been earned in 2006. The dividend policy is at the discretion of the Company's board. During 2006, the Group paid out total annual dividends of HK$86.6 million (2005: HK$77.3 million).

	Group	
	2006 **HK$'000**	2005 HK$'000
Liabilities for guaranteed benefits	**5,629,565**	4,873,653
Liabilities for coinsurance payments	**124,869**	132,891
Provision for annual dividends	**49,736**	44,337
Insurance contract liabilities	**5,804,170**	5,050,881
Unexpired reinsurance risks	**(1,918)**	(1,954)
Net liabilities	**5,802,252**	5,048,927

Group

	2006				2005			
	Insurance contract liabilities HK$'000	**Coinsurance liabilities HK$'000**	**Reinsurers' share of liabilities HK$'000**	**Net liabilities HK$'000**	Insurance contract liabilities HK$'000	Coinsurance liabilities HK$'000	Reinsurers' share of liabilities HK$'000	Net liabilities HK$'000
Unit-linked	**148,026**	**—**	**(28)**	**147,998**	117,450	—	(31)	117,419
With fixed and guaranteed terms	**5,531,275**	**124,869**	**(1,890)**	**5,654,254**	4,800,540	132,891	(1,923)	4,931,508
Total	**5,679,301**	**124,869**	**(1,918)**	**5,802,252**	4,917,990	132,891	(1,954)	5,048,927

38. INSURANCE CONTRACT LIABILITIES (continued)

Movements in insurance contract liabilities are as follows:

Group

	2006				2005			
	Insurance contract liabilities HK$'000	Coinsurance liabilities HK$'000	Reinsurers' share of liabilities HK$'000	Net liabilities HK$'000	Insurance contract liabilities HK$'000	Coinsurance liabilities HK$'000	Reinsurers' share of liabilities HK$'000	Net liabilities HK$'000
As at 1 January	**4,917,990**	**132,891**	**(1,954)**	**5,048,927**	4,247,872	159,478	(1,959)	4,405,391
Premiums received	**1,388,371**	**(82,850)**	**(57,749)**	**1,247,772**	1,259,558	(99,049)	(55,758)	1,104,751
Payments for death, surrender and maturity claims	**(628,355)**	**34,221**	**28,830**	**(565,304)**	(508,947)	32,890	12,751	(463,306)
Benefit and claim experience variations	**(282,041)**	**—**	**28,961**	**(253,080)**	(300,420)	—	43,006	(257,414)
Investment income variations	**(295,928)**	**—**	**—**	**(295,928)**	61,121	—	—	61,121
Investment income and changes in unit price	**570,455**	**9,070**	**—**	**579,525**	168,059	10,467	—	178,526
Financing cost for coinsurance	**—**	**31,537**	**—**	**31,537**	—	29,105	—	29,105
Change in assumption	**—**	**—**	**—**	**—**	—	—	—	—
Exchange realignment	**8,809**	**—**	**(6)**	**8,803**	(9,253)	—	6	(9,247)
As at 31 December	**5,679,301**	**124,869**	**(1,918)**	**5,802,252**	4,917,990	132,891	(1,954)	5,048,927

LIFE INSURANCE CONTRACT LIABILITIES– ASSUMPTIONS AND SENSITIVITIES

(a) Key assumptions

Liabilities on insurance contracts offered by the Group are predominantly liabilities from 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 and 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 the 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 the net level premium reserve, with cash value floor plus an adjustment to remove future valuation strain.

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

38. INSURANCE CONTRACT LIABILITIES (continued)

(a) Key assumptions (continued)

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

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

2002	8.03%
2003	9.91%
2004	7.09%
2005	6.62%
2006	8.81%

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

2002	92%
2003	65%
2004	58%
2005	51%
2006	61%

(b) Sensitivities

2006

	Assumption change	**Impact on gross liabilities HK$'000**	**Impact on net liabilities HK$'000**	**Impact on profit before tax HK$'000**	**Impact on equity HK$'000**
Mortality/morbidity	**+10%**	**87,591**	**87,591**	**(87,591)**	**(87,591)**
Investment return	**-0.5%**	**296,459**	**296,459**	**(296,459)**	**(296,459)**

2005

	Assumption change	Impact on gross liabilities HK$'000	Impact on net liabilities HK$'000	Impact on profit before tax HK$'000	Impact on equity HK$'000
Mortality/morbidity	+10%	70,006	70,006	(70,006)	(70,006)
Investment return	-0.5%	213,337	213,337	(213,337)	(213,337)

39. POLICYHOLDERS' DIVIDENDS AND BONUSES

	Group	
	2006	2005
	HK$'000	HK$'000
As at 1 January	**771,653**	668,302
Provided during the year	**269,816**	202,718
Utilised during the year	**(128,569)**	(97,389)
Exchange realignment	**1,589**	(1,978)
As at 31 December	**914,489**	771,653

40. SHARE CAPITAL

	Company			
	2006		2005	
	Number of shares	**Nominal value**	Number of shares	Nominal value
		HK$'000		HK$'000
Authorised: Ordinary shares of HK$1.00 each	**3,000,000,000**	**3,000,000**	3,000,000,000	3,000,000
Issued and fully paid: Ordinary shares of HK$1.00 each	**814,619,320**	**814,619**	818,106,000	818,106

During the year, 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 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 repurchases 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, as disclosed in the consolidated statement of changes in equity and in note 42(b) to the financial statements.

(b) The subscription rights attaching to 14,801,320 share options were exercised at the subscription prices of HK$2.05, HK$2.825, HK$4.187 and HK$4.448 per share (note 41), resulting in the issue of 14,801,320 shares of HK$1.00 each for a total cash consideration, before expenses, of HK$30,694,000, together with a release of the share option reserve amounting to HK$7,448,000, which is credited to the share premium account.

40. SHARE CAPITAL (continued)

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

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
As at 1 January 2005	820,938,000	820,938	23,452	844,390
Shares repurchased and cancelled	(5,862,000)	(5,862)	(12,092)	(17,954)
Share options exercised	3,030,000	3,030	3,182	6,212
	818,106,000	818,106	14,542	832,648
Share repurchase expenses	—	—	(80)	(80)
As at 31 December 2005	818,106,000	818,106	14,462	832,568
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)	**14,801,320**	**14,801**	**23,341**	**38,142**
	814,619,320	**814,619**	**20,484**	**835,103**
Share repurchase expenses (a)	**—**	**—**	**(282)**	**(282)**
As at 31 December 2006	**814,619,320**	**814,619**	**20,202**	**834,821**

SHARE OPTIONS

Details of the Company's share option schemes and the share options issued under the schemes, are included in note 41 to the financial statements.

41. SHARE OPTION SCHEMES

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

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

Eligible participants of the share option scheme adopted on 6 May 2002 (the "New Scheme") include (a) any employee or executive director of the Group; (b) any advisor or consultant to the Group (including any executive or employee of this advisor or consultant); and (c) any agent who has agreed by a contract in writing to render full-time and exclusive services to the Group. The New Scheme was adopted on 6 May 2002, and unless otherwise cancelled or amended, will be valid and effective for a period of 10 years commencing from that date. During the year, a total of 120,000 share options were granted under the New Scheme.

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

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

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

41. SHARE OPTION SCHEMES (continued)

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

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

As at 31 December 2006, the Company had 39,432,582 (2005: 61,021,268) outstanding share options. Details of the share options outstanding during the year ended 31 December 2006 were as follows:

(I) DIRECTORS

	Number of share options											Price of Company's shares		
Name of director	As at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	Forfeited during the year	As at 31 December 2006	Date of grant of share options	Vesting period##	Exercise period of share options	Exercise price of share options* HK$ per share	As at grant date of options# HK$ per share	Immediately before the exercise date# HK$ per share	At exercise date of options HK$ per share
YUEN Tin Fan, Francis	15,552,000	–	–	–	(3,888,000)	–	11,664,000	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	–	–	–	(120,000)	–	360,000	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	–	4.00	4.05
CHUNG Cho Yee, Mico	1,824,000	–	–	–	(456,000)	–	1,368,000	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	–	(4,000,000)	–	(4,464,000)	–	26,192,000							

41. SHARE OPTION SCHEMES (continued)

(II) OTHER EMPLOYEES

	Number of share options											Price of Company's shares		
	As at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	Forfeited during the year	As at 31 December 2006	Date of grant of share options	Vesting period##	Exercise period of share options	Exercise price of share options*	As at grant date of options #	Immediately before the exercise date #	At exercise date of options
											HK$ per share	HK$ per share	HK$ per share	HK$ per share
In aggregate	410,400	–	–	–	(257,040)	–	153,360	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	–	–	–
	220,320	–	–	(103,680)	(38,880)	–	77,760	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	–	–	–
	4,400,000	–	(2,280,000)	(280,000)	–	–	1,840,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	–	3.55	3.56
	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	–	(240,000)	–	–	–	840,000	4 October 2004	4 October 2005 to 4 October 2007	4 October 2005 to 3 October 2012	2.825	–	4.10	4.11
	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	(2,520,000)	(383,680)	(295,920)	–	5,881,120							

(III) OTHERS (AGENTS)

	As at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Expired during the year	Forfeited during the year	As at 31 December 2006	Date of grant of share options	Vesting period##	Exercise period of share options	Exercise price of share options*	As at grant date of options #	Immediately before the exercise date #	At exercise date of options
In aggregate	2,069,916	–	(72,000)	(89,160)	(940,158)	–	968,598	7 July 1999	7 July 2000 to 7 July 2002	7 July 2000 to 6 July 2007	4.187	–	4.61	4.60
	2,222,592	–	(4,320)	(40,320)	(632,568)	–	1,545,384	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	4.448	–	4.65	4.60
	62,040	–	–	(1,680)	(59,880)	–	480	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	–	–	–
	10,850,000	–	(8,205,000)	–	–	–	2,645,000	29 August 2003	29 August 2004 to 29 August 2006	29 August 2004 to 28 August 2011	2.05	–	3.88	3.89
	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	–	(8,281,320)	(131,160)	(1,632,606)	–	7,359,462							
Total	61,021,268	120,000	(14,801,320)	(514,840)	(6,392,526)	–	39,432,582							

41. SHARE OPTION SCHEMES (continued)

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

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

** 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 grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of 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.

\## The vesting period of the share options is from the date of grant until the commencement of the exercise period.

No share option was cancelled during the year ended 31 December 2006.

The fair value of the share options granted during the year was HK$150,000 (2005: HK$4,706,000) of which the Group recognised a share option expense of HK$66,000 (2005: HK$2,326,000) during the year ended 31 December 2006.

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 year ended 31 December 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.

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

The 14,801,320 share options exercised during the year resulted in the issue of 14,801,320 ordinary shares of the Company and new share capital of HK$14,801,000 and share premium of HK$23,341,000 (before issue expenses), as detailed in note 40 to the financial statements.

41. SHARE OPTION SCHEMES (continued)

At the balance sheet date, the Company had 39,432,582 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 39,432,582 additional ordinary shares of the Company and additional share capital of HK$39,433,000 and share premium of approximately HK$97,555,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 38,424,998 share options outstanding under the New Scheme and the Old Share Option Scheme, which represented approximately 4.71% of the Company's shares in issue as at that date.

42. RESERVES

(a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 46 to 47 of the financial statements.

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

The Group eliminated goodwill against reserves in respect of acquisitions which occurred prior to 1 January 2001. The amount of goodwill remaining eliminated against consolidated retained profits, arising from the acquisition of a subsidiary prior to 1 January 2001, was HK$56,586,000 as at 1 January and 31 December 2006. The goodwill is stated at cost.

42. RESERVES (continued)

(b) COMPANY

	Notes	Share premium account HK$'000	Contributed surplus (note (i)) HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2005		23,452	7,392	10,150	13,428	54,422
Issue of shares	40	3,182	—	—	—	3,182
Shares repurchased and cancelled	40	(12,092)	—	—	—	(12,092)
Share repurchase expenses	40	(80)	—	—	—	(80)
Equity-settled share option arrangements		—	—	8,951	—	8,951
Profit for the year		—	—	—	31,517	31,517
Interim 2005 dividend	15	—	—	—	(8,213)	(8,213)
Proposed final 2005 dividend	15	—	—	—	(32,724)	(32,724)
At 31 December 2005		14,462	7,392	19,101	4,008	44,963
Balance at 1 January 2006		**14,462**	**7,392**	**19,101**	**4,008**	**44,963**
Issue of shares	40	**23,341**	**—**	**(7,448)**	**—**	**15,893**
Shares repurchased and cancelled	40	**(17,319)**	**—**	**—**	**(29,719)**	**(47,038)**
Share repurchase expenses	40	**(282)**	**—**	**—**	**—**	**(282)**
Equity-settled share option arrangements		**—**	**—**	**3,888**	**—**	**3,888**
Profit for the year		**—**	**—**	**—**	**142,030**	**142,030**
Interim 2006 dividend	15	**—**	**—**	**—**	**(24,348)**	**(24,348)**
At 31 December 2006		**20,202**	**7,392**	**15,541**	**91,971**	**135,106**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy of "Employee benefits" for "share-based payment transactions" in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related option expire or be forfeited.

Notes:

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

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

As at 31 December 2006, the Company had distributable reserves amounting to HK$99,363,000 (2005: HK$11,400,000).

43. CONTINGENT LIABILITIES

As at 31 December 2006, the Group and the Company had no material contingent liabilities other than as set out in note 44 and contingencies arising from the ordinary course of the Group's long term insurance business (2005: Nil).

44. 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 settlement 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 aforesaid 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.

45. OPERATING LEASE ARRANGEMENTS

(a) AS LESSOR

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

As at 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006 **HK$'000**	2005 HK$'000
Within one year	**1,308**	1,239
In the second to fifth years, inclusive	**743**	1,806
	2,051	3,045

45. OPERATING LEASE ARRANGEMENTS (continued)

(b) AS LESSEE

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

As at 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006 **HK$'000**	2005 HK$'000
Within one year	**53,631**	46,390
In the second to fifth years, inclusive	**134,909**	165,158
After five years	**—**	19,670
	188,540	231,218

46. COMMITMENTS

In addition to the operating lease commitments detailed in note 45(b) above, the Group and the Company had the following commitments as at the balance sheet date:

		Group and Company	
	Note	**2006** **HK$'000**	2005 HK$'000
Contracted, but not provided for, in respect of the purchase of:			
Investment property	48	**1,325,065**	—
Computer equipment		**8,272**	217
Furniture, fixture and equipment		**21,798**	802
		1,355,135	1,019
Authorised, but not contracted for, in respect of the purchase of:			
Computer equipment		**15,806**	36,677
Furniture, fixture and equipment		**18,800**	—
		34,606	36,677
		1,389,741	37,696

47. RELATED PARTY TRANSACTIONS

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

	Notes	Group	
		2006 **HK$'000**	2005 HK$'000
Premium income in respect of group life and medical policies issued to:	(i)		
Pacific Century Asset Management (HK) Limited (trading as "Pacific Century Group")		**1,672**	1,784
PCCW Services Limited		**7,351**	2,909
		9,023	4,693
General insurance business income received from The Ming An Insurance Company (Hong Kong), Limited	(ii)	**6,505**	6,471
Sponsor of live concert shows Music Nation Productions Company Limited	(iii)	**320**	800

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 Pacific Century Regional Developments Limited. In the opinion of the directors (including the independent non-executive directors), the group life and medical policies for these related companies are negotiated and conducted on terms and conditions similar to those offered to other customers of the Group, in the ordinary and usual course of business of the Group and on terms that are fair and reasonable so far as the shareholders of the Company are concerned. The total amount of premium income derived therefrom did not exceed 2% of the total turnover of the Group for the year ended 31 December 2006. The Group has no amount due from these companies as at 31 December 2006 (2005: Nil).

(ii) Pursuant to an agency agreement dated 1 November 1994 and subsequently replaced by an agency agreement effective on 1 January 2001 (the "Agency Agreement"), 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 to 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 the agreement 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$4,452,000 (2005: HK$3,823,000) as at 31 December 2006 which is unsecured, interest-free and has a credit term of 90 days according to the Agency Agreement.

(iii) During 2006, the Group entered into agreements with Music Nation Productions Company Limited ("Music Nation") to sponsor the live show of the Phantom of the Opera and the concerts of Ms KWAN Shui Yi, Shirley. While in 2005, PCI entered into an agreement with Music Nation to act as the sole and exclusive title-sponsor of all live concert shows performed by Mr TAM Wing Lun, Alan. Music Nation is a private company owned by Mr LI Tzar Kai, Richard, a substantial shareholder of the Company. In the opinion of the directors (including the independent non-executive directors), the abovementioned transactions were in the ordinary and usual course of business.

47. RELATED PARTY TRANSACTIONS (continued)

(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 are repayable on a monthly instalment basis. Details of these loans are included in note 23 to the financial statements.

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

	2006 HK$'000	2005 HK$'000
Short term employee benefits*	**75,200**	36,485
Post-employment benefits	**1,376**	1,630
Share-based payments	**1,386**	3,703
Total compensation paid to key management personnel	**77,962**	41,818

* A provision of HK$41,102,000 (2005: HK$10,458,000) in the form of performance related bonus was accrued during the year for two executives of a subsidiary for their services according to the terms of the contracts.

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

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

48. 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 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 the related shareholder's loans to HKL (King's Road) Limited and Foundasia (HK) Limited, at 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 with the remaining balance of HK$1,325,065,000 being settled.

(ii) The litigation against PCI and certain insurance agents was settled on 16 February 2007 and details are disclosed in note 44 to the financial statements.

49. COMPARATIVE AMOUNTS

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

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 February 2007.