THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Offer, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in Pacific Century Insurance Holdings Limited, you should at once hand this Composite Document and the accompanying form of acceptance and transfer of the Shares to the purchaser(s) or transferee(s) or to a licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This document should be read in conjunction with the Forms of Acceptance, the contents of which form part of the terms of the Offer.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this Composite Document and the accompanying Forms of Acceptance, makes no representation as to their accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Forms of Acceptance.

FORTIS INSURANCE INTERNATIONAL N.V.

(incorporated in The Netherlands with limited liability)

PACIFIC CENTURY INSURANCE HOLDINGS LIMITED

(盈科保險集團有限公司)*

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

(Stock Code: 65)

COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO A MANDATORY UNCONDITIONAL CASH OFFER BY MORGAN STANLEY ASIA LIMITED FOR AND ON BEHALF OF FORTIS INSURANCE INTERNATIONAL N.V. TO ACQUIRE ALL THE ISSUED SHARES IN PACIFIC CENTURY INSURANCE HOLDINGS LIMITED (OTHER THAN SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY FORTIS INSURANCE INTERNATIONAL N.V. AND PARTIES ACTING IN CONCERT WITH IT) AND TO CANCEL ALL OUTSTANDING OPTIONS

Financial Adviser to Fortis Insurance International N.V.

Morgan Stanley

Independent Financial Adviser to the Independent Board Committee of Pacific Century Insurance Holdings Limited

DBS

A letter from Morgan Stanley containing, amongst other things, the details of the terms of the Offer is set out on pages 7 to 16 of this Composite Document.

A letter from the Board is set out on pages 17 to 22 of this Composite Document.

A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders and the Option Holders is set out on pages 23 to 24 of this Composite Document. A letter from DBS, containing its opinion on the Offer and its advice to the Independent Board Committee, the Independent Shareholders and the Option Holders is set out on pages 25 to 51 of this Composite Document.

The procedures for acceptance and other related information are set out in Appendix I to this Composite Document and in the accompanying Forms of Acceptance. Acceptances should be received by no later than 4:00 p.m. on Monday, 11 June 2007 (or such other time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code).

* *for identification purpose only*

21 May 2007

CONTENTS

Accompanying documents:

- WHITE FORM OF ACCEPTANCE (as appropriate)
- YELLOW FORM OF ACCEPTANCE (as appropriate)

The expected timetable is indicative only and is subject to change. Further announcement(s) will be published in newspapers if there is any change to the following expected timetable.

Despatch date of this Composite Document and the commencement of the Offer *(Note 1)*	Monday, 21 May 2007
Latest time and date for acceptance of the Offer	4:00 p.m. on Monday, 11 June 2007
Closing date *(Note 2)*	Monday, 11 June 2007
Announcement of the results of the Offer, or as to whether the Offer has been revised or extended, on the website of the Stock Exchange	7:00 p.m. on Monday, 11 June 2007
Announcement of the result of the Offer, or as to whether the Offer has been revised or extended, published in newspapers	Tuesday, 12 June 2007
Latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances received under the Offer *(Note 3)*	Thursday, 21 June 2007

Notes:

1. The Offer is made on Monday, 21 May 2007, namely the date of posting of this Composite Document, and is capable of acceptance on and from that date until the close of the Offer Period.

2. The Offer, which is unconditional, will close on Monday, 11 June 2007 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. Acceptances tendered after 4:00 p.m. on Monday, 11 June 2007 will only be valid if the Offer is revised or extended before 7:00 p.m. on Monday, 11 June 2007. The Offeror reserves the right to extend the Offer. If the Offeror decides to extend the Offer, an announcement will be made stating the next closing day or that the Offer will remain open until further notice, in which case at least 14 days' notice in writing will be given, to those Shareholders and Option Holders who have not yet accepted the Offer before the Offer is closed.

3. Remittances in respect of consideration payable for the Shares tendered or Outstanding Options cancelled under the Offer will be despatched by ordinary post to the relevant Shareholders or Option Holders, in the case of joint Shareholders to the Shareholder whose name stands first in the register of members of the Company, at their respective addresses as they appear on the register of members or register of Option Holders of the Company (as applicable) as soon as possible but in any event within 10 days of the date of the receipt by the Registrar or the Company (as applicable) of all valid requisite documents from Shareholders or Option Holders accepting the Offer.

All time references contained in this Composite Document are to Hong Kong time.

In this Composite Document, unless the context otherwise requires, the following expressions have the following meanings:

"Amendment Agreement"	means the amendment agreement dated 15 May 2007 entered into between the Offeror, PCRD and Mr. YUEN Tin Fan, Francis, pursuant to which the parties agreed, among other things, to reduce the number of Sale Shares sold under the Share Purchase Agreement from 431,110,742 to 430,850,742 Sale Shares;
"Announcement"	means the announcement dated 1 March 2007 issued jointly by the Offeror and the Company in relation to, among other things, the entering into of the Share Purchase Agreement and the Offer;
"Bermuda Companies Act"	means The Companies Act 1981 of Bermuda (as amended from time to time);
"Board"	means the board of Directors;
"CCASS"	means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;
"Company"	means Pacific Century Insurance Holdings Limited, an exempted company incorporated in Bermuda with limited liability whose Shares are listed on the Stock Exchange;
"Completion"	means completion of the Share Purchase Agreement;
"Composite Document"	means this composite offer and response document dated 21 May 2007 issued jointly by the Offeror and the Company in connection with the Offer;
"DBS"	DBS Asia Capital Limited, the independent financial adviser to the Independent Board Committee in respect of the Offer and a licensed corporation under the SFO, licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance);
"Directors"	means the directors of the Company;

"Disinterested Shares"	means all the issued and to be issued Shares (including any Shares that may fall to be issued under any Outstanding Option prior to the closing of the Offer Period) other than those which are owned or agreed to be acquired by the Offeror or persons acting in concert with it as at the date of this Composite Document;
"Executive"	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
"Forms of Acceptance"	means the **WHITE** form of acceptance and transfer of the Shares and the **YELLOW** form of acceptance and cancellation of the Outstanding Options in respect of the Offer which accompanies this Composite Document;
"Fortis"	means Fortis SA/NV, a company incorporated in Belgium and Fortis N.V., a company incorporated in The Netherlands, and their respective subsidiaries;
"Group"	means the Company and its subsidiaries;
"HK$"	means Hong Kong dollar(s), the lawful currency of Hong Kong;
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	means the independent committee of the board of the Company, comprising Mr. Tim FRESHWATER, Prof. CHANG Hsin Kang, Mr. WANG Xianzhang and Prof. WONG Yue Chim, Richard, who are the independent non-executive Directors of the Company, which has been formed to advise the Independent Shareholders and Option Holders in respect of the Offer;
"Independent Shareholders"	means the Shareholders other than the Offeror and parties acting in concert with it;
"Latest Practicable Date"	means 18 May 2007, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document;

"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange;
"Morgan Stanley"	means Morgan Stanley Asia Limited, a company incorporated in Hong Kong, which is licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 5 regulated activity (advising on futures contracts), Type 6 regulated activity (advising on corporate finance) and Type 7 regulated activity (providing automated services) under the SFO, and financial adviser to the Offeror;
"Offer"	means the mandatory unconditional cash offer made by Morgan Stanley for and on behalf of the Offeror in accordance with the Takeovers Code for the Disinterested Shares and the Outstanding Options, on the terms and conditions set out in this Composite Document and the Forms of Acceptance;
"Offer Period"	means the period from 1 March 2007, being the date of the Announcement, to 4:00 p.m. on Monday, 11 June 2007, or such other time or date to which the Offeror may decide to extend the Offer in accordance with the Takeovers Code;
"Offer Price"	means the amount of HK$8.18 payable by the Offeror to holders of Disinterested Shares for each Disinterested Share accepted under the Offer and the amount of HK$8.18 less the exercise price for each Outstanding Option cancelled under the Offer;
"Offeror"	means Fortis Insurance International N.V., a company incorporated in The Netherlands with limited liability;
"Option(s)"	means the Share option(s) granted under the Share Option Schemes;
"Option Holders"	means the holders of Options;
"Other Sellers"	means Mr. CHAN Ping Kan, Raymond, Mr. CHUNG Cho Yee, Mico, Clarest Trust, Snowdon International Limited and Mr. SO Wing Hung, Peter;

"Outstanding Option(s)"	means the 10,237,204 Options outstanding as at the Latest Practicable Date, conferring rights to subscribe for 10,237,204 Shares;
"PCICL"	means Pacific Century Insurance Company Limited, a company incorporated in Bermuda with limited liability and a wholly-owned subsidiary of the Company;
"PCRD"	means Pacific Century Regional Developments Limited, a company incorporated in the Republic of Singapore and listed on the Singapore Exchange Securities Trading Limited;
"PRC" or "China"	means the People's Republic of China (for the purposes of this Composite Document, excluding Hong Kong, the Macau Special Administrative Region and Taiwan);
"Registrar"	means Computershare Hong Kong Investor Services Limited at Shops 1712-16 17th Floor Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, being the branch share registrar of the Company and the receiving agent for receiving and processing the acceptances of the Offer;
"Relevant Period"	means the period from 1 September 2006, being the date falling six months prior to 1 March 2007 (being the date of the Announcement) to the Latest Practicable Date;
"Sale Shares"	means the Shares sold under the Share Purchase Agreement;
"Selected Employees"	means Mr. CHAN Ping Kan, Raymond (Executive Director of the Company and Chief Executive Officer of PCICL); Mr. CHENG Koon Wing (Appointed Actuary of PCICL); Ms. CHENG Wan Seung, Ella (Company Secretary of the Company); Ms. CHEUNG Man Yi, Eva (Financial Controller of the Company); Ms. CHOI Ling Chi, Vivian (Senior Vice President, Chief Operating Officer of PCICL); Mr. FUNG Chi Ho, Johnny (Vice President, Agency Developments of PCICL); Mr. FUNG Yiu Fai (Managing Director of PCI Investment Management Limited, a wholly-owned subsidiary of the Company); and Mr. SO Wing Hung, Peter (Executive Director and Group Chief Financial Officer of the Company);

"SFC"	means the Securities and Futures Commission of Hong Kong;
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) of HK$1.00 each in the share capital of the Company;
"Share Option Schemes"	means the share option schemes adopted by the Company on 16 June 1999 and 6 May 2002, respectively;
"Share Purchase Agreement"	means the share sale and purchase agreement dated 1 March 2007 entered into between the Offeror, PCRD and Mr. YUEN Tin Fan, Francis, and as amended by the Amendment Agreement;
"Shareholders"	means the holders of Shares;
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited;
"subsidiaries"	shall have the same meaning ascribed to it in Section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong); and
"Takeovers Code"	means the Hong Kong Code on Takeovers and Mergers.

Morgan Stanley

Morgan Stanley Asia Limited
30th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong

21 May 2007

To the Shareholders and Option Holders of the Company

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
MORGAN STANLEY ASIA LIMITED
FOR AND ON BEHALF OF
FORTIS INSURANCE INTERNATIONAL N.V.
TO ACQUIRE ALL THE ISSUED SHARES IN
PACIFIC CENTURY INSURANCE HOLDINGS LIMITED
(OTHER THAN SHARES ALREADY OWNED OR AGREED
TO BE ACQUIRED BY FORTIS INSURANCE INTERNATIONAL N.V.
AND PARTIES ACTING IN CONCERT WITH IT)
AND TO CANCEL ALL OUTSTANDING OPTIONS**

1. INTRODUCTION

On 10 May 2007, the Offeror and the Company jointly announced that all the conditions precedent to the Share Purchase Agreement (other than those that are required to be satisfied simultaneously at Completion as stipulated in the Share Purchase Agreement) were fulfilled on 9 May 2007. Completion subsequently took place on 15 May 2007.

The Composite Document and the accompanying Forms of Acceptance together set out the terms and conditions of the Offer and certain other information relating to the Offer. Unless the context otherwise requires, terms defined in the Composite Document shall have the same meaning when used in this letter.

2. ACQUISITION OF THE SALE SHARES

In the Announcement, the Offeror and the Company jointly announced that the Offeror, PCRD and Mr. YUEN Tin Fan, Francis had entered into the Share Purchase Agreement whereby the Offeror agreed to acquire 431,110,742 Sale Shares from PCRD, Mr. YUEN Tin Fan, Francis and the Other Sellers for an aggregate consideration of HK$3,526 million (equivalent to HK$8.18 per Sale Share).

On 15 May 2007, the Offeror, PCRD and Mr. YUEN Tin Fan, Francis entered into the Amendment Agreement pursuant to which the number of Sale Shares acquired by the Offeror from PCRD, Mr. YUEN Tin Fan, Francis and the Other Sellers under the Share Purchase Agreement were reduced from 431,110,742 to 430,850,742 Sale Shares for an aggregate consideration of HK$3,524 million (equivalent to HK$8.18 per Sale Share). Therefore, the number of Sale Shares sold by each of PCRD, Mr. YUEN Tin Fan, Francis and the Other Sellers pursuant to the Share Purchase Agreement as amended by the Amendment Agreement are as follows:

Name of Sellers	**Number of Sale Shares**	**Percentage of issued share capital immediately prior to Completion on a fully diluted basis (assuming full exercise of all the outstanding options immediately prior to Completion)**	**Percentage of issued share capital immediately prior to Completion (assuming no exercise of the outstanding options immediately prior to Completion)**
CHAN Ping Kan, Raymond	8,000,000	0.94%	0.95%
CHUNG Cho Yee, Mico	1,368,000	0.16%	0.16%
Clarest Trust[(1)]	276,000	0.03%	0.03%
PCRD	383,797,942	44.94%	45.48%
Snowdon International Limited[(2)]	21,204,800	2.48%	2.51%
SO Wing Hung, Peter	4,540,000	0.53%	0.54%
YUEN Tin Fan, Francis	11,664,000	1.37%	1.38%
TOTAL	430,850,742	50.45%	51.06%[(3)]

Note 1: The beneficiaries of this trust are the family members of Mr. SO Wing Hung, Peter.

Note 2: Snowdon International Limited is a company wholly-owned by T.F. Yuen Trust, a discretionary trust of which YUEN Tin Fan, Francis is the founder.

Note 3: Due to rounding of the figures, the aggregate sum of the individual percentages is 51.05% instead of the actual percentage of 51.06%

The Offeror, PCRD and Mr. YUEN Tin Fan, Francis entered into the Amendment Agreement on 15 May 2007 and completion of the Share Purchase Agreement also took place on 15 May 2007, immediately following which the Offeror and parties acting in concert with it held an aggregate of 430,850,742 Shares, representing approximately 50.45% of the issued share capital of the Company as at the Latest Practicable Date on a fully diluted basis (assuming full exercise of all the Outstanding Options as at the Latest Practicable Date) or approximately 51.06% of the issued share capital of the Company as at the Latest Practicable Date (assuming no exercise of the Outstanding Options as at the Latest Practicable Date). As a result, the Offeror is required pursuant to Rule 26.1 of the Takeovers Code to make an unconditional mandatory cash offer to acquire all the Disinterested Shares. In addition, pursuant to Rule 13.1 of the Takeovers Code, an unconditional mandatory cash offer to cancel all Outstanding Options is also being made.

3. OFFER FOR THE DISINTERESTED SHARES

We, on behalf of the Offeror, offer to acquire all the Disinterested Shares, including any Shares issued pursuant to the exercise of the Outstanding Options prior to the close of the Offer Period on the following basis:

For each Disinterested Share . . . . HK$8.18 payable in cash

The Offer Price of HK$8.18 per Share is the same as the price at which the Sale Shares were acquired by the Offeror under the Share Purchase Agreement and represents approximately:

(a) a 58.2% premium to the closing price of HK$5.17 per Share as quoted by the Stock Exchange on 23 February 2007, being the last full trading day immediately prior to suspension of trading in the Shares pending the release of the Announcement;

(b) a 59.1% premium to the average closing price of approximately HK$5.14 per Share as quoted by the Stock Exchange for the ten consecutive trading days immediately prior to and including 23 February 2007;

(c) a 62.6% premium to the average closing price of approximately HK$5.03 per Share as quoted by the Stock Exchange for the twenty consecutive trading days immediately prior to and including 23 February 2007; and

(d) a premium of approximately 142.7% to the net asset value per Share of approximately HK$3.37 as at 31 December 2006.

The highest and lowest closing prices of the Shares as quoted by the Stock Exchange during the period commencing six-months preceding 1 March 2007, being the date of the Announcement, and ending on the Latest Practicable Date were HK$8.11 on each of 14, 15, 16, 17 and 18 May 2007 and HK$3.70 on 8 September 2006, respectively.

As at the Latest Practicable Date and on the basis of the Offer Price of HK$8.18 per Share, the entire issued share capital of the Company is valued at approximately HK$6,986 million (assuming full exercise of all Outstanding Options as at the Latest Practicable Date) and HK$6,902 million (assuming no exercise of the Outstanding Options as at the Latest Practicable Date), respectively.

The Offer is made on the terms and conditions set out in the Composite Document (including, without limitation, the terms set out in Appendix I to the Composite Document) and in the Forms of Acceptance.

4. OFFER FOR THE OUTSTANDING OPTIONS

We, on behalf of the Offeror, offer to all Option Holders to cancel their Outstanding Options in exchange for the following Offer Price in cash:

For each Outstanding Option . . . . .HK$8.18 less the exercise price of the Outstanding Option

As at the Latest Practicable Date, there are 10,237,204 Outstanding Options, the details of which are as follows:

Grant Date	Exercise Period	Exercise Price	Number of Options
7 July 1999	7 July 2000 to 6 July 2007	HK$4.187	661,032
7 July 1999	7 July 2000 to 6 July 2009	HK$4.448	675,692
7 July 1999	7 July 2000 to 6 July 2009	HK$5.233	360,480
29 August 2003	29 August 2004 to 28 August 2011	HK$2.050	3,230,000
2 March 2004	2 March 2005 to 1 March 2012	HK$3.840	2,320,000
4 October 2004	4 October 2005 to 3 October 2012	HK$2.825	600,000
3 March 2005	3 March 2006 to 2 March 2013	HK$3.675	2,130,000
19 May 2005	19 May 2006 to 18 May 2013	HK$3.125	140,000
4 April 2006	4 April 2007 to 3 April 2014	HK$3.680	120,000

The holders of these Outstanding Options comprise of selected employees and agents of the Group and include Mr. SO Wing Hung, Peter and Mr. Peter Anthony ALLEN, both being Directors. If these Outstanding Options are exercised in full, the Company would have to issue 10,237,204 Shares, representing approximately 1.2% of the issued share capital of the Company as at the Latest Practicable Date on a fully diluted basis (assuming full exercise of all the Outstanding Options as at the Latest Practicable Date).

5. TERMS OF THE OFFER

The Offer is unconditional in all respects.

By accepting the Offer, the Option Holders will agree to cancel their Outstanding Options and the Shareholders will sell their Disinterested Shares free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after 1 March 2007, being the date of the Announcement.

In accordance with the terms of the Share Option Schemes, where the Offeror acquires not less than 90% of the Disinterested Shares within four months of the posting of the Offer Document and gives notice (the "***Offeror Notice***") to exercise the powers of compulsory acquisition under the Bermuda Companies Act to acquire the Disinterested Shares not acquired by it pursuant to the Offer, any Option Holders may by notice in writing to the Company within 21 days of such Offeror Notice, exercise vested Outstanding Options which have not been exercised, failing which such Outstanding Options will lapse. As unvested Outstanding Options cannot be exercised in the situation described above, such unvested Outstanding Options will also lapse 21 days after the giving of the Offeror Notice.

Save for the Outstanding Options, the Company had no other outstanding convertible securities, warrants, options or derivatives in issue as at the Latest Practicable Date.

The latest time for acceptance of the Offer is at 4:00 p.m. on Monday, 11 June 2007, unless the Offer is revised or extended in accordance with the Takeovers Code. Acceptance of the Offer shall be irrevocable and not be capable of being withdrawn, except as permitted under the Takeovers Code.

6. CONFIRMATION OF FINANCIAL RESOURCES

Assuming that the Offer is accepted in full by the Shareholders (which includes, on the assumption that all Outstanding Options are exercised, all the Shares acquired as a result of the exercise of the Outstanding Options), at the Offer Price of HK$8.18 per Share, the total amount payable by the Offeror under the Offer will be HK$3,461,726,593.

The Offeror intends to finance the Offer from its own internal resources. We, as financial adviser to the Offeror, are satisfied that sufficient resources are available to the Offeror to satisfy full acceptance of the Offer.

7. INFORMATION ON THE OFFEROR

The Offeror and its subsidiaries are providers of insurance services to personal, business and institutional customers outside of Fortis' home markets of The Netherlands and Belgium. The Offeror has either directly or through its subsidiaries established insurance joint ventures in Spain, Portugal, China, Malaysia and Thailand and is in the regulatory approval process for a life insurance joint venture in India. Fortis delivers a total package of financial products and services through its own high-performance channels and via intermediaries and other partners.

Fortis is an international financial services provider active in banking and insurance, and is ranked among Europe's top 20 financial institutions, with a market capitalisation of EUR44 billion as at 19 April 2007. Fortis has offices in 50 countries and has a dedicated workforce of approximately 60,000. As at the Latest Practicable Date, Fortis has ratings of AA- by Fitch, A+ by Standard & Poor's and Aa3 by Moody's.

Fortis has been in Asia for over 105 years. It has combined its banking and insurance expertise in key growth markets in Asia. Its regional headquarter is based in Hong Kong; other offices include Bangkok, Beijing, Guangzhou, Hanoi, Ho Chi Minh City, Jakarta, Kuala Lumpur, Manila, Mumbai, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Fortis SA/NV and Fortis N.V., both of which are listed on the Euronext exchange in Belgium and The Netherlands, are the ultimate parent companies of the Offeror as each holds a 50% interest in Fortis Utrecht N.V., which in turn holds a 100% interest in Fortis Insurance N.V., the direct holding company of the Offeror. The Offeror has no ultimate controlling shareholder as the shareholdings in Fortis SA/NV and Fortis N.V. are widely dispersed and no one shareholder has a controlling interest.

8. INTENTION OF THE OFFEROR

The acquisition of the Company fits well with Fortis' strategy in Asia. It offers an unique opportunity to establish a solid base in Hong Kong where Fortis does not have life insurance operations. It is also complementary to Fortis' existing operations in Asia.

By combining the Group's highly talented and motivated agency force with Fortis' product expertise, distribution skills, and international experience, the acquisition of the Company creates a strong platform for further growth.

Fortis is committed to the Group's franchise, to the development of the agency sales force and to delivering the highest level of service to policy holders. Specifically, Fortis intends to develop the Company's existing infrastructure, extend its product range and enhance its customer service. The Group's highly regarded employees will benefit from the support and contribution of a strong international financial institution, committed to Asia and with further ambitions in the region.

Fortis intends to continue to work with Mr. YUEN Tin Fan, Francis in exploring ways in which Fortis can leverage its global experience and network to the benefit of the Company. In addition, the Selected Employees have undertaken to remain in the Group for a minimum of 6 months following Completion which will assist Fortis to ensure business continuity and stability within the Group.

As at the Latest Practicable Date, Fortis had no intention to re-deploy the employees or the fixed assets of the Company other than in the ordinary course of business, except that Fortis anticipates that changes will be made to the composition of the Board in compliance with the Takeovers Code and the Listing Rules. Further announcements will be made upon the appointment or resignation of any Directors.

Fortis intends to change the name of the Company. The Company will make an announcement when the proposed new name of the Company has been determined. Fortis has agreed in principle for the Company to use the Fortis logo and branding in the Company's products and promotional activities which are carried out in the ordinary course of business and in accordance with Fortis' branding procedures and requirements. A formal licensing agreement between Fortis and the Company will be signed in due course.

9. COMPULSORY ACQUISITION

If the Offeror (a) acquires not less than 90% of the Disinterested Shares, which means not less than 380,874,564 Shares (assuming full exercise of all Outstanding Options as at the Latest Practicable Date) or 371,661,081 Shares (assuming no exercise of the Outstanding Options as at the Latest Practicable Date), within four months of the posting of this Composite Document in accordance with Rule 2.11 of the Takeovers Code; and (b) holds 95% or more of all the issued Shares, the Offeror intends to exercise the powers of compulsory acquisition under Section 103 of the Bermuda Companies Act to acquire the Disinterested Shares not acquired by it pursuant to the Offer. On completion of such compulsory acquisition, the Company would become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange in accordance with the Listing Rules.

According to Rule 15.6 of the Takeovers Code, since the Offeror intends to exercise the powers of compulsory acquisition under the Bermuda Companies Act, the Offer may not remain open for acceptance for more than four months from the posting of this Composite Document, unless the Offeror has by that time become entitled to exercise such powers of compulsory acquisition available to it under the Bermuda Companies Act, in which event the Offeror must do so without delay.

10. MAINTAINING THE LISTING

If the Offeror is unable to satisfy the requirements under the Takeovers Code and the Bermuda Companies Act to effect the compulsory acquisition as set out in the section headed "Compulsory Acquisition" above, the Offeror will undertake to the Stock Exchange that, following the closing of the Offer Period, it will take appropriate steps to ensure that not less than 25% of the Shares will be held by the public in compliance with the Listing Rules.

The Stock Exchange has stated that if, at the closing of the Offer Period, less than 25% of the Shares are held by the public, or if the Stock Exchange believes that:

(a) a false market exists or may exist in the trading of the Shares; or

(b) there are insufficient Shares in public hands to maintain an orderly market,

then it will consider exercising its discretion to suspend trading in the Shares. In this connection, it should be noted that upon the closing of the Offer Period, there may be insufficient public float for the Shares and therefore, trading in the Shares may be suspended until a prescribed level of public float is attained.

11. ACCEPTANCE AND SETTLEMENT

Procedures for acceptance

For Shareholders, to accept the Offer in respect of your Shares, you should complete the accompanying **WHITE** form of acceptance and transfer of the Shares in accordance with the instructions printed thereon, which forms part of the terms and conditions of the Offer. The completed **WHITE** form of acceptance and transfer of the Shares should then be forwarded together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept the Offer, by hand or by post, to the Registrar at Shops 1712-16 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:00 p.m. on Monday, 11 June 2007 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code). No acknowledgment of receipt of the **WHITE** form of acceptance and transfer of the Shares, Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

For Option Holders, to accept the Offer in respect of your Outstanding Options, you should complete the accompanying **YELLOW** form of acceptance and cancellation of the Outstanding Options in accordance with the instructions printed thereon, which forms part of the terms and conditions of the Offer. The completed **YELLOW** form of acceptance and cancellation of the Outstanding Options should then be forwarded together with the relevant letter or other document evidencing the grant of the relevant Outstanding Options and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Outstanding Options in respect of which you intend to accept the Offer, by hand or by post, to the Company at 28th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by no later than 4:00 p.m. on Monday, 11 June 2007 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code). No acknowledgment of receipt of the **YELLOW** form of acceptance and cancellation of the Outstanding Options, the relevant letter or other document evidencing the grant of the relevant Outstanding Options and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

Your attention is drawn to the section headed "Further Procedures for Acceptance" as set out in Appendix I to this Composite Document and the accompanying Forms of Acceptance.

Settlement

The Offer for the Disinterested Shares

Provided that the **WHITE** form of acceptance and transfer of the Shares and the relevant accompanying documents required to accept the Offer are valid, complete and in good order and have been received by the Registrar by no later than 4:00 p.m. on Monday, 11 June 2007 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to each accepting Shareholders in respect of the Shares tendered by them under the Offer, less seller's ad valorem stamp duty payable by them, will be despatched to the relevant Shareholders (at the respective addresses as they appear in the register of members or, in the case of joint Shareholders, to the Shareholder whose name appears first in the register of members, unless otherwise specified in the relevant **WHITE** form of acceptance and transfer of the Shares) by ordinary post at their own risk as soon as possible but in any event within 10 days following the date on which all the relevant documents are received by the Registrar to render such acceptances complete and valid.

The Offer for Outstanding Options

Provided that the **YELLOW** form of acceptance and cancellation of the Outstanding Options and the relevant accompanying documents required to accept the Offer are valid, complete and in good order and have been received by the Company by no later than 4:00 p.m. on Monday, 11 June 2007 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code), a cheque for the amount due to each accepting Option Holders in respect of the Outstanding Options agreed to be cancelled will be despatched to the relevant Option Holders (at the respective addresses as they appear in the register of Option Holders, unless otherwise specified in the relevant **YELLOW** form of acceptance and cancellation of the Outstanding Options) by ordinary post at their own risk as soon as possible but in any event within 10 days following the date on which all the relevant documents are received by the Company to render such acceptances complete and valid.

Nominee registration

In order for the beneficial owners of Shares, whose investments are registered in the names of their nominees, to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer. To ensure equality of treatment of all Shareholders, those registered Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately.

12. SHAREHOLDERS AND OPTION HOLDERS OUTSIDE HONG KONG

The Offer is for the securities of a company organised under the laws of Bermuda which is subject to the procedure and disclosure requirements of Hong Kong and which may be different from other jurisdictions. The ability of Shareholders and Option Holders located outside of Hong Kong to participate in the Offer will also be subject to, and may be limited by, the laws and regulations of their respective jurisdictions.

The attention of overseas Shareholders, overseas Option Holders and any person (including without limitation any nominee, custodian or trustee) who may have an obligation to forward this Composite Document outside of Hong Kong is drawn to the section headed "Overseas Holders" as set out in Appendix I to this Composite Document.

13. TAXATION

Shareholders and Option Holders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Offer in respect of their Shares or Outstanding Options (as the case may be). It is emphasized that none of the Offeror, the parties acting in concert with the Offeror, Morgan Stanley, the Company, the Registrar or any of their respective directors, officers or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the Offer.

14. GENERAL

Further terms and conditions of the Offer are set out in Appendix I to this Composite Document and in the Forms of Acceptance.

15. RECOMMENDATION

You are advised to read carefully the "Letter from the Board" set out on pages 17 to 22, the "Letter from the Independent Board Committee" set out on pages 23 to 24 and the "Letter from DBS" set out on pages 25 to 51, DBS being the independent financial advisor to the Independent Board Committee, all of which are contained in this Composite Document, in relation to their recommendations regarding the Offer before deciding whether or not to accept the Offer.

Yours faithfully
For and on behalf of
MORGAN STANLEY ASIA LIMITED
Terence Keyes
Managing Director

Pacific Century Insurance Holdings Limited

(An investment holding company incorporated in Bermuda with limited liability)
(Stock Code: 65)

Executive Directors:
YUEN Tin Fan, Francis *(Executive Chairman)*
CHAN Ping Kan, Raymond
SO Wing Hung, Peter

Non-executive Directors:
Peter Anthony ALLEN
CHUNG Cho Yee, Mico
FENG Xiaozeng
ZHENG Changyong

Independent Non-executive Directors:
Prof. CHANG Hsin Kang
Tim FRESHWATER
WANG Xianzhang
Prof. WONG Yue Chim, Richard

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business in Hong Kong:
28th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

21 May 2007

To the Shareholders and Option Holders of the Company

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY MORGAN STANLEY ASIA LIMITED FOR AND ON BEHALF OF FORTIS INSURANCE INTERNATIONAL N.V. TO ACQUIRE ALL THE ISSUED SHARES IN PACIFIC CENTURY INSURANCE HOLDINGS LIMITED (OTHER THAN SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY FORTIS INSURANCE INTERNATIONAL N.V. AND PARTIES ACTING IN CONCERT WITH IT) AND TO CANCEL ALL OUTSTANDING OPTIONS

1. INTRODUCTION

Reference is made to the Announcement in which the Offeror and the Company jointly announced that the Offeror, PCRD and Mr. YUEN Tin Fan, Francis had entered into the Share

Purchase Agreement whereby the Offeror agreed to acquire 431,110,742 Sale Shares from PCRD, Mr. YUEN Tin Fan, Francis and the Other Sellers. On 15 May 2007, the Offeror, PCRD and Mr. YUEN Tin Fan, Francis entered into the Amendment Agreement pursuant to which the number of Sale Shares acquired by the Offeror from PCRD, Mr. YUEN Tin Fan, Francis and the Other Sellers under the Share Purchase Agreement were reduced from 431,110,742 to 430,850,742 Sale Shares.

Pursuant to the Share Purchase Agreement as amended by the Amendment Agreement, the Offeror agreed to purchase and PCRD, Mr. YUEN Tin Fan, Francis and the Other Sellers agreed to sell an aggregate of 430,850,742 Sale Shares, representing approximately 50.45% of the issued share capital of the Company as at the Latest Practicable Date on a fully diluted basis (assuming full exercise of all the Outstanding Options as at the Latest Practicable Date) or approximately 51.06% of the issued share capital of the Company as at the Latest Practicable Date (assuming no exercise of the Outstanding Options as at the Latest Practicable Date), for an aggregate consideration of HK$3,524 million (equivalent to HK$8.18 per Sale Share).

Completion took place on 15 May 2007, immediately following which the Offeror and parties acting in concert with it held an aggregate of 430,850,742 Shares, representing approximately 50.45% of the issued share capital of the Company as at the Latest Practicable Date on a fully diluted basis (assuming full exercise of all the Outstanding Options as at the Latest Practicable Date) or approximately 51.06% of the issued share capital of the Company as at the Latest Practicable Date (assuming no exercise of the Outstanding Options as at the Latest Practicable Date). As a result, the Offeror is required pursuant to Rule 26.1 of the Takeovers Code to make an unconditional mandatory cash offer to acquire all the Disinterested Shares. In addition, pursuant to Rule 13.1 of the Takeovers Code, an unconditional mandatory cash offer to cancel all Outstanding Options is also being made.

The purpose of this Composite Document is to provide you with, among other matters, information relating to the Group, the Offeror and the Offer as well as setting out the letter from the Independent Board Committee containing its recommendation and advice to the Independent Shareholders and Option Holders in respect of the Offer and the letter from DBS containing its advice to the Independent Board Committee, Independent Shareholders and Option Holders in respect of the Offer.

2. THE INDEPENDENT BOARD COMMITTEE

Mr. Tim FRESHWATER, Prof. CHANG Hsin Kang, Mr. WANG Xianzhang and Prof. WONG Yue Chim, Richard, being all the independent non-executive Directors, constitute the Independent Board Committee to advise the Independent Shareholders and Option Holders in respect of the Offer. All the non-executive Directors, namely Mr. Peter Anthony ALLEN, Mr. CHUNG Cho Yee, Mico, Mr. FENG Xiaozeng and Mr. ZHENG Changyong, are considered not eligible to constitute the Independent Board Committee to advise the Independent Shareholders and Option Holders in respect of the Offer due to the following reasons: (i) Mr. Peter Anthony ALLEN is a director of PCRD and a beneficial owner of Shares; (ii) Mr. CHUNG Cho Yee, Mico is one of the Other Sellers; and (iii) Mr. FENG Xiaozeng and Mr. ZHENG Changyong are directors of both China Insurance (Holdings) Company, Limited ("***CIHCL***"), a substantial shareholder of the Company, and Ming An Insurance Company (Hong Kong) Limited ("***Ming***

An"), an associate of CIHCL. Under a continuing connected transaction the subject of an announcement by the Company dated 16 March 2007, Ming An continued to appoint the Company as its agent for the purpose of introducing general insurance business to Ming An.

3. THE OFFER

Morgan Stanley is making the Offer for and on behalf of the Offeror, on the terms and conditions set out in this Composite Document (including, without limitation, the terms set out in Appendix I to this Composite Document) and in the Forms of Acceptance, to acquire all the Disinterested Shares on the following basis:

For each Disinterested Share . . . . .HK$8.18 payable in cash

The Offer Price of HK$8.18 per Share is the same as the price at which the Sale Shares were acquired by the Offeror under the Share Purchase Agreement and represents approximately:

(a) a 58.2% premium to the closing price of HK$5.17 per Share as quoted by the Stock Exchange on 23 February 2007, being the last full trading day immediately prior to suspension of trading in the Shares pending the release of the Announcement;

(b) a 59.1% premium to the average closing price of approximately HK$5.14 per Share as quoted by the Stock Exchange for the ten consecutive trading days immediately prior to and including 23 February 2007;

(c) a 62.6% premium to the average closing price of approximately HK$5.03 per Share as quoted by the Stock Exchange for the twenty consecutive trading days immediately prior to and including 23 February 2007; and

(d) a premium of approximately 142.7% to the net asset value per Share of approximately HK$3.37 as at 31 December 2006.

The highest and lowest closing prices of the Shares as quoted by the Stock Exchange during the period commencing six months preceding 1 March 2007, being the date of the Announcement, and ending on the Latest Practicable Date were HK$8.11 on each of 14, 15, 16, 17 and 18 May 2007 and HK$3.70 on 8 September 2006, respectively.

As at the Latest Practicable Date and on the basis of the Offer Price of HK$8.18 per Share, the entire issued share capital of the Company is valued at approximately HK$6,986 million (assuming full exercise of all Outstanding Options as at the Latest Practicable Date) and HK$6,902 million (assuming no exercise of the Outstanding Options as at the Latest Practicable Date), respectively.

Morgan Stanley is also making the Offer for and on behalf of the Offeror to all Option Holders to cancel their Outstanding Options in exchange for the following Offer Price in cash:

For each Outstanding Option . . . . .HK$8.18 less the exercise price of the Outstanding Option

As at the Latest Practicable Date, there are 10,237,204 Outstanding Options, the details of which are as follows:

Grant Date	**Exercise Period**	**Exercise Price**	**Number of Options**
7 July 1999	7 July 2000 to 6 July 2007	HK$4.187	661,032
7 July 1999	7 July 2000 to 6 July 2009	HK$4.448	675,692
7 July 1999	7 July 2000 to 6 July 2009	HK$5.233	360,480
29 August 2003	29 August 2004 to 28 August 2011	HK$2.050	3,230,000
2 March 2004	2 March 2005 to 1 March 2012	HK$3.840	2,320,000
4 October 2004	4 October 2005 to 3 October 2012	HK$2.825	600,000
3 March 2005	3 March 2006 to 2 March 2013	HK$3.675	2,130,000
19 May 2005	19 May 2006 to 18 May 2013	HK$3.125	140,000
4 April 2006	4 April 2007 to 3 April 2014	HK$3.680	120,000

The holders of these Outstanding Options comprise of selected employees and agents of the Group and include Mr. SO Wing Hung, Peter and Mr. Peter Anthony ALLEN, both being Directors. If these Outstanding Options are exercised in full, the Company would have to issue 10,237,204 Shares, representing approximately 1.2% of the issued share capital of the Company as at the Latest Practicable Date on a fully diluted basis (assuming full exercise of all the Outstanding Options as at the Latest Practicable Date).

4. TERMS OF THE OFFER

The Offer is unconditional in all respects.

By accepting the Offer, the Option Holders will agree to cancel their Outstanding Options and the Shareholders will sell their Disinterested Shares free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after 1 March 2007, being the date of the Announcement.

In accordance with the terms of the Share Option Schemes, where the Offeror acquires not less than 90% of the Disinterested Shares within four months of the posting of the Offer Document and gives notice (the "***Offeror Notice***") to exercise the powers of compulsory acquisition under the Bermuda Companies Act to acquire the Disinterested Shares not acquired by it pursuant to the Offer, any Option Holders may by notice in writing to the Company within 21 days of such Offeror Notice exercise vested Outstanding Options which have not been exercised, failing which such Outstanding Options will lapse. As unvested Outstanding Options cannot be exercised in the situation described above, such unvested Outstanding Options will also lapse 21 days after the giving of the Offeror Notice.

Save for the Outstanding Options, the Company had no other outstanding convertible securities, warrants, options or derivatives in issue as at the Latest Practicable Date.

The latest time for acceptance of the Offer is at 4:00 p.m. on Monday, 11 June 2007, unless the Offer is revised or extended in accordance with the Takeovers Code. Acceptance of the Offer shall be irrevocable and not be capable of being withdrawn, except as permitted under the Takeovers Code.

5. INFORMATION ON THE COMPANY

PCRD acquired its insurance business in 1994 and the Company was listed on the Stock Exchange in 1999. The Group is primarily engaged in individual and group life insurance and asset management. Recently, the Group introduced unit-linked products to complement its traditional product offering. The Group has over 280 employees and over 2,000 tied agents. The Company is among the top 10 Hong Kong life insurance companies in terms of total life insurance premium (excluding single premiums).

The table below sets out the shareholding structure of the Company in respect of various shareholder groups as at the Latest Practicable Date:

Holder of Shares	Number of Shares	Number of Outstanding Options	Percentage of issued share capital (assuming exercise of all Outstanding Options)[(1)]	Percentage of issued share capital (assuming no exercise of Outstanding Options)
The Offeror	430,850,742	Nil	50.45%	51.06%
Persons acting in concert with the Offeror	Nil	Nil	Nil	Nil
Directors	360,000	620,000	0.11%	0.04%
Others	412,596,756	9,617,204	49.44%	48.90%
Total	843,807,498	10,237,204	100%	100%

Note (1): The calculation of the percentages below assumes that all the Outstanding Options (as detailed in the column headed "Number of Outstanding Options") are fully exercised as at the Latest Practicable Date such that the enlarged issued share capital of the Company would be 854,044,702 Shares.

6. INTENTION OF THE OFFEROR

Your attention is drawn to the paragraph headed "Intention of the Offeror" in paragraph 8 of the Letter from Morgan Stanley.

7. FURTHER INFORMATION

Please refer to the letter from Morgan Stanley set out in this Composite Document and Appendix I to this Composite Document for information relating to the Offer, acceptance and settlement procedures of the Offer, the making of the Offer to Shareholders and Option Holders outside Hong Kong and taxation.

8. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out in this Composite Document which contains its recommendation to the Independent Shareholders and the Option Holders in respect of the Offer and the letter from DBS which contains its advice to the Independent Board Committee, the Independent Shareholders and the Option Holders in respect of the fairness and reasonableness of the Offer, and the principal factors and reasons it has considered before arriving at its advice to the Independent Board Committee. You are also advised to read this Composite Document and the Forms of Acceptance in respect of the acceptance and settlement procedures of the Offer.

Yours faithfully,
For and on behalf of the Board of
PACIFIC CENTURY INSURANCE HOLDINGS LIMITED
YUEN Tin Fan, Francis
Executive Chairman

Pacific Century Insurance Holdings Limited

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

(Stock Code: 65)

21 May 2007

To the Independent Shareholders and Option Holders of the Company

Dear Sir or Madam,

MANDATORY UNCONDITIONAL CASH OFFER BY MORGAN STANLEY ASIA LIMITED FOR AND ON BEHALF OF FORTIS INSURANCE INTERNATIONAL N.V. TO ACQUIRE ALL THE ISSUED SHARES IN PACIFIC CENTURY INSURANCE HOLDINGS LIMITED (OTHER THAN SHARES ALREADY OWNED OR AGREED TO BE ACQUIRED BY FORTIS INSURANCE INTERNATIONAL N.V. AND PARTIES ACTING IN CONCERT WITH IT) AND TO CANCEL ALL OUTSTANDING OPTIONS

We refer to the composite offer and response document issued jointly by the Offeror and the Company to the Shareholders and the Option Holders dated 21 May 2007 (the "Composite Document") of which this letter forms part. Terms defined in the Composite Document shall have the same meanings when used herein, unless the context otherwise requires.

We have been appointed by the Board to form the Independent Board Committee to consider and to advise the Independent Shareholders and the Option Holders as to whether or not the terms of the Offer are fair and reasonable and to make a recommendation as to acceptance.

DBS has been appointed as the independent financial adviser to advise us in respect of the above.

We draw your attention to the letter from the Board, the letter from Morgan Stanley and the letter from DBS as set out in this Composite Document.

Having considered the principal factors and reasons considered by, and the advice of, DBS as set out in its letter of advice, we concur with the view of DBS and consider that the terms of the Offer are fair and reasonable.

The options available to the Independent Shareholders and Option Holders are discussed in the letter from DBS, which include accepting the Offer, selling Shares in the market and seeking to retain their Shares and/or Options. Having considered the principal factors and reasons considered by, and the advice of, DBS as set out in its letter of advice, including in particular the uncertainties inherent in retaining Shares and/or Options, we concur with the view of DBS.

Accordingly we recommend that, unless Independent Shareholders and Option Holders believe that the Company is likely in future to achieve above-average growth which will be reflected in its share price, the Independent Shareholders and Option Holders accept the Offer.

It should be noted that an Independent Shareholder who decides to retain his or her Shares may nevertheless have his or her Shares compulsorily acquired if the Offeror exercises the power of compulsory acquisition after (i) acquiring not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document in accordance with Rule 2.11 of the Takeovers Code; and (ii) holding 95% or more of the issued Shares. In that event, he or she will receive the cash proceeds several months after those who accept the Offer.

Notwithstanding our view that the terms of the Offer are fair and reasonable and our recommendation to the Independent Shareholders and the Option Holders to accept the Offer, the Independent Shareholders and the Option Holders are strongly advised that their decision to realise or to hold their investment in the Company depends on their own individual circumstances and investment objectives.

Yours faithfully,
Independent Board Committee
Tim FRESHWATER **CHANG Hsin Kang**
WANG Xianzhang **WONG Yue Chim, Richard**
Independent Non-executive Directors

The following is the text of a letter of advice from DBS Asia Capital Limited, the independent financial adviser appointed to advise the Independent Board Committee, Independent Shareholders and Option Holders, which has been prepared for the purpose of incorporation into this Composite Document, setting out its advice to the Independent Board Committee, Independent Shareholders and Option Holders in connection with the Offer.

DBS

21 May 2007

To the Independent Board Committee,
Independent Shareholders and Option Holders

Dear Sirs,

MANDATORY UNCONDITIONAL CASH OFFER
BY MORGAN STANLEY ASIA LIMITED
FOR AND ON BEHALF OF
FORTIS INSURANCE INTERNATIONAL N.V.
TO ACQUIRE ALL THE ISSUED SHARES IN
PACIFIC CENTURY INSURANCE HOLDINGS LIMITED
(OTHER THAN THE SHARES ALREADY OWNED OR AGREED
TO BE ACQUIRED BY FORTIS INSURANCE INTERNATIONAL N.V.
AND PARTIES ACTING IN CONCERT WITH IT)
AND TO CANCEL ALL OUTSTANDING OPTIONS

We refer to our appointment as the independent financial adviser to the Independent Board Committee, the Independent Shareholders and the Option Holders in connection with the Offer. Details are contained in the composite offer and response document dated 21 May 2007 (the "Composite Document") issued jointly by the Offeror and the Company, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document, unless the context otherwise requires.

COMPOSITION OF INDEPENDENT BOARD COMMITTEE

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising Mr. Tim FRESHWATER, Prof. CHANG Hsin Kang, Mr. WANG Xianzhang and Prof. WONG Yue Chim, Richard, being all the independent non-executive Directors, has been established to consider and to advise the Independent Shareholders and the Option Holders in respect of the Offer as to whether the Offer is, or is not, fair and reasonable and as to acceptance.

None of the non-executive Directors, namely Mr. Peter Anthony ALLEN, Mr. CHUNG Cho Yee, Mico, Mr. FENG Xiaozeng and Mr. ZHENG Changyong, is considered eligible to participate in the Independent Board Committee to advise the Independent Shareholders and Option Holders in respect of the Offer due to the following reasons: (i) Mr. Peter Anthony ALLEN is a director of PCRD and a beneficial owner of the Shares; (ii) Mr. CHUNG Cho Yee, Mico is one of the Other Sellers; and (iii) Mr. FENG Xiaozeng and Mr. ZHENG Changyong are directors of both China Insurance (Holdings) Company, Limited ("CIHCL"), a substantial shareholder of the Company, and Ming An Insurance Company (Hong Kong) Limited ("Ming An"), an associate of CIHCL. Under a continuing connected transaction the subject of an announcement by the Company dated 16 March 2007, Ming An continued to appoint the Company as its agent for the purpose of introducing general insurance business to Ming An. As at the Latest Practicable Date, Mr. Peter Anthony ALLEN, a non-executive Director, held 360,000 Shares, representing approximately 0.04% of the issued share capital of the Company (assuming no exercise of Outstanding Options as at the Latest Practicable Date), and 360,000 Options, representing approximately 0.04% of the issued share capital of the Company on a fully diluted basis (assuming full exercise of all Outstanding Options as at the Latest Practicable Date). Mr. Peter Anthony ALLEN has indicated his intention to accept the Offer.

INDEPENDENCE

As independent financial adviser, our role is to give an independent opinion to the Independent Board Committee, the Independent Shareholders and Option Holders.

As at the Latest Practicable Date, a subsidiary of DBS Group Holdings Limited has extended credit facilities ("Facilities") to one of the associated companies of PCRD. PCRD had been the ultimate controlling shareholder of the Company prior to the Completion. The Facilities granted represented less than 0.1% of the consolidated total assets of DBS Group Holdings Limited and its subsidiaries as at 31 December 2006.

One of the directors of the Company has acted as a guarantor of certain loans and loan facilities ("Loan Facilities") of certain companies to which our banking affiliate has granted loan facilities. Such banking relationships have been conducted in the ordinary course of business and the aggregate amount of the Loan Facilities was less than 0.1% of the consolidated total assets of DBS Group Holdings Limited and its subsidiaries as at 31 December 2006.

One of the directors of the Company has maintained a securities account with our brokerage affiliate. However such account had been inactive for the past two years. In addition, certain directors of the Company have maintained bank accounts with our banking affiliate.

One of the group members of the Offeror had maintained a Nostro account with our banking affiliate before the account was closed in June 2006 and certain members of the Offeror have maintained securities accounts with our brokerage affiliate. The total fee income earned from these securities accounts represented approximately 0.03% of the total income of our brokerage affiliate. Such business relationships have been conducted in the ordinary course of business.

Given the background explained above and the fact that our affiliates' business relationships with the group members of PCRD and the Offeror have been conducted in the ordinary course of business independent of DBS, we consider that we are in a position to provide objective independent financial advice under the appointment.

In formulating our advice and recommendation, we have relied on the information, facts and representations contained or referred to in the Composite Document and the information, facts and representations provided to us by the Company and its management. We have assumed that all the information, facts, opinions and representations contained or referred in the Composite Document were true, accurate and complete in all respects at the time they were made and continue to be true, accurate and complete as at the date of this letter. We have no reason to doubt the truthfulness, accuracy and completeness of the information, facts, opinions and representations provided to us by the Company and its management.

We consider that we have reviewed all currently available information and documents to enable us to reach an informed view and to justify our reliance on the information provided so as to form a reasonable basis for our opinion. We have not, however, carried out any form of independent investigation into the business, affairs, operations, financial position or future prospects of the Group.

Pursuant to Rule 9.3 of the Takeovers Code, the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document relating to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document relating to the Group have been arrived at after due and careful consideration and there are no other facts relating to the Group not contained in the Composite Document, the omission of which makes any statements in the Composite Document misleading. The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document (other than information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Composite Document relating to such information have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Group) not contained in the Composite Document the omission of which makes any statements in the Composite Document relating to such information misleading.

BACKGROUND AND TERMS OF THE OFFER

On 1 March 2007, the Offeror, PCRD and Mr. YUEN Tin Fan, Francis entered into the Share Purchase Agreement under which the Offeror agreed to acquire the 431,110,742 Sale Shares from PCRD, Mr. YUEN Tin Fan, Francis and the Other Sellers for an aggregate consideration of HK$3,526 million (equivalent to HK$8.18 per Sale Share). As mentioned in the "Letter from the Board", on 15 May 2007, the Offeror, PCRD and, Mr. YUEN Tin Fan, Francis entered into the Amendment Agreement pursuant to which the number of Sale Shares acquired by the Offeror from PCRD, Mr. YUEN Tin Fan, Francis and the Other Sellers under the Share Purchase Agreement were reduced to 430,850,742 Sale Shares, representing approximately 50.45% of the issued share capital of the Company as at the Latest Practicable Date on a fully diluted basis (assuming full exercise of all the Outstanding Options as at the

Latest Practicable Date) or approximately 51.06% of the issued share capital of the Company as at the Latest Practicable Date (assuming no exercise of the Outstanding Options as at the Latest Practicable Date), for an aggregate consideration of HK$3,524 million (equivalent to HK$8.18 per Sale Share). Completion took place on 15 May 2007, immediately following which the Offeror and parties acting in concert with it held an aggregate of 430,850,742 Shares, representing approximately 50.45% of the issued share capital of the Company as at the Latest Practicable Date on a fully diluted basis (assuming full exercise of all the Outstanding Options as at the Latest Practicable Date) or approximately 51.06% of the issued share capital of the Company as at the Latest Practicable Date (assuming no exercise of the Outstanding Options as at the Latest Practicable Date). As a result, the Offeror is required pursuant to Rule 26.1 of the Takeovers Code to make a mandatory unconditional cash offer to acquire all the Disinterested Shares. In addition, pursuant to Rule 13 of the Takeovers Code, a mandatory unconditional cash offer to cancel all Outstanding Options is also being made.

Morgan Stanley is making the Offer on behalf of the Offeror to acquire all the Disinterested Shares on the following basis:

For each Disinterested Share . . . . .HK$8.18 payable in cash

Morgan Stanley is also making the Offer on behalf of the Offeror to all Option Holders to cancel their Outstanding Options in exchange for the following Offer Price in cash:

For each Outstanding Option . . . . .HK$8.18 less the exercise price of the Outstanding Option

For details of the terms of the Offer, your attention is drawn to the "Letter from the Board", "Letter from Morgan Stanley" and the "Further terms of the Offer" in Appendix I of the Composite Document.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation and giving our advice to the Independent Board Committee, Independent Shareholders and Option Holders in respect of the Offer, we have considered the following principal factors and reasons:

(a) Background of the Company

As mentioned in the "Letter from the Board", PCRD acquired its insurance business in 1994 and the Company was listed on the Stock Exchange in 1999. The Group is primarily engaged in individual and group life insurance and asset management. The Group has over 280 employees and over 2,000 tied agents. The Company is among the top 10 Hong Kong life insurance companies in terms of total life insurance premiums (excluding single premiums).

(b) The Company's historical financial performance and business review

Income Statement

Set out below is a summary of the Group's consolidated income statement for the three years ended 31 December 2006 and for the three months ended 31 March 2006 and 31 March 2007. Further details of the results and other financial information of the Group are set out in Appendix II of the Composite Document.

CONSOLIDATED INCOME STATEMENT	**Unaudited Three months ended 31 March 2007**	**2006**	**Audited Financial year ended 31 December 2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE					
Turnover	496,891	450,437	1,993,853	1,826,885	1,688,832
Investment income, net gains and other income	266,152	258,187	919,198	373,791	472,278
Total revenue and gains, net	763,043	708,624	2,913,051	2,200,676	2,161,110
Less: Reinsurance premiums	(32,576)	(34,240)	(140,599)	(154,807)	(156,767)
Net revenue	730,467	674,384	2,772,452	2,045,869	2,004,343
Policyholders' benefits under insurance contracts	(178,121)	(153,417)	(701,529)	(581,354)	(584,917)
Policyholders' benefits under investment contracts	(11,367)	(26,852)	(104,193)	(29,233)	(15,074)
Agency commission and allowances	(112,399)	(96,596)	(491,963)	(389,176)	(292,264)
Change in deferred acquisition costs	20,617	8,985	120,885	14,497	(93,877)
Management expenses	(135,597)	(107,535)	(467,976)	(303,608)	(304,215)
Increase in insurance contract liabilities	(184,036)	(179,820)	(744,522)	(652,783)	(505,751)
Finance costs	(13,067)	(10,787)	(44,100)	(45,346)	(1,805)
PROFIT BEFORE TAX	116,497	108,362	339,054	58,866	206,440
Tax	(9,411)	(6,059)	(17,320)	(16,963)	(17,579)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	107,086	102,303	321,734	41,903	188,861
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	439	206	715	599	(566)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	107,525	102,509	322,449	42,502	188,295

Revenue

The Group recorded steady growth for the three months ended 31 March 2007 ("1Q2007"), as well as the financial years ended 31 December 2006 ("FY2006") and 31 December 2005 ("FY2005"). The total turnover of the Group in 1Q2007, FY2006 and FY2005 increased by approximately 10.3%, approximately 9.1% and approximately 8.2% when compared to the three months ended 31 March 2006 ("1Q2006"), FY2005 and the financial year ended 31 December 2004 ("FY2004"), respectively.

As mentioned in the annual report of the Company for FY2006, individual annualized first year premium ("AFYP") increased approximately 58.8% to approximately HK$693.2 million, contributed from insurance contracts of approximately HK$363.2 million (which was approximately 12.2% higher than that in 2005), and investment contracts of approximately HK$330.0 million (which was approximately 192.3% higher than that in 2005).

Single and first year premiums increased approximately 13.2% to approximately HK$335.2 million, renewal premiums increased approximately 8.3% to approximately HK$1,624.1 million and total premiums increased approximately 9.1% to approximately HK$1,959.3 million when compared to 2005.

The AFYP on new business of approximately HK$323.7 million in FY2005 represented an increase of approximately 24.5% from the restated figure of approximately HK$260.0 million for FY2004. The restatement was a result of the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRS") 4. Single and first year premiums increased approximately 24.4% to approximately HK$296.0 million, renewal premiums increased approximately 5.5% to approximately HK$1,500.1 million and total premiums increased approximately 8.2% to approximately HK$1,796.1 million.

As mentioned in the unaudited quarterly results announcement for the three months ended 31 March 2007, AFYP on individual new business increased approximately 21.4% to approximately HK$163.5 million. However, single and first year premium dropped approximately 1.1% to HK$74.7 million. Renewal premium increased approximately 10.1% to HK$408.9 million and total premium increased approximately 8.2% to HK$483.6 million.

Investment income, net gains and other income for 1Q2007, FY2006 and FY2005 increased by approximately 3.1%, approximately 145.9% and decreased by approximately 20.9% when compared to 1Q2006, FY2005 and FY2004, respectively.

Earnings

The Group reported slight increase in net profit in 1Q2007. Unaudited net profit was approximately HK$107.5 million, representing an increase of approximately 4.9% when compared to 1Q2006.

However, the Group reported a 658.6% increase in net profit for FY2006 to approximately HK$322.4 million when compared to FY2005. The increase in earnings was mainly due to higher profit contribution from a larger in-force portfolio, higher investment income and investment gain for the year.

In 2005, the Group adopted a number of new and revised HKFRS. As a result, the Group reported a much lower net profit of approximately HK$42.5 million for FY2005, approximately 77.4% lower than the previous year. Specifically, the adoption of the new accounting standard "HKAS 39 – Financial Instruments: Recognition and Measurement" resulted in a HK$187.5 million reclassification of the Group's investment portfolio as an asset revaluation reserve and booked accordingly as equity in the Group's balance sheet. Had the Group's investment portfolio not been so reclassified, the HK$187.5 million would have been reported as an unrealized gain in the Group's income statement.

Embedded value

As mentioned in the annual report of the Company for FY2006, the embedded value of the Company as at 31 December 2006 of HK$6.231 per share is the sum of the adjusted statutory net asset value and the value of in-force business, adjusted for the cost of holding the required solvency margin. The value of in-force business is calculated based on the present value of the future statutory earnings. As advised by the Company, statutory earnings are prepared in accordance with the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong) ("ICO"). While audited accounts of the Group prepared in accordance with HKFRS are designed to present a true and fair financial condition of the Company for Shareholders and investors, statutory accounts prepared under the ICO are designed to protect the benefits of long term policyholders due to the long term nature of life insurance contracts. Calculations of statutory earnings are different from that of profits reported in the audited accounts of the Group prepared in accordance with HKFRS. In particular, direct acquisition costs and a portion of indirect acquisition costs relating to the production of new business of the Group are deferred and amortised over 120 months. Under the statutory accounts prepared in accordance with the ICO, such acquisition costs are recorded as expenses when incurred. Furthermore, under HKFRS, premiums and benefit payments (except for interest credited) of investment contracts are not recorded in the audited income statements, but they are included in the revenue and expense items in statutory accounts prepared in accordance with ICO.

Furthermore, for the purpose of calculating the embedded value, the statutory net asset value based on the audited consolidated balance sheet of the Company as at 31 December 2006 has been adjusted to reflect the differences between the market value and book value. Furthermore, according to the ICO, an insurer is required to maintain a surplus of assets over its liabilities of an amount not less than a specified margin of solvency. To the extent that part of the Company's assets are required to support its statutory minimum solvency margin and earn interest at a rate below the discount rate assumed in calculating the embedded value, there will be an economic cost. Cost of holding the required solvency margin refers to such economic cost.

In addition, in the calculation of the embedded value of the Company, no projections are being made in respect of statutory profit and loss arising from new business. The embedded value of the Company only includes the value of in-force individual insurance business but excludes the profit and loss from the Group's other business activities such as group insurance, provident fund, general insurance agency and brokerage, and fund management.

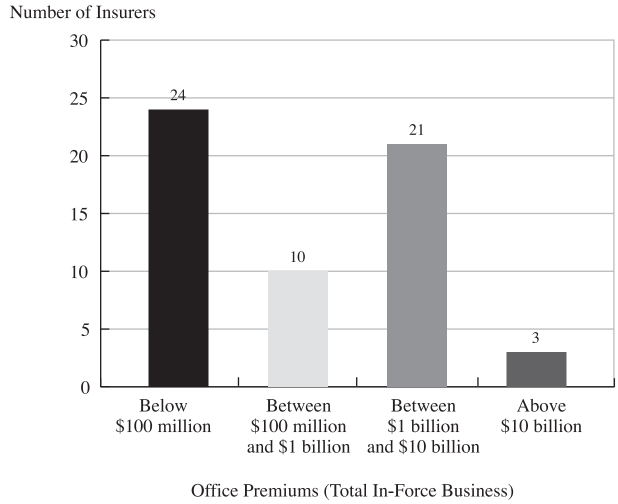
The Group's embedded value per Share as at 31 December 2006 and 31 December 2005 increased by approximately HK$1.284 (representing approximately 26.0%) and HK$0.620 (representing approximately 14.3%) when compared to the embedded value per share of HK$4.947 as at 31 December 2005 and HK$4.327 as at 31 December 2004, respectively. The positive trend reflects sound business fundamentals including increase in new business sales in FY2006 and in FY2005 (as shown in the significant increase in AFYP as well as single and first year premiums when compared to FY2005 and FY2004, respectively).

We have reviewed the estimated embedded value as at 31 March 2007 prepared by the Company's appointed actuary based on assumptions used in the calculation of the 2006 embedded value, which has not been reviewed by external consulting actuary. As at 31 March 2007, the estimated embedded value did not show a significant difference from the published embedded value as at 31 December 2006 of HK$6.231 per share. In our opinion, the insignificant change in embedded value has not affected our approach or methodology used in our analyses or the results thereof. Therefore, in performing our analyses on whether the terms of the Offer are fair and reasonable, we have used the published embedded value as at 31 December 2006.

Business overview

The Hong Kong life insurance market is fragmented and competitive. The top five market players have a combined market share of 54.6% of the in-force business in Hong Kong in 2005. According to the figures released by the Office of the Commissioner of Insurance ("OCI") in Hong Kong, as at the end of 2005, there were 65 authorised long-term insurers. Excluding Lloyd's and six pure reinsurers, three insurers reported office premiums in-force, which refers to the annualized premiums paid by the policy holders during the financial year, of over $10 billion. These three players took up 39.5%, in aggregate, of the long-term insurance market. There were 21 insurers (including the Company) with office premiums in the region of $1 billion to $10 billion, each, covering 54.7% in aggregate of the total market. 10 insurers with reported office premiums in the region of $100 million to $1 billion, accounting for, in aggregate, a market share of 5.5%. The Company ranked the fifteenth in terms of total in-force business in 2005 with a market share of approximately 1.8%.

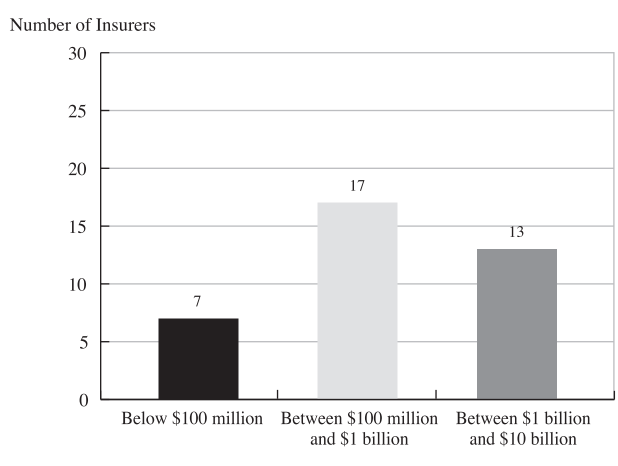
Grouping of long-term business insurers according to the level of office premiums of in-force business in 2005



Source: Office of the Commissioner of Insurance in Hong Kong

In terms of individual life new business, out of the total 37 insurers underwriting such business in 2005, 13 insurers reported new office premiums in excess of $1 billion. These insurers accounted for a market share of 81.4% of the total business. 17 insurers (including the Company) with new office premiums in the range between $100 million and $1 billion accounted for 18.4% in aggregate of the total market.

Grouping of long-term business insurers according to the level of office premiums of individual life new business in 2005



Source: Office of the Commissioner of Insurance

According to the OCI, the total revenue premiums in-force for individual life business was approximately HK$49,603 million, approximately HK$61,789 million, approximately HK$82,227 million and approximately HK$98,181 million in each of the four years from 2002 to 2005, respectively, which represented an increase of approximately 24.6%, approximately 33.1% and approximately 19.4% from 2002, 2003 and 2004, respectively.

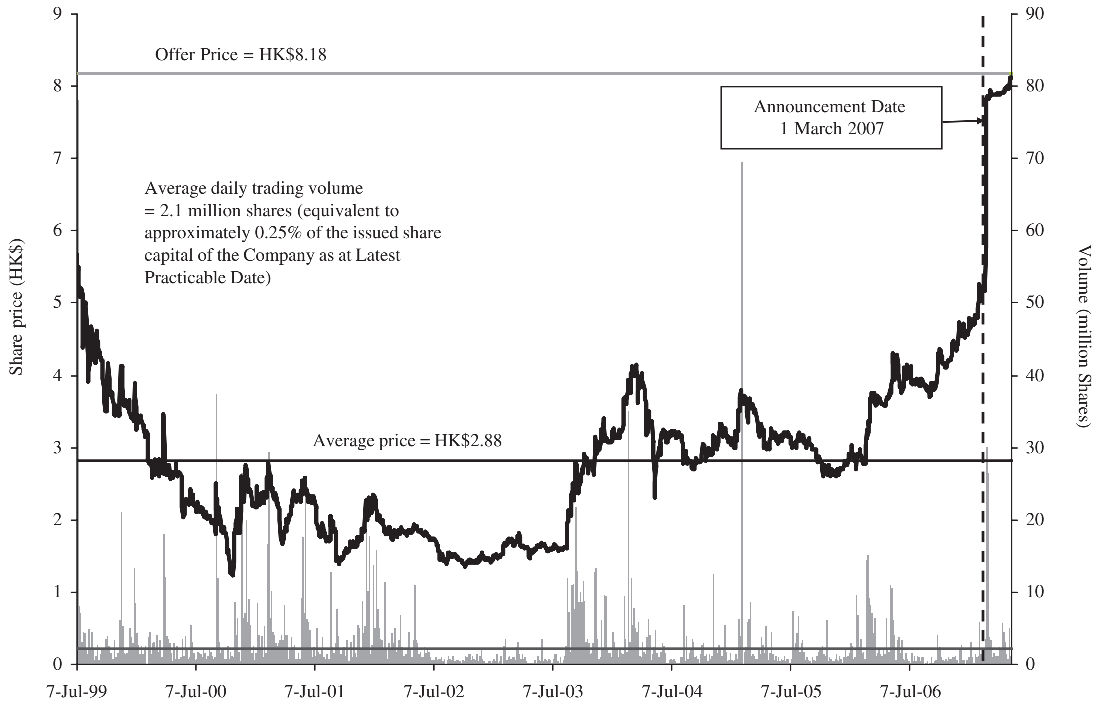
The total premiums in-force (i.e. the renewal premiums) for individual life business of the Group was approximately HK$1,356 million, HK$1,363 million, HK$1,422 million, HK$1,500 million and HK$1,624 million in each of the four years from 2002 to 2006, respectively, which represented a compound annual growth rate ("CAGR") of approximately 3.4%. Such CAGR was significantly below the CAGR of the total revenue premiums in-force for individual life business in Hong Kong from 2002 to 2005, which was at approximately 25.6%.

Benefiting from the general economic growth, increased awareness of insurance and investment needs, and high household saving rates, the growth prospects of the life insurance business in Hong Kong remain good. However, the growth of traditional life insurance products with embedded guaranteed rates may be impeded by increasing competition from other financial products in a higher interest rate environment.

In addition, the Company's earnings growth in 2006 was largely derived from investment related income. Especially if there is a significant downturn in the global investment market, it is uncertain whether the Company's investment portfolio, and thus its earnings, will be able to sustain current growth levels.

(c) Historical price performance of the Shares and trading liquidity

We have compared the Offer Price with the historical share price performance of the Shares. We set out below a chart highlighting the daily closing prices for the Shares relative to the Offer Price since the date of the initial public offering ("IPO") of the Shares in 1999.



Source: Bloomberg

Upon release of the Announcement by the Company and the Offeror on 1 March 2007 (the "Announcement Date"), the price of the Shares increased substantially to, and closed at, HK$7.83 per Share on 2 March 2007. This represented a significant increase of approximately 51.45% when compared with the closing price of the Shares of HK$5.17 on 23 February 2007, being the last full trading day prior to the date of the Announcement (the "Last Full Trading Day"). In our opinion, this rise in Share price reflected the market's response to the possible offer.

Since the Company's IPO on 7 July 1999 and up to the Latest Practicable Date, the closing prices of the Shares traded within a range of HK$1.23 to HK$8.11 and at an average of HK$2.88. However, if we exclude the effect that the Offer had on the Share Price, the highest that the Share price had ever closed since IPO and up to the Last Full Trading Day was HK$5.67 on 7 July 1999, the first day of trading of the Shares on the Stock Exchange.

We have further compared the Offer Price with the average of the last closing prices of the Shares over different observation periods prior to the Last Full Trading Day. We have observed the Share price performance over time periods of 10 trading days, 30 trading days, 60 trading days and 180 trading days prior to and including the Last Full Trading Day. We have also observed the closing price of the Shares on the Last Full Trading Day and as at the Latest Practicable Date, as well as the highest closing price of the Shares since IPO and up to the Last Full Trading Day.

Offer Price vs. historical price performance of the Shares

	Closing price / average closing price (HK$)	Offer Price premium to the closing price / average closing price (where applicable)
Closing price as at the Latest Practicable Date	8.11	0.9%
Closing price on the Last Full Trading Day	5.17	58.2%
Average closing price for the period of 10 trading days prior to and including the Last Full Trading Day	5.14	59.1%
Average closing price for the period of 30 trading days prior to and including the Last Full Trading Day	4.93	65.9%
Average closing price for the period of 60 trading days prior to and including the Last Full Trading Day	4.76	71.8%
Average closing price for the period of 180 trading days prior to and including the Last Full Trading Day	4.26	92.0%
Closing price on 7 July 1999	5.67 *(Note)*	44.3%

Source: Hong Kong Exchanges and Clearing Limited

Note: HK$5.67 is the highest closing price of the Shares since IPO and up to the Last Full Trading Day

We note from the above table that while the Offer Price was at a 44.3% premium to the highest closing price of the Shares since IPO and up to the Last Full Trading Day and 0.9% premium to the closing price of the Shares as at the Latest Practicable Date, it nevertheless represented a substantial premium of between approximately 58.2% to approximately 92.0% relative to the average closing prices of the Shares over all the time periods included in this analysis.

The average daily trading volume of the Shares since IPO and up to the Latest Practicable Date was approximately 2.1 million Shares, which was equivalent to approximately 0.25% of the total issued share capital of the Company. The relatively low trading volume of the Shares implied that the Independent Shareholders may be unlikely to be able to sell a significant number of the Shares in the market without depressing the market price of the Shares. We believe the Offer provides an opportunity for the Independent Shareholders to realize their investments in full at the Offer Price.

Since IPO, there was one particular trading day on which the trading volume of the Shares was unusually high. On 4 February 2005, PCRD, which at that time held approximately 45.1% of the then issued share capital of the Company, acquired 15,445,242 Shares, representing approximately 1.88% of the then issued share capital of the Company, increasing its shareholding in the Company from approximately 45.1% to 47.0%. Consequently, the trading volume of the Shares increased significantly to approximately 69.5 million shares on that day.

(d) Comparison of historical valuation multiples of the Company

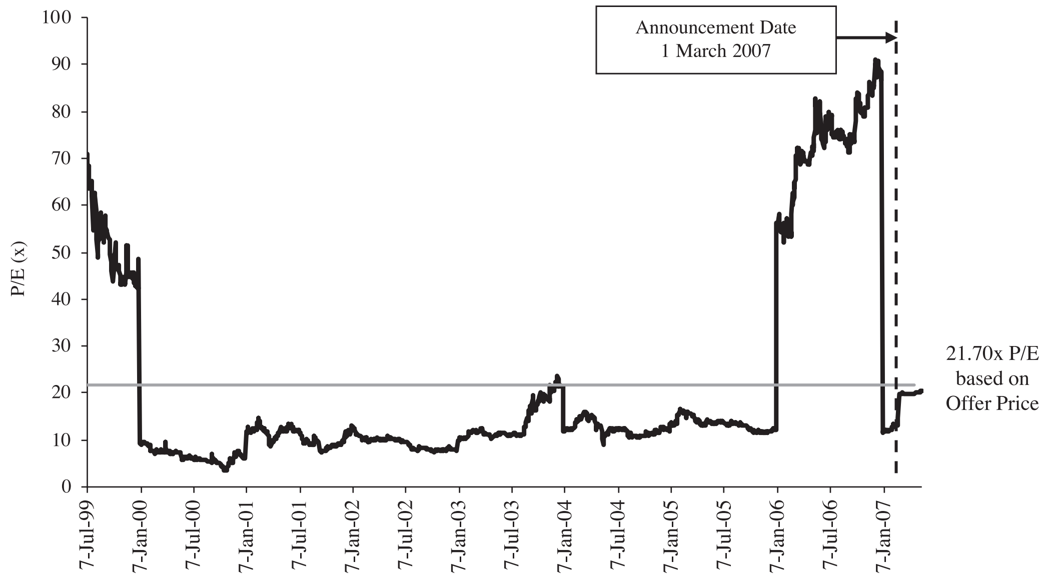
We have considered the implied valuation multiples including price to embedded value ("P/EV"), price to earnings ("P/E") and price to net asset value ("P/NAV") ratios based on the Offer Price in comparison to the Company's own historical trading levels.

In particular, P/EV is the valuation metric that is calculated based on actuarial valuations. An actuarial embedded value is a commonly used technique to estimate the economic value of the existing business of a life insurance company.

The following chart shows the historical P/EV of the Company since IPO

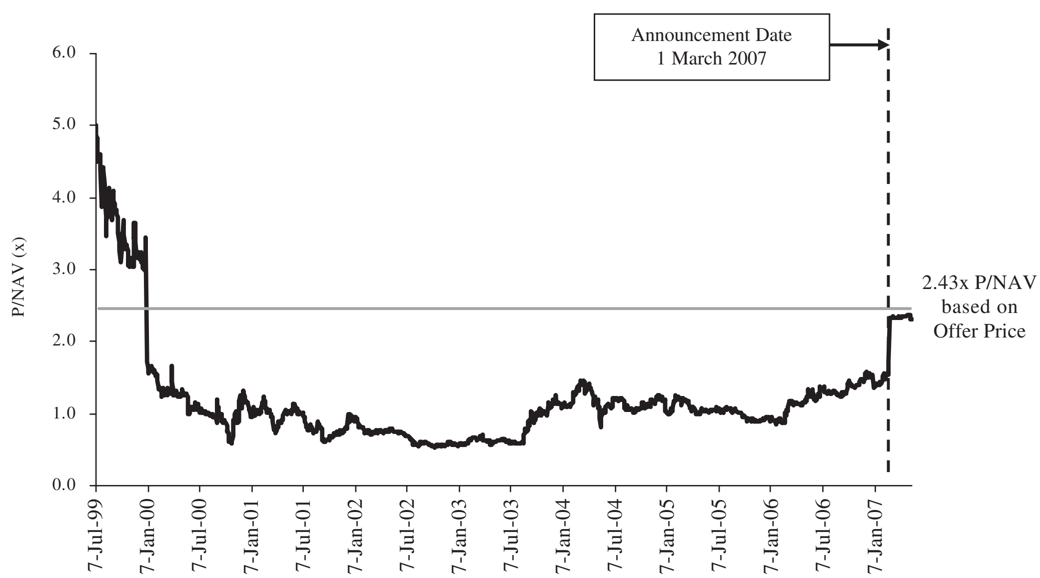
Source: Bloomberg

The following chart shows the historical P/E of the Company since IPO



Source: Bloomberg

The following chart shows the historical P/NAV of the Company since IPO



Source: Bloomberg

The following table summarizes the comparison of the Company's historical trading level against valuation multiples implied by the Offer Price since IPO and up to the Latest Practicable Date:

The Company's historical trading levels vs. valuation multiples implied by Offer Price

				Premium/(Discount) represented by the implied valuation multiples based on the Offer Price		
	P/EV	**P/E**	**P/NAV**	**P/EV of 1.38x(1)**	**P/E of 21.70x(2)**	**P/NAV of 2.43x(3)**
High	1.71	90.96	5.02	(19.3%)	(76.1%)	(51.6%)
Low	0.34	3.43	0.54	305.9%	532.7%	350.0%
Average	0.71	21.65	1.20	94.4%	0.2%	102.5%

Source: Company information

Notes:

1. Based on embedded value of the Group as at 31 December 2006

2. Based on net profits of the Group for the financial year ended 31 December 2006

3. Based on net asset value of the Group as at 31 December 2006

We note from the above table that the Shares have traded within a P/EV range of 0.34x to 1.71x, a P/E range of 3.43x to 90.96x, and a P/NAV range of 0.54x to 5.02x since IPO and up to the Latest Practicable Date. We observe that P/EV implied by the Offer Price is at the high end of the range of the Company's historical P/EV. P/NAV implied by the Offer Price is within the range and above the average of the Company's historical P/NAV. P/E implied by the Offer Price is also within the range and above the average of the Company's historical P/E. The exceptionally high historical P/E for the period from 3 January 2006 to 29 December 2006 was due to the Company's low reported earnings in 2005, which was due largely to the Group's adoption of HKAS39, as explained above.

However, Independent Shareholders should note that P/E multiples are only meaningful if the profit statistic used is representative of the future. Profit fluctuations can have a substantial impact on multiples. Since a material part of the earnings of the Group are generated from investment related activities, which can fluctuate from year to year, P/E may not be a meaningful benchmark to assess the relative valuation of the Group. Furthermore, differences in accounting policies affect how profits are measured and ultimately have a large effect on P/E multiples. This has been demonstrated by the fluctuations in the Group's earnings in 2005 as a result of the adoption of new accounting standards.

(e) Comparison of selected publicly-listed insurance companies

For comparison purposes, we have also evaluated the valuation multiples implied by the Offer Price with those of other life insurers listed in the Asia-Pacific region as at the Latest Practicable Date. We have selected all life insurers listed in the Asia-Pacific region which generated 50% or more of their revenues or net income (depending on available segmental disclosure) from insurance operations and where life insurance premiums account for 50% or more of total insurance premiums (collectively, the "Selected Insurers"). We note however that the Company operates entirely in the Hong Kong insurance markets and as such, none of the Selected Insurers have the same geographical mix as the Company.

The table below sets out the valuation multiples of the Selected Insurers as at the Latest Practicable Date and the valuation multiples of the Company as implied by the Offer Price:

Listed insurer / Country of exchange	Embedded value (HK$ million)	Net profits (HK$ million)	NAV (HK$ million)	Market capitalization as at the Latest Practicable Date (HK$ million)	P/EV (x)	P/E (x)	P/NAV (x)
AMP Limited / Australia	41,887	5,880	17,531	128,436	3.07	21.84	7.33
AXA Asia Pacific Holdings Limited / Australia	37,099	4,291	25,090	83,807	2.26	19.53	3.34
Cathay Financial Holding Company, Limited / Taiwan	n/a(1)	2,480	53,204	149,894	n/a(1)	60.44	2.82
China Insurance International Holdings Company Limited / Hong Kong	4,618	511	4,178	12,950	2.80	25.34	3.10
China Life Insurance Company Limited (Taiwan) / Taiwan	n/a(1)	165	2,728	3,491	n/a(1)	21.16	1.28
China Life Insurance Company Limited / China and Hong Kong	185,319	20,321	142,221	1,019,014	5.50	50.15	7.17
Fubon Financial Holding Company, Limited / Taiwan	n/a(1)	1,970	39,409	51,408	n/a(1)	26.10	1.30
Great Eastern Holdings Limited / Singapore	28,852	2,446	15,055	47,095	1.63	19.25	3.13
MAA Holdings Berhad / Malaysia	1,245	(5)	849	1,757	1.41	n/a(2)	2.07

Listed insurer / Country of exchange	Embedded value (HK$ million)	Net profits (HK$ million)	NAV (HK$ million)	Market capitalization as at the Latest Practicable Date (HK$ million)	P/EV (x)	P/E (x)	P/NAV (x)
Manulife Insurance (Malaysia) Berhad / Malaysia	n/a(1)	117	850	1,112	n/a(1)	9.50	1.31
Ping An Insurance Company / China and Hong Kong	66,956	7,981	47,224	421,884	6.30	52.86	8.93
PT Panin Life Tbk / Indonesia	n/a(1)	288	3,280	3,626	n/a(1)	12.69	1.11
Shin Kong Financial Holdings Company Limited / Taiwan	n/a(1)	1,390	21,708	34,704	n/a(1)	24.97	1.60
Siam Commercial New York Life Insurance Public Company Limited / Thailand	n/a(1)	113	285	1,285	n/a(1)	11.37	4.51
T&D Holdings Inc. / Japan	128,811	2,298	68,497	125,628	0.98	54.67	1.83
Taiwan Life Insurance Company Limited / Taiwan	n/a(1)	371	3,017	5,003	n/a(1)	13.49	1.66
Tower Australia Group Limited / Australia	3,993	802	2,166	5,112	1.28	6.37	2.36
High					**6.30**	**60.44**	**8.93**
Average					**2.80**	**26.85**	**3.22**
Low					**0.98**	**6.37**	**1.11**
The Company (based on the Offer Price)				6,986(4)	1.38	21.70	2.43

Source: Bloomberg and company announcements

Notes:

1. Since these companies have not disclosed their respective embedded value in the public domain, the P/EV ratios of these companies are not available and are shown as "n/a" in the table above

2. MAA Holdings Berhad made a loss for the financial year ended 31 December 2006. As such, the P/E ratio of MAA Holdings Berhad is shown as "n/a"

3. The above figures are calculated based on latest announced financial results of the Selected Insurers

4. Assuming full exercise of all Outstanding Options as at the Latest Practicable Date

We note from the table above that a majority of the life insurance companies have market capitalizations which are substantially above the implied market capitalization of the Company based on the Offer Price. In order to present a more representative set of valuation multiples for comparison purposes, we have excluded those companies with much higher capitalizations. Large capitalization companies typically possess operating characteristics which are very different from smaller capitalization companies. These characteristics include, but not limited to, scale of operations, asset base, financial and operating risk profiles, track record, shareholders base and growth potential. In view of this, we have therefore only included those companies with market capitalizations of less than HK$15,000 million ("Comparable Companies") as at the Latest Practicable Date in conducting our comparable analysis, as below:

Listed insurer	Embedded value (HK$ million)	Net profits (HK$ million)	NAV (HK$ million)	Market capitalization as at the Latest Practicable Date (HK$ million)	P/EV (x)	P/E (x)	P/NAV (x)
China Insurance International Holdings Company Limited	4,618	511	4,178	12,950	2.80	25.34	3.10
China Life Insurance Company Limited (Taiwan)	n/a(1)	165	2,728	3,491	n/a(1)	21.16	1.28
MAA Holdings Berhad	1,245	(5)	849	1,757	1.41	n/a(2)	2.07
Manulife Insurance (Malaysia) Berhad	n/a(1)	117	850	1,112	n/a(1)	9.50	1.31
PT Panin Life Tbk	n/a(1)	288	3,280	3,626	n/a(1)	12.59	1.11
Siam Commercial New York Life Insurance Public Company Limited	n/a(1)	113	285	1,285	n/a(1)	11.37	4.51
Taiwan Life Insurance Company Limited	n/a(1)	371	3,017	5,003	n/a(1)	13.49	1.66
Tower Australia Group Limited	3,993	802	2,166	5,112	1.28	6.37	2.36
High					**2.80**	**25.34**	**4.51**
Average					**1.83**	**14.26**	**2.18**
Low					**1.28**	**6.37**	**1.11**
The Company (based on the Offer Price)				6,986(4)	1.38	21.70	2.43

Source: Bloomberg and company announcements

Notes:

1. Since these companies have not disclosed their respective embedded value in the public domain, the P/EV ratios of these companies are not available and are shown as "n/a" in the table above

2. MAA Holdings Berhad made a loss for the financial year ended 31 December 2006. As such, the P/E ratio of MAA Holdings Berhad is shown as "n/a"

3. The above figures are calculated based on latest announced financial results of the Comparable Companies

4. Assuming full exercise of all Outstanding Options as at the Latest Practicable Date

We note from the above table that the valuation multiples implied by the Offer Price are within the range of the valuation multiples of the Comparable Companies. However, the P/EV ratio implied by the Offer Price of 1.38x is approximately 24.59% below the average P/EV of the Comparable Companies. Nevertheless, we observe that the P/E ratio implied by the Offer Price of 21.70x is approximately 52.17% higher than the average P/E ratio of the Comparable Companies. In addition, the P/NAV ratio implied by the Offer Price of 2.43x is approximately 11.47% higher than the average P/NAV of the Comparable Companies.

We wish to highlight that the above comparison with other listed life insurers is for illustrative purposes only as the listed life insurers are not considered entirely comparable to the Company in terms of the geographical spread of activities, scale of operations, asset base, risk profile, track record, composition of their business activities, future prospects and other relevant criteria. All these factors may affect the valuation of a company as indicated by the varied range of results in our comparisons. Therefore, none of the listed life insurers can be taken as a benchmark in assessing the valuation of the Group under the Offer. In forming our opinion, we have considered the results of the above companies together with all other factors stated in this letter as a whole.

(f) Precedent transactions

In considering the fairness and reasonableness of the Offer Price, we have made reference to the terms of recent merger and takeover transactions in the life insurance sector. Accordingly, we have reviewed all transactions ("Selected Precedent Transactions"), for which information is publicly available and that have been announced and completed, involving the acquisition of controlling stakes in targets that operate in the life insurance industry predominantly in Asia or general offers for listed life insurers in Asia which have been announced and completed since 1 January 2005.

Selected Precedent Transactions

Target company	Acquirer	Announcement date	Operating geography of target company	Announced deal size (HK$ mil.)	Final stake (%)	P/EV (x)	P/E (x)	P/NAV (x)
Great Eastern Holdings Limited	Oversea-Chinese Banking Corporation Limited	29-Jun-06	Singapore	6,310	87	1.51	20.25	2.86
Bank of China Life Assurance Company Limited	BOC Hong Kong Holdings Limited	11-Apr-06	Hong Kong	900	51	n/a[1]	8.65	1.80

Target company	Acquirer	Announcement date	Operating geography of target company	Announced deal size (HK$ mil.)	Final stake (%)	P/EV (x)	P/E (x)	P/NAV (x)
MLC Hong Kong and MLC Indonesia	AXA Asia Pacific Holdings Limited	21-Feb-06	Hong Kong	3,321	100	1.50	15.90	n/a
Shinhan Life Insurance	Shinhan Financial Group	27-Sep-05	Korea	4,591	100	n/a(1)	6.60	2.42
Malaysia National Insurance Holdings Berhad	Mayban Fortis Holdings Berhad	29-Aug-05	Malaysia	1,743	100	n/a(1)	14.89	0.98
CMG Asia and CommServe Financial	Sun Life Financial Group	5-Jul-05	Hong Kong	3,500	100	1.20	n/a(2)	3.40
MLC Hong Kong and MLC Indonesia	National Australia Bank	14-Apr-05	Hong Kong and Indonesia	881	62	0.82	13.10	1.65
High						**1.51**	**20.25**	**3.40**
Average						**1.26**	**13.23**	**2.19**
Low						**0.82**	**6.60**	**0.98**
Pacific Century Insurance Holdings Limited	Fortis Insurance International N.V.	1-Mar-07	Hong Kong	6,986	51.06(3)	1.38	21.70	2.43

Source: Bloomberg, company public information and announcements

Notes:

1. Since the embedded values of these target companies are not available in the public domain, the P/EV ratios of these transactions are not available and are shown as "n/a" in the table above

2. Since the P/E ratio of the target company is not available in the public domain, it is shown as "n/a" in the table above

3. As at the Latest Practicable Date

On the basis of the data shown above, we note that both the P/EV and P/NAV ratios implied by the Offer Price (at 1.38x and 2.43x, respectively) are higher than the average of the P/EV ratio and P/NAV ratio of Selected Precedent Transactions (at 1.26x and 2.19x, respectively). The P/E ratio implied by the Offer Price (21.70x) is also higher than the range of the P/E ratio of the Selected Precedent Transactions (between 6.60x and 20.25x).

The above precedents are provided on a selective basis for illustrative purposes only and may not be directly comparable to the Company in terms of the geographical spread of activities, scale of operations, asset base, risk profile, track record, composition of their business activities, future prospects and other relevant criteria. All these factors may affect the valuation of a company as indicated by the

varied range of results in our comparisons. Therefore, none of the Selected Precedent Transactions can be taken as a benchmark in assessing the valuation of the Group under the Offer. In forming our opinion, we have considered the valuations of the above precedent transactions together with all other factors stated in this letter as a whole.

Based on the above analyses, we consider that the Offer Price for each Disinterested Share is fair and reasonable.

(g) Other Considerations

Information on the Offeror

The Offeror and its subsidiaries are providers of insurance services to personal, business and institutional customers outside Fortis' home markets of The Netherlands and Belgium. The Offeror has either directly or through its subsidiaries established insurance joint ventures in Spain, Portugal, China, Malaysia and Thailand and is in the regulatory approval process for a life insurance joint venture in India. Fortis delivers a total package of financial products and services through its own high-performance channels and via intermediaries and other partners.

Fortis is an international financial services provider active in banking and insurance, and is ranked among Europe's top 20 financial institutions, with a market capitalization of EUR44 billion as at 19 April 2007. Fortis has offices in 50 countries and has a dedicated workforce of approximately 60,000. As at the Latest Practicable Date, Fortis had ratings of AA- by Fitch, A+ by Standard & Poor's and Aa3 by Moody's.

Fortis has been in Asia for over 105 years. It has combined its banking and insurance expertise in key growth markets in Asia. Its regional headquarter is based in Hong Kong; other offices include Bangkok, Beijing, Guangzhou, Hanoi, Ho Chi Minh City, Jakarta, Kuala Lumpur, Manila, Mumbai, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

Fortis SA/NV and Fortis N.V., both of which are listed on Euronext exchange in Belgium and The Netherlands, are the ultimate parent companies of the Offeror as each holds a 50% interest in Fortis Utrecht N.V., which in turn holds a 100% interest in Fortis Insurance N.V., the direct holding company of the Offeror. The Offeror has no ultimate controlling shareholder as the shareholdings in Fortis SA/NV and Fortis N.V. are widely dispersed and no one shareholder has a controlling interest.

Intentions of the Offeror

As stated in the "Letter from Morgan Stanley" in the Composite Document, the acquisition of the Company fits well with Fortis' strategy in Asia. It offers an unique opportunity to establish a solid base in Hong Kong where Fortis does not have life insurance operations. It is also complementary to Fortis' existing operations in Asia.

Fortis is committed to the Group's franchise, to the development of the agency sales force and to delivering the highest level of service to policy holders. Specifically, Fortis intends to develop the Company's existing infrastructure, extend its product range and enhance its customer service.

In addition, the Selected Employees have undertaken to remain in the Group for a minimum of 6 months following Completion which will assist Fortis to ensure business continuity and stability within the Group.

As at the Latest Practicable Date, Fortis had no intention to re-deploy the employees or the fixed assets of the Company other than in the ordinary course of business, except that Fortis anticipates that changes will be made to the composition of the Board in compliance with the Takeovers Code and the Listing Rules.

Options available to Independent Shareholders

(i) Accept the Offer

Those Independent Shareholders who believe the Offer Price represents an attractive exit opportunity may accept the Offer now rather than waiting to be bought out in the event that the Offeror exercises the rights of compulsory acquisition. Cheques for the amount due to Independent Shareholders in respect of the Shares tendered under the Offer will be dispatched to them by ordinary post at their own risk within 10 days from the date on which complete and valid acceptances are received.

(ii) Dispose of the Shares in the market

Independent Shareholders, having considered their own investment objectives and taking into account any possible investment gains that may have been realized as a result of the recent Share price increase, may consider selling their Shares in the market, particularly if a price can be obtained which is not materially lower (after taking into account related costs) than the Offer Price to immediately realize their investment.

(iii) Not accept the Offer

If Independent Shareholders are optimistic about the future prospects of the Company and decide not to accept the Offer, no action is required to be taken. Depending on the level of acceptances to be received in respect of the Offer, either one of two possible scenarios will take place:

(a) Compulsory acquisition and withdrawal of listing

If the Offeror acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document in accordance with Rule 2.11 of the Takeovers Code and holds 95% or more of the issued Shares, the Offeror intends to exercise the powers of compulsory acquisition under Section 103 of the Bermuda Companies Act to compulsorily acquire those Disinterested Shares not acquired by the Offeror pursuant to the Offer. Under those circumstances, Shares held by the Independent Shareholders will be compulsorily acquired by the Offeror at the Offer Price and the sales proceeds will be received by the Independent Shareholders up to some 5 months later.

On completion of such compulsory acquisition, the Company would become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange in accordance with the Listing Rules.

(b) Company to remain listed

If the Offeror fails to acquire not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document or the Offeror's shareholding at the closing of the Offer is less than 95% of the issued Shares, the Offeror cannot exercise the powers of compulsory acquisition to acquire the outstanding Disinterested Shares. Under such circumstances, the Offeror will undertake to the Stock Exchange that, following the closing of the Offer, it will take appropriate steps to ensure that not less than 25% of the Shares will be held by the public in compliance with the Listing Rules. However, if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in the public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Shares. In this connection, Independent Shareholders should note that upon the closing of the Offer, there may be an insufficient public float, and therefore trading in the Shares may have to be suspended until a sufficient level of public float is restored. It is uncertain as to how long the suspension of trading in the Shares would last. Under such circumstances, if the Offeror is required to reduce its shareholding in the Company to maintain a sufficient level of public float, it is also uncertain as to at what price the Shares would be placed and the impact that the placing would have on the market price of the Shares.

As mentioned in the paragraph headed "Historical price performance of the Shares and trading liquidity" above, the Share price has, since the release of the Announcement, increased substantially to the price level that is close to the Offer Price. If the Offer closes and the Shares remain listed on the Stock Exchange, the Company would then be held by a new controlling shareholder, being Fortis, and the price of the Shares would then be subject to normal market fluctuations and by investors' perception of the future prospects of the Company operating under a new controlling shareholder. It is therefore uncertain as to how the price of the Shares would, in those circumstances, change from the current levels.

(h) Offer for Outstanding Options

Under the Offer, Morgan Stanley, for and on behalf of the Offeror, is making an offer to all Option Holders to cancel their Outstanding Options in exchange for the offer price in cash. The Offer Price for each Outstanding Option is HK$8.18 less the exercise price of the Outstanding Option.

As at the Latest Practicable Date, there are 10,237,204 outstanding Options, details of which are as follows:

Grant Date	Exercise Period	Exercise Price	No. of Shares
7 July 1999	7 July 2000 to 6 July 2007	HK$4.187	661,032
7 July 1999	7 July 2000 to 6 July 2009	HK$4.448	675,692
7 July 1999	7 July 2000 to 6 July 2009	HK$5.233	360,480
29 August 2003	29 August 2004 to 28 August 2011	HK$2.050	3,230,000
2 March 2004	2 March 2005 to 1 March 2012	HK$3.840	2,320,000
4 October 2004	4 October 2005 to 3 October 2012	HK$2.825	600,000
3 March 2005	3 March 2006 to 2 March 2013	HK$3.675	2,130,000
19 May 2005	19 May 2006 to 18 May 2013	HK$3.125	140,000
4 April 2006	4 April 2007 to 3 April 2014	HK$3.680	120,000

If these Outstanding Options are exercised in full, the Company would have to issue 10,237,204 Shares, representing approximately 1.2% of the existing issued share capital of the Company as at the Latest Practicable Date on a fully diluted basis (assuming full exercise of all the Outstanding Options as at the Latest Practicable Date).

Since the Offer Price for each Disinterested Share is considered to be fair and reasonable as mentioned above, we consider that the Offer Price for each Outstanding Option is also fair and reasonable.

Options available to Option Holders

(i) Accept the Offer

Those Option Holders who believe the Offer Price represents an attractive exit opportunity may accept the Offer. Cheques for the amount due to them in respect of the Options tendered under the Offer will be dispatched to them by ordinary post at their own risk within 10 days from the date on which complete and valid acceptances are received.

(ii) Not accept the Offer

If Option Holders are optimistic about the future prospects of the Company and decide not to accept the Offer, no action is required to be taken. Depending on the level of acceptances to be received in respect of the Offer, either one of two possible scenarios will take place:

(a) Compulsory acquisition and withdrawal of listing

Option Holders should note that in accordance with the terms of the respective Share Option Schemes, where the Offeror acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document and gives notice (the "Offeror Notice") to exercise the powers of compulsory acquisition under the Bermuda Companies Act to acquire the Disinterested Shares not acquired by it pursuant to the Offer, any Option Holders may by notice in writing to the Company within 21 days of the Offeror Notice exercise such vested Outstanding Options which have not been exercised, failing which such Outstanding Options will lapse. As unvested Outstanding Options cannot be exercised in the situation described above, such unvested Outstanding Options will also lapse 21 days after the giving of the Offeror Notice.

Option Holders should note that the Offer is extended also to Option Holders whose Options have not become exerciseable. In the event that the Offeror Notice is given, only Option Holders whose Options are exerciseable may exercise their Options, but Options which have not become exerciseable will lapse. Accordingly, holders of Options which are not yet exerciseable are reminded that (i) if they do not accept the Offer, (ii) the Offeror Notice is given, and (iii) the Offer has closed for acceptance prior to the Offeror Notice being given, holders of Options which are not yet exerciseable will have no further right to participate in the Offer, but their Options will lapse without any payment.

(b) Company to remain listed

If the Offeror fails to acquire not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document or the Offeror's shareholding at the closing of the Offer is less than 95% of the issued Shares, the Offeror cannot exercise the powers of compulsory acquisition to acquire the outstanding Disinterested Shares and accordingly the Options will continue to be valid. The attention of the Option Holders is drawn to the sub-paragraph headed "Company to remain listed" under the paragraph headed "Options available to the Independent Shareholders" above.

CONCLUSION AND RECOMMENDATION

We have considered the above principal factors and reasons, and in particular, have taken into account the following factors in arriving at our opinion:

- the Offer Price of HK$8.18 per Share is higher than the Shares that have ever traded since IPO and up to the Last Full Trading Day. Furthermore, the Offer Price is a 44.3% premium to the highest closing price of the Shares for the period since IPO and up to the Last Full Trading Day and 0.9% premium to the closing price of the Shares as at the Latest Practicable Date. In addition, the Offer Price represents a substantial premium of between approximately 58.2% to 92.0% relative to the average Share prices over all the time periods included in the analysis set out in the paragraph headed "Historical price performance of the Shares and trading liquidity" above;

- the average daily trading volume of the Shares since IPO and up to the Latest Practicable Date has been relatively low. Therefore, in our view, the Offer provides an opportunity for the Independent Shareholders, in particular for those with significant shareholdings, to realise their investments in full at a price significantly higher than the historical Share prices that have traded since IPO and up to the Last Full Trading Day;

- since its IPO, the Shares have traded within a P/EV range of 0.34x to 1.71x, a P/E range of 3.43x to 90.96x, and a P/NAV range of 0.54x to 5.02x. We observe that P/EV, P/E and P/NAV implied by the Offer Price are within the range of the Company's historical trading level since IPO and up to the Last Full Trading Day;

- based on our analysis of the valuation multiples of the Comparable Companies, the respective P/EV, P/E and P/NAV implied by the Offer Price are within those valuation multiples of the Comparable Companies. Both the P/E and P/NAV ratios implied by the Offer Price are significantly higher than the average of the P/E ratio and P/NAV ratio of the Comparable Companies, even though the P/EV ratio implied by the Offer Price is lower than the average P/EV of the Comparable Companies; and

- according to our assessment of the Selected Precedent Transactions, both the P/EV and P/NAV ratios implied by the Offer Price (at 1.38x and 2.43x, respectively) are higher than the average of the P/EV ratio and P/NAV ratio of the Selected Precedent Transactions (at 1.26x and 2.19x, respectively). P/E ratio implied by the Offer Price (21.70x) is higher than the range of the P/E ratio of the Selected Precedent Transactions (between 6.60x and 20.25x).

Based on the above, we consider that the terms of the Offer, including the Offer Price for each Disinterested Share and Offer Price for each Outstanding Option, are fair and reasonable.

As mentioned above, Fortis is a global provider of financial and insurance services with business operations in 50 countries. Whilst we have no doubts about Fortis' strength and capabilities as a global financial institution in general, we would like to remind Independent Shareholders that, prior to the acquisition of the Shares, Fortis had no life insurance operations in Hong Kong and this acquisition represents the first substantial investment by Fortis in the Hong Kong insurance market. Unless Independent Shareholders and Option Holders believe that the Company is likely in future to achieve above-average growth which will be reflected in its share price, Independent Shareholders and Option Holders are recommended to accept the Offer.

It should be noted that an Independent Shareholder who decides to retain his or her Shares may nevertheless have his or her Shares compulsorily acquired if the Offeror exercises the powers of compulsory acquisition after (i) acquiring not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document in accordance with Rule 2.11 of the Takeovers Code; and (ii) holding 95% or more of the issued Shares. In that event, he or she will receive the cash proceeds several months after those who accept the Offer.

Having taken all of the above into consideration, we recommend that the Independent Board Committee advises the Independent Shareholders and the Option Holders accordingly.

Notwithstanding our view that the terms of the Offer are fair and reasonable, the Independent Shareholders and the Option Holders are strongly advised that the decision to realise or to hold their investments in the Company is subject to individual circumstances and investment objectives.

Yours faithfully,
For and on behalf of
DBS ASIA CAPITAL LIMITED

George Hongchoy	**Jason Wong**
Managing Director	*Managing Director*

1. FURTHER PROCEDURES FOR ACCEPTANCE

(a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer, you must forward the completed **WHITE** form of acceptance and transfer of the Shares together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by hand or by post, to the Registrar at Shops 1712-16 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:00 p.m. on Monday, 11 June 2007 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code).

(b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are registered in the name of a nominee company or a name other than your own, and you wish to accept the Offer, you must:

(i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to forward the completed **WHITE** form of acceptance and transfer of the Shares together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by hand or by post, to the Registrar at Shops 1712-16 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:00 p.m. on Monday, 11 June 2007 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code);

(ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the completed **WHITE** form of acceptance and transfer of the Shares together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by hand or by post, to the Registrar at Shops 1712-16 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by no later than 4:00 p.m. on Monday, 11 June 2007 (or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code);

(iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer in respect of your Shares on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing on processing your instruction, and submit your instruction to your broker/custodian bank as required by them; or

(iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by CCASS. In order to meet the deadlines set by CCASS, you should check with CCASS for the timing on processing your instruction, and submit your instruction via the CCASS Phone System or CCASS Internet System.

(c) If the Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer, the **WHITE** form of acceptance and transfer of the Shares should nevertheless be completed and forwarded, by hand or by post, to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, it/they should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

(d) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the **WHITE** form of acceptance and transfer of the Shares and forward it, by hand or by post, to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to Morgan Stanley and/or the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the **WHITE** form of acceptance and transfer of the Shares.

(e) Acceptances will be subject to validation and stamping (as the case may be) before the consideration payable in respect thereof will be despatched to the persons entitled to it, provided that the consideration shall be despatched as soon as possible but in any event within 10 days following the day on which all the relevant documents are received by the Registrar to render acceptance of the Offer complete and valid.

(f) No acknowledgement of receipt of any of the **WHITE** form of acceptance for transfer of Shares, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

(g) The provisions of paragraphs (a), (c), (e) and (f) above will also apply to acceptances of the Offer in respect of Outstanding Options, as if references in those paragraphs to (i) Shares were references to Outstanding Options; (ii) the Share certificate(s) and/or transfer receipts were references to the letter or other document evidencing the grant of the relevant Outstanding Options; (iii) the **WHITE** form of acceptance for transfer of Shares were references to the **YELLOW** form of acceptance and cancellation of the Outstanding Options; and (iv) the Registrar were references to the Company and the address of the Registrar were references to the address of the Company at 28th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

2. ACCEPTANCE PERIOD AND REVISIONS

(a) Unless the Offer is revised or extended in accordance with the Takeovers Code, the Offer will close at 4:00 p.m. on Monday, 11 June 2007.

(b) **The Offeror does not intend to increase the Offer Price, save that the Offeror reserves its right to revise the Offer Price in accordance with the Takeovers Code if an offer which is, or is deemed under the Takeovers Code to be, a competing offer arises and provided that (a) an announcement that the Offeror intends to increase the Offer Price is published as soon as possible (and in any event within 4 business days after the day of the announcement of the competing offer); (b) a circular is sent to the Shareholders and Option Holders at the earliest opportunity; and (c) any Shareholders or Option Holders who had already accepted the Offer may withdraw their acceptance of the Offer for a period of 8 days following the date on which the circular in (b) above is sent.**

3. ANNOUNCEMENTS

(a) As required under Rule 19 of the Takeovers Code, by 6:00 p.m. (or such later time as the Executive may in exceptional circumstances permit) on Monday, 11 June 2007, the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on Monday, 11 June 2007 stating whether the Offer has been closed, revised or extended. The announcement must be republished in accordance with Rule 12.2 on the next business day thereafter and must state the total number of Shares and rights over Shares:

(i) for which acceptances of the Offer have been received;

(ii) held, controlled or directed by the Offeror or persons acting in concert with it before the Offer Period; and

(iii) acquired or agreed to be acquired during the Offer Period by the Offeror or any persons acting in concert with it.

The announcement must specify the percentages of the relevant classes of share capital, and the percentages of voting rights, represented by these numbers.

(b) As required under the Takeovers Code, any announcement in relation to the Offer, in respect of which the Executive has confirmed that it has no further comments, will be published as a paid announcement in at least one leading English language newspaper and one leading Chinese newspaper, being in each case a newspaper which is published daily and circulated generally in Hong Kong. Copies of all documents will be delivered to the Executive and the Stock Exchange in electronic form, in accordance with their respective requirements from time to time for publication on their respective websites.

4. RIGHT OF WITHDRAWAL

As the Offer is unconditional in all respects, acceptances by Shareholders or Option Holders under the Offer shall be irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code. In particular, Shareholders and Option Holders who have accepted the Offer may be granted a right of withdrawal if the Offeror is unable to comply with its obligations to publish an announcement regarding the results of the Offer as provided in the section headed "Announcements" above.

5. OVERSEAS HOLDERS

The making of the Offer to overseas Shareholders and overseas Option Holders may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Shareholders and overseas Option Holders should inform themselves about and observe any applicable legal requirements. It is the responsibility of each overseas Shareholder or overseas Option Holder who wishes to accept the Offer to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities. Any such overseas Shareholders or overseas Option Holders will be responsible for their own such transfer or other taxes or other requisite payments.

6. GENERAL

(a) All communications, notices, Forms of Acceptance, Share certificates, transfer receipts, the relevant letter or other document evidencing the grant of the Outstanding Options, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or remittances to be delivered by or sent to or from Shareholders or Option Holders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Company, the Offeror, Morgan Stanley, the Registrar nor any of their respective directors, officers, associates, agents or any other person involved in the Offer accepts any liability for any loss in postage or any other liabilities that may arise as a result.

(b) The provisions set out in the accompanying Forms of Acceptance form part of the Offer.

(c) The accidental omission to despatch this Composite Document and the Forms of Acceptance to any person to whom the Offer is made will not invalidate the Offer in any way.

(d) The Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong. Execution of a **WHITE** form of acceptance and transfer of the Shares or the **YELLOW** form of acceptance and cancellation of the Outstanding Options by or on behalf of a Shareholder or Option Holder, respectively, will constitute such Shareholder's or Option Holder's (as the case may be) agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Offer.

(e) Due execution of the **WHITE** form of acceptance and transfer of the Shares or the **YELLOW** form of acceptance and cancellation of the Outstanding Options will constitute an authority to the Offeror, Morgan Stanley or such person or persons as the Offeror or Morgan Stanley may direct, to complete and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror, or such person or persons as it may direct, the Shares or the cancellation of the Outstanding Options (as the case may be) in respect of which such person or persons has/have accepted the Offer.

(f) Acceptance of the Offer by any Shareholder will be deemed to constitute a warranty by such person to the Offeror that the Shares acquired under the Offer are sold by such person free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after 1 March 2007, being the date of the Announcement.

(g) Acceptance of the Offer by any Option Holder will be deemed to constitute a warranty by such person to the Offeror that he has the absolute right and power to cancel such Outstanding Options and that such Outstanding Options are free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature (other than those restrictions imposed by the Company at the time of granting the Outstanding Options).

(h) Seller's ad valorem stamp duty of the sellers at a rate of HK$1.00 for every HK$1,000 (or part thereof) of the consideration payable to the Shareholders who accept the Offer will be deducted from the amount payable to such Shareholders. The Offeror will then pay the stamp duty deducted to the stamp duty office on behalf of the accepting Shareholders.

(i) The consideration payable to Shareholders or Option Holders under the Offer will be paid in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against the accepting Shareholders or Option Holders.

(j) References to the Offer in this Composite Document and the Forms of Acceptance shall include any extension or revision of the Offer.

(k) In making their decision, the Shareholders and Option Holders must rely on their own examination of the Offeror, the Company and the terms of the Offer, including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein together with the Forms of Acceptance are not to be construed as any legal or business advice. The Shareholders should consult their own professional advisers for professional advice.

(l) The English texts of this Composite Document and the Forms of Acceptance shall prevail over their Chinese texts for the purpose of interpretation.

(I) THREE YEAR FINANCIAL SUMMARY

The following financial information is extracted from the audited consolidated financial statements of the Group, for each of the three years ended 31 December 2004, 31 December 2005 and 31 December 2006.

The auditors' reports in respect of the Group's audited consolidated financial statements for each of the years ended 31 December 2004, 31 December 2005 and 31 December 2006 did not contain any qualification.

The Group had no minority interests for each of the three years ended 31 December 2004, 31 December 2005 and 31 December 2006.

Results

	Year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	1,993,853	1,826,885	1,688,832
Profit before tax	339,054	58,866	206,440
Tax	(17,320)	(16,963)	(17,579)
Profit for the year from continuing operations	321,734	41,903	188,861
Profit/(loss) for the year from a discontinued operation	715	599	(566)
Profit for the year attributable to equity holders of the parent	322,449	42,502	188,295
Dividends	24,348	40,937	82,094
Dividend per share	3.00 cents	5.00 cents	10.00 cents
Earnings per share attributable to ordinary equity holders of the parent [Note]			
Basic	39.77 cents	5.18 cents	22.94 cents
Diluted	39.18 cents	5.11 cents	22.54 cents

Note: The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent (2006: HK$322,449,000; 2005: HK$42,502,000; 2004: HK$188,295,000), and the weighted average number of ordinary shares in issue during the year (2006: 810,746,000; 2005: 820,109,000; 2004: 820,737,000).

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent (2006: HK$322,449,000; 2005: HK$42,502,000; 2004: HK$188,295,000). 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 (2006: 822,934,000; 2005: 832,171,000; 2004:835,336,000).

Assets and Liabilities

	At 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	11,624,520	10,197,955	9,227,038
Total liabilities	(8,876,810)	(7,581,404)	(6,746,384)
	2,747,710	2,616,551	2,480,654

(II) AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following financial information is extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2006.

Consolidated income statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CONTINUING OPERATIONS			
REVENUE			
Turnover	4	**1,993,853**	1,826,885
Investment income, net gains, and other income	4	**919,198**	373,791
Total revenue and gains, net		**2,913,051**	2,200,676
Less: Reinsurance premiums	5	**(140,599)**	(154,807)
Net revenue		**2,772,452**	2,045,869
Policyholders' benefits under insurance contracts	6	**(701,529)**	(581,354)
Policyholders' benefits under investment contracts	37	**(104,193)**	(29,233)
Agency commission and allowances		**(491,963)**	(389,176)
Change in deferred acquisition costs	20	**120,885**	14,497
Management expenses		**(467,976)**	(303,608)
Increase in insurance contract liabilities		**(744,522)**	(652,783)
Finance costs	7	**(44,100)**	(45,346)
PROFIT BEFORE TAX	8, 9	**339,054**	58,866
Tax	12	**(17,320)**	(16,963)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**321,734**	41,903
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	13	**715**	599
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	14	**322,449**	42,502
DIVIDENDS	15		
Interim		**24,348**	8,213
Proposed final		**—**	32,724
		24,348	40,937
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	16		
BASIC			
– For profit for the year		**39.77 cents**	5.18 cents
– For profit from continuing operations		**39.68 cents**	5.11 cents
DILUTED			
– For profit for the year		**39.18 cents**	5.11 cents
– For profit from continuing operations		**39.10 cents**	5.04 cents

Consolidated balance sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**58,138**	219,649
Investment properties	19	**19,024**	15,028
Deferred acquisition costs	20	**1,150,314**	1,037,714
Financial assets	21	**3,985,028**	3,788,359
Deferred tax asset	31	**5,250**	—
Pledged deposits	28	**34,513**	15,751
Total non-current assets		**5,252,267**	5,076,501
CURRENT ASSETS			
Deferred acquisition costs	20	**294,464**	286,179
Premiums receivable		**69,968**	88,468
Prepayments, deposits and other debtors	27	**402,916**	210,162
Financial assets	21	**3,049,794**	3,116,225
Reinsurance assets	38	**1,918**	1,954
Tax recoverable		**—**	1,009
Cash and cash equivalents	28	**2,494,109**	1,357,684
		6,313,169	5,061,681
Assets of a disposal group classified as held for sale	13	**59,084**	59,773
Total current assets		**6,372,253**	5,121,454
CURRENT LIABILITIES			
Payable to policyholders	32	**(143,600)**	(147,520)
Accrued expenses and other creditors	35	**(367,303)**	(262,497)
Tax payable		**(17,718)**	(8,988)
		(528,621)	(419,005)
Liabilities directly associated with the assets classified as held for sale	13	**(19,364)**	(21,610)
Total current liabilities		**(547,985)**	(440,615)
NET CURRENT ASSETS		**5,824,268**	4,680,839
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,076,535**	9,757,340
NON-CURRENT LIABILITIES			
Derivative financial instrument	30	**(31,811)**	(3,313)
Interest-bearing loans	36	**(770,979)**	(768,140)
Investment contract liabilities	37	**(807,376)**	(546,802)
Insurance contract liabilities	38	**(5,804,170)**	(5,050,881)
Policyholders' dividends and bonuses	39	**(914,489)**	(771,653)
Total non-current liabilities		**(8,328,825)**	(7,140,789)
Net assets		**2,747,710**	2,616,551

	Notes	2006 HK$'000	2005 HK$'000
EQUITY			
Issued capital	40	**814,619**	818,106
Reserves	42(a)	**1,933,091**	1,765,721
Proposed final dividend	15	**—**	32,724
Total equity		**2,747,710**	2,616,551

Consolidated statement of changes in equity

Year ended 31 December 2006

	Notes	Issued share capital HK$'000 (note 40)	Share premium account HK$'000 (note 40)	Contributed surplus HK$'000 (note 42(a))	Share option reserve HK$'000	Hedging reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Retained profits HK$'000	Proposed final dividends HK$'000	Total equity HK$'000
At 1 January 2005		820,938	23,452	152,178	10,150	—	—	1,391,842	82,094	2,480,654
Change in fair value of available-for-sale financial assets		—	—	—	—	—	228,918	—	—	228,918
Realised gains of available-for–sale financial assets (transfer to income statement)		—	—	—	—	—	(41,408)	—	—	(41,408)
Net loss on a cash flow hedge		—	—	—	—	(937)	—	—	—	(937)
Total income and expenses for the year recognised directly in equity		—	—	—	—	(937)	187,510	—	—	186,573
Profit for the year		—	—	—	—	—	—	42,502	—	42,502
Total income and expense for the year		—	—	—	—	(937)	187,510	42,502	—	229,075
Final 2004 dividend declared		—	—	—	—	—	—	—	(82,094)	(82,094)
Issue of shares	40	3,030	3,182	—	—	—	—	—	—	6,212
Share repurchase expenses	40	—	(80)	—	—	—	—	—	—	(80)
Shares repurchased and cancelled	40	(5,862)	(12,092)	—	—	—	—	—	—	(17,954)
Equity-settled share option arrangements		—	—	—	8,951	—	—	—	—	8,951
Interim 2005 dividend	15	—	—	—	—	—	—	(8,213)	—	(8,213)
Proposed final 2005 dividend	15	—	—	—	—	—	—	(32,724)	32,724	—
At 31 December 2005		818,106	14,462	152,178	19,101	(937)	187,510	1,393,407	32,724	2,616,551

	Notes	Issued share capital HK$'000 (note 40)	Share premium account HK$'000 (note 40)	Contributed surplus HK$'000 (note 42(a))	Share option reserve HK$'000	Hedging reserve HK$'000	Available–for-sale financial assets revaluation reserve HK$'000	Retained profits HK$'000	Proposed final dividends HK$'000	Total equity HK$'000
At 1 January 2006		818,106	14,462	152,178	19,101	(937)	187,510	1,393,407	32,724	2,616,551
Change in fair value of available-for-sale financial assets		—	—	—	—	—	176,242	—	—	176,242
Realised gains of available-for–sale financial assets (transfer to income statement)		—	—	—	—	—	(256,753)	—	—	(256,753)
Impairment loss of an available–for-sale financial asset (transfer to income statement)		—	—	—	—	—	7,870	—	—	7,870
Net loss on a cash flow hedge		—	—	—	—	(30,551)	—	—	—	(30,551)
Total income and expenses recognised directly in equity		—	—	—	—	(30,551)	(72,641)	—	—	(103,192)
Profit for the year		—	—	—	—	—	—	322,449	—	322,449
Total income and expense for the year		—	—	—	—	(30,551)	(72,641)	322,449	—	219,257
Final 2005 dividend declared		—	—	—	—	—	—	—	(32,724)	(32,724)
Issue of shares	40(b)	14,801	23,341	—	(7,448)	—	—	—	—	30,694
Share repurchase expenses	40(a)	—	(282)	—	—	—	—	—	—	(282)
Shares repurchased and cancelled	40(a)	(18,288)	(17,319)	—	—	—	—	(29,719)	—	(65,326)
Equity-settled share option arrangements		—	—	—	3,888	—	—	—	—	3,888
Interim 2006 dividend	15	—	—	—	—	—	—	(24,348)	—	(24,348)
At 31 December 2006		814,619	20,202*	152,178*	15,541*	(31,488)*	114,869*	1,661,789*	—	2,747,710

* These reserve amounts comprise the consolidated reserves of HK$1,933,091,000 (2005: HK$1,765,721,000) in the consolidated balance sheet.

Consolidated cash flow statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**339,054**	58,866
From a discontinued operation		**715**	661
Adjustments for:			
Finance costs	7	**44,100**	45,346
Depreciation from property, plant and equipment	8	**16,842**	16,118
Depreciation from investment properties	8	**290**	291
Gain on disposal of items of property, plant and equipment	8	**(15,248)**	(88)
Interest income from policy loans and loans to employees and agents	4	**(26,362)**	(23,409)
Interest income from quoted bonds and deposits	4, 13	**(239,402)**	(181,112)
Dividend income from listed and unlisted investments	4	**(38,175)**	(31,332)
Net realised and unrealised capital gains on embedded derivatives and financial assets at fair value through profit or loss	4, 13	**(314,703)**	(36,988)
Fair value gains, net:			
Available-for-sale financial assets (transfer from equity)	4	**(256,753)**	(41,408)
Impairment loss of an available-for-sale financial asset (transfer from equity)	4	**7,870**	—
Equity-settled share option expenses	8	**3,888**	8,951
		(477,884)	(184,104)
Increase in policy loans		**(20,537)**	(25,020)
(Increase)/decrease in loans to employees and agents		**974**	(12,774)
Decrease in reinsurance assets		**36**	5
Increase in deferred acquisition costs		**(120,885)**	(14,497)
(Increase)/decrease in premiums receivable		**18,500**	(14,420)
Increase in prepayments, deposits and other debtors		**(45,281)**	(78,249)
Purchases of available-for-sale financial assets		**(5,160,609)**	(5,782,987)
Proceeds from disposal of available-for-sale financial assets		**6,835,358**	5,410,534
Purchases of financial assets at fair value through profit or loss		**(1,650,444)**	(89,435)
Proceeds from disposal of financial assets at fair value through profit or loss		**359,190**	15,961
Increase in time deposits with original maturity of more than three months when acquired		**(92)**	(23)
Decrease in payable to policyholders		**(3,942)**	(14,752)
Increase in other payables and accruals		**103,112**	10,185
Increase in amounts due to related companies		**1,736**	313
Increase in investment contract liabilities		**258,308**	85,742
Increase in insurance contract liabilities		**753,289**	643,531
Increase in policyholders' dividends and bonuses		**142,836**	103,351
(Increase)/decrease in derivative financial instruments		**1,788**	(10,167)
Cash generated from operations		**995,453**	43,194

	Notes	2006 HK$'000	2005 HK$'000
Cash generated from operations		**995,453**	43,194
Interest received from policy loans and loans to employees and agents		**26,362**	23,409
Interest received from quoted bonds and deposits		**236,979**	195,350
Interest received from currency swap agreement		**2,306**	—
Dividends received from listed and unlisted investments		**37,851**	30,229
Interest paid on interest-bearing loans		**(45,620)**	(46,197)
Hong Kong profits tax paid		**(12,831)**	(13,846)
Net cash inflow from operating activities		**1,240,500**	232,139
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	17	**(42,348)**	(20,096)
Deposits paid for acquisition of an investment property	27	**(147,230)**	—
Proceeds from disposal of items of property, plant and equipment		**197,979**	302
Increase in pledged deposits		**(18,762)**	(15,751)
Net cash outflow from investing activities		**(10,361)**	(35,545)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	40(b)	**30,694**	6,212
Repurchase of shares	40(a)	**(65,608)**	(18,034)
Dividends paid		**(57,072)**	(90,307)
Net cash outflow from financing activities		**(91,986)**	(102,129)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,138,153**	94,465
Cash and cash equivalents at beginning of year		**1,393,931**	1,299,466
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,532,084**	1,393,931
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**534,570**	1,126,133
Non-pledged time deposits with original maturity of less than three months when acquired	28	**1,959,539**	231,551
Cash and cash equivalents attributable to a discontinued operation	13	**37,975**	36,247
		2,532,084	1,393,931

Balance sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**851,323**	861,267
CURRENT ASSETS			
Dividends receivable from a subsidiary	18	**100,671**	36,784
Prepayments, deposits and other debtors	27	**370**	370
Cash and cash equivalents	28	**200**	35
Total current assets		**101,241**	37,189
CURRENT LIABILITIES			
Dividends payable		**(54)**	(23)
Creditors and accrued expenses		**(2,785)**	(2,640)
Total current liabilities		**(2,839)**	(2,663)
NET CURRENT ASSETS		**98,402**	34,526
Net assets		**949,725**	895,793
EQUITY			
Issued capital	40	**814,619**	818,106
Reserves	42(b)	**135,106**	44,963
Proposed final dividend	15	**—**	32,724
Total equity		**949,725**	895,793

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

Note:

(i) The Group entered into a cross currency swap contract, effective from 17 June 2005, as a cash flow hedge, to hedge any foreign currency fluctuations during the term of the interest-bearing loan denominated in United States dollar ("US$"), 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 HK$'000	Group 2005 HK$'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 HK$'000	Group 2005 HK$'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	2005
	HK$'000	HK$'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$'000**	2005 HK$'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

		Group	
	Notes	**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	2005
	HK$'000	HK$'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	2005
	HK$'000	HK$'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$'000**	2005 HK$'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

		Group	
	Notes	**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 **HK$'000**	2005 HK$'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 **HK$'000**	2005 HK$'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 **HK$'000**	2005 HK$'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	2005
	HK$'000	HK$'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	2005
	HK$'000	HK$'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	**Coinsurance liabilities**	**Reinsurers' share of liabilities**	**Net liabilities**	Insurance contract liabilities	Coinsurance liabilities	Reinsurers' share of liabilities	Net liabilities
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Unit-linked	**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 **HK$'000**	2005 HK$'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** **HK$'000**	Number of shares	Nominal value HK$'000
Authorised: Ordinary shares of HK$1.00 each	**3,000,000,000**	**3,000,000**	3,000,000,000	3,000,000
Issued and fully paid: Ordinary shares of HK$1.00 each	**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 #	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
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# 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
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)														
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 63 to 64 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	2005
	HK$'000	HK$'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**	2005
		HK$'000	HK$'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$'000	Group 2005 HK$'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.

(III) QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2007

Set out below is the unaudited consolidated results of the Group for the three months ended 31 March 2007 reproduced from the unaudited quarterly results announcement of the Company for the three months ended 31 March 2007.

CONSOLIDATED INCOME STATEMENT

	Note	**Unaudited three months ended 31 March 2007 HK$'000**	31 March 2006 HK$'000
CONTINUING OPERATIONS			
REVENUE			
Turnover	2	**496,891**	450,437
Investment income, net gains, and other income		**266,152**	258,187
Total revenue and gains, net		**763,043**	708,624
Less: Reinsurance premiums		**(32,576)**	(34,240)
Net revenue		**730,467**	674,384
Policyholders' benefits under insurance contracts		**(178,121)**	(153,417)
Policyholders' benefits under investment contracts		**(11,367)**	(26,852)
Agency commission and allowances		**(112,399)**	(96,596)
Change in deferred acquisition costs		**20,617**	8,985
Management expenses		**(135,597)**	(107,535)
Increase in insurance contract liabilities		**(184,036)**	(179,820)
Finance costs		**(13,067)**	(10,787)
PROFIT BEFORE TAX		**116,497**	108,362
Tax		**(9,411)**	(6,059)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**107,086**	102,303
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation		**439**	206
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**107,525**	102,509
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
BASIC			
– For profit for the period		**13.18 cents**	12.58 cents
– For profit from continuing operations		**13.13 cents**	12.55 cents
DILUTED			
– For profit for the period		**12.93 cents**	12.40 cents
– For profit from continuing operations		**12.88 cents**	12.38 cents

CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 31 March 2007** *HK$'000*	Audited 31 December 2006 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**76,896**	58,138
Investment properties		**1,522,880**	19,024
Deferred acquisition costs		**1,171,786**	1,150,314
Financial assets		**3,544,965**	3,985,028
Deferred tax asset		**5,250**	5,250
Pledged deposits		**90,247**	34,513
Total non-current assets		**6,412,024**	5,252,267
CURRENT ASSETS			
Deferred acquisition costs		**293,609**	294,464
Premiums receivable		**64,428**	69,968
Prepayments, deposits and other debtors		**360,861**	402,916
Financial assets		**3,092,736**	3,049,794
Reinsurance assets		**1,866**	1,918
Cash and cash equivalents		**2,629,633**	2,494,109
		6,443,133	6,313,169
Assets of a disposal group classified as held for sale		**59,924**	59,084
Total current assets		**6,503,057**	6,372,253
CURRENT LIABILITIES			
Payable to policyholders		**(155,188)**	(143,600)
Accrued expenses and other creditors		**(294,743)**	(367,303)
Tax payable		**(22,273)**	(17,718)
		(472,204)	(528,621)
Liabilities directly associated with the assets classified as held for sale		**(19,543)**	(19,364)
Total current liabilities		**(491,747)**	(547,985)
NET CURRENT ASSETS		**6,011,310**	5,824,268
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,423,334**	11,076,535
NON-CURRENT LIABILITIES			
Derivative financial instrument		**(4,731)**	(31,811)
Interest-bearing loans		**(1,746,684)**	(770,979)
Investment contract liabilities		**(846,342)**	(807,376)
Insurance contract liabilities		**(6,006,279)**	(5,804,170)
Policyholders' dividends and bonuses		**(948,389)**	(914,489)
Deferred tax liability		**(5,066)**	–
Total non-current liabilities		**(9,557,491)**	(8,328,825)
Net assets		**2,865,843**	2,747,710
EQUITY			
Issued capital		**816,404**	814,619
Reserves	3	**2,049,439**	1,933,091
Total equity		**2,865,843**	2,747,710

Notes:

1. CHANGE IN ACCOUNTING POLICY FOR INVESTMENT PROPERTIES

In prior years, the Group accounted for its investment properties using the cost model in accordance with the Hong Kong Accounting Standard ("HKAS") 40 "Investment Property". Investment properties were stated at cost less accumulated depreciation and any impairment losses. Depreciation was calculated on the straight-line basis so 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 were based on the remaining lease term of the land use rights.

From 1 January 2007, the Group opted to use the fair value model (the "Fair Value Model") in accordance with HKAS 40 to account for its investment properties. Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from the change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Management takes the view that the new policy provides reliable and more relevant information because it measures the returns with consideration of the changes in fair values of the investment properties. The new policy is applied retrospectively and the adoption of the Fair Value Model has no material impact on the Group's retained profits as at 31 December 2006 and 2005, and on the results for the years then ended.

(a) Effect on the consolidated balance sheet as at 31 March 2007

Effect of new policy	**Effect of adopting HKAS 40 Fair Value Model HK$'000**
Increase in investment properties	34,106
Increase in deferred tax liability	(5,276)
Net increase in net assets	28,830

(b) Effect on the consolidated income statement for the three months ended 31 March 2007

Effect of new policy	**Effect of adopting HKAS 40 Fair Value Model HK$'000**
Increase in investment income, net gains, and other income	31,561
Decrease in management expenses	2,545
Increase in deferred tax	(5,276)
Net increase in profit	28,830
Increase in basic earnings per share	3.54 cents
Increase in diluted earnings per share	3.47 cents

2. TURNOVER

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 is as follows:

	Unaudited three months ended	
	31 March 2007	31 March 2006
	HK$'000	*HK$'000*
Turnover		
Life insurance contracts:		
Single premium	**5,646**	8,743
First year premium	**69,014**	66,741
Renewal premium	**408,937**	371,357
Gross premium	**483,597**	446,841
General insurance commissions under agency agreements	**2,069**	1,933
Asset management fees	**3,981**	3,537
Fees on investment contracts	**7,244**	(1,874)
Turnover attributable to continuing operations reported in the consolidated income statement	**496,891**	450,437

3. RESERVES

	Unaudited 31 March 2007	Audited 31 December 2006
	HK$'000	*HK$'000*
Share premium account	**24,680**	20,202
Contributed surplus	**152,178**	152,178
Share option reserve	**14,994**	15,541
Hedging reserve	**(9,233)**	(31,488)
Available-for-sale financial assets revaluation reserve	**97,506**	114,869
Retained profits	**1,769,314**	1,661,789
	2,049,439	1,933,091

Business Review

For the first three months of 2007, the Group continued to maintain positive growth momentum and achieved a 21.4% growth in annualised first year premium on individual new business to HK$163.5 million. Excluding the premium from investment contracts which is not recognised as revenue under the current accounting standard, single and first year premium from insurance contracts slightly dropped 1.1% to HK$74.7 million. Renewal premium increased 10.1% to HK$408.9 million and total premium increased 8.2% to HK$483.6 million. Agency commission and allowances increased 16.4% to HK$112.4 million, in line with higher volume of new business. As a result of high new sales and associated agency commission and allowances, deferred acquisition costs increased by HK$20.6 million. Total operating expenses increased 11.0% to HK$416.9 million due to higher volume of new business and a larger inforce portfolio. Expense index was 155.2% (2006: 155.5%). LIMRA 13-month and 25-month persistency rates were 88.4% (2006: 88.7%) and 77.6% (2006: 78.2%), respectively. Renewal ratio was 102.4% (2006: 99.7%). Claim ratio was 88.4% (2006: 95.7%). Available-for-sale financial assets revaluation reserve was HK$97.5 million as compared to HK$114.9 million as at 31 December 2006.

Unaudited consolidated profit of the Group for the three months ended 31 March 2007 was HK$107.5 million (2006: HK$102.5 million).

The Board is pleased that the Group has continued to achieve solid growth in its business and is confident that the Group will continue to perform well.

(IV) INDEBTEDNESS

At the close of business on 31 March 2007, the Group had interest-bearing loans of HK$1,746,684,000, which represented (i) guaranteed bonds of HK$786,611,000 with a coupon rate of 5.875% per annum due on 17 December 2014; and (ii) a term loan of HK$960,073,000 bearing interest at the prevailing market rate due on 5 March 2012 (the "Term Loan").

At the close of business on 31 March 2007, the Term Loan was secured by (i) the Group's investment property with a carrying value of HK$1,500,000,000 (the "Investment Property"); (ii) a cash deposit of HK$50,000,000; (iii) the entire issued share capital of a wholly owned subsidiary of the Group, Foundasia (HK) Limited; (iv) assignment of all income and receivables derived from the Investment Property; and (v) assignment of all insurance proceeds receivable on the Investment Property. In addition, at the close of business on 31 March 2007, the Group had (i) a bank deposit of US$3,871,000 (equivalent to approximately HK$30,247,000) pledged as a collateral to the counterparty for a cross currency swap agreement entered into in 2005; and (ii) a HK$10,000,000 deposit pledged to a bank for a bank guarantee of HK$10,000,000 given in respect of a rental deposit for a tenancy agreement entered into by the Group.

At the close of business on 31 March 2007, the Group had no material contingent liabilities other than those contingencies arising from the ordinary course of the long term insurance business.

Save as disclosed above, at the close of business on 31 March 2007, the Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

(V) MATERIAL CHANGES

The Directors confirm that, save as disclosed in the quarterly results announcement of the Company for the three months ended 31 March 2007, in particular, (i) the increase in total non-current assets of the Group from approximately HK$5,252 million as at 31 December 2006 to approximately HK$6,412 million as at 31 March 2007, and (ii) the increase in total non-current liabilities of the Group from approximately HK$8,329 million as at 31 December 2006 to approximately HK$9,557 million as at 31 March 2007, they are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Group were made up.

Set out below is the letter and valuation certificates received from CB Richard Ellis Limited, an independent property valuer, prepared for the purpose of incorporation in the Composite Document in connection with valuation on property interests of the Group as at 31 March 2007.

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地產代理（公司）牌照號碼
Estate Agent's Licence (Co.) No.C-004065

21 May 2007

The Directors
Pacific Century Insurance Holdings Limited
28/F, Wing On Centre
111 Connaught Road Central
Hong Kong

Dear Sirs,

RE: VALUATION OF VARIOUS PROPERTIES IN HONG KONG AND THE PEOPLE'S REPUBLIC OF CHINA ("THE PRC")

In accordance with the instruction for us, we, CB Richard Ellis Limited have prepared the following valuation report providing the market value of all the property interests held by Pacific Century Insurance Holdings Limited (referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") located in Hong Kong and the PRC. We confirm that we have carried out inspection, made relevant investigations and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the property interests as at 31 March 2007.

Our valuation is prepared in accordance with the "HKIS Valuation Standard on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors, the relevant provisions of the Companies Ordinance and Chapter 5, Practice Notes 12 and 16 of Listing Rules published by the Stock Exchange of Hong Kong Limited.

Our opinion of Market Value is defined as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

PROPERTY CATEGORIZATION

In the course of our valuation, the property interests held by the Group is categorized into the following groups:

Group I:

Property interest in Group I is completed development held by the Group in Hong Kong for investment.

Group II:

Property interests in Group II are completed developments held by the Group in the PRC for owner occupation.

Group III:

Property interests in Group III are completed developments held by the Group in the PRC for investment.

VALUATION METHODOLOGIES

In valuing the properties, we have adopted market approach by reference to sales evidence as available on the market and information provided to us including tenancy details, and other relevant information.

TITLE INVESTIGATIONS

For the property held by the Group in Hong Kong, we have caused searches to be made at the Land Registry, but have not been given any legal advice in respect of title. We have not searched the original documents to verify the correctness of any information or to verify whether any amendments have been made which do not appear on the copies handed to us.

For the properties held by the Group in the PRC, we have been given extracted copies of relevant title documents. We have not checked the titles to the properties and have not scrutinized the original title documents. We have relied on the advice given by the Group and its legal advisers on PRC laws, Yao, Liang Law Office regarding the titles to the property interests located in the PRC. For the purpose of our valuations, we have taken advice from the Group's legal advisers that the Group has enforceable title to the property interests. In our valuations, we have taken into account the legal opinion of the PRC's legal advisers, and while we have exercised our professional judgment in arriving at our valuations, you are urged to consider our valuation assumptions with caution.

VALUATION ASSUMPTIONS

In valuing the property interests, we have taken advice from the Group's legal advisers that owners of the property interests have free and uninterrupted rights to us and assign the properties during the whole of respective unexpired terms granted.

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or burden of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could affect the values of the properties.

Other special assumptions for each of the properties, if any, have been stated in the footnotes of the valuation certificate for the respective properties.

VALUATION CONSIDERATIONS

We have relied to a very considerable extent on information given by the Group of the property interests and have accepted information given to us of such matters as planning approvals or statutory notices, easements, tenure, lettings, floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to our valuations and have been advised by the Group that no material facts have been omitted from the information provided.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale.

We have assumed that all applicable zoning, use regulations and restrictions have been complied with. We have further assumed that the utilizations and improvements of land are within the boundaries of the properties held by the owner or permitted to be occupied by the owner. Unless otherwise stated, no encroachment or trespass exits are considered.

We have inspected that properties to such extent that we consider necessary for the purpose of this valuation. No structural survey has been made nor were any tests carried out on any of the services provided in the properties. We are therefore unable to report whether the properties are free from rot, infestation or any other structural defects.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the properties but have assumed that the floor areas shown on the documents handed to us are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximate.

For the properties situated in the PRC, the type of taxes that could arise when those properties are sold include enterprise income tax (10% on taxable income), business tax (5% on taxable income), land appreciation tax (progressive rates ranging from 30% to 60% on taxable profit) and stamp duty (0.05% on selling price). For the property situated in Hong Kong, the tax that could arise when the property is sold is profit tax (17.5% on taxable profit). According to the information provided by the management of the Group, the properties in Group II located in the PRC are held and occupied by the Group for its owned business operations. The Group has no plan to sell the properties in Group I and Group III and it is unlikely that the potential tax liability will be crystallized in the near future.

Unless otherwise stated, all money amounts are stated in Hong Kong Dollars. The exchange rate adopted in our valuation is HK$100.00 = RMB99.01, which was the approximate exchange rate prevailing as 31 March 2007.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Gilbert C H Chan
MHKIS MRICS RPS (GP)
Director
Valuation & Advisory Services

Note: Mr. Gilbert C H Chan is Registered Professional Surveyor with over 13 years' valuation experience on all landed properties in Hong Kong and in the PRC.

SUMMARY OF VALUES

No.	Property	Market value in existing state as at 31 March 2007	Interest attributable to the Group	Market value in existing state attributable to the Group as at 31 March 2007
Group I – Property interest held by the Group in Hong Kong for investment				
1.	No. 1063 King's Road, Quarry Bay, Hong Kong	HK$1,500,000,000	100%	HK$1,500,000,000
			Sub-total:	**HK$1,500,000,000**
Group II – Property interests held by the Group in the PRC for owner occupation				
2.	Room 610, Level 6, Bright China Chang An Building, No. 7 Jianguomennei Main Street, Dongcheng district, Beijing, The PRC	HK$2,250,000	100%	HK$2,250,000
3.	Room No. 1309, Level 13, China Merchants Building, No. 66 Lujiazui Road, Pudong district, Shanghai, The PRC	HK$1,450,000	100%	HK$1,450,000
			Sub-total:	**HK$3,700,000**

No.	Property	Market value in existing state as at 31 March 2007	Interest attributable to the Group	Market value in existing state attributable to the Group as at 31 March 2007
	Group III – Property interests held by the Group in the PRC for investment			
4.	Room 611, Level 6, Bright China Chang An Building, No. 7 Jianguomennei Main Street, Dongcheng District, Beijing, The PRC	HK$2,180,000	100%	HK$2,180,000
5.	Unit B-70 (also known as Unit B30), Kings Garden Villa, Nos. 18-22 Xiaoyun Road, Chaoyang District, Beijing, The PRC	HK$8,200,000	100%	HK$8,200,000
6.	Unit D-73 (also known as Unit B33), Kings Garden Villa, Nos. 18-22 Xiaoyun Road, Chaoyang District, Beijing, The PRC	HK$7,700,000	100%	HK$7,700,000
7.	Unit Nos. 3017-3018, Level 30, Office Tower, CITIC Plaza, No. 233 Tianhe North Road, Tianhe District, Guangzhou, Guangdong Province, The PRC	HK$4,800,000	100%	HK$4,800,000
			Sub-total:	**HK$22,880,000**
			TOTAL:	**HK$1,526,580,000**

VALUATION CERTIFICATE

Group I – Property interest held by the Group in Hong Kong for investment

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 31 March 2007
1.	No. 1063 King's Road, Quarry Bay, Hong Kong. Sub-Section 3 of Section C of Quarry Bay Inland Lot No. 15 and Sub-Section 5 of Section E of Quarry Bay Marine Lot No. 2 and The Extension Thereto.	The property comprises a 31-storey commercial building with ground floor devoted to entrance lobby and retail shop, 1st to 3rd floors accommodate 115 car parking spaces, 4th to 5th floors for mechanical and refuge uses and upper floors accommodate office units. The total gross floor area of the property is approximately 27,300.16 sq.m. (293,859 sq.ft.). No. 1063 King's Road was completed in 1999. The property is held under two Government Leases in respect to the two Building Lots. Sub-Section 3 of Section C of Quarry Bay Inland Lot No. 15 is held for a term of 999 years from 2 February 1882. Sub-Section 5 of Section E of Quarry Bay Marine Lot No. 2 and The Extension Thereto is held for a term of 999 years from 18 April 1900. The Government rent is HK$513 per annum.	The shops and offices are fully leased subject to various tenancies for terms mostly of 2 to 3 years with the last expiry date on 30 November 2009 with the total monthly rental of HK$5,641,097.50 exclusive of rates and management fee. The car parking spaces are let on monthly and hourly basis with total gross income of HK$921,000 for the six-month period from September 2006 to February 2007.	HK$1,500,000,000 (100% interest attributable to the Group: HK$1,500,000,000)

Notes:

1. The registered owner of the property is Foundasia (HK) Limited which is an indirect wholly owned subsidiary of the Company, vide Memorial No. UB6903518 dated 28 December 1996.

2. Apart from various tenancies, the property is subjected to following encumbrances:

   (a) Deed of Surrender of Water Rights in favour of The Crown in respect of Inland Lot No. 1336, Quarry Bay Inland Lot Nos. 9, 3, 11, 12, 15, 8 and 7, Quarry Bay Marine Lot Nos. 1 and 2 and Extension to Quarry Bay Marine Lot No. 2 vide Memorial No. UB1194121 dated 29 August 1975;

   (b) Deed of Dedication in favour of The Director of Buildings on behalf of The Government of the HKSAR vide Memorial No. UB7760418 dated 6 May 1999;

   (c) Modification Letter vide Memorial No. UB7760419 dated 6 May 1999; and

   (d) Debenture and Mortgage to secure all sums of money in respect of general banking facilities in favour of The Bank of East Asia, Limited vide Memorial No. 07030902520508 dated 6 March 2007.

3. The Property is tenanted and we have valued the property on an open market basis subject to the existing tenancies.

VALUATION CERTIFICATE

Group II – Property interests held by the Group in the PRC for owner occupation

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 31 March 2007
2.	Room 610, Level 6, Bright China Chang An Building, No. 7 Jianguomennei Main Street, Dongcheng District, Beijing, The PRC	The property comprises an office unit in a 17-storey office building completed in 1996. The gross floor area of the property is approximately 112.80 sq.m. (1,214 sq.ft.).	The property is occupied by the Group for office purposes.	HK$2,250,000 (100% interest attributable to the Group: HK$2,250,000)

Notes:

1. Pursuant to a Real Estate Ownership Certificate No. 0320133 issued by the Beijing Municipal Building and Land Administration Bureau and registered by the Beijing Municipal Building and Land Registration Centre on 7 December 1998, the ownership of the property with a gross floor area of 112.80 sq.m. is vested to Keira Limited which is an indirect wholly owned subsidiary of the Company.

2. We have been provided with a legal opinion on the title of the property by the Group's PRC legal advisor which contains, inter-alia, the following information:

    (i) the owner of the property under the Real Estate Ownership Certificate is Keira Limited;

    (ii) the property is held by Keira Limited;

    (iii) Keira Limited is entitled to occupy, use, lease, mortgage and freely transfer the property; and

    (iv) The property is not subject to any mortgages and any other encumbrances.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 31 March 2007
3.	Room No. 1309, Level 13, China Merchants Buildings, No. 66 Lujiazui Road, Pudong District, Shanghai, The PRC	The property comprises an office unit in a 39-storey office building completed in 1997. The gross floor area of the property is approximately 80.38 sq.m. (865 sq.ft.). The land use rights of the property were granted for a term commencing on 4 August 1997 and expiring on 12 October 2042 for composite uses.	The property is occupied by the Group for office purposes.	HK$1,450,000 (100% interest attributable to the Group: HK$1,450,000)

Notes:

1. Pursuant to a Real Estate Title Certificate No. 004419 issued by Shanghai Municipal Land and Building Administration Bureau on 17 September 1997, the ownership of the property with a gross floor area of 80.38 sq.m. is vested to Berta Limited which is an indirect wholly owned subsidiary of the Company.

2. We have been provided with a legal opinion on the title of the property by the Group's PRC legal advisor which contains, inter-alia, the following information:

   (i) the owner of the property under the Real Estate Title Certificate is Berta Limited;

   (ii) the property is held by Berta Limited;

   (iii) Berta Limited is entitled to occupy, use, lease, mortgage and freely transfer the property; and

   (iv) the property is not subject to any mortgages and any other encumbrances.

VALUATION CERTIFICATE

Group III – Property interests held by the Group in the PRC for investment

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 31 March 2007
4.	Room 611, Level 6, Bright China Chang An Building, No. 7 Jianguomennei Main Street, Dongcheng District, Beijing, The PRC	The property comprises an office unit in a 17-storey office building completed in 1996. The gross floor area of the property is approximately 109.20 sq.m. (1,175 sq.ft.). The land use rights of the property were granted for a term commencing on 21 August 1998 and expiring on 1 December 2043 for office uses.	The property is leased out for a term of 1 year form 11 October 2006 at a monthly rent RMB19,656.	HK$2,180,000 (100% interest attributable to the Group: HK$2,180,000)

Notes:

1. Pursuant to a Real Estate Ownership Certificate No. 0320134 issued by the Beijing Municipal Building and Land Administration Bureau and registered by the Beijing Municipal Building and Land Registration Centre on 7 December 1998, the ownership of the property with a gross floor area of 109.20 sq.m. is vested to Keira Limited which is an indirect wholly owned subsidiary of the Company.

2. We have been provided with a legal opinion on the title of the property by the Group's PRC legal advisor which contains, inter-alia, the following information:

   (i) the owner of the property under the Real Estate Ownership Certificate is Keira Limited;

   (ii) the property is held by Keira Limited;

   (iii) Keira Limited is entitled to occupy, use, lease, mortgage and freely transfer the property; and

   (iv) the property is not subject to any mortgages and any other encumbrances.

3. The outgoings from the rent received for the property include general maintenance expenses of approximately RMB6,000 per annum, City Real Estate Tax of approximately RMB18,000 per annum and sales tax of approximately RMB1,000 per month.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 31 March 2007
5.	Unit B-70 (also known as Unit B30), Kings Garden Villa, Nos. 18-22 Xiaoyun Road, Chaoyang District, Beijing, The PRC	The property comprises 2-storey plus basement town house completed in 1997. The gross floor area of the property is approximately 362.04 sq.m. (3,897 sq.ft.). The land use rights of the property were granted for a term commencing on 7 March 2002 and expiring on 6 February 2064 for residential uses.	The property is leased out for a term of 3 years from 6 January 2006 at a monthly rent RMB31,340 inclusive of furniture, electrical appliances and three telephone lines.	HK$8,200,000 (100% interest attributable to the Group: HK$8,200,000)

Notes:

1. Pursuant to a Real Estate Title Certificate No. 0850007 issued by the Beijing Municipal Land Resources and Building Administration Bureau and registered by the Beijing Municipal Building and Land Ownership Registration Centre on 12 March 2002, the ownership of the property with a gross floor area of 362.04 sq.m. is vested to Calton International Limited which is an indirect wholly owned subsidiary of the Company.

2. We have been provided with a legal opinion on the title of the property by the Group's PRC legal advisor which contains, inter-alia, the following information:

   (i) the owner of the property under the Real Estate Title Certificate is Calton International Limited;

   (ii) the property is held by Calton International Limited;

   (iii) Calton International Limited is entitled to occupy, use, lease, mortgage and freely transfer the property; and

   (iv) the property is not subject any mortgages and any other encumbrances.

3. The outgoings and disbursement from the rent received for the property include RMB75,000 to be the expenses for decorating the house and purchasing the furniture, general maintenance and air-conditioning maintenance expenses of approximately RMB28,000 per annum, City Real Estate Tax of approximately RMB51,000 per annum and sales tax of approximately RMB1,600 per month.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 31 March 2007
6.	Unit D-73 (also known as Unit B33), Kings Garden Villa, Nos. 18-22 Xiaoyun Road, Chaoyang District, Beijing, The PRC	The property comprises 2-storey plus basement town house completed in 1997. The gross floor area of the property is approximately 339.62 sq.m. (3,656 sq.ft.). The land use rights of the property were granted for a term commencing on 7 March 2002 and expiring on 6 February 2064 for residential uses.	The property is leased out for a term of 3 years from 14 December 2005 at a monthly rent RMB32,000 inclusive of furniture and electrical appliances, management fee and TV cable fee.	HK$7,700,000 (100% interest attributable to the Group: HK$7,700,000)

Notes:

1. Pursuant to a Real Estate Title Certificate No. 0850008 issued by the Beijing Municipal Land Resources and Building Administration Bureau and registered by the Beijing Municipal Building and Land Ownership Registration Centre on 12 March 2002, the ownership of the property with a gross floor area of 339.62 sq.m. is vested to Kingsway Developments Limited which is an indirect wholly owned subsidiary of the Company.

2. We have been provided with a legal opinion on the title of the property by the Group's PRC legal advisor which contains, inter-alia, the following information:

   (i) the owner of the property under the Real Estate Title Certificate is Kingsway Development Limited;

   (ii) the property is held by Kingsway Development Limited;

   (iii) Kingsway Development Limited is entitled to occupy, use, lease, mortgage and freely transfer the property; and

   (iv) the property is not subject to any mortgages and any other encumbrances.

3. The outgoings and disbursement from the rent received for the property include management fee of RMB3,283 per month, TV cable fee of RMB172 per month, general maintenance and air-conditioning maintenance expenses of approximately RMB28,000 per annum, City Real Estate Tax of approximately RMB50,000 per annum and sales tax of approximately RMB1,500 per month.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Details of occupancy	Market value in existing state as at 31 March 2007
7.	Unit Nos. 3017-3018, Level 30, Office Tower, CITIC Plaza, No. 233 Tianhe North Road, Tianhe District, Guangzhou, Guangdong Province, The PRC	The property comprises an office unit in an 83-storey office building completed in 1997. The gross floor area of the property is approximately 224.72 sq.m. (2,419 sq.ft.). The land use rights of the property were granted for a term 50 years commencing on 30 September 1994 for office uses.	The property is leased out for a term of 3 years from 1 December 2004 at a monthly rent RMB31,011 exclusive of management fee.	HK$4,800,000 (100% interest attributable to the Group: HK$4,800,000)

Notes:

1. Pursuant to a Real Estate Title Certificate No. 0663515 issued by the Guangzhou Municipal Land and Building Administration Bureau on 25 July 2000, the ownership of the property with a gross floor area of 224.74 sq.m. is vested to Prior Company Limited which is an indirect wholly owned subsidiary of the Company.

2. We have been provided with a legal opinion on the title of the property by the Group's PRC legal advisor which contains, inter-alia, the following information:

   (i) the owner of the property under the Real Estate Title Certificate is Prior Company Limited;

   (ii) the property is held by Prior Company Limited;

   (iii) Prior Company Limited is entitled to occupy, use, lease, mortgage and freely transfer the property; and

   (iv) the property is not subject to any mortgages and any other encumbrances.

3. The outgoings from the rent received for the property include general maintenance expenses of approximately RMB6,000 per annum, City Real Estate Tax of approximately RMB47,000 per annum and sales tax of approximately RMB1,600 per month.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document relating to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document relating to the Group have been arrived at after due and careful consideration and there are no other facts relating to the Group not contained in this Composite Document, the omission of which would make any statements in this Composite Document relating to the Group misleading.

The information contained in this Composite Document (other than information relating to the Group) has been supplied by the directors of the Offeror. The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document relating to such information have been arrived at after due and careful consideration and there are no other facts (other than those relating to the Group) not contained in this Composite Document the omission of which would make any statements in this Composite Document relating to such information misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised share capital of the Company was HK$3,000,000,000 divided into 3,000,000,000 Shares of HK$1.00 each, of which HK$843,807,498 divided into 843,807,498 Shares had been issued and were fully paid up. All of the Shares currently in issue rank pari passu in all respects with each other, including the rights in respect of capital, dividends and voting. The Shares are listed and traded on the main board of the Stock Exchange.

29,188,178 Shares have been issued by the Company since 31 December 2006, being the end of its last financial year, and up to the Latest Practicable Date.

As at the Latest Practicable Date, save and except for the Outstanding Options, there were no outstanding options, warrants or conversion rights affecting the Shares.

3. MARKET PRICES

The table below shows the closing market prices for the Shares as quoted by the Stock Exchange on (i) the Latest Practicable Date; (ii) 23 February 2007, being the last full trading day immediately prior to the suspension of trading in the Shares pending the release of the

Announcement; and (iii) at the end of each of the calendar months during the period commencing six months preceding 1 March 2007, being the date of the Announcement and ending on the Latest Practicable Date:

Date	Closing price per Share *(HK$)*
29 September 2006	3.92
31 October 2006	4.10
30 November 2006	4.44
29 December 2006	4.61
31 January 2007	4.80
23 February 2007	5.17
28 February 2007	5.78
30 March 2007	7.88
30 April 2007	7.98
Latest Practicable Date	8.11

The highest and lowest closing prices of the Shares as quoted by the Stock Exchange during the period commencing six months preceding 1 March 2007, being the date of the Announcement, and ending on the Latest Practicable Date were HK$8.11 on each of 14, 15, 16, 17 and 18 May 2007 and HK$3.70 on 8 September 2006, respectively.

4. DISCLOSURE OF INTERESTS IN THE COMPANY

(a) Directors' interests and short positions in the securities of the Company.

Long positions in Shares:

Name of Director	Number of Shares	Capacity	Percentage of the Company's existing issued share capital
Peter Anthony ALLEN	360,000	Beneficial owner	0.04%

Directors' rights to acquire Shares:

Name of Director	Date of grant of Options	Vesting period	Exercisable period	Exercise Price *(HK$)*	Number of Options outstanding
Peter Anthony ALLEN	7 July 1999	7 July 2000 to 7 July 2004	7 July 2000 to 6 July 2009	5.233	360,000
SO Wing Hung, Peter	3 March 2005	3 March 2006 to 3 March 2008	3 March 2006 to 2 March 2013	3.675	260,000

(b) As at the Latest Practicable Date, save as disclosed in paragraph 4(a) above, none of the Directors had any interests in the Shares.

(c) Save and except for the 430,850,742 Shares acquired by the Offeror under the Share Purchase Agreement which represents approximately 50.45% of the issued share capital of the Company as at the Latest Practicable Date on a fully diluted basis (assuming full exercise of all the Outstanding Options as at the Latest Practicable Date) or approximately 51.06% of the issued share capital of the Company as at the Latest Practicable Date (assuming no exercise of the Outstanding Options as at the Latest Practicable Date), the Offeror, the directors of the Offeror and parties acting in concert with the Offeror did not own or control any Shares or convertible securities, warrants, options or derivatives in respect of the Shares as at the Latest Practicable Date.

(d) As at the Latest Practicable Date, no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any parties acting in concert with it owned or controlled any Shares.

(e) As at the Latest Practicable Date, none of the subsidiaries of the Company or, any pension funds of the Group nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of any Shares.

(f) As at the Latest Practicable Date, no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code had any interest in any securities of the Company.

(g) As at the Latest Practicable Date, no Shares were managed on a discretionary basis by fund managers connected with the Company.

5. OTHER DISCLOSURES

As at the Latest Practicable Date:

(a) other than Mr. SO Wing Hung, Peter who has irrevocably undertaken to accept the Offer in relation to his holding of 260,000 Outstanding Options, no other person who owned or controlled Shares or convertible securities, warrants, options or derivatives in respect of the Shares have irrevocably committed themselves to accept or not to accept the Offer;

(b) neither the Offeror nor any persons acting in concert with it had any arrangement with any other person of the kind referred to in Note 8 to Rule 22 of the Takeovers Code;

(c) none of the Company or the Directors was interested in any shares of the Offeror; and

(d) save for the Share Purchase Agreement and the Amendment Agreement, there were no material contracts entered into by the Offeror in which the Directors have a material personal interest.

6. DEALINGS IN SHARES

During the Relevant Period:

(a) save for the acquisition of 430,850,742 Shares by the Offeror under the Share Purchase Agreement, none of the Offeror, the directors of the Offeror or parties acting in concert with the Offeror had dealt for value in any securities of the Company;

(b) save as disclosed below, none of the Directors had dealt for value in any securities of the Company:

Name of Director	Date	Type of Transaction	Number of Shares	Price per Share *(HK$)*
YUEN Tin Fan, Francis	4 May 2007	Acquisition of Shares pursuant to exercise of Options	11,664,000	5.233
	15 May 2007	Sale of Shares under the Share Purchase Agreement	11,664,000	8.18

Name of Director	Date	Type of Transaction	Number of Shares	Price per Share (HK$)
CHAN Ping Kan, Raymond	4 May 2007	Acquisition of Shares pursuant to exercise of Options	8,000,000	1.62
	15 May 2007	Sale of Shares under the Share Purchase Agreement	8,000,000	8.18
SO Wing Hung, Peter	23 April 2007	Acquisition of Shares pursuant to exercise of Options	4,000,000	2.05
	4 May 2007	Acquisition of Shares pursuant to exercise of Options	540,000	3.675
	15 May 2007	Sale of Shares under the Share Purchase Agreement	4,540,000	8.18
CHUNG Cho Yee, Mico	2 May 2007	Acquisition of Shares pursuant to exercise of Options	1,368,000	5.233
	15 May 2007	Sale of Shares under the Share Purchase Agreement	1,368,000	8.18

(c) neither the Company nor any of its Directors had dealt for value in the securities of the Offeror; and

(d) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any parties acting in concert with it had dealt for value in any securities of the Company.

During the period from the commencement of the Offer Period to the Latest Practicable Date:

(a) none of the subsidiaries of the Company or, any pension funds of the Group nor any adviser to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code had dealt for value as principal in any securities of the Company;

(b) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" under the Takeovers Code had dealt for value in any securities of the Company; and

(c) no fund managers connected with the Company who managed funds on a discretionary basis had dealt for value in any securities of the Company.

7. SERVICE CONTRACTS

Save as disclosed below, as at the Latest Practicable Date, there were no service contracts with the Company or any of its subsidiaries or associated companies in force for the Directors which:

(a) had been entered into or amended within six months before the commencement of the Offer Period;

(b) were continuous contracts with a notice period of 12 months or more; or

(c) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

Mr. YUEN Tin Fan, Francis entered into an employment letter with the Company in relation to his appointment as the Executive Chairman of the Company for a continuous term commencing from 1 December 2006 subject to termination by either party by giving six months' written notice. Mr. YUEN Tin Fan, Francis is entitled to an annual remuneration of HK$2,500,008 and an annual discretionary bonus to be determined by the Board.

Mr. CHAN Ping Kan, Raymond entered into an employment letter with the Company in relation to his appointment as the Chief Executive Officer of PCICL for a continuous term commencing from 1 December 2006 subject to termination by either party by giving six months' written notice. Mr. CHAN Ping Kan, Raymond is entitled to: (i) a remuneration of HK$416,670 per month until 31 December 2006 and an annual remuneration of HK$3,500,004 thereafter; and (ii) a bonus of not less than HK$1,500,000 in respect of the financial year ended 31 December 2007 and an annual discretionary bonus to be determined by the Board thereafter.

Mr. SO Wing Hung, Peter entered into an employment letter with the Company in relation to his appointment as the Group Chief Financial Officer for a continuous term commencing from 1 April 2007 subject to termination by either party by giving six months' written notice. Mr. SO Wing Hung, Peter is entitled to an annual remuneration of HK$3,300,000 and an annual discretionary bonus to be determined by the Board.

8. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Group.

9. MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business of the Group) have been entered into by the members of the Group after the date of two years immediately preceding 1 March 2007, being the date of the Announcement, and up to the Latest Practicable Date, and are or may be material:

(a) a subscription agreement (the "***Subscription Agreement***") dated 3 June 2005 entered into between Praise Idea Holdings Limited ("***Praise Idea***"), Noblenew Investments Limited (a wholly-owned subsidiary of the Company) ("***Noblenew***") and Chow Tai Fook Enterprises Limited ("***CTF***") whereby Noblenew agreed to subscribe for and Praise Idea agreed to issue an exchangeable note (the "***Note***") in the principal amount of HK$508,302,000. If Noblenew were to exercise in full its exchange rights under the Note, it would be entitled to indirectly control 22.09% of the issued share capital of 生命人壽保險股份有限公司 (Sino Life Insurance Co., Ltd.);

(b) a deed of indemnity (the "***Deed***") dated 3 June 2005 executed by CTF in favour of Noblenew in connection with the subscription of the Note;

(c) a variation agreement (the "***Variation Agreement***") dated 3 October 2005 entered into between Praise Idea, Noblenew and CTF to vary the terms of the Note;

(d) a second variation agreement (the "***Second Variation Agreement***") dated 12 December 2005 entered into between Praise Idea, Noblenew and CTF to vary the terms of the Note (as amended by the Variation Agreement);

(e) a termination agreement dated 28 February 2006 entered into between Praise Idea, Noblenew and CTF whereby the Note (as amended by the Variation Agreement and Second Variation Agreement), the Subscription Agreement and the Deed were terminated with effect from 2 March 2006 conditional upon the payment of HK$521,866,004 (being the principal amount of the Note and accrued interest) to Noblenew;

(f) a provisional agreement for sale and purchase dated 24 August 2006 entered into between PCICL and Dah Sing Bank, Limited ("***DSB***") whereby PCICL agreed to sell and DSB agreed to purchase the property comprises Units 1 to 10, 12th and 13th Floor of Island Place Tower, Island Place, No. 510 King's Road, North Point, Hong Kong (the "***Disposed Property***") for a consideration of HK$200,000,000;

(g) an agreement for sale and purchase dated 29 September 2006 entered into between PCICL and DSB in relation to the sale and purchase of the Disposed Property;

(h) an assignment dated 31 October 2006 whereby PCICL assigned the Disposed Property to DSB; and

(i) a share purchase agreement dated 13 December 2006 entered into between Shabhala International Limited (an indirect wholly-owned subsidiary of the Company), HKL (Quarry Bay) Limited, The Hongkong Land Company, Limited and The Hongkong Land Property Company, Limited for the purchase and sale 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 consideration of HK$1,472,295,000.

10. EXPERTS AND CONSENTS

The followings are the names and the qualifications of the professional advisers who have given opinions or advice which are contained or referred to in this Composite Document:

Name	Qualification
Morgan Stanley	a licensed corporation under the SFO, licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 5 regulated activity (advising on futures contracts), Type 6 regulated activity (advising on corporate finance) and Type 7 regulated activity (providing automated services)
DBS Asia Capital Limited	a licensed corporation under the SFO, licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance)
CB Richard Ellis	Property valuer

Each of Morgan Stanley, DBS and CB Richard Ellis has given and has not withdrawn its respective written consents to the issue of this Composite Document with the inclusion in this Composite Document of its letters (if applicable) and references to its name in the form and context in which they respectively appear.

11. MISCELLANEOUS

(a) As at the Latest Practicable Date, Mr. SO Wing Hung, Peter and Mr. Peter Anthony ALLEN were interested in the Shares and/or Options as set out in paragraphs 4(a) and 4(b) above in this Appendix and they have indicated that they intend to accept the Offer in respect of their Shares and/or Options.

(b) None of the Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offer.

(c) Save for the Share Purchase Agreement, the Amendment Agreement and the irrevocable undertaking given by Mr. SO Wing Hung, Peter to accept the Offer in relation to his holding of 260,000 Outstanding Options dated 10 May 2007, there is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

(d) Save for the Share Purchase Agreement, the Amendment Agreement and the irrevocable undertaking given by Mr. SO Wing Hung, Peter to accept the Offer in relation to his holding of 260,000 Outstanding Options dated 10 May 2007, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror and any person acting in concert with it on the one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or was dependent upon the outcome of the Offer.

(e) Unless otherwise required by the Listing Rules with regard to the public float requirements, the Offeror has no intention to charge, pledge or transfer the Shares acquired in the Offer to any other persons.

(f) The registered address of the Offeror is Archimedeslaan 6, 3584BA Utrecht, The Netherlands.

(g) The address of Morgan Stanley is 30th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong.

(h) The registered address of DBS is 22nd Floor, The Center, 99 Queen’s Road Central, Hong Kong.

(i) Fortis SA/NV and Fortis N.V., both of which are listed on the Euronext exchange in Belgium and The Netherlands, are the ultimate parent companies of the Offeror as each hold an indirect 50% interest in the Offeror.

The directors of Fortis SA/NV are:

Maurice Robert Josse Marie Ghislain Lippens; Jean-Paul Francois Caroline Votron; Johannes Jacobus Slechte; Piet Paul August Van Waeyenberge; Klaas Westdijk; Jan-Michiel Hessels; Philippe Andre Eugene Bodson; Richard Delbridge; Jacques Antoine Manardo; Ronald Arnon Sandler; Guryirendra Singh Talwar; Aloysius Johannes Maria Michielsen; Reiner Hagemann and Clara Hedwig Frances Furse.

The directors of Fortis N.V. are:

Maurice Robert Josse Marie Ghislain Lippens; Jean-Paul Francois Caroline Votron; Johannes Jacobus Slechte; Piet Paul August Van Waeyenberge; Klaas Westdijk; Jan-Michiel Hessels; Philippe Andre Eugene Bodson; Richard Delbridge; Jacques Antoine Manardo; Ronald Arnon Sandler; Guryirendra Singh Talwar; Aloysius Johannes Maria Michielsen; Reiner Hagemann and Clara Hedwig Frances Furse.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection for so long as the Offer remains open for acceptance: (a) at the office of the Company at 28th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong from 9:00 a.m. to 5:00 p.m., Monday to Friday; (b) on the website of the SFC at www.sfc.hk; and (c) on the website of the Company at www.pcihl.com:

(a) the articles of association of the Offeror;

(b) the memorandum of association and bye-laws of the Company;

(c) the Share Purchase Agreement and the Amendment Agreement;

(d) the irrevocable undertaking dated 10 May 2007 given by Mr. SO Wing Hung, Peter pursuant to which Mr. SO Wing Hung, Peter has irrevocably undertaken to accept the Offer in relation to his holding of 260,000 Outstanding Options;

(e) the annual reports of the Company for the three years ended 31 December 2006;

(f) the valuation certificate and valuation report set out in Appendix III;

(g) the letter dated 21 May 2007 from Morgan Stanley, the text of which is set out on pages 7 to 16 of this Composite Document;

(h) the letter dated 21 May 2007 from DBS to the Independent Board Committee, the Independent Shareholders and Option Holders, the text of which is set out on pages 25 to 51 of this Composite Document;

(i) the letter dated 21 May 2007 from the Independent Board Committee to the Independent Shareholders and Option Holders, the text of which is set out on pages 23 to 24 of this Composite Document;

(j) the service contracts referred to in the paragraph headed "Service Contracts" in this Appendix;

(k) the letters of consents referred to in the paragraph headed "Experts and Consents" in this Appendix; and

(l) the material contracts referred to under the paragraph headed "Material Contracts" in this Appendix.