



YUEN Tin Fan Francis
Chairman

Chairman's Statement

Year 2000 marks the first full year of the Group operating as a publicly listed company. The Board has decided it is now more appropriate to present our accounts in a format aligned with international accounting practices. The new format reflects two principal changes:

- (1) the adoption of the "Deferred Acquisition Cost" ("DAC") method to account for business acquisition costs; and
- (2) the cessation of the use of financial reinsurance.

The Chief Financial Officer and his colleagues took on the daunting task of restating our accounts based on the new accounting policies for the past five years. Detailed explanations of DAC and financial reinsurance, and an analysis of operational performance are set out under the section "Management Discussion and Analysis of Operations". It is a useful review of the achievements of the present management who have expanded considerably the business of the Company since they took over in 1994.

I am particularly pleased to note that total premiums, total assets, capital and reserves have all recorded year-on-year consecutive growth during the five-year period. The growth in net earnings has been less consistent, which to a large extent reflects the difficult investment environment during the Asian financial crisis.

As the Group continues to grow, we have established comprehensive corporate governance procedures to ensure compliance with the highest standards of disclosure, financial control and risk management. We have also constructed two indices, namely the renewal ratio and the expense ratio, (which are described in detail under the section "Management Discussion and Analysis of Operations") to provide operational performance guidance. We are committed to upgrade, continuously, our operational standards.

The anticipated economic recovery in certain countries in Southeast Asia such as the Philippines, Thailand and Indonesia did not materialise. Some countries were further faced with an uncertain political environment. On the other hand, the pace of economic recovery in Hong Kong began to pick up in mid 2000 against the background of continuous economic reform and growth in China. As a consequence, we have scaled back our regional expansion plans, and channeled our resources to expand and strengthen our agency force in Hong Kong.

We have continued to invest in China, maintaining three representative offices in Beijing, Shanghai and Guangzhou. Whilst China's official entry to the World Trade Organisation has been delayed, we remain confident that PCI, being one of the leading life insurance companies in Hong Kong funded by local capital and managed by a team of home-grown professionals, will play a positive role in China's rapidly developing insurance market.

Following the initiative taken in 1999 to manage a portion of our insurance funds in-house, which yielded excellent investment returns, we established our own asset management arm, PCI Investment Management Limited ("PCIIM"), in early 2000. I take this opportunity to welcome Herman Fung and Walter Wu, two senior fund managers, who accepted my invitation to build a sustainable asset management

business for the Group. PCIIM's performance slightly exceeded expectations in 2000 which, in general, was a difficult year for fund managers.

In April 2000, A.M. Best Company, a leading global insurance rating agency, issued an "A- (Excellent)" rating on PCIHL and PCI based on the financial strength of both entities. Their report indicated that the Company is well equipped with an "experienced management team, large and effective career distribution system, improving operating performance and strong risk-adjusted capitalisation". As a relatively young life insurance company, we are encouraged by this rating and associated remarks, and take it upon ourselves to continue to strengthen our financial position in order to sustain and improve our standing in the industry.

YUEN Tin Fan Francis

Chairman

Hong Kong

March 15, 2001



Vibrant