6. Investment

The Company's investment committee, which includes three directors of the Company, meets weekly to review the current investment climate and make policy decisions where necessary. During the year, the Company formed a wholly-owned asset management company to (a) implement the decisions made by the Investment Committee in respect to the investments of the Company; (b) manage part of the Company's investment portfolio; (c) liaise with other fund managers handling the Company's investment portfolio; and (d) develop and market, under its own name, investment-related products such as unit trusts.

Despite a difficult year for most fund managers in 2000, the Company's investment results are reasonably satisfactory with invested assets representing insurance liabilities, yielding a 8.5% per annum return on a dollar-weighted basis as compared to 9.5% in 1999. The following table shows the asset distribution of the General Fund of the Group (excluding segregated funds):

Investment Portfolio mix

	Fixed Interest	Mortgage & Loans	Cash	Equities	Others	Total
By Currency						
US$	34.2%		26.8%	5.8%		66.8%
HK$	0.6%	14.6%	8.1%	5.5%	0.6%	29.4%
Others				3.8%		3.8%
Total	**34.8%**	**14.6%**	**34.9%**	**15.1%**	**0.6%**	**100.0%**
By Geography						
US	13.3%			1.2%		14.5%
Europe	3.8%			0.6%		4.4%
Japan	0.7%			0.8%		1.5%
Hong Kong/China	8.7%	14.6%	34.9%	8.3%	0.6%	67.1%
Other Asia	7.6%			2.4%		10.0%
Others	0.7%			1.8%		2.5%
Total	**34.8%**	**14.6%**	**34.9%**	**15.1%**	**0.6%**	**100.0%**

Since the latter part of year 2000, we have maintained a sizable cash and bond position in anticipation of slower economic growth in the U.S. So far, our portfolio has benefited from the resulting lower bond yields. While the fixed-income market in the near term will continue to receive support from the current economic weakness and expectations of further interest rate cuts, we take the view that most of the capital gain has already been reflected in the market. We also believe that a combination of easing monetary policy and relaxed fiscal policy should eventually help to restore the health of the US economy. Furthermore, valuations of many blue chip companies have become much more attractive after the recent collapse in global stock markets. We, therefore, are looking for opportunities to increase our equity exposure so that we can take advantage of recent setbacks in equity markets.

Apart from increasing our overall exposure to equities, we are also exploring ways to optimize return on our assets. We are currently reviewing the introduction of Collateralized Debt Obligations ("CDOs"). CDOs are securitized debt instruments backed by a variety of assets and are commonly used product within the insurance industry to leverage on-balance sheet assets and enhance earnings. In addition, we are also studying private equity investments and alternative investment strategies which offer attractive risk-return characteristics on a stand-alone basis which are especially attractive in improving overall portfolio efficiency. (These asset classes are negatively correlated with traditional investments such as bonds and equities, thereby reducing the overall risks of the portfolio by diversification).

7. Expansion

In its IPO prospectus, the Company revealed an ambitious plan to expand into other countries/jurisdictions in Asia. The results to date have not met our expectations as these countries did not achieve anticipated rates of economic recovery and, in some instances, continue to be beset by political problems. The Company has considered numerous potential targets in China, Thailand, the Philippines, Indonesia and other countries but no deals have been executed. In most cases, target companies have not been required to liquidate under local bankruptcy laws and continue to survive on current cash flows. Asking prices are often excessive and beyond levels which the Company can economically justify. While the Company has not given up its expansion plans and will continue to invest in the PRC, it is not optimistic that there will be any significant overseas development in the near future. Management has decided to re-direct available resources to strengthen its existing local agency force as well as to focus on IT development.

8. Operations

The Company is reporting a Net Profit Attributable to Shareholders of HK$154.3 million for the year ended December 31, 2000 which represents a decrease of 33.5 per cent from the HK$232.1 million achieved in 1999. Earnings per share is HK$22 cents compared to HK$36 cents in the previous year (a decrease of 38.9 per cent).

Total Premiums show an increase of 13.4 per cent as compared to 1999. Investment and other income increased by 9.1 per cent, despite the difficult investment environment in Hong Kong. Total revenue for the year is HK$1,978.8 million, compared with HK$1,755.0 million recorded in 1999 (an overall increase of 12.7 per cent).

Policyholders' Benefits and Agency Commission and Allowances are in line with the growth in total premiums. Management Expenses have increased by nearly 31.5 per cent to HK$352.5 million in 2000 as a result of allocating additional resources to expand our IT competencies and to rent additional premises upon reorganisation of the Group. Other factors which contributed to the increase in management expenses are the establishment of various functional posts within the Group as well as additional legal fees. Total Operating Expenses for the year are HK$1,145.5 million, or 22.4 per cent above the HK$935.8 million reported in 1999.

Expense control is fundamental in the success of most business enterprises and no analysis of operations is complete without an analysis of expenses. For this purpose, the Company has constructed the following model. Commissions, override and other variable expenses are assumed to be equal to 100% of first-year premiums and 10% of renewal premiums. Administrative expenses are assumed to be equal to 25% of first-year premiums and 5% of renewal premiums. Together, these four components give an expected model for expenses for the year. Dividing actual expenses by modeled expenses gives the "expense ratio". The following compares PCI's expense ratio with the median of expense ratios amongst 7 major life insurance companies in Hong Kong over 5 years.

	1995	1996	1997	1998	1999	2000
Expense Ratio						
PCI	127%	125%	124%	117%	120%	122%
Median	108%	112%	111%	114%	115%	

Younger companies, such as PCI, will necessarily have a higher expense ratio than well-established companies with a much larger base of inforce policies. In addition, the Group devotes substantial resources to its expansion program, including the maintenance of three representative offices in China.

An increase in its expense ratio may reflect either an unusual increase in actual expenses or, alternatively, a slower increase in the inforce policy base.

During 2000, Hong Kong profits tax has not been provided for as the Group has sufficient agreed tax losses brought forward from previous years. The Group's profit before taxation is HK$153.7 million in 2000 compared to HK$232.0 million reported in 1999.

The following is a review of the Group's operations by individual business division.

(a) Agency Operations

The primary distribution channel in Hong Kong is still the traditional tied-agency force. This is a business where competition to attract essential agency people is fierce. The Group has been able to, over a relatively short period of time, build up a sizeable quality agency force that qualifies the Group as a major life insurance company in Hong Kong.

Other forms of distribution including bancassurance, brokerage, direct marketing, telemarketing and internet selling have all

The Insurance Authority of Hong Kong introduced the IIQAS examination for insurance agents on January 1, 2000. This measure has caused the total number of agents in the life insurance industry to decline over the short term but will enhance the quality and image of remaining agents in the long run. As at the end of 2000, the Group engaged a total of 2,168 agents under contract. 1,180 agents are qualified (IIQAS paper 1 for Life insurance, on concepts and ethics), including those who have passed the examination as well as those who have over 5 years of industry experience.