iii. *Renewal ratio*

The term "persistency" refers to "how long" policies stay on a company's books. The reverse, "lapse" or "termination" refers to policies that have stopped delivering premiums and are no longer inforce. Obviously, the higher the persistency, the higher the profitability and vice versa. The industry's often-used Life Insurance Marketing and Research Association ("LIMRA") 13-month persistency formula uses as its denominator the sales of the current period while its numerator is the "lapses" occurring in the current period. The numerator and the denominator, therefore, do not refer to the same policies. In order to improve measurement, the Company prefers to use a formula in which the denominator reflects the sales of a previous period and the current-period lapses, of those sales is used as the numerator. The Company's preferred formula, however, involves a time lag. The LIMRA formula reflects, on average, the true persistency if sales are flat. It will tend to overstate persistency with rapidly growing sales and to understate persistency when sales growth is sluggish.

The Group has constructed a model to produce what we call the "renewal ratio". Our model assumes that 80% of first-year premiums will stay on the books the following year and that 93% of the Group's renewal premiums will still be on the books the following year. Adding the two together owes the expected modelled renewal premiums. The actual renewal premiums in the following year are then divided by the modelled renewal premiums to obtain the renewal ratio. A 100% renewal ratio means the Group's persistency follows the model exactly. A higher than 100 ratio means better persistency and vice versa.

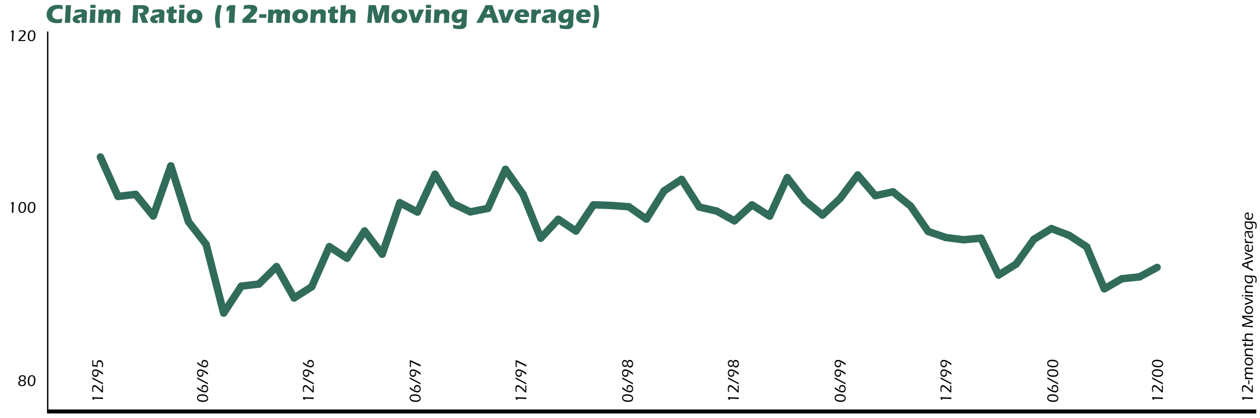
The following is a 5-year median comparison of renewal ratios amongst major life insurance companies in Hong Kong.

	1995	1996	1997	1998	1999	2000
Renewal Ratio						
PCI	103%	97%	105%	90%	92%	98%
Medium		100%	101%	100%	98%	

iv. *Claims experience*

Claims (mortality and morbidity) experience fluctuates from year to year. In the Group's product design, a certain portion of premium income is reserved for claim payments, from which expected claims are calculated. Comparing actual claims (net of reinsurance) with expected claims gives the claim ratio. A claim ratio of less than 100% means better than expected claims experience and vice versa. The following chart gives the Group's overall claim ratio over the last 5 years.

Claim Ratio (12-month Moving Average)



Strategies

Divisional Restructuring

As of October 2000, the division has been reorganised into 3 main departments, namely: New Business, Policy Services and Claims. Through this restructuring, we aim to improve operational efficiency and effectiveness, so as to provide quality service to our policyholders and agents alike.

Our Claims Department also undertook structural changes during the year. Two separate teams have been set up to ensure better service delivery and better delegation of responsibility and accountability.

Better Customer-Oriented Services

The launch of the Chinese Provision (an insurance policy written in the Chinese Language) is an essential tool to better illustrate policy details, as it caters for the changing commercial needs of Hong Kong, with stronger emphasis on the Chinese language as the native language of most of its population. The Group now corresponds with policyholders in Chinese in order to give them clear and comprehensive information on our products and services.

Beginning in year 2001, the Group will, partner with the Bank of East Asia Limited (BEA), introduce the PCI Credit Card, providing another value-added service for policyholders to settle policy premiums whilst enjoying special privileges offered by BEA. Another new payment option is the Payment-By-Phone-Service (PPS), which will provide policyholders with the convenience of settling payments through telephone or the internet.

Additional relevant training will also be offered to agents and staff in line with the Group's belief in developing human resources. Through continuous education, the Group intends to continue to improve upon its service standards as well as the quality of our agents both in terms of product knowledge and professionalism.

(c) Life Personal Accident

In August 2000, the division re-grouped its products into two major categories, one for clerical workers covering class 1 and 2 policies, and the second for manual workers covering class 3 and 4 policies. These two packages offer different coverage and terms under a unified premium rate and we are delighted to report that this initiative has significantly improved sales.

Impressive results, however, did not satisfy the division's ambition for improvement. We have organised a brand new "pre-launch marketing" training program, where a fresh sales approach has been adopted. Our agents are given proper training on how to conduct effective presentations by highlighting key and important points of our policies as well as allowing consumers to study the details of our policies on their own; this method has proven to be highly effective.

Training on underwriting skills focused on "Hospital Income" (HI) benefits, where we helped agents define the eligibility of HI claims by determining "pre-existing medical conditions" for claims.

In the coming year we will focus on research and development for new products where some of which are already in the pipeline. We believe sound product design which recognises the needs of customers is an important factor in achieving business growth. When existing policyholders see that we follow-up on their needs and suggestions, they are keen to learn more about our products and services. By doing so, we contribute towards the overall growth of the Group.

(d) Group Insurance

The Group Insurance Division sells policies to employers for the benefit of their employees. The business environment in Hong Kong is fiercely competitive, and it is normal practice for employers to bargain for the best price available to minimise expenses. It is not unusual to see insurers, in their pursuit of top-line growth to continuously reduce premium rates or quote extremely competitive rates for larger contracts even in the face of mounting underwriting losses. Both premium rates and underwriting profits, therefore, exhibit a cyclical pattern over the years. Since most life companies in Hong Kong are more than adequately capitalised (many are branches or subsidiaries of billion-dollar multinational companies) and some companies choose to sacrifice profits in the short term in order to gain market share, this cyclical pattern is likely to persist in the foreseeable future.

In the year 2000, the Group Insurance Division achieved total premiums of HK$54.6 million compared to HK$53.8 million in 1999.

Medical coverage, an essential part of the life insurance business, will be our targeted area in the year ahead. About 20% of the claims are from in-patient and about 80% of our claims are from outpatient receipts.

As the government has taken initiatives to legalise traditional Chinese medicine and alternative medical therapies, the division will, in 2001, expand the scope of its coverage to Traditional Chinese Medical (TCM) practices. While current coverage only applies to visitation to research institutes, the introduction of TCM coverage will provide an opportunity to attract uninsured new clients and create new market niche for the Group.

(e) Retirement Scheme Business and Mandatory Provident Fund

Retirement benefit plans have existed in Hong Kong for several decades, mostly provided by larger companies for their employees. The first step towards regulating this business was in 1992 when legislation for Occupational Retirement Schemes Ordinance (ORSO) was enacted. After a series of amendments to the original Ordinance, the MPF schemes came into effect on December 1, 2000. Unlike ORSO, the MPF covers the whole working population of Hong Kong. In essence, the MPF business is an asset management business since the administration part, being complicated and labour intensive, leaves room for only minimal profit due to the meager margins a company can charge.

MPF service providers make a tiny spread on the funds under management. Therefore, it is important that subscriptions reach a critical mass as soon as possible to secure enough turnover to cover basic administrative costs. While in theory banks do not incur direct costs in acquiring the business, insurance companies have to pay commissions to their agents for acquiring business. It would take years, possibly decades, before insurance companies can amortise acquisition costs against the tiny spread earned from funds under management.

The Group only decided to enter the MPF market in March 2000 and has yet to achieve significant sales. The number of qualified MPF agents has grown from 700 in 1999 to 1,200 in 2000. The total number of MPF members at the end of the year is 15,600.

A dedicated website, "pcimpf.com" will be introduced to especially cater for the needs of both existing and new clients. An IVRS call-centre has also been launched and is currently in the initial stage of operation. The division has also developed a complimentary payroll administration software, "Payeasy", that is available to members corporate clients free of charge.

The coming year will see the division developing its structure whilst engaging in extensive market and product research. Management will devote its resources to closely monitor the development of an efficient workflow to improve service standards and cultivate closer relationships with clients. Product knowledge will also be a primary focus of the division to ensure that our agents are well-trained to assist our clients in making informed decisions.

(f) General Insurance

Products

In September 2000, the Group reached a mutual understanding with Ming An Insurance Company (Hong Kong) Limited ("Ming An") to not proceed with the formation of a joint venture general insurance company. The decision was made to avoid potential conflict of interests upon the completion of internal restructuring of the China Insurance Group. Accordingly, the Company withdrew its application for a general insurance license which had been granted by the Insurance Authority in April 2000. *Some of the Group's promotion materials were printed before this decision was made, and therefore faultily contained the name of "Pacific Century General Insurance Company Limited" in its context.*

Instead, the Group continues to operate as agent for Ming An but with greater authority to expand its role from a distributing agent to an underwriting agent, with responsibilities for underwriting, claims settling, and policy issuance. Effective January 2001, the division will operate with greater efficiency and shorter turnaround time in policy issuance and claim processing, thus enhancing its service to agents and clients.

Sales

Intensified competition and tighter underwriting criteria caused a relative decline in new business in this division. Sales revenue was 3.8 per cent lower than in 1999.

Strategy

For the year 2001, the division will expand its share of the general insurance market by focusing on increasing agents' productivity and training. Most agents have enrolled in our own revision course for IIQAS Paper 2 Examination (on General Insurance) and a Video CD for self study has also been produced as an easily accessible training aid.

The division currently has approximately eight hundred agents who are qualified to distribute general insurance products and Management foresees the number of qualified agents increasing significantly in the latter half of 2001.

(g) PCI Investment Management Limited

Products

PCI Investment Management Limited (PCIIM) was incorporated in January 2000 as the Company's own asset management arm. By May 2000, PCIIM had already obtained licenses as a Securities Dealer under the Securities Ordinance as well as a Commodities Trading Advisor under the Commodities Trading Ordinance.

In November 2000, PCIIM successfully launched two subsidiary funds under its flagship master umbrella investment fund, "PCIIM Investment Fund" (The Fund). The Fund is a Cayman Island – domiciled master unit trust authorised by the Hong Kong Securities & Futures Commission. The two subsidiary funds are the "PCIIM Global Balanced Fund", focusing on a balanced mix of fixed income funds and international equity funds, and the "PCIIM Asia Pacific Fund", specialising in Asia-Pacific equities. Both funds are open-ended with daily dealings.

While PCIIM currently focuses on managing part of the Company's investment portfolio, it also offers discretionary portfolio management, investment advisory and consultation services, as well as unit trust products to institutional investors and high net worth individuals.

Sales

Return on investment has been impressive as PCIIM has been a profitable venture from the outset. Total assets under management at the end of 2000 are approximately US$250 million.

As the business unit is relatively new and has yet to establish its position in the market, it is the intention of the Management to focus on building its investment track record before taking a proactive approach to attracting external funds.

Strategy 2001

The establishment of PCIIM represents a success for PCIHL in diversifying into the financial services sector and a perfect opportunity for the Company to offer a variety of new products and services. In view of recent industry trends indicating a stronger preference and interest in savings and investment products, for the year 2001, Management has planned to develop and introduce to the market a wider range of investment-linked products.

In addition to the two sub-funds currently available under our Master Fund, Management will enrich the scope of its portfolio to launch other sub funds with different specialisations and investment objectives, while retaining an overall investment focus on global fixed income, global equity, and an emphasis on the Asia-Pacific Region.

Our fund managers will continue to manage our portfolio with a disciplined yet dynamic approach, buttressed by a strong and experienced research analyst team. Our performance will be the driver, which will enable us to earn investors' confidence and trust for further business development.

(h) IT in a New Era

The Group's policy for information technology development has been aimed at quality assurance and the implementation of service standards. Through enhancing operational efficiency and enabling the Group's business initiatives, the division will seek to assist the Group's growth in sales and profit. To ensure that the Group's IT facilities and infrastructure is comparable to the highest industry standard possible, we will continue to engage in the search for cutting-edge technology in order to equip ourselves for new applications if such opportunities and demands should occur.

During the year under review, our efforts have been focused on the development of a new insurance administration system, "Insure-21" ("I21"); support for the launch of MPF and extension of our exceptional Group Insurance service to our sister company – Pacific Century CyberWorks Limited; support in the launch of a number of new life insurance and Life Personal Accident products; printing of Chinese policy contracts; launch of a new co-branded credit card; use of PPS for premium payments; launch of StaffNet and Wap-phone. We have also implemented a new reporting and organisation structure to better allocate resources and enhance service efficiency. We will render necessary assistance to strengthen project management methodology and enhance system development processes to improve the quality of service delivery. We will also invest in staff development and training while encourage accountability and responsibility.

Key projects and tasks for 2001 include the completion and implementation of the new insurance administration system, “Insure-21” (“I21”), and a support system for unit-linked products. The division will also devote resources to create new point-of-sales tools for agents. Our current focus includes the development of an Agency Intranet, and improvement to our document imaging technology. Service to our MPF and Group insurance clients will be enhanced through an IVRS and the Internet.

The Management is stressing on the importance of monitoring IT’s contribution and will introduce new performance yardsticks for quality assurance and cost-effectiveness. In line with the Company’s culture of customer service excellence, we will actively foster regular communications between users and IT staff, to ensure systems and technology are relevant to specified needs. New programs and initiatives to endorse Customer Relationship Management (CRM) practices will be the prevailing theme for the year 2001 and beyond.


Harmonious