

Chairman's statement



2006 was a record year of value creation for shareholders. Embedded value grew by 26% to HK\$6.231 per share, representing a pick up of approximately HK\$1,046 million in shareholders value. Sales and net profit surpassed all previous years while key performance indicators continue to show improvements with investment return, policy persistency and claim experience, all having performed better than expected.

Individual annualised first year premium ("AFYP") increased 58.8% to HK\$693.2 million, contributed from insurance contracts of HK\$363.2 million, up 12.2%, and investment contracts of HK\$330.0 million, up 192.3% from 2005. Single and first year premium increased 13.2% to HK\$335.2 million, renewal premium increased 8.3% to HK\$1,624.1 million and total premium increased 9.1% to HK\$1,959.3 million as compared with 2005. Total turnover showed an increase of 9.1% to HK\$1,993.9 million as compared to 2005.

Business Review

The Group reported a profit from ordinary activities attributable to equity holders of HK\$322.4 million for the year ended 31 December 2006, representing an increase of 658.6% from HK\$42.5 million in 2005. Basic earnings per share was HK\$0.40 as compared to HK\$0.05 in 2005. The

increase in earnings was mainly due to higher profit contribution from a larger inforce portfolio, good investment return for the year and the realisation of some of the past unrealised gains during the year. Policyholders' benefits increased by 32.0% to HK\$805.7 million. In line with business expansion, total operating expenses for the year were HK\$1,644.8 million, 27.6% above 2005.

The sales force continued to grow with the number of agents increased to 2,031 as compared to 1,696 in 2005. Agency productivity measured by total AFYP per agent month was HK\$33,000, representing a growth of 26.9% from HK\$26,000 in 2005.

As at 31 December 2006, the total number of inforce policies was 316,970 as compared to 294,457 in 2005, an increase of 7.6%.

Whilst renewal ratio ("Renewal Ratio") improved to 100.5% as compared to 100.3% for 2005, both 13th month and 25th month persistency rate have slightly decreased from 88.8% to 88.7% and 79.1% to 78.0% respectively. Claim ratio has also improved from 95.5% in 2005 to 88.6% in 2006.

Three new products were introduced in 2006 to cater for different needs of our existing and potential policyholders. One of these products is a whole life insurance product with built-in medical benefit which reimbursed hospitalization expenses subject to certain limits, with an optional rider to enhance the benefit levels. The other product is a personal accident coverage aiming to supplement our existing portfolio.

2006 marked a year of solid growth for PCI Investment Management Limited ("PCIIM"). Excluding the US\$500 million synthetic Collateralised Debt Obligation transaction in which PCIIM serves as portfolio manager, total funds under management rose by almost 20% to over HK\$9 billion at the end of 2006. As our fund size continues to grow, we have expanded our investment team with the aim of sustaining exceptional performance for our clients.

On 13 December 2006, the Group announced the acquisition of a 31-level Grade-A office complex situated at 1063 King's Road for HK\$1.472 billion from Hongkong Land Group. The property offers approximately 290,000 sq. ft. of office space which is currently 100% occupied, leased to a wide range of high quality tenants.

The Group intends to hold the property as a long term investment which offers attractive yield with long term capital appreciation potential. The Group currently utilises approximately 200,000 sq. ft. of office space for its corporate and insurance operations at various locations across Hong Kong. Subject to existing tenancy agreements, the Group intends to move its operations to this property in phases so that it can benefit from the certainty of future rental expenses and the improved efficiency of operating under one roof.

2007 Prospects

On 1 March 2007, Fortis Insurance International N.V. ("Fortis") and the Company announced that Fortis and Pacific Century Regional Developments Limited ("PCRD") have entered into an agreement whereby Fortis will acquire a controlling interest of over 50% in the Group for a total cash consideration of approximately HK\$3.5 billion (HK\$8.18 per share).

Based upon our 2006 results, the purchase price implies a valuation of approximately 1.38 times embedded value. It also represents a 58.2% premium to the Company's last closing price of HK\$5.17 per share as of 23 February 2007, or 59.1% premium to the average of the Company's closing prices over the ten full trading days immediately prior to and including 23 February 2007. This is a fair price for a business which I founded and have spent the last 13 years building, alongside such a high quality team.

The controlling stake will be acquired from PCRD and from certain other shareholders of the Company. Fortis will make an unconditional mandatory general offer at the same price upon the completion of the acquisition which is subject to regulatory approvals and other closing conditions. The board of directors will as soon as practicable appoint an independent financial adviser, which will advise on the details of the offer.

Fortis is committed to our franchise, to the development of our agency sales force and to delivering the highest level of services to our policyholders. This transaction will bring the Group together with one of the world's leading financial institutions whose range of products, services and resources will enable the Group to continue its growth path. Our colleagues and over 2,000 agents have every reason to be excited about joining hands with such a quality international partner. Our business is in better shape than ever and we expect our growth momentum to continue into 2007.

Francis Yuen

Executive Chairman

Hong Kong
20 March 2007