

Chairman's statement



We are young and energetic. In the next decade, we will expand from our strong base in Hong Kong into our motherland. We strive to devote the next 10 years to becoming a respected player in mainland China.

Our efforts to rebuild the management team bore fruit in 2004.

We initiated key management changes in 2002 and 2003, providing the impetus to reverse a trend of declining agent productivity and deteriorating operational efficiency. In 2004, our agents achieved an average productivity of HK\$32,700 per month, which is a significant improvement over HK\$19,900 in 2003. Expense ratio improved from 120% in 2003 to a more acceptable level of 105%, while renewal ratio continued to recover from a low of 85% in 2002 to 98%.

Our agency force registered a small increase in 2004 to 1,268 agents; however, it has gathered strong momentum for rapid expansion in recent months.

Record high new business

Annualised first year premium on individual life insurance business increased 48.0% to HK\$467.4 million,

while single and first year premium from life insurance business increased 51.9% to HK\$444.0 million. Total premium on life insurance business reached a record high of HK\$1,912.3 million, driven by record high new business and high renewal premium.

All key performance indicators confirm that our core business is on an uptrend for strong growth.

Solid financial position

In November, Fitch Ratings and Moody's Investors Service assigned Insurer Financial Strength ratings of "A-" and "Baa2", respectively, with a stable outlook, to PCI. They noted strong management, a robust capital base and low-risk liability portfolio, strong operating cashflow and solvency as a basis for their assessment. They also endorsed our cautious mainland China investment strategy, with its potential to enhance long-term growth as our motherland's insurance market opens up to external investors.

A.M. Best – the world’s most established insurance-rating agency – reaffirmed an “A- (Excellent)” financial strength rating on PCI – noting our prudent capitalisation, improvement in operating performance and cautious control of expenses.

The highlight of the year was our maiden bond issue of US\$100 million in December to fund our future expansion plans.

First decade

We celebrated our 10th anniversary in 2004. We spent our first 10 years establishing ourselves as a respected player in Hong Kong.

10 years is a relatively short period in the corporate history of a life insurance company. We are young and energetic. In the next decade, we will expand from our strong base in Hong Kong into our motherland. We strive to devote the next 10 years to becoming a respected player in mainland China.

China strategy

Since 1996, PCI has maintained representative offices in Beijing, Shanghai and Guangzhou to facilitate training and market research activities. In November 2004, PCI successfully submitted an application for a life insurance license. A formal reply is expected within 6 months. In the

meantime, we are also exploring the possibility of making strategic investments in other established life insurance companies.

Caring and sharing

Caring and sharing has been a hallmark of our presence in the marketplace, and we continue to contribute to the Hong Kong community, supporting a series of events including the highly successful Community Chest Pacific Century Insurance Charity Walk. This formed part of our 10th anniversary celebrations and resulted in PCI staff and agents donating HK\$1,000,000 to the Community Chest to improve the lives of thousands of underprivileged children. Other such activities in 2004 included support of World Blood Donor Day when 170 staff and agents responded by giving blood, our participation in the Matilda Sedan Chair Race, charity rice donation to the elderly and refurbishment of the St James’ Settlement Child Care Center.

Staff and agents responded spontaneously to the Indian Ocean tsunami disaster by raising HK\$500,000 in less than two days to help fund relief work.

I find my colleagues’ passion for caring and sharing most heartening. These are fine examples of how the PCI spirit is demonstrated in the community.

Acknowledgements and commitment

I would like to express my immense gratitude to our customers, shareholders, business associates and, in particular, our employees for their continued commitment and confidence in us, as we meet the challenges of 2005.

On the occasion of celebrating our 10th anniversary, I would like to take this opportunity to congratulate our global spokesperson, Mr Zhang Lianwei, who last year became the first golfer from China invited to play in the prestigious US Masters. Golf as a sport, and life insurance as a social protection concept, are both new – yet both are gaining popularity in China. We should learn from Mr Zhang and all his hard work to become the No. 1 golfer in China. It took him 10 years to become the national champion. If we were to reflect on our decision to expand into China in 10 years’ time, I hope we will be able to look back at a record as illustrious as his. We are fully committed to pursuing our China strategy, and we are confident that we will succeed in our motherland.

Yuen Tin Fan Francis

Chairman

Hong Kong

23 February 2005