

# Management Discussion and Analysis

The interim profit was HK\$68.9 million as compared to HK\$135.8 million for the same period in 2000. The major variance can be attributed to poorer investment environment despite more profit contributed by the increase in premiums.

First-year premium income for the period under review was 68% above that of the same period last year. Renewal premiums were 12% above last year.

For the first six months of 2001, the Group sold 38,345 policies and as of June 30, 2001 had 314,763 policies in force. Persistency (12-month moving LIMRA) improved to 85%.

We launched a joint venture credit card business with the Bank of East Asia, Limited and already made a net profit of HK\$0.8 million after deducting all the initial launching expenses.

## CAPITAL ADEQUACY AND FINANCING

The Group's capital and reserve substantially exceeded the capital adequacy requirements of the relevant regulatory authorities. During the first six months of the year, the Group had no borrowings and continued to generate positive cashflow. As at June 30, 2001, net cash generated from the Group's operating activities amounted to HK\$116.1 million and net assets increased to HK\$1.9 billion.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group has not experienced any exchange rate exposure, as all our policies are denominated in US Dollars and are currency matched. The Group, under close supervision of the Investment Committee, has been extremely cautious in investing our funds. As at June 30, 2001, only 10.8% of our general funds were invested in equities.

## Management Discussion and Analysis (Continued)

**RATING**

The Group received an “A-” (Excellent) rating from A.M. Best, the largest and oldest U.S. rating agency specialising in rating insurance companies. Following an in-depth study on the Group’s operations in May 2000, the rating was again reinstated in May 2001. A. M. Best cited the Group’s “favourable risk-adjusted capitalisation, large and effective career agency distribution system and experienced management team”.

A.M. Best also cited that the Group’s capital strength has benefited from a flexible, low risk liability structure and a high quality, liquid investment portfolio, which allowed the Group to minimise its asset exposure during the previous Asian financial markets crisis without compromising overall operating performance.

**SIGNIFICANT INVESTMENTS HELD**

The following table shows the asset distribution of the General Fund of the Group (excluding segregated funds):-

	Fixed Interest	Mortgage & Loans	Cash	Equities	Others	<b>Total</b>
<b>By Currency</b>						
US\$	68.1%		4.4%	5.4%	0.4%	<b>78.3%</b>
HK\$	0.7%	10.6%	4.4%	4.0%	0.1%	<b>19.8%</b>
Others			0.5%	1.4%		<b>1.9%</b>
<b>Total</b>	<b>68.8%</b>	<b>10.6%</b>	<b>9.3%</b>	<b>10.8%</b>	<b>0.5%</b>	<b>100.0%</b>
<b>By Geography</b>						
US	15.1%			0.3%		<b>15.4%</b>
Europe	3.7%			0.7%		<b>4.4%</b>
Japan	0.2%			1.3%		<b>1.5%</b>
Hong Kong/China	24.4%	10.6%	9.3%	6.6%	0.5%	<b>51.4%</b>
Other Asia	22.7%			0.6%		<b>23.3%</b>
Others	2.7%			1.3%		<b>4.0%</b>
<b>Total</b>	<b>68.8%</b>	<b>10.6%</b>	<b>9.3%</b>	<b>10.8%</b>	<b>0.5%</b>	<b>100.0%</b>

## PROSPECTS FOR NEW BUSINESS

The investment arm of the Group, PCI Investment Management Limited, has launched two subsidiary funds, namely, "PCIIM Hong Kong Equity Fund" and "PCIIM Global Fixed Income Fund". With growing demand for investment-linked products, it is envisaged that the Group has the potential to generate more fund management business thus further expand into the financial services arena.

The Group is hopeful that upon the PRC's successful accession into the WTO, it would be granted a life insurance operating licence in China.

## OPERATIONS

### Agency Operation

#### Sales

At the core of the Group's productivity enhancement initiatives, Agency Operation Division reported individual first year premiums of HK\$183.3 million for the first six months of the year, showing a 22.5% increase from the corresponding period in 2000. The number of policies increased by 27.3% to 38,345 cases; agents' productivity increased by 30.4% for the period in review.

Contrary to the industry-wide decline in the overall number of qualified agents in Hong Kong, the Group has managed to maintain a strong and stable agency team. The number of agents in service as at the end of June stood at 2,068.

#### Special Events

To supplement our productivity development, the division has launched numerous programmes and activities in order to strengthen teamwork and promote the Group's corporate culture.

Campaigns to promote the Group's corporate image also effectively enhance public awareness of the PCI brand name. A Co-Branded credit card in conjunction with the Bank of East Asia, Limited was introduced in January, a Community Chest raffle draw took place between February and April, and a company-wide Blood Donation Campaign with the Red Cross took place in May. These joint-programmes provided excellent opportunities for the Group to collaborate with different businesses and charities, and can be considered as effective external avenues to facilitate sales and brand awareness.

## Management Discussion and Analysis (Continued)

### Information Technology

#### Progress ~ Insure-21

During the period under review, the division has successfully implemented a new policy renewal and claims system for the Group's Life Personal Accident Division ("LPA") in May 2001.

A new administrative system, "Insure-21" ("I21") for Individual Life Business has become operational in August 2001. Phase two of the "I21" project is expected to become operational between September 2001 to spring 2002. This system will considerably improve operational efficiency and smoothen procedural flow.

#### Strategies

Measures to strengthen service standards include the setting up of a new security team and new policies to enhance security infrastructure have been introduced in July 2001. Initiatives to enhance IT development and operation standards, as well as service standards, will be complementary to the Group's ISO requirements and therefore will be incorporated into the ISO manual in October 2001.

Client Relationship Management ("CRM") programmes will be the highlight in the coming months. The division will facilitate business development for the launch of new products in September 2001. We are also prepared to take part in joint-promotional programmes with suitable business partners from October onward.

Users will benefit from innovative technology applications including the use of expert systems for underwriting, document imaging for operational material, new point-of-sales tools and internet-based services for agents and customers. These new applications will gradually be made available by September 2001 and operation is expected to become fully-fledged by first quarter of 2002.

### CHANGES IN THE COMPOSITION OF THE ENTERPRISE DURING THE INTERIM PERIOD

There has not been any change to the composition of the Group during the first six months of the year.