

Management Discussion and Analysis

The interim profit was HK\$84.0 million as compared to HK\$68.9 million for the same period in 2001. The major variance was mainly due to better investment returns despite a poor investment environment and a drop in total premium income.

Total premium income for the period under review was 12.7% below that of the same period last year. For the first six months of 2002, the Group sold 17,609 policies and has 293,588 policies in force. Persistency (12-month moving LIMRA) dropped to 71.8% as compared to 84.5% last year. This is mainly due to the departure of a number of experienced agents at the beginning of the year and the continued decline in the Hong Kong economy.

Investment income increased by 116.4% to HK\$214.1 million over that of the same period last year. The annualised yield on the general fund was 10.6% for the six months ended June 30, 2002.

Capital Adequacy and Financing

The Group's capital and reserves substantially exceed 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 a positive cashflow. As at June 30, 2002, net cash generated from the Group's operating activities amounted to HK\$100.5 million.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group in principle does not carry any exchange rate risk, as our policies are mainly denominated in US Dollars and are currency matched. The Group, under close supervision of the Investment Advisory Committee, has been extremely cautious in investing our funds. As at June 30, 2002, only 8.4% of our general fund was invested in equities.

Ratings

The Group was once again affirmed an "A- (Excellent)" rating from A.M. Best, the largest and oldest U.S. rating agency specializing in rating insurance companies. A.M. Best cited that "offering non-guaranteed products allows the Company to promptly respond to investment opportunities and to adjust to economic conditions. The conservative and highly liquid investment portfolio contributes to the stability of PCI's operating performance."

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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	Total
<i>By Currency</i>						
US\$	49.5%	0.0%	22.6%	6.4%	0.4%	78.9%
HK\$	0.6%	7.4%	10.3%	1.8%	0.0%	20.1%
Others	0.0%	0.0%	0.8%	0.2%	0.0%	1.0%
Total	50.1%	7.4%	33.7%	8.4%	0.4%	100.0%
<i>By Geographical Area</i>						
US	10.9%	0.0%	0.0%	0.3%	0.0%	11.2%
Europe	6.3%	0.0%	0.0%	0.0%	0.0%	6.3%
HK/China	14.6%	7.4%	33.7%	4.9%	0.4%	61.0%
Other Asia	18.3%	0.0%	0.0%	2.5%	0.0%	20.8%
Others	0.0%	0.0%	0.0%	0.7%	0.0%	0.7%
Total	50.1%	7.4%	33.7%	8.4%	0.4%	100.0%

Agency Operations

Sales

Following the departure of a number of experienced agents at the beginning of the year and the continued decline in the Hong Kong economy, total premium income from long term insurance business for the first six months of the year amounted to HK\$831.3 million, showing a 12.7% drop from the corresponding period in 2001. The number of policies sold decreased by 54.1% to 17,609. The number of agents in service as at the end of June dropped by 15.4% as compared to December 31, 2001 to 1,731.

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Strategies

As it is the Group's policy to recruit high quality agents, we have devoted more resources to provide continuous training to our agents so as to equip them with the necessary knowledge and information to provide premium services to our customers. To complement the HKSAR government's policy, we will continue to launch the Career Opportunity Seminar in 2002 to recruit new and experienced agents.

The Product Development Division has been strengthened to place more emphasis on design and modification of new and existing products to meet market requirements.

Career Opportunity Seminar ("COS")

To supplement our productivity development, the Group launched its first COS on June 27, 2002 to recruit new and experienced agents. The seminar was well received and over 1,000 interested persons participated in the event. The Group will continue to organise COS for recruitment in the future.

Information Technology

After the new administration system "Insure-21" became operational in August 2001, the department has shifted its emphasis to empowering agency force in sales and administration through the use of technology.

The new point-of-sales tool ("PowerAgent" operated on handheld Palm computer) is being continuously enhanced to provide client information and as a sales tool for agents. A new Internet Portal "AgentNet" will be introduced in the third quarter of 2002 to provide web mail, company information and client information anytime, anywhere for agents. These will be one of our future communication channels between our staff and sales force.

A new Interactive Voice Response System for Life Policies will be introduced in the third quarter of 2002 for agents and clients to access policy information by phone.

An auto-underwriting system to underwrite life policies will be implemented in December 2002. This will improve our efficiency in New Business Processing.

A Document Imaging and Workflow System is under consideration.

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Changes in the Composition of the Enterprise during the Interim Period

During the first six months of the year, there has been no material change in the composition of the Group. The Group is principally engaged in the provision of an extensive range of whole life, endowment and term life insurance products to individuals in Hong Kong. The Group also provides a range of other related products, including accident, medical and disability insurance to individuals, group life and accident, medical and disability insurance, group retirement scheme management and general insurance products through an agency arrangement. In addition, the Group also engages in the asset management business.

Segmental Information

(A) Long Term Business

Life Operations

For the period under review, the Division introduced a “Terminal Illness Advance Payment Benefit” in June 2002 which is a free rider attached to policies underwritten since June 2002. Some new products are in the pipeline and are scheduled to be introduced in the latter part of 2002.

Strategies

To achieve operational efficiencies and better cost control, the Life Operations Division has moved to its present office in April 2002 to enhance process flow.

A new Online Retrieval Imaging System was introduced in May this year to replace the old CD-ROM based system. The new system significantly improves the Division’s operational efficiency and over 100 users can concurrently gain access to imaged documents. A more sophisticated imaging system is under consideration and may be implemented in late 2002.

Call Centre

The Call Centre function was extended to the Claims Department. This system facilitates the handling of agents’ enquiries and assists in speeding up claims assessment.

Looking forward, an Interactive Voice Response Project is under construction which will be implemented in September 2002.

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Life Personal Accident (“LPA”)

Sales

For the six months under review, the LPA Division generated HK\$32.4 million in total premium as compared to HK\$35.6 million recorded in the same period last year.

Strategies

Two new products, namely, “Special VIP LPA” and “Special Labour LPA” will be introduced in the third quarter of this year. To continue improving our services to our policyholders, we will review the “Student Care”, “Builder Safe” and “VGA” products in the latter part of this year.

Group Insurance

Sales

The Division recorded a 7.8% decrease in total premium of HK\$36.0 million for the first six months of the year, compared to HK\$39.0 million for the same period last year. Net income for the first six months of the year amounted to HK\$3.9 million as compared to HK\$4.6 million of last year, representing a 14.7% decrease.

In the first quarter of 2002, the Division revamped the mini-group package product “AdvantagEmployee Benefits Insurance Program” tailor-made for small and medium sized companies. In February this year, the Division launched a sales contest for agents. As a result, the number of applications for package product has already increased by 60% and premium increased by 3.6 times compared to last year.

Strategies

The Division will continue to provide training to the agents so as to improve their knowledge and selling skills in promoting Group Insurance business. The incentive scheme for intermediaries will also be periodically reviewed to ensure that the compensation offered is compatible to that of the industry leaders.

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(B) Mandatory Provident Fund (“MPF”)

Sales

The Group recorded total Mandatory Provident Fund contributions of HK\$49.9 million for the first six months of the year as compared to HK\$77.6 million recorded in the same period last year.

Strategies

Since MPF is not considered our core business, the Group concluded a Transfer Agreement and Distribution Agreement for the MPF business with HSBC Life (International) Limited (“HSBC Life”) on June 27, 2002. The Transfer Agreement provides the Group’s current MPF customers with the opportunity to transfer their schemes to HSBC Life’s MPF scheme. The Distribution Agreement allows our agents to distribute HSBC MPF SuperTrust and HSBC MPF SuperTrust Plus products.

(C) General Insurance

Sales

The Division continued to act as an underwriting agent for The Ming An Insurance Company (Hong Kong), Limited (“Ming An”). For the six months under review, the Division received total brokerage commission of HK\$4.9 million, representing an increase of 5.6% as compared to the same period last year.

Products

A new product was introduced in March 2002. The “Building Management Insurance Package” was developed by Ming An for distribution, targeting property management organisations such as the Incorporated Owners Associations and property management companies for buildings less than 20 years old. Coverage for this type of product includes Fire & Allied Perils, Money Insurance, Employees Compensation & General Third Party Liability.

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Strategies

As product knowledge and training take precedence, we will offer courses featuring a new topic to our agents every month. We believe well-versed agents will enhance overall agency productivity and service standards. Tailored programmes will also be arranged according to specific requests.

In April 2002, the Division introduced a “Premium Growth Campaign”; a motivational campaign to reward outstanding agents who can attain the premium growth criteria (2002 versus 2001 in terms of premiums generated within the year). Rewards include cash prizes, lucky draw entries and cash awards for top producers.

(D) PCI Investment Management Limited (“PCIIM”)

Since its establishment in July 2000, PCIIM has specialized in investment management with an absolute return focus. This investment approach has been particularly favourable during the first half of 2002 given the global financial turmoil. Investors have become more aware of the importance of prudent risk management and have shown increasing interest in alternative investment vehicles. We are also exploring the potential of launching alternative investment funds in due course.

Sales

Total assets under management have gradually increased. Since the beginning of this year, the total fund size has grown by more than 10% to around HK\$4.0 billion as at the end of June 2002.

Strategies

All our four unit trusts continued to perform well and achieved consistent positive returns with significantly lower volatility than the corresponding benchmarks. The satisfactory performance of these funds has attracted more interest from retail investors and the total size of our unit trusts has grown by more than 20% over the six months under review. We will continue our effort to link up with banks and independent financial advisors to promote our unit trust business.

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Seasonality/Cyclicity of Interim Operations

Business is usually slower at the beginning of the year as a result of Chinese New Year holidays. The state of the economy directly affects the industry as insurance is not viewed by many as a basic necessity and disposable income is normally allocated to housing, food, education and taxes.

Number and Remuneration of Employees, Remuneration Policies and Training Schemes

As at June 30, 2002, the Group has 372 employees, a decrease of 3.4% as compared to December 31, 2001. Total remuneration for the first six months was HK\$83.7 million. The Group has 1,731 agents as compared to 2,045 as at December 31, 2001.

The Group's compensation system is aimed to match the wage levels of industry leaders, rewarding staff based upon performance and striving for fairness in the administration of pay.

We have conducted many local and international insurance related training programmes such as actuarial courses, LOMA, ICA, Mandatory Provident Fund Intermediaries Examination and Insurance Intermediaries Qualifying Examination to enhance professionalism and services to our clients. The participation rate in these programmes is extremely high.

Details of Charges on Group Assets

As at June 30, 2002, there were no charges on any of the Group's assets.

Future Plans

Our immediate plan is to recruit high quality agents with an objective to reach 2,100 agents by the end of this year. Continuous training will be provided to new and experienced agents to better prepare them with improved selling skills, updated market information as well as to meet the requirements of statutory examination. The Group will also provide avant-garde information technology to facilitate agents in gaining access to updated information.

Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended June 30, 2002 (June 2001: Nil).

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Investor Relations

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock Code: "65"). Investor enquiries regarding the Company should be addressed to:

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