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Year 2002 has been a very competitive and challenging year especially as we are operating under a sluggish economy and highly competitive environment. Our Company is emerging from a year of tremendous struggle and rebuilding, and a year different from, and more difficult than, any other in our history.

Consolidation has continued to take place within the industry as the total number of registered agents further decreased to below 30,000 by the end of 2002. During the year under review, we have also restructured our agency hierarchy and retrenched over 200 agents in order to build an elite agency force and to step up our efforts to extend premium service to our policyholders.

The Group reported a net income of HK$125.9 million despite a very competitive and challenging year, as compared to HK$155.9 million in 2001. Total turnover for the year amounted to HK$1,709.5 million. The number of in-force policies has dropped to 282,659 due to the departure of an agency leader and his team of over 100 agents.

The following sections provide a detailed review and analysis of 2002 results and segmental performance:-

I. Capital Adequacy and Financing

During the year under review, net cash outflow from operating activities amounted to HK$164.9 million. Other investment activities required HK$3,908.5 million for the purchase of investments, which was largely funded by a net receipt of HK$3,417.8 million from the disposal of investments.

As at December 31, 2002, the Group's net assets were HK$2,111.3 million. On statutory reporting basis, the Group's net assets far exceeded the statutory net surplus required by the Insurance Regulation.

II. Risk Management

(a) Insurance risks

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness and other such risks. It retains a maximum of US$100,000 for each risk it insures, with the excess being reinsured through surplus treaty, coinsurance treaty, facultative reinsurance, and catastrophe treaty with reputable international reinsurers. Consequently, total claims payable in any given year can be predicted with a high degree of precision. Over the last five years, the actual claims in any given year have been within a few percentage points of expected claims. As part of our quality control process, the Group has invited reinsurers to audit our underwriting and claim practices and procedures on a regular basis, to ensure that they meet the highest industry standards.

(b) Investment risks

While the Group's policies allow us considerable latitude in asset allocation, we adopt a relatively conservative investment strategy. Invested assets required to support our insurance liabilities are entrusted to our own asset management company, PCI Investment Management Limited ('PCIIM'). While its investment mandate allows PCIIM to invest up to 30% of its assets in equities, the actual proportion has been around 13.8%, with the balance mainly invested in fixed interest instruments.

For fixed interest investments, it is the Group's investment policy to match the currencies of assets and liabilities. The Group does not require currency matching for equity investments because it subscribes to the view that currency fluctuation is part of the overall investment consideration.

The Group occasionally invests in a small volume of equity-linked notes, provided that the risks are considered acceptable and there is no significant effect on the overall investment performance of the Group. The underlying equity and its exercise price must be attractive for the Group to invest directly at such price level. Once the Group invests in an equity-linked note, the performance will be monitored daily by reviewing the overall daily investment gain and loss position. The Group will also try to hedge its position if it considers necessary.

The Group has actively refined its investment model through the use of the Value at Risk (VaR) technique to measure portfolio risks and performance. Where appropriate, the Group also uses the Sharpe ratio to measure the investment performance of its fund managers.

(c) Business risks

The Group uses the well-known third-party actuarial software 'Prophet' to perform, on a regular basis, long-term projections of our profit and loss positions using a variety of business scenarios. Such long-term projections have enabled the Group to better understand the impact of the changing business environment on our financial results and capital requirement and have, over the years, assisted us in our decision making in anticipation of such changes.

III. Rating

The Group has once again been reaffirmed with an 'A-(Excellent)' rating from The A.M. Best Company, the largest and oldest U.S. rating agency specializing in rating insurance companies, after an in-depth study was carried out on the Group's operations in August 2002.

A.M. Best cited 'the Company's flexible liability structure is another major factor that the current rating considers. 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 – which is comprised of mostly investment grade bonds and deposits – contributes to the stability of PCI's operating performance.'

IV. Embedded Value

The Group has a regular program to calculate, in consultation with internationally renowned consulting actuaries, its embedded value. Embedded value per share for the past four years were as follows:

	Embedded Value (per share)
12/1998	$2.965
12/1999	$3.341
12/2000	$3.295
12/2001	$3.917

Embedded value for year 2002 will be posted on our website as and when it is available.

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V. Investment

The Group's investment committee, which includes certain directors and the management of PCIIM, meets on a weekly basis to review the current investment climate and make policy decisions where necessary. The Group has engaged its wholly-owned asset management company, PCIIM, to manage the majority of its investment portfolio. Our investment results are satisfactory, with invested assets representing insurance liabilities, yielding 8.3% return per annum on a dollar-weighted basis in 2002.

2002 was another difficult year for the investment community. However, this year turned out to be another good year for global fixed income markets. As the US economy failed to respond to accommodative monetary policy and expansionary fiscal policy, the Federal Reserve lowered the Federal Funds rate by another 50 basis points to 1.25% in November.

Economic data released in early 2002 suggested a stronger-than-expected recovery, thanks mainly to the rebuilding of inventories. However, the rebound in activities soon lost its momentum. While the low interest rate environment was beneficial to the housing sector and the auto industry, it provided little boost to the rest of the retail sector. Geopolitical risks placed a further restraint on growth as growing fears of war against terrorism weakened investor's confidence.

	Fixed Interest	Mortgage & Loans	Cash	Equities	Others	Total
By Currency						
US$	68.0%	4.0%	2.5%	5.9%	0.3%	80.7%
HK$	0.6%	3.3%	6.7%	7.7%	0.1%	18.4%
Others	0.0%	0.0%	0.7%	0.2%	0.0%	0.9%
Total	**68.6%**	**7.3%**	**9.9%**	**13.8%**	**0.4%**	**100.0%**
By Geographical Area						
US	25.3%	0.0%	0.0%	0.0%	0.0%	25.3%
Europe	8.7%	0.0%	0.0%	0.0%	0.0%	8.7%
Japan	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
HK/China	12.8%	7.3%	9.9%	10.9%	0.4%	41.3%
Other Asia	21.8%	0.0%	0.0%	2.4%	0.0%	24.2%
Others	0.0%	0.0%	0.0%	0.5%	0.0%	0.5%
Total	**68.6%**	**7.3%**	**9.9%**	**13.8%**	**0.4%**	**100.0%**

In the near term, the global fixed income markets will continue to be dominated by intensifying war threats. Given the uninspiring global economic outlook, we believe that global monetary policy will remain accommodative in year 2003.

VI. Joint Venture with The Bank of East Asia, Limited

There was a slight decrease in the number of cardholders from 14,566 on December 31, 2001 to 13,763 on December 31, 2002.

In light of the persistent sluggish economic environment and a rising rate of card delinquencies, our credit card operations with The Bank of East Asia, Limited experienced a loss of HK$0.5 million for the whole year. This is mainly due to the bank's provision policy for bad debt where bankruptcy petitions are charged off upon receipt of a bankruptcy order.

VII. Policyholder Dividend

While the investment climate remained weak with the stock market looking bleak and bond interest rate declining, the Group strove to achieve its expected return. As a result, the Group maintained the existing dividend scale and accumulation interest rate.

VIII. Operations

The Group reports a Net Profit Attributable to Shareholders of HK$125.9 million for the year ended December 31, 2002 which represents a decrease of 19.3% from HK$155.9 million achieved in 2001. Earnings per share is HK$0.15 as compared to HK$0.19 in 2001.

Total Premium shows a decrease of 13.9% as compared to 2001. Investment income, net gains, and other income increased by 28.5%. Total revenue and net gains for the year is HK$2,051.6 million, compared with HK$2,247.5 million recorded in 2001, an overall decrease of 8.7%.

Policyholders' Benefits increased by 5.2% and agency expenses decreased by 33.7% as compared to the previous year, reflecting less new business and the recovery of substantial financing subsidies from departed agents.

Management Expenses have decreased by 1.3% due to more stringent cost control; total Operating Expenses for the year are HK$1,572.9 million, or 5.9% above the HK$1,484.6 million reported in 2001. Despite stringent expense control, Expense Ratio was the highest in the past 5 years which is mainly due to low premium income in year 2002.

The following is the Expense Ratio of the Group for the past five years:

	Expense Ratio
1998	117%
1999	120%
2000	122%
2001	111%
2002	126%

Commissions, override and other variable expenses are assumed to be equal to 100% of the first-year premiums and 10% of the renewal premiums. Administrative expenses are assumed to be equal to 25%

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of first-year premiums and 5% of renewal premiums. Dividing actual expenses by the summation of the four components above gives the 'expense ratio'.

(a) Agency Operations

Sales: The number of agents standing as at December 31, 2002 is 1,535. Individual AFYP for 2002 was HK$237.5 million compared to HK$366.1 million in 2001. Agency productivity – Individual AFYP per Agent Month was HK$11,300, 22.6% decrease as compared to year 2001.

Strategies: In January 2002, a senior agency leader and more than a hundred agents resigned and left the Group. In order to conserve the policy portfolio built up by these agents, a special customer servicing task force was formed to formulate strategies and devise action plans for maintaining quality services to thousands of concerned policyowners. This task force has now become one of the Group's customer servicing teams dedicatedly taking care of orphan policyowners.

The Group's sales strategy has shifted to maintaining high quality agents and increasing productivity. Focus has been put on agency training and new product development in order to help boost sales. New training strategy has been formulated with focus on helping agents meet the CPD requirements, enhancing their prospecting and selling skills and strengthening their financial planning techniques.

With respect to sales and productivity, a variety of new products as well as sales campaigns were launched. These activities did offer our agents more opportunities to review and re-plan the investment and insurance needs of our policyowners.

The Group's recruiting strategy also changed. Emphasis has been put on hiring university graduates and financial planners who possess knowledge in selling a wider spectrum of insurance and investment products. This is especially important in meeting customers' increasing expectations of the professionalism of insurance intermediaries.

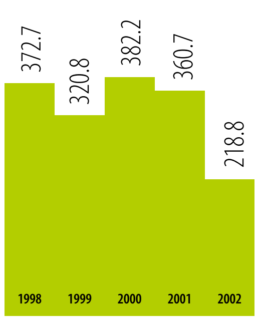
Major Events: During the period under review, Agency Operations organized and participated in numerous events such as the Education & Careers Expo 2002, Annual Awards Presentation, and Customer Retention Campaign.

(b) Life Operations

At December 31, 2002, the total number of in-force policies was 282,659 compared to 313,493 in 2001, a drop of 9.8%.

i) Individual first year premium

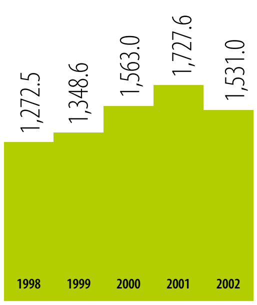
The following chart shows the Group's new sales based on individual first year premium over the last five years.



Individual First Year Premium (HK$ Million)

ii) Individual total premium

The following chart shows the Group's individual total premium income over the last five years.



Individual Total Premium (HK$ Million)

iii) Renewal ratio

The renewal ratio of 2002 was substantially lower than past years. This is mainly due to the surrender of policies to other insurance companies as a result of departure of a team of agents in January 2002. The following is the Renewal Ratio of the Group for the past five years:

Year	Renewal Ratio
1998	90%
1999	92%
2000	98%
2001	98%
2002	85%

The Group has constructed a model to produce what we call the 'Renewal Ratio'. Our model assumes that 80% of first-year premium will stay on the books the following year and that 93% of the Group's renewal premium will still be on the books the following year. Adding the two together produces the expected modeled renewal premium. The actual renewal premium in the following year are then divided by the expected modeled renewal premium 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.

iv) Claims experience

Claims (mortality and morbidity) experience fluctuates from year to year. For the past 5 years, experiences have been better than our pricing assumptions. The following chart gives the Group's overall claims experience, on a claim ratio basis, over the last five years:

Year	Claims Experience
1998	98.3%
1999	96.4%
2000	93.0%
2001	97.4%
2002	95.0%

Products: The 'New Waiver of Premium Rider' was introduced in June 2002. It is a rider that standardizes the various types of Waiver of Premium Riders which facilitates our agents in selling the product while our claims staff can assess claims using a uniform standard.

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The *'Terminal Illness Advance Payment Benefit'* is a free benefit attached to newly issued life insurance policies. It advances up to 50% of the sum insured or HK$1 million, whichever is lower, to the insured if they are diagnosed as having a terminal illness which will very likely cause death within 12 months.

In September 2002, the *'TopMed Hospitalization Plan'* was revamped with enhanced benefits. In addition to the standard coverage, the plan offers new benefit items such as Intensive Care, In-Patient Specialist's Fee, Emergency Out-patient Treatment (Accident), Daily Post Surgery Home Nursing and Extra Bed for Family Members. The new benefits were well received by the customers especially as there are no underwriting requirements for existing customers. The expiry age has also been extended to 75.

The *'TopMed Out-patient Rider'* and *'TopMed Dental Rider'* can be attached to the TopMed Hospitalization Plan or any other basic insurance plan. The first rider provides comprehensive out-patient benefit coverage such as General Practitioner Consultation, Specialist Consultation, Chinese Herbalist Consultation and Bone-setting. The second rider provides comprehensive dental care at a privileged price. The services are provided by the SOS network.

In November 2002, the *'5-year Century Life'* plan was introduced. It is a 5-year term life plan that offers guaranteed renewal every 5 years. It can be applied for as a basic plan or as a rider with step premiums.

In December 2002, the *'Super Kid'* Children's Education Fund was launched as an endowment plan designed for Juvenile coverage with a guaranteed cash value. An amount equals to 78% of the basic sum insured will be declared in four installments when the age of the insured is 18, 19, 20 and 21. At policy maturity, the policyowner has an option to buy a paid up whole life insurance plan at the expense of the last declared installment. The Education Fund provides special awards and a scholarship for the insured's outstanding academic performance.

Strategies: In May 2002, the *'Online Retrieval Imaging System'* (ORIS) was launched to replace the old CD-ROM based image retrieval system. The new system allows more than 100 users to gain access to the imaged documents simultaneously, significantly improving operational efficiency. A more sophisticated imaging system will be implemented in 2003. At the same time, some of our service and claim forms can be downloaded from our corporate website, giving the agents and policyowners greater convenience via the Internet.

The *'PCI Tele Link'*, our enhanced Interactive Voice Response System, was introduced to the agents in September 2002 and rolled out to all clients in December 2002. The new system enables both policyowners and agents to inquire about policy information like policy status, premium amount, plan/rider information, last premium payment, policy value, transaction status, reprint anniversary statement, reprint premium notice etc. Callers can also obtain forms via fax. The system integrates with the existing Call Centre system so that prompt attention to client's special enquiry or requests can be attended. Our *Call Centre Operation* has extended the telephone enquiry service to the Claims Department since April 2002 so that agents' inquiries regarding their clients' claim can be handled in a timely and efficient manner.

A *feasibility study* on implementing the Workflow and Imaging System in Policy Service Department was performed in late 2002. The System's objectives are to enable a higher degree of automation and significantly reduce the turnaround time of business processes so as to further improve the operational efficiency for the benefits of both policyowners and agents. Following the recommendation of the feasibility study, the first phase of the project commenced in January 2003 is expected to be completed in the third quarter of the year.

(c) Life Personal Accident

Sales: During the period under review, Life Personal Accident ('LPA') Division generated HK$63.1 million in premiums.

Products: In July 2002, the Division introduced new products *'Special VIP LPA'* and *'Special Labour LPA'*, which were enhanced from the previously introduced *'Millennium VIP Special LPA'* and *'Millennium Labour LPA'*.

Strategies: In year 2003, the Division intends to review and revise the *'Complementary Personal Accident'* rider and *'Student Care Insurance'* . Two new products are also in the pipeline, namely, *'Premier Personal Accident Insurance'* and *'Smartest Student Accident Insurance'*.

(d) Group Insurance

Sales: For the period under review, the Group Insurance Division recorded HK$59.8 million in premiums with net income of HK$3.6 million.

Products: The *'AdvantagEmployee Benefits Insurance Program'* was introduced in February 2002; this product also includes the Chinese herbalist and bonesetters benefits. In January 2003, two new products, namely, *'Accidental Death Only'* and *'Accidental Disablement Only'* were introduced to provide more flexibility and cost effectiveness to employers in view of the current economic environment. It is scheduled that in June 2003, a new product *'Dread Disease'* will be launched to provide living benefits to employees upon diagnosis of certain dread diseases.

Strategies: We continued to provide Continuous Professional Development training for the agents and total participants reached 222 in year 2002. In the meantime, we recorded impressive participant results in organising both the Agency Sales Contest and Employee Benefit Production Club with 16% and 15% growth respectively.

(e) Retirement Scheme Business and Mandatory Provident Fund

The Group concluded a Transfer Agreement and Distribution Agreement with HSBC Life (International) Limited ('HSBC Life') in June 2002 regarding the Group's MPF business. The arrangement provides the Group's current MPF customers with the opportunity to transfer to HSBC Life's MPF scheme and the agents of PCI to distribute MPF products for HSBC Life.

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(f) General Insurance

Sales: Total premiums for 2002 was HK$58.8 million of which HK$55.0 million came from Agency Business and HK$3.8 million from Aviation Business. The comparative figures for 2001 are HK$65.6 million, HK$52.8 million and HK$12.8 million respectively. The significant drop in Aviation Business in 2002 was attributable to the fact that the premium was the last installment of a non-renewable contract. For Agency Business, the 2002 production showed a slight increase of 4.2% over 2001.

Strategies: 2002 was a difficult year for the general insurance market. In line with other insurers, Ming An Insurance tightened up their underwriting stance during the later part of the year, particularly in Employee Compensation, Liability and Motor business.

To assist PCI agents in marketing their general insurance business, we have successfully taken up a second Principal, Asia Insurance Co Ltd., a member of the Asia Finance Group, in November 2002.

To improve communication between General Insurance Division and the agents, the Group has launched the 'AgentNet'. This is an internet system that keeps the agents aware of all useful information and the latest news such as new products and change of underwriting requirements as raised by the Principals from time to time. Furthermore, our agents can enquire through the 'AgentNet' about their own clients' information.

Training to agents is our on-going concern. We continued to provide training courses throughout the year and as well as a new tutorial class to assist certain agents to re-sit the IIQAS Examination.

(g) PCI Services (H.K.) Ltd. ('PCIS')

The management of the Company wishes to enhance the services to clients and PCI agents and therefore sets up a broking arm for the General Insurance Business to supplement the PCI agency operation.

PCIS would handle certain specialty lines of general insurance business referred by PCI agents which both PCI's Principals (Ming An Insurance and Asia Insurance) would not and/or cannot underwrite.

Application for membership of the Hong Kong Confederation of Insurance Brokers (CIB) was successful and PCIS was admitted as a full member of CIB with effect from January 14, 2003.

(h) PCI Investment Management Limited

Sales: Amidst a challenging environment, 'PCIIM' made great strides in 2002. Total funds under management surpassed US$1.0 billion, marking an impressive year-on-year growth of over 120%. This increase in assets under management was aided by the successful completion of a US$500 million investment grade synthetic Collateralized Debt Obligation (CDO) transaction, in which PCIIM acts as the portfolio manager of the issue. The structure of the transaction allows PCIIM to manage a reference portfolio of 100 investment grade entities, the majority of which reside in the Asia Pacific Region. This deal represents the first rated synthetic CDO transaction managed by a Hong Kong-based asset management firm, and positions PCIIM at the forefront of innovation in the industry.

Strategies: Although a relative newcomer to the industry, PCIIM's consistent solid track record has enabled it to firmly establish itself in the investment world. Indeed, PCIIM's ability to post superior performance in difficult market conditions has been recognized. Morningstar, the leading independent provider of analysis for mutual funds, assigned PCIIM Asia Pacific Fund and PCIIM Global Balanced Fund a five-star and four-star rating respectively. The ratings were offered on the basis of fund performance and volatility, with five-stars being the highest rating.

Going forward, we endeavour to continue achieving exceptional results. We will be placing a greater emphasis on distribution; on the institutional side, we are aiming to expand on discretionary portfolio management services offered to clients. On the retail side, we have recently begun to link up with a number of banks and independent financial advisors in order to extend the distribution network for our flagship PCIIM Investment Funds. Overall, we will continue to focus on monitoring the development of the financial markets, and will be introducing a wider range of products to suit investors' needs should opportunities arise.

(i) Information Technology

2002 is a break-through year for the Information Technology Department. This functional unit has been working on workflow automation, providing quality services to both clients and agents via the use of technology and consolidating management information for agency production monitoring.

With the full cooperation of life operations users, the selection of the Insurance Imaging and a Workflow System was completed in December 2002. This multi-million project will be fully launched in the third quarter of 2003 with the Document Imaging sub-system being implemented for the entire Life Operations and Life Personal Accident Operations. As a milestone for Phase I implementation, full Imaging and Workflow will only be introduced to the Policy Service Section of the Life Operations.

The Interactive Voice Response System, namely 'PCI Tele Link', for Life Policies was introduced. This system allows our policyowners and agents to access a sophisticated set of policy information by phone during and after office hours.

In order to ensure timely communication with the agency force, the Department shall continue to invest in the 'AgentNet' as well as the Internet portal and email system for agents and agency leaders. Further, considerable efforts will be made to enhance the sales tool, 'PowerAgent', a point-of-sales tool for agents.

Last but not the least, the Department is building a management information database on Agent, Client Profiles and Operational Statistics for ongoing monitoring. This move is significant in supporting and achieving the corporate strategic direction of full Customer Relationship Management (CRM).

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(j) Human Resources

The Company was awarded a 2002 LOMA Educational Achievement Award by the Life Office Management Association; this educational achievement award recongises only 15 companies, out of more than 1,250 that proactively utilize LOMA education programs based on the total number of enrolments for the 2001 calendar year.

Strategies: High quality employees are one of the most important assets in the financial services industry. Staff training and development will continue to take precedence as a management objective.

The Group had 360 (2001:385) employees as at December 31, 2002, a decrease of 6.5% over the last year. Total remuneration for the year was in the amount of HK$154.6 million (2001:HK$166.6 million). The Group ensures that the pay level of its employees is competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system.

Regular training programs are provided to employees at all levels. In 2002, we held an Employment Ordinance and Practice session to update our corporate officers on the related legislation. With the assistance of reputable management consultants in developing our management materials, we modified and extended our eight management training model series, 'Managing at PCI', to junior supervisors. We aim to enhance employees' competitiveness, therefore, in addition to 'Managing at PCI', our in-house programs include Counseling, Presentation Skill, Time Management, and Memory Improving Technique. We invited language consultants to conduct workshops on business Mandarin and English writing to enhance the business communication skill of our staff. External speakers with credentials were invited to host inspiring and useful talks and seminars for our employees. Topics usually focused on health care and personal development.

We value our best people and attempt to nurture potential leaders, providing them with the best training for their future roles. Every year, sponsorship is offered to management personnel to attend the Kellogg-HKUST Executive MBA program, one of the most prestigious executive programs in the world.

We regularly sponsor training programs and encourage employees to undertake job-related programs, and sit for professional examinations in order to obtain professional awards and recognition. This enables the Group to benefit from knowledgeable employees, providing enhanced competitiveness as well as personal satisfaction and reward for each employee.

Despite continued economic downturn, the Group will maintain its profitability through enhancing efficiency and productivity of our employees. We are committed to providing a suitable environment to continuously develop, motivate and retain talented and devoted individuals.

We place a high value on our employees for they are our greatest assets to grow with the Company. We encourage our people to be the best that they can be in their roles. To achieve this, we provide the best training in diversified fields that address both personal developments needs and work practicability. To name a few, we have training programs on customer satisfaction, PC skills, time management, and ISO. These internal and external training programs attracted over 840 attendees, i.e. each employee on average took 2.3 enrolments in the year under review.

We are also committed to cultivate a life-long learning atmosphere amongst the employees. We are pleased that they are all keen for self-enhancement that ultimately contributes to the long-term success of the Group. For the LOMA/ICA professional insurance examination alone, we received over 700 enrolments in the spring and fall examinations. Again, the figure is particularly pleasing as they sacrificed their spare time for these studies.

Apart from the training programs and professional examinations, PCI provides its people with education subsidies for job-related programs such as Chartered Life Underwriter which recorded over seventy successful applications.