

management discussion and analysis

The consolidated net profit of the Group for the six months ended 30 June 2003 was HK\$107.1 million as compared to HK\$80.8 million for the same period in 2002. The major variance was attributable to tighter control of operating expenses and better investment return despite poor investment environment.

Total premium income for the period under review was 6.5% below that of the same period last year; this is mainly due to the decrease in contributions of the Mandatory Provident Fund ('MPF') and other retirement scheme businesses from HK\$61.0 million to HK\$17.2 million. The revenue from life insurance business dropped by 1.3% to HK\$760.3 million. For the first six months of 2003, the company sold 16,491 policies and has 274,523 policies in force. Persistency (12-month moving LIMRA) remained at 72.3% and Renewal Ratio was 95%, an 8.0% improvement over last year.

Management expenses for the six months ended 30 June 2003 was HK\$160.1 million compared to HK\$197.0 million, a significant 18.7% decrease. The decrease was attributable to the reduction in rental space and expenses and staff costs and stringent control over other operating expenses. Total investment income and net gains have increased over that of the same period last year by 10.8% to HK\$238.5 million. Annualised yield on general fund was 10.2% for the six months ended 30 June 2003.

CAPITAL ADEQUACY AND FINANCING

The Group's capital and reserve substantially exceeded the statutory 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. For the six months ended 30 June 2003, net cash generated from the Group's operating activities amounted to HK\$272.3 million.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group has not experienced any exchange rate exposure, as all our policies are mainly 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 30 June 2003, only 10.1% of our general funds were invested in equities.

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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
By Currency						
US\$	62.3%	3.9%	2.5%	4.7%	4.1%	77.5%
HK\$	0.6%	2.8%	12.1%	2.9%	0.1%	18.5%
Others	0.9%	0.0%	0.6%	2.5%	0.0%	4.0%
Total	63.8%	6.7%	15.2%	10.1%	4.2%	100.0%
By Geographical Area						
US	19.8%	0.0%	0.0%	0.0%	1.0%	20.8%
Europe	9.1%	0.0%	0.0%	0.0%	0.0%	9.1%
HK/China	11.7%	6.7%	15.2%	5.8%	0.4%	39.8%
Other Asia	20.2%	0.0%	0.0%	4.0%	1.1%	25.3%
Others	3.0%	0.0%	0.0%	0.3%	1.7%	5.0%
Total	63.8%	6.7%	15.2%	10.1%	4.2%	100.0%

AGENCY OPERATIONS

Sales

Our business was affected by the continued decline in the Hong Kong economy and the outbreak of SARS in March and April 2003. Total premium income from long term insurance business for the first six months of the year amounted to HK\$777.5 million, showing a 6.5% drop from the corresponding period in 2002. This was mainly attributable to the decrease in contributions of the MPF and other retirement scheme businesses from HK\$61.0 million to HK\$17.2 million. The revenue from life insurance business dropped by 1.3% to HK\$760.3 million.

Number of policies sold decreased by 6.3% to 16,491 cases as compared to the same period last year. The number of agents in service as at the end of June dropped by 17.1% to 1,272 as compared to 31 December 2002. The Group has pro-actively terminated a number of agents with poor performance at the beginning of this year; as a result, productivity in terms of annualized first year premium per agent month increased by approximately 33.0%.

Strategy

As it is the Group's target to reach 1,600 agents at the end of 2003, we have organised recruitment seminars during the six months under review. It is our intention to recruit both experienced and new agents from fields not related to insurance so as to enlarge our customer base. We place heavy emphasis on training; we believe that by training up our agents and building up their morale, we are able to achieve higher productivity.

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CHANGES IN THE COMPOSITION OF THE GROUP

During the first six months of 2003, there is 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 and general insurance products through agency arrangements. In addition, the Group also engages in asset management business.

SEGMENTAL INFORMATION

(A) Long Term Business

Life Operations

During the challenging times with the outbreak of SARS in Hong Kong, our Group has extended extra benefits to our new and existing policyholders such as additional hospitalisation coverage, extra 10% death benefit, catch up program for those who wished to upgrade their life coverage, etc.

- *Products*

We have introduced four new products in the first half of 2003. The following are a brief description of each of the product launched:

- (i) "Super Saver" Guaranteed Return Insurance Plan — this product offers high investment return with guaranteed cash value and terminal dividend. It is designed to meet medium term investment and savings needs in the low interest rate environment;
- (ii) TopMed Outpatient (Standalone) Plan — this is a standalone medical product that offers comprehensive out-patient medical benefits such as general practitioner consultation, Chinese herbalist consultation, bone-setting, etc.;
- (iii) TopMed Outpatient Selected — this product is an extension to the TopMed Outpatient Plan which provides flexibility to customer by offering medical benefits that fit their budgets and needs; and
- (iv) Extra Care Protector @ 60 — this product is a dread disease rider which covers 45 critical illnesses up to the insured age 60 with level premium.

Several new products are in the pipeline and we would continue to expand our product range and introduce new products to our customers to cater for their needs.

- *Strategies*

We aim to continually improve our service standards. For the six months ended 30 June 2003, we have shortened the turnaround time in claims processing and launched Phase One of our "Imaging and Workflow System" with full phase operation in the latter part of this year.

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Life Personal Accident ('LPA')

- Sales*

For the six months under review, the LPA Division generated HK\$27.8 million in total premium as compared to HK\$32.4 million recorded in the same period last year.
- Products*

We introduced "Smartest Student Accident Insurance" in July. Two new products namely, "Premier Personal Accident Insurance" and "Speedy Personal Accident Coverage" will also be introduced in the third quarter of this year.
- Strategies*

We aim to offer products with low premium rate and extensive coverage to our customers to stay competitive in the market.

Group Insurance

- Sales*

Total premium generated for the six months ended 30 June 2003 was HK\$29.4 million, a 18.2% decrease as compared to HK\$36.0 million recorded in the same period last year.
- Products*

In February 2003, we launched "Accidental Death" and "Accident Disablement" benefit riders to provide benefit and costing flexibility to suit market needs. In the third quarter of 2003, we planned to launch two products, namely, "Critical Illness" and "New Package Product".
- Strategies*

In the second half of 2003, we would focus on promoting and developing our agency force's awareness in selling group business. We would also provide new training programs to equip our agents with updated knowledge of our products.

(B) Mandatory Provident Fund

Since the conclusion of the Transfer Agreement with HSBC Life (International) Limited ("HSBC Life") in June last year, we have successfully transferred over 8,000 members and over HK\$130.0 million of assets to HSBC Life. Approximately HK\$57.0 million remained to be transferred and the number of members remaining stood at around 5,000 as at 30 June 2003.

(C) General Insurance

- Sales*

The Division continued to act as an Underwriting agent for Ming An Insurance Company (Hong Kong), Limited and general agent for Asia Insurance Co. Ltd. For the six months under review, the Division received a total brokerage commission of HK\$2.9 million representing a decrease of 39.7% compared to same period last year.

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- *Strategies*

To reinforce our competitiveness in the market, we have set up a broking arm, PCI Services (HK) Ltd. in January 2003 which commenced operation in March. The purpose of the broking arm is to assist the agents in placing corporate business not written by our two principal insurers and in acquiring SME accounts. We also revamped our training courses to improve the technical know-how of agents and to better prepare them in selling General Insurance products. During the period under review, we have launched several promotional campaigns and contests to foster agents' production.

(D) PCI Investment Management Limited ("PCIIM")

Despite declining interest rates and equity markets worldwide, PCIIM once again outperformed the market by achieving an annualized return of 10.2%. PCIIM benefits from its strong expertise in a full range of fixed income and equity investments, its prudent and conservative investment strategy and its "absolute return" approach.

- *Sales*

Total assets under management continued to record satisfactory growth. As a result of the successful completion of a US\$500 million synthetic Collateralized Debt Obligation (CDO) transaction in which PCIIM serves as the portfolio manager, total fund size reached HK\$9.0 billion as of the end of June 2003. Excluding the CDO issue, funds under management have grown by over 10% since the beginning of this year.

- *Strategies*

Our main focus is to continue achieving exceptional performance for our clients. We are happy to report that both our PCIIM Global Fixed Income Fund and PCIIM Hong Kong Equity Fund have been awarded five-star ratings by Morning Star in July. The ratings were offered on the basis of fund performance and volatility, with five-stars being the highest rating. We will also continue to explore opportunities in expanding our distribution network through fostering relationships with banks and independent financial advisers.

SEASONALITY/CYCLICALITY OF INTERIM OPERATIONS

Business is usually slower at the beginning of the year when both the calendar and Chinese New Year holidays shortens the market calendar. In addition, SARS has affected the economy of Hong Kong since March.

NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES AND TRAINING SCHEMES

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 one of the management objectives.

The Group had 353 employees as at 30 June 2003, a decrease of 1.9% as compared to 31 December 2002. Total remuneration including provident fund contributions for the first six months was HK\$72.0 million.

Regular training programs are provided to employees at all levels. We place a high value on our employees and encourage them to perform the best in their roles. To achieve this, we provide the best training in diversified fields that address both personal development needs and work practicability.

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

CORPORATE CITIZENSHIP

We are committed to give back to the community. During the period under review, our corporate-giving focus was mainly SARS related; we were the first insurance company to donate masks to the elderly and the frontier workers. To protect our policyholders, we offered HK\$5,000 SARS hospitalisation benefit and additional 10% death benefit without charging additional premium. Our Group has also donated 21 'Super Kid' Children's Education Fund insurance policies to children who lost their parent(s) due to the SARS epidemic. We would continue to execute our duties as a responsible corporate citizen in Hong Kong.

DETAILS OF CHARGES ON GROUP ASSETS

As at 30 June 2003, there were no charges on any of the Group's assets.

FUTURE PLANS

Our immediate plan is to recruit quality agents with an objective to reaching 1,600 agents by the end of this year. Continuous training will be provided to new and experienced agents to better prepare them with updated market information and effective selling skills. The Company will also provide avant-garde information technology to facilitate the 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 30 June 2003 (June 2002: Nil).

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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