Management discussions and analysis of operations

Year 2003 has been a rewarding year despite the unstable economic and social environments in Hong Kong.

The Group reported a consolidated net profit of HK$216.0 million as compared to HK$119.0 million in 2002. First year premium from life insurance business increased by 24.2% to HK$292.3 million and total premium (first year premium and renewal premium) received from life insurance business increased by 4.0% to HK$1,655.1 million. Total turnover for the year amounted to HK$1,697.3 million, a slight decrease of 0.7% compared to the year before. The decrease in turnover was attributable to the Group's decision in 2002 to withdraw from the Mandatory Provident Fund business. Earnings per share was HK$0.26 per share as compared to HK$0.14 per share in 2002. The Directors recommended a final dividend of HK$0.06 per share, an increase of 500% over 2002. The following sections provide a detailed review and analysis of 2003 results and segmental performance.

1. Capital Adequacy and Financing

As at 31 December 2003, the Group has cash and bank balances of HK$310.1 million and time deposits of HK$178.9 million. During the year under review, net cash inflow from operation including investments amounted to HK$1.8 million. Invested assets increased by HK$913.6 million to HK$5,602.0 million, which was mainly due to premium income received by the Group.

As at 31 December 2003, the Group's total assets were HK$7,424.1 million and net assets were HK$2,336.8 million, an increase of 11.0% and 9.7% respectively as compared to 2002. On statutory reporting basis, the Group's net assets far exceeded the statutory net surplus required by the Insurance Regulation.

2. Risk Management

(a) Insurance risks

The Group is in the business of insuring against the risk of mortality, morbidity, disability, critical illness, accidents, and related risks. The Group 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 a few percentage points below 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

We have always adopted a very prudent and relatively conservative investment strategy. Invested assets required to support the Group's insurance liabilities are mainly managed by 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 invested in equities has been around 12.1%, with the balance mainly invested in fixed interest instruments, bank deposits and other investment instruments. It is the Group's investment policy to match the currencies of assets and liabilities and the management closely monitored its currency position to ensure that they are well matched.

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 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.

3. Rating

PCI was once again 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 July 2003.

The rating reflects PCI's "excellent capitalization, outstanding investment performance and tightened expense control". A.M. Best also cited that "PCI's investment performance remains superior to market indices".

4. 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 five years were as follows:

YEAR	EMBEDDED VALUE (PER SHARE IN HK$)
12/1998	$2.965
12/1999	$3.341
12/2000	$3.295
12/2001	$3.917
12/2002	$3.557

Embedded value for year 2003 will be posted on our website as and when it is available.

5. Investment

2003 was a chaotic year, starting off with the Iraq war and escalating tensions between the U.S. and North Korea. These geopolitical anxieties, along with the outbreak of SARS, rocked both the financial markets and the global economy during the first half of the year. In response, most Governments, including the U.S., adopted a combination of very aggressive monetary policy and expansionary fiscal policy to provide the impetus for economic growth. As a result, global economy and financial markets rebounded strongly in the second half of the year.

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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. Despite a chaotic year, investment results were impressive when compared to the market norm, yielding 10.2% return per annum on a dollar-weighted basis in 2003 compared to 8.3% recorded in 2002.

There were no material acquisitions and disposals of subsidiaries and associated companies during the year.

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

There was a slight decrease in the number of cardholders from 13,763 to 12,852 as at 31 December 2003. Although 2003 was another challenging year for card business due to the outbreak of SARS as well as the tightening of credit assessment of The Bank of East Asia, Limited, the joint venture was able to return to profit. Looking forward, it is the Group's intention to expand its cardholder base and the operation to generate higher profit.

7. Policyholder Dividend

Whilst the investment environment remained volatile throughout 2003, the Group was able to achieve higher

		FIXED INTEREST	MORTGAGE & LOANS	CASH	EQUITIES	OTHERS	TOTAL
BY CURRENCY	US$	59.2%	3.7%	3.3%	6.2%	5.7%	78.1%
	HK$	7.1%	2.3%	4.4%	2.8%	0.1%	16.7%
	Others	1.1%	0.0%	1.0%	3.1%	0.0%	5.2%
	Total	**67.4%**	**6.0%**	**8.7%**	**12.1%**	**5.8%**	**100.0%**
BY GEOGRAPHICAL AREA	US	21.4%	0.0%	0.0%	0.0%	0.9%	22.3%
	Europe	9.0%	0.0%	0.0%	0.0%	0.0%	9.0%
	Japan	1.8%	0.0%	0.0%	0.0%	1.1%	2.9%
	HK/China	15.6%	6.0%	8.7%	7.4%	0.3%	38.0%
	Other Asia	17.2%	0.0%	0.0%	4.3%	0.0%	21.5%
	Others	2.4%	0.0%	0.0%	0.4%	3.5%	6.3%
	Total	**67.4%**	**6.0%**	**8.7%**	**12.1%**	**5.8%**	**100.0%**

than expected return. As a result, the Group maintained the existing dividend scale and accumulation interest rate.

8. Operations

The Group reported a Net Profit Attributable to Shareholders of HK$216.0 million for the year ended 31 December 2003, representing an increase of 81.6% from HK$119.0 million in 2002. Earnings per share was HK$0.26 as compared to HK$0.14 in 2002.

First year premium from life insurance business increased by 24.2% to HK$292.3 million and total premium from life insurance business increased by 4.0% to HK$1,655.1 million. Total turnover showed a decrease of 0.7% as compared to 2002 to HK$1,697.3 million due to decrease in contributions from provident fund business of 73.1% to HK$28.6 million, a line of business which the Group has decided to withdraw in 2002.

Investment income, net gains, and other income increased by 50.6% to HK$515.0 million. Total revenue and net gains for the year was HK$2,212.3 million, compared with HK$2,051.6 million recorded in 2002, an overall increase of 7.8%.

Policyholders' benefits decreased by 14.5% to HK$667.9 million due to lower policy surrender payments and better claim experience; agency commission and allowances increased by 9.8% to HK$277.2 million as compared to the previous year, which was attributable to the increase in more new business transacted during the year.

Management expenses decreased by 10.0% to HK$334.3 million due to more stringent cost control and the consolidation of agency offices; total operating expenses for the year were HK$1,391.8 million, or 11.5% below 2002. Expense Ratio has reduced from 125.9% to 120.2%, which was mainly due to effective cost control and more new business generated during the year.

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

YEAR	EXPENSE RATIO
1999	119.5%
2000	122.1%
2001	110.8%
2002	125.9%
2003	120.2%

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% of the 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

The number of agents as at 31 December 2003 was 1,252. Individual AFYP for 2003 was HK$315.8 million, an increase of 33.0% over 2002. Agency productivity – Individual AFYP per Agent Month was HK$19,900, 76.1% increase as compared to 2002.

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The reduction in agents was due to the normal turnover of agents and the termination of non-productive ones at the beginning of the year. As a result of terminating non-productive agents, it became more efficient and effective to manage the existing agency force that led to an increase in average productivity in the second half of the year.

In order to strive for higher productivity, special training programmes were launched to enhance the agents' professionalism as well as product knowledge. The Group has also formed an Agency Development Team in the second half of the year to assist and facilitate the day-to-day management of the agency force. Special promotional programmes and incentive schemes were also introduced to reward agents with outstanding performance.

During the year, the Group has also launched several new products to ensure that the policyholders are offered with a diversified product range to accommodate for their different needs.

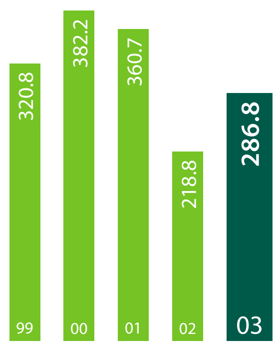
Looking ahead, we will be focusing on expanding our agency force, recruiting more experienced agents and improving their productivity.

(b) Life Operations

As at 31 December 2003, the total number of in-force policies was 277,122 compared to 282,659 in 2002, a decrease of 2.0%. Although there was a slight decrease of 2.0% in 2003, the number of in-force policies was increasing in the second half of the year.

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 over the last five years.

INDIVIDUAL TOTAL PREMIUM
(HK$ MILLION)

iii) Renewal ratio

The renewal ratio of 2003 has improved significantly as compared to 2002. This was mainly due to our quality services to policyholders as well as agents' professional ethics. The following is the Renewal Ratio of the Group for the past five years:

YEAR	RENEWAL RATIO
1999	91.6%
2000	97.7%
2001	98.0%
2002	85.0%
2003	94.9%

Renewal Ratio is derived by assuming that 80% of first-year premium will stay on the books the following year and 93% of the renewal premium will still be on the books the year after. Adding the two together produces the expected modeled renewal premium (EMRP). To arrive at the Renewal Ratio, the actual renewal premium in the following year is then divided by EMRP; a 100% Renewal Ratio means the Group's persistency is exactly as calculated whereas an above 100% Renewal Ratio means that the Group experienced a better persistency and vice versa.

iv) Claims experience

For the past five years, the Group's claims experiences have been better than the pricing assumptions. The following chart gives the Group's overall claims experience, on a claim ratio basis, over the last five years:

YEAR	CLAIMS RATIO
1999	96.4%
2000	93.0%
2001	97.4%
2002	95.0%
2003	91.0%

v) Products and Services

A total of nine products were introduced in 2003 catering for different needs of our existing and potential policyholders. Out of the nine newly launched products, two are savings products that are highly sought after by our policyholders. In the second half of 2003, the 'Insurance Imaging and Workflow System' (IIWS) was implemented to improve operational efficiency and enhance service processing time.

To better serve our policyholders, the Group has enhanced its underwriting system with the aim to improve the approval turnaround time. New payment channels such as internet banking, phone banking and Automated Teller Machine were also introduced to facilitate premium payments. Cost savings is expected through reduced administrative resources attributed to cheque and cash payment processing and automated reconciliation of payments collected via the new channels.

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The Group will set up agency service centres in the first half of 2004 to provide more efficient services to our agency force. It is also the Group's intention to further enhance services to both internal and external customers, strengthen product development, and speed up the process in product design with the aim of providing the finest customer service as well as becoming the first-mover in the insurance industry.

c) Group Insurance

For the period under review, the Group Insurance Department recorded HK$52.0 million in premiums with net income of HK$3.9 million compared to HK$59.8 million and HK$3.6 million in 2002 respectively. The drop in premium was due to fierce competition in the market place.

A total of three new products were introduced in 2003 to cater for more benefit and costing flexibility to suit market demands. Going forward, we would continue to design products with special features to cater for our targeted markets.

d) Retirement Scheme Business and Mandatory Provident Fund

Since the conclusion of the Transfer Agreement with HSBC Life (International) Limited ('HSBC Life') in June 2002, the Group has successfully transferred over 11,000 members and over HK$167.1 million of assets to HSBC Life. Approximately HK$42 million and 4,700 members still remained to be transferred as at 31 December 2003.

e) General Insurance

Total premiums for 2003 was HK$45.4 million of which HK$40.0 million came from agency operations and HK$5.4 million from PCI Services (H.K.) Ltd., a broking arm set up in 2003 to supplement the PCI agency operation, representing a decrease of 22.8% in total premiums as compared to 2002. The significant drop of premium was attributable to the unfavourable economic situation during the first half of 2003 followed by the SARS crisis as well as the tightening of underwriting policies on various Public Liability Insurance, Engineering Insurance, Motor Insurance and Employees' Compensation Insurance business.

To ensure that the agents are well equipped with updated general insurance product knowledge, we have revamped our training courses during the period under review.

f) PCI Investment Management Limited ('PCIIM')

Despite a very chaotic year, PCIIM continued to record satisfactory growth. As at 31 December 2003, total funds under management amounted to approximately US$1.16 billion, including a US$500 million synthetic Collateralized Debt Obligation (CDO) in which PCIIM acts as the investment manager. Excluding the CDO issue, funds under management have grown by over 20% in 2003.

PCIIM Asia Pacific Fund, a Hong Kong SFC authorised fund, was awarded the Benchmark Fund of the Year Awards 2003 under the category of Asia Pacific Equity over a 3-year period. This award is granted to the fund with the highest risk-adjusted return in the respective category.

While most economies will be entering 2004 with improved and brighter economic prospects, financial assets have run ahead of their course with equity market valuations expensive and bond yields still relatively low. With a number of presidential elections coming up in many countries including the United States of America, it is envisaged that year 2004 will be another challenging year and PCIIM will endeavour to continue achieving exceptional results by exercising prudence and caution. On the product side, PCIIM will launch a new fund dedicated to investments in emerging debt market and will continue to introduce a wider range of products when opportunities arise.

g) Human Resources

The Group had 338 (2002:360) employees as at 31 December 2003, a decrease of 6.1% over the last year. Total remuneration for the year was HK$161.2 million (2002: HK$154.6 million).

We place a high value on our employees as they are our greatest assets to grow with the Group. We encourage our people to be the best in their roles by providing the best training in diversified fields that address both personal developments and work practicability. We are also determined in attracting and retaining outstanding people into a true meritocracy where each and everyone is judged on their performance and capabilities.

9. Details of Charges on Group Assets

As at 31 December 2003, there were no charges on any of the Group's assets.

10. Corporate Governance

The Corporate Governance practices of the Group meet the standards set out by the Stock Exchange. To ensure that all our stakeholders are well informed, we have adopted the practice of disclosing key information of the Group on a quarterly basis.

Committees overseeing and supervising the management of the business and affairs of the Group meet on a regular basis to ensure that the interest of the Group as well as its stakeholders are well protected.