Management discussion and analysis of operations

2006 has been a successful year for the Group. Number of agents grew to 2,031 at year-end as compared to 1,696 a year before. Individual single and first year premium grew by 13.3%, renewal premium grew by 7.7% and total premium grew by 8.6%.

1. Operational Review

The Group reported a profit from ordinary activities attributable to equity holders of HK$322.4 million for the year ended 31 December 2006, representing an increase of 658.6% from HK$42.5 million in 2005. Basic earnings per share was HK$0.40 as compared to HK$0.05 in 2005. The increase in earnings was mainly due to higher profit contribution from a larger inforce portfolio, good investment return for the year and the realisation of some of the past unrealised gains during the year.

AFYP increased 58.8% to HK$693.2 million, contributed from insurance contracts of HK$363.2 million, up 12.2%, and investment contracts of HK$330.0 million, up 192.3% from 2005.

Single and first year premium increased 13.2% to HK$335.2 million, renewal premium increased 8.3% to HK$1,624.1 million and total premium increased 9.1% to HK$1,959.3 million as compared with 2005. Total turnover showed an increase of 9.1% to HK$1,993.9 million as compared to 2005.

Investment income, net gains, and other income increased by 145.9% to HK$919.2 million. Unrealised gains reserve decreased to HK$114.9 million from HK$187.5 million in 2005.

Policyholders' benefits increased by 32.0% to HK$805.7 million.

Agency commission and allowances increased 26.4% to HK$492.0 million as compared to the previous year, which was attributable to the increase in number of agents and more new business transacted during the year.

Management expenses increased by 54.1% to HK$468.0 million due to expansion of our operation and also special non-recurring expenses of HK$57.2 million, including the provision for settlement of the litigation as stated in section 8 "Litigation".

Total operating expenses for the year were HK$1,644.8 million, 27.6% above 2005.

Expense index ("Expense Index") decreased to 110.8% if we exclude the non-recurring expenses, as compared to 115.0% in 2005. If the non-recurring expenses were taken into account, the Expense Index would be 128.8%.

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

Year	Expense Index
2006	110.8%
2005	115.0%
2004	128.3%
2003	158.8%
2002	189.3%

The individual insurance products sold by the Group are priced with built-in acquisition expense factors and maintenance expense factors. The ratio of the actual operating expenses to the total of the assumed acquisition and maintenance expenses of the individual insurance policies sold and maintained inforce by the Group gives the Expense Index.

a) Agency Operations

The sales force continued to grow with the number of agents increased to 2,031 as compared to 1,696 in 2005. Agency productivity measured by total AFYP per agent month was HK$33,000, representing a growth of 26.9% from HK$26,000 in 2005.

In order to improve the agents' professionalism and quality, we set up the PCI Academy of Professional Development and a new training centre in Langham Place in 2005. The PCI Academy of Professional Development designs and provides different training programs for our agents to improve their selling skills and product knowledge, and to attain professional qualifications in the insurance industry.

During the year, the Group has launched several new products to accommodate the needs of our policyholders.

b) Life Operations

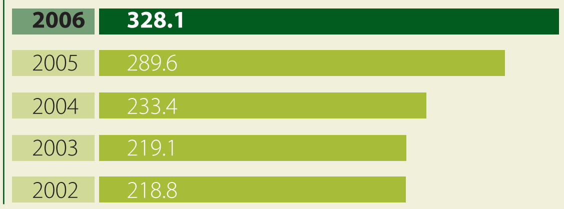
As at 31 December 2006, the total number of inforce policies was 316,970 compared to 294,457 in 2005, an increase of 7.6%. We also managed to increase the total premium by 9.1%.

Whilst Renewal Ratio improved to 100.5% as compared to 100.3% for 2005, both 13th month and 25th month persistency rate have slightly decreased from 88.8% to 88.7% and 79.1% to 78.0% respectively. Claim ratio has also improved from 95.5% in 2005 to 88.6% in 2006.

i) Individual single and first year premium

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

Individual single and 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 2006 continued to improve to 100.5% as compared to 100.3% for 2005. The following is the Renewal Ratio of the Group for the past five years:

Year	Renewal Ratio
2006	100.5%
2005	100.3%
2004	98.9%
2003	94.9%
2002	85.0%

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. From 2005, Renewal Ratio was measured for insurance contracts. In prior years, Renewal Ratio was measured for the total of insurance and investment contract.

iv) Claims experience

For the past five years, the Group's claims experience 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
2006	88.6%
2005	95.5%
2004	99.2%
2003	91.0%
2002	95.0%

v) Products and services

A total of 3 products were introduced in 2006 to cater for different needs of our existing and potential policyholders. One of these products is a whole life insurance product with built-in medical benefit which reimbursed hospitalization expenses subject to certain limits, with an optional rider to enhance the benefit levels. The other product is a personal accident coverage aiming to supplement our existing portfolio.

Starting in January of 2005, we worked on a project to implement a new policy administration system aiming to improve our operation efficiency and thus better serve our policyholders. The new system is targeted to be completed in 2007.

c) Group Insurance

For the period under review, the group insurance business recorded HK$54.3 million in premiums with net profit of HK$2.0 million compared to HK$41.8 million in premiums with net loss of HK$1.4 million in 2005.

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 13,000 members and HK$190 million of assets to HSBC Life. Approximately HK$24 million and 1,500 members still remained with us as at 31 December 2006.

e) General Insurance

Total premiums placed to general insurance companies for 2006 was HK$54.2 million of which HK$37.9 million came from agency operations and HK$16.3 million from PCI Services (H.K.) Ltd., a broking arm set up in 2003 to supplement the PCI agency operation, representing an increase of 7.5% in total premiums as compared to 2005. Total commission income from general insurance business for the year 2006 was HK$9.3 million as compared to HK$8.7 million in 2005.

f) PCIIM

2006 marked a year of solid growth for PCIIM. Excluding the US$500 million synthetic Collateralised Debt Obligation transaction in which PCIIM serves as portfolio manager, total funds under management rose by almost 20% to over HK$9 billion at the end of 2006. As our fund size continues to grow, we have expanded our investment team with the aim of sustaining exceptional performance for our clients.

For the first time in a long while, we are seeing a wide divergence in views among economists regarding the outlook for the US economy. Against this uncertain backdrop, we expect 2007 will be a volatile and challenging year for investment. Supported by ample liquidity, recent asset price appreciation reflects general complacency among investors. We will continue to adopt a cautious approach in managing our portfolios as we believe the external financial environment can change abruptly.

g) Human Resources

The Group had 294 employees as at 31 December 2006, a decrease of 3.0% over the 303 employees last year. Total remuneration (excluding Directors' fees) for the year was HK$200.6 million as compared to HK$135.6 million for 2005. The increase in total remuneration was mainly due to a staff bonus of HK$39.6 million paid and/or accrued for the year.

We place 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 training in diversified fields that address both personal developments and work skills. We also provide workshops for staff at different levels to build team spirit and morale. Our staff are rewarded based on company performance as well as their performance and contribution.

2. China Expansion Plan

On 28 February 2006, the Group redeemed the exchangeable note subscribed in June 2005 as the appointment of our representatives to the board of Sino Life Insurance Co. Ltd. had not been approved by the China Insurance Regulatory Commission. The Group will continue to look for suitable investment opportunities to gain access to the rapidly growing insurance market in China.

3. Capital Adequacy and Financing

As at 31 December 2006, the Group has cash and bank balances of HK$597.1 million and time deposits of HK$1,971.7 million. Invested assets increased by HK$1,289.0 million to HK$9,641.6 million, which was mainly due to premium income received.

As at 31 December 2006, the Group's total assets were HK$11,624.5 million and net assets were HK$2,747.7 million, an increase of 14.0% and 5.0 % respectively as compared to 2005.

On statutory reporting basis, the Group's net assets far exceeded the statutory net surplus required by the Hong Kong Insurance Regulations. The Group performs resilience tests regularly to examine its solvency position for movements in equity markets and interest rates and any potential risks will be drawn to the attention of the management.

As at 31 December 2006, the gearing ratio of the Group was 28.1%.

Gearing ratio is the ratio of interest-bearing loan to capital and reserves.

4. Rating

Fitch Ratings, Moody's Investors Service, The A.M. Best Company and Standard & Poor's have all reaffirmed their Insurer Financial Strength ratings of "A-", "Baa2", "A-(Excellent)" and "BBB-" respectively on PCI in their 2006 annual review.

5. Embedded Value

Basis

Embedded value is the sum of the adjusted statutory net asset value plus the value of inforce business, adjusted for the cost of holding the required solvency margin.

The following are the key assumptions used :

Investment return : 7% per annum (2005 : 7%)

Risk discount rate : 10% per annum (2005 : 10%)

Embedded value

The embedded value per share for the year ended 31 December 2006 and the past four years are as follows:

Year	Embedded value per share (HK$)
2006	6.231
2005	4.947
2004	4.327
2003	3.940
2002	3.557

Value of one year's new business

The value of one year's new business is the sum of the discounted projected future after-tax statutory profits generated from the new business written during the year, adjusted for the cost of holding the required solvency margin. The assumptions used are the same as those used in the calculation of embedded value. For the year ended 31 December 2006, the value of new business was HK$125.5 million.

The methodology and actuarial assumptions used in the calculation of embedded value and value of new business as at 31 December 2006 have been reviewed and considered as reasonable by Watson Wyatt, an internationally renowned actuarial consulting firm.

Sensitivity

The followings reflect our estimates of the embedded values associated with the changes in the assumptions.

	HK$
Base scenario	6.231
12% risk discount rate	5.679
90% lapse rate	6.441
90% operating expenses	6.310
90% mortality/morbidity rate	6.483
6.75% investment rate (no adjustment on dividends)	5.943

Other than the sensitivity at the 12% risk discount rate, all the other sensitivity results were performed by the Group and have not been reviewed by Watson Wyatt.

6. Investment Review for 2006

Despite periods of significant volatility, 2006 turned out to be an exceptionally good year for investors in equities. While fears of a more aggressive Fed policy caused global equity markets to suffer a sharp correction during the May/June period, most stock markets ended the year strongly with the MSCI World Index rising by almost 18%.

The US economy experienced strong growth during the first quarter. A pick-up in core inflation came as a surprise to the market as inflation had stayed benign for an extended period of time. The Federal Reserve was forced to increase the Fed funds rate four times to 5.25% by the end of the first half. The over-riding theme in the second half was a meaningful moderation in the economy led by a long overdue slowdown in the housing sector. Weaker energy prices also helped lower headline inflation. Consequently, the Fed funds rate was left unchanged during the second half.

The US Treasury yield curve remained flat to slightly inverted throughout the year. Yields on benchmark 10-year Treasuries rose by over 80 basis points to around 5.2% in late June. With fears of a more aggressive Fed policy abating, the US Treasury market recovered a portion of its first half losses. The 10-year Treasury yield closed the year at 4.7%, 31 basis points higher than a year ago.

Among equity markets, both European and Asian markets outperformed the US. While US growth weakened during the second half, stronger economic data continued to emerge from both Europe and Asia. With attractive growth prospects, merger and acquisition activity also increased, attracting more capital flows into these regions. China, in particular, was the star performer during 2006.

We were quite conservative in managing our fixed-income portfolio in 2006. We also took advantage of the year-end rally to trim our equity exposure. As a result, we maintain a relatively high liquidity level, and will remain patient as we wait for a more opportunistic time to adjust our portfolio mix given the current unstable environment.

The following table shows the mix of the general and shareholders' fund portion of the invested assets of the Group as at 31 December 2006:

		FIXED INTEREST	MORTGAGE & LOANS	CASH	EQUITIES	OTHERS	TOTAL
BY CURRENCY	US$	29.9%	2.3%	22.4%	9.0%	11.9%	75.5%
	HK$	12.1%	1.3%	5.0%	2.5%	—	20.9%
	Others	—	—	0.9%	2.7%	—	3.6%
	Total	42.0%	3.6%	28.3%	14.2%	11.9%	100.0%
BY GEOGRAPHIC AREA	US	8.9%	—	—	—	6.2%	15.1%
	Europe	4.5%	—	—	—	—	4.5%
	Japan	2.0%	—	—	—	—	2.0%
	HK/China	11.8%	3.6%	28.3%	9.4%	3.1%	56.2%
	Other Asia	11.8%	—	—	4.8%	1.3%	17.9%
	Others	3.0%	—	—	—	1.3%	4.3%
	Total	42.0%	3.6%	28.3%	14.2%	11.9%	100.0%

7. Details of Charges on Group Assets

As at 31 December 2006, there were no charges on any of the Group's assets other than a US$3.2 million (equivalent to HK$24.5 million as a cash collateral) to the counterparty for the cross currency swap agreement entered into by the Group (2005: US$2 million) and a HK$10 million (2005: Nil) deposit pledged to a bank for the bank guarantee given in respect of a rental deposit for a tenancy agreement entered into by the Group.

8. Litigation

On 21 September 2000, a writ was issued against a number of persons, including PCI and certain insurance agents of PCI, by certain members of an insurance group operating in Hong Kong (the "Plaintiffs"), whereby the Plaintiffs sought, among other things, injunctive relief and damages against PCI in connection with PCI's plan matching scheme and the purported use of certain documents and information.

On 16 February 2007, PCI and certain insurance agents reached settlements with the Plaintiffs. Pursuant to such settlements, without any admission of liability or final determination of the merits of the parties' respective cases, an amount of HK$39,800,000 was paid to the Plaintiffs and the afore-mentioned legal proceedings by the Plaintiffs against PCI and those insurance agents who have entered into settlements with the Plaintiffs have been dismissed. Such amount was fully provided by the Group as at 31 December 2006.

9. Post Balance Sheet Events

(i) On 13 December 2006, the Group entered into a sale and purchase agreement with an independent third party to acquire of certain of its land and building situated in Hong Kong through acquisition of the entire issued share capital of HKL (King's Road) Limited and related shareholder's loans to HKL (King's Road) Limited and Foundasia (HK) Limited, for a cash consideration of HK$1,472,295,000. HKL (King's Road) Limited, through Foundasia (HK) Limited, owns the properties. This transaction was completed on 9 February 2007.

(ii) The litigation against PCI and certain insurance agents was settled on 16 February 2007. Please see section 8 "Litigation" for details.

10. Prospect

Looking forward, the Group expects the growth momentum to continue. The Group will strive to manage its business prudently with a view to create shareholder value in the form of significant growth in embedded value.

11. Purchase, Sale or Redemption of Listed Securities

A total of 18,288,000 ordinary shares of HK$1.00 each were repurchased by the Company during the year at prices ranging from HK$3.15 to HK$3.775 per share. The aggregate price paid by the Company for such repurchases, before share repurchase expenses, was HK$65,326,000.

The repurchased shares were cancelled and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of the shares and related expenses, in the amount of HK$17,601,000, was charged to the share premium account and the balance of HK$29,719,000 was charged to the retained profits.

The repurchases of the Company's shares during the year were effected by the directors pursuant to the mandate from shareholders received at the previous annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.