

# Chairman's Statement



**2004 was an unforgettable year for Ping An as it achieved another milestone and opened a new chapter in its exciting development. During the year, the Group realized a challenging strategic objective by successfully listing H Shares on the Hong Kong Stock Exchange and raising approximately US\$1,670 million in a global offering during a period when the international capital markets had not yet fully recovered. As of December 31, 2004, the market value of the Group exceeded US\$10,000 million, and the Group achieved the status of a large international insurance enterprise. The Company is currently a constituent stock of the MSCI China Index and the Hang Seng China Enterprise Index.**

In 2004, we received a number of awards and recognition for our achievements, including:

- our being recognized as the "Best Investor Relations for an IPO in Asia" and the "Best Investor Relations for an IPO in China" by the Investor Relations Magazine;
- our being awarded the "Best Public Offer Without Listing (POWL) in Japan in 2004" by FinanceAsia;
- our being selected as one of the winners of the "Best Corporate Citizenship in China in 2004", an award jointly organized by the 21st Century Press Series and China Europe International Business School based on a comprehensive assessment of the management and social morality of PRC companies; and
- our being selected as one of the winners of the "2004 Most Viable Corporate in China Award", which was jointly organized by the All-China Federation of Industry & Commerce ("ACFIC"), ACFIC Corporate Development of Research Center and China Business Times.



# International Standards and Local Advantages

During 2004, the PRC economy continued to develop at a rapid and healthy pace. Gross domestic product increased at a rate of 9.5%, reaching a new record of RMB13,652 billion. In particular, the rising income of PRC nationals has led to ever increasing market demand, which provided ample room for the development of the insurance industry. Ping An took this opportunity to capitalize on its objectives of continuing our business growth, improving our operating structure and upgrading our professional standards based on the principle of "International Standards and Local Advantages".

## **2004: ACHIEVED SOLID RESULTS AND FURTHER STRENGTHENED CORE STRENGTHS**

Owing to the diligence and dedication of the staff and also to the unremitting support of our shareholders, the Group's profit continued to increase. In 2004, the Group's net profit reached RMB3,116 million, representing an increase of 34.3% from the previous year. Earnings per share was RMB0.56 and return on average equity was 15.1%. As of the end of 2004, total assets and total equity of the Group were RMB264,496 million and RMB28,253 million, respectively.

We believe our success is attributable to our strengths, which include: good corporate governance structure, strict risk control system, internationalized management team, strong IT system platform and nationwide distribution and service network. These strengths are the key core competitive advantages for our rapid development and capability to operate with high standards.



# Chairman's Statement

In 2004, the Group set up an internal procedure requiring the risk management committee to hold quarterly meetings to provide quantitative analysis and continuous monitoring of potential risk exposures, as well as undertaking periodic reviews and provide suggested improvements. We continued to internationalize our management team, and implemented a person-in-charge accountability system. The "competition, motivation, elimination" process was also implemented, which helped raising the general vitality and productivity of our staff. Moreover, the construction of our IT system was further strengthened, which helped improving our life and property and casualty insurance businesses and aided in the development of various operations. Furthermore, we have successfully completed the trial run of the "IT High Speed Disaster Recovery", the first of its kind in the PRC insurance industry, which underlines our ability to effectively protect customer interests and our management information system.

In 2004, the Group invested heavily in and completed the initial phase of our national back-office support center. The center will become one of the largest financial back-office support centers in Asia and raise the quality and service efficiency of the Group to international standards in the long term.

## MARKET OVERVIEW

2004 marked a new era for the development of the PRC insurance industry.

According to the National Bureau of statistics of China, gross written premiums totaled RMB431,813 million in 2004, representing an increase of 11.3% from that of the previous year. The insurance penetration rate was 3.4% while insurance density was RMB332 per capita, representing increases of 13.3% and 10.7%, respectively, from the previous year. Total assets of all insurance companies reached RMB1,185 billion at the end of 2004, representing an increase of RMB273 billion from the beginning of the year. Out of all the sectors, property and casualty insurance was outstanding and benefited from the continued development of the national economy, especially in the growth of automobile consumption and fixed asset investment, with gross written premiums reaching RMB108,989 million at year end, representing an increase of 25.4% from the previous year. Life insurance also grew steadily, with insurance premiums totalling RMB322,825 million, representing an increase of 7.2% from the previous year. The pace of growth of life insurance was adversely affected by the proactive adjustment in business structure of insurance companies and the rise of interest rates.



Government policies were revised in 2004 to allow insurance companies to invest insurance funds directly in securities markets, which widened the scope of utilization of insurance funds, resulting in a higher growth in total insurance funds utilized. As of December 31, 2004, the balance of utilized funds totaled RMB1,125 billion, representing an increase of RMB287 billion from the beginning of the year.

As for the insurance market, the reform and transformation of state-owned insurance companies have been largely completed. In addition, competition has intensified with more than ten new insurance companies approved to be established, the highest number approved in a year. On December 11, 2004, restrictions on overseas investors entering the PRC insurance industry were further relaxed under the WTO agreement. As a result, the PRC insurance industry has entered into a new era where domestic and foreign companies face head-to-head competition.

## **BUSINESS REVIEW**

In 2004, we have achieved steady improvement in every segment of our business and have realized total revenue of RMB63,251 million, among which gross written premiums and policy fees were RMB60,049 million, while investment income totaled RMB6,488 million. The quality improvement project for life insurance and property and casualty insurance has initially generated evident results, with cross-selling and new distribution channels achieving substantial growth. The key quality indicators remain healthy, such as the persistency ratio of life insurance and the combined ratio of property and casualty insurance. Furthermore, investment income increased steadily, the new banking business was launched, and the establishment of annuity insurance and health insurance companies experienced a successful beginning. All these events have laid a solid foundation for Ping An's future development.



# Chairman's Statement

## Life Insurance – Manage Product Mix to Enhance Profitability

Gross written premiums, policy fees and premium deposits totaled RMB54,729 million in 2004, representing 17.2% of the PRC life insurance market. Ping An was ranked the second largest life insurance in the PRC. Net profit in 2004 was RMB2,704 million, representing an increase of 38.7% from the previous year.

In 2004, substantially all of the gross written premiums, policy fees and premium deposits from new sales of individual life insurance were attributable to regular premium insurance products, outstripping those of our competitors in the PRC insurance industry. By utilizing a comprehensive premium collection system and increasing the customer service levels, we raised the 13 months and 25 months persistency ratios to 87.5% and 80.3%, respectively, which not only continued to outperform those of our competitors but also reached levels comparable to international standards.

## Property and Casualty Insurance – Develop New Channels to Enhance the Growth

Gross written premiums reached RMB10,150 million in 2004, representing an increase of 25.4% from the previous year. Our market share was 9.5% of the PRC property and casualty insurance market, and Ping An was ranked the third largest property and casualty insurance company in the PRC.

The property and casualty insurance segment went through a trial reform of the corporate structure of our branches in 2004, which was based on detailed customer segmentation. We also formulated an improved sales management system and achieved remarkable results. In addition, cross-selling and new channels have achieved breakthroughs. Gross written premiums attributable to cross-selling of our property and casualty insurance products to our life insurance customers were RMB873 million in 2004, representing an increase of 97.1% from the previous year.



### **Investments – Steady Net Investment Yield**

By strengthening investment management and risk control, following long-term and prudent investment principles, and taking advantage of the macro-economic and market opportunity, we have improved our asset-liability management and asset utilization efficiency, steadily expanded our investment channels and conservatively increased the returns on assets. In 2004, the net investment income and total investment income were RMB7,261 million and RMB6,488 million, respectively, representing a net investment yield of 4.1% and a total investment yield of 3.6%, respectively.

### **Trust Business – Making a Breakthrough**

In 2004, our trust business made a breakthrough by successfully launching four trust products, and units with a total value of RMB960 million were successfully raised in just 20 days. We loaned the proceeds from the sales of units to borrowers involved in certain infrastructure projects in China, and the repayment obligations of these borrowers are guaranteed by China Development Bank. Our trust business also successfully improved its corporate governance platform by such measures as introducing an internationalized management team, strengthening its core operation team and optimizing its organization structure. Through the exploration of an operation model which permits sustainable development and stable earning, a clear business direction and strategy for our trust business is formulated, and we expect strong growth in the coming years. In 2004, our trust business had a net profit of RMB3 million.

### **Securities Business – Favourable Results in a Bear Market**

Despite the poor market conditions, our securities business in 2004 performed well and had a net profit of RMB6 million. These favorable results were achieved mainly due to the good momentum of our investment banking operations. Another key factor that helped bringing such favorable results was our strict cost control, and the increase in trading volume, which boosted our brokerage fee income. We also succeeded in obtaining the underwriter qualification of bond issuers, setting a solid foundation for the creation of a new income source in future.



# Chairman's Statement

## Banking – Improvement in Results

On February 19, 2004, China Ping An Trust & Investment Co., Ltd. formally took over Fujian Asia Bank Ltd., which was renamed Ping An Bank Limited on the same date. Subsequently, Ping An Bank recruited a team of experienced management personnel with domestic and international banking expertise. Ping An Bank has paid particular attention to risk management ever since its establishment. With the assistance provided by HSBC, Ping An Bank has established an effective corporate governance structure and formulated comprehensive internal controls. In 2004, Ping An Bank's net profit was RMB3 million.

## Annuity and Health Insurance

On December 1, 2004, Ping An Annuity Insurance Company of China, Ltd. was approved for operation by the China Insurance Regulatory Commission. In September 2004, the preparation of establishment of Ping An Health Insurance Company of China, Ltd. was approved. With the establishment of above two specialized insurance companies, the scope of our professional operations will be further enhanced, and our status as a multiple financial services provider with a core insurance business will be further strengthened.

## PROSPECTS

The PRC economy is expected to continue growing at a fast pace. Amid a modest inflation environment, per capita income will continue to increase. The fast growing pace of consumer spending observed in previous periods is also expected to continue. As consumer spending continues to increase and the standard of living of households continues to improve, demand for personal financial products and services will be enhanced, which will provide a favorable environment for further growth of the PRC financial and insurance industries.

Faced with growth opportunities and challenges provided by the opening of the PRC insurance market and the consolidation of the global financial industry, we are going to move toward, under the leadership of our management team with international expertise, our objective of becoming a financial conglomerate with leading international standards.



Through the continuous strengthening of its core insurance operations, the Group will further improve the structure of its life insurance business and the productivity of its sales team, while the property and casualty insurance business will fully leverage the broad customer base of the Group to increase its operational efficiency through our multi-channel distribution network. Based on the solid results of 2004, we expect that our securities and trust businesses will enjoy further improvement in asset utilization and profitability. Our investment operations are well-prepared with its personnel and operating system and are looking forward to the further liberalization by the PRC authorities of policies governing the use of insurance funds. Our banking arm will complete the application procedures for establishment of its Shanghai head office and Fuzhou branch, and will commence operations to build a solid base for the establishment of a leading retail bank in the PRC. The new businesses of annuity insurance and health insurance will commence in 2005. We will apply international standards and establish professional management teams to effectively develop these businesses, control costs and build strong brand names.

I hereby extend my sincere thanks to all shareholders and staff of Ping An. As the PRC's national economy enjoys steady growth, Ping An is firmly positioned to make progress through prudent operations. With an emphasis of "International Standards and Local Advantages", we endeavour to reach new heights and create greater value for the shareholders, staff members and clients in 2005. In the not too distant future, we will realize the ambition of building a financial conglomerate with leading international standards.

**Ma Mingzhe**

*Chairman*

Shenzhen, PRC

April 18, 2005

