

Report of the Directors

The directors present their first annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended December 31, 2004.

1. Principal activities

The principal activities of the Group comprise the provision of a wide range of financial products and services with a focus on life and property and casualty insurance products. There were no significant changes in the nature of the Group's principal activities during the year.

2. Results and dividends

The Group's net profit in 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 85 to 154.

The directors recommend the payment of a final dividend of RMB14 cents per share in respect of the year at a dividend pay-out ratio of 27.8%, to shareholders on the register of members on June 23, 2005. This recommendation has been incorporated in the consolidated financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

3. Use of proceeds from the Company's initial public offering

The net proceeds from the Company's issue of new shares at the time of its listing on the Hong Kong Stock Exchange in June 2004, after deduction of related issuance expenses, amounted to approximately RMB13,279 million. As of December 31, 2004, the net proceeds were used, as stated in the prospectus of the Company, for general corporate purposes and improvement of business operations. The proceeds form part of the Group's liquid capital and were invested in accordance with relevant regulations of the PRC industry regulators, as appropriate.

4. Summary financial information

A summary of the published results, assets and liabilities of the Group for the last four financial years, as extracted from the audited consolidated financial statements and reclassified as appropriate, is set out on page 3 in the annual report.

5. Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

6. Charitable donations

Charitable donations made by the Company during 2004 totaled RMB2 million.

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7. Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 26 and 21, respectively, to the consolidated financial statements.

8. Share capital

Details of movements in the Company's share capital for the year ended December 31, 2004, together with the reasons therefor, are set out in note 32 to the consolidated financial statements.

9. Pre-emptive rights

There are no provisions regarding pre-emptive rights under the PRC Company Law or the Articles of Association, which would oblige the Company to issue new shares to its existing shareholders in proportion to their existing shareholdings.

10. Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

11. Distributable reserves

As of December 31, 2004, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, totaled RMB2,867 million, of which RMB867 million has been proposed as a final dividend for the year. In addition, the Company's capital reserve and revenue reserve fund, in the amount of RMB19,244 million, may be distributed by a future capitalization issue.

12. Major customers and suppliers

In the year under review, gross written premiums, policy fees and premium deposits from the Group's five largest customers accounted for less than 30% of the total gross written premiums, policy fees and premium deposits for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

13. Directors and Supervisors

The directors of the Company during the year were as follows:

Name	Date of Appointment as Director
Executive Directors	
MA Mingzhe	March 21, 1988
SUN Jianyi	March 29, 1995
Non-Executive Directors	
LI Heihu	December 24, 1999 (resigned on December 10, 2004)
GAO Lei	April 25, 2001 (resigned on November 4, 2004)
HUANG Jianping	May 30, 2002
LIU Haifeng David	May 30, 2002
Henry CORNELL	October 26, 1998
LIN Yu Fen	October 8, 2002
CHEUNG Lee Wah	October 8, 2002
Anthony Philip HOPE	November 25, 2002
YIP Dicky Peter	November 25, 2002
LIN Lijun	May 16, 2003
FAN Gang	May 16, 2003
DOU Wenwei	May 16, 2003
SHI Yuxin	October 10, 2003
HU Aimin	March 9, 2004
Independent Non-Executive Directors	
BAO Youde	September 27, 1995
KWONG Che Keung Gordon	May 16, 2003
CHEUNG Wing Yui	May 16, 2003

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The Supervisors of the Company during the year were as follows:

Name	Age	Position	Date of Appointment as Supervisor
XIAO Shaolian	71	Independent Supervisor	August 3, 1994
SUN Fuxin	67	Independent Supervisor	May 16, 2003
CHEN Shangwu	71	Independent Supervisor	August 3, 1994
DUAN Weihong	36	Supervisor	May 16, 2003
ZHOU Fulin	42	Supervisor	May 16, 2003
CHEN Bohai	28	Supervisor	May 16, 2003
SONG Liankun	66	Supervisor	May 16, 2003
HE Peiquan	70	Supervisor	April 30, 1998
HE Shi	40	Supervisor	May 16, 2003

There were no changes to the directors and supervisors from January 1, 2005 to the date of the annual report.

The Company has received annual confirmations of independence from Messrs. BAO Youde, KWONG Che Keung Gordon and CHEUNG Wing Yui, and as of the date of the annual report still considers them to be independent non-executive directors as defined under the Hong Kong Listing Rules.

14. Biographical details of Directors, Supervisors and members of the Senior Management

Biographical details of directors, supervisors and members of the senior management as at the date of the annual report are set out from pages 14 to 25 of the annual report.

15. Directors' and Supervisors' service contracts and remuneration

On May 10, 2004, our Company entered into a service contract with each of the executive directors for a term of three years. The service contracts for the executive directors are subject to termination by either party giving not less than six months' written notice to the other party. Pursuant to the Articles of Association, the remuneration of the directors and supervisors will be determined by the shareholders of the Company in shareholders' general meetings.

Apart from the foregoing, no director or supervisor proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

Details of remuneration of the directors and supervisors for the year ended December 31, 2004 are set out in note 45 to the consolidated financial statements.

16. Directors' and Supervisors' interests in material contracts

None of the directors or the supervisors had a material interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during 2004.

17. Directors' and Supervisors' interests and short positions in shares

As of December 31, 2004, none of the directors or supervisors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the Hong Kong Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers".

18. Directors' and Supervisors' right to acquire shares

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors, supervisors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors or supervisors to acquire such rights in any other body corporate.

19. Directors' and Supervisors' interests in a competing business

During 2004 and up to the date of the annual report, the following director is considered to have interests in a business which competes or is likely to compete, directly or indirectly, with the business of the Group, as defined in the Hong Kong Listing Rules, as set out below:

Mr. Anthony Philip HOPE, a non-executive director of the Company, is also a director of each of HSBC Medical Insurance Limited and HSBC Insurance (Asia) Limited, which are authorized by the Hong Kong Insurance Authority to conduct long-term, property and casualty and composite insurance business in Hong Kong, respectively.

As Ping An Hong Kong, a subsidiary of the Company, is authorized by the Hong Kong Insurance Authority to conduct property and casualty insurance business, the respective authorized insurance business of HSBC Insurance (Asia) Limited and HSBC Medical Insurance Limited has, to a certain extent, overlapped and thus may compete with those of Ping An Hong Kong.

Save as disclosed, none of the directors has any competing interest in a business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

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20. Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As of December 31, 2004, the following persons (other than the directors and supervisors of the Company) had interests in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Capacity	Notes	No. of Domestic Shares	Nature of interest	Percentage of total number of Domestic Shares in issue (%)	Percentage of total shares in issue (%)
Shenzhen Investment Holdings Co., Ltd.	Beneficial owner		543,181,445	Long position*	14.94	8.77
China Ping An Trust & Investment Co., Ltd. Labor Union	Interest of controlled corporations	1	479,117,788	Long position*	13.18	7.73
Ping An Securities Company Ltd. Labor Union	Interest of controlled corporations	1	479,117,788	Long position*	13.18	7.73
Shenzhen Jingao Industrial Development Co., Ltd.	Interest of controlled corporations	1	148,000,000	Long position*	4.07	2.39
	Beneficial owner		<u>331,117,788</u>	Long position*	<u>9.11</u>	<u>5.34</u>
			479,117,788		13.18	7.73
Ping An Insurance (Group) Company of China, Ltd. Labor Union	Interest of controlled corporations	2	389,592,366	Long position*	10.71	6.29
Shenzhen New Horse Investment Development Co., Ltd.	Beneficial owner	2	389,592,366	Long position*	10.71	6.29
Yuan Trust Investment Company Ltd.	Beneficial owner		380,000,000	Long position*	10.45	6.13
Capital China Group Limited	Beneficial owner		332,526,844	Long position*	9.14	5.37
Shenzhen Shum Yip Investment Company Ltd.	Beneficial owner		301,585,684	Long position*	8.29	4.87
Guangzhou Hengde Trade Development Co., Ltd.	Beneficial owner	3	200,000,000	Long position*	5.50	3.23

Name of Substantial Shareholder	Capacity	Notes	No. of Domestic Shares	Nature of Interest	Percentage of total number of Domestic Shares in issue (%)	Percentage of total shares in issue (%)
Li Siu Nam	Interest of controlled corporations	3	200,000,000	Long position*	5.50	3.23
Wuhan Wuxin Industrial Co., Ltd.	Beneficial owner		195,455,920	Long position*	5.37	3.16

Name of Substantial Shareholder	Capacity	Notes	No. of H Shares	Nature of Interest	Percentage of total number of H Shares in issue (%)	Percentage of total shares in issue (%)
HSBC Insurance Holdings Limited	Beneficial owner	4	618,886,334	Long position*	24.19	9.99
HSBC Holdings plc	Interest of controlled corporations	4	618,886,334	Long position*	24.19	9.99
The Goldman Sachs Group, Inc.	Interest of controlled corporations	5 & 6	1,500,000	Long position**	0.06	0.02
			408,882,182	Long position*	15.98	6.60
			410,382,182		16.04	6.62
GS Capital Partners (Asia), LP	Beneficial owner	5	213,347,476	Long position*	8.34	3.44
GS Advisors, L.L.C	Interest of controlled corporations	5	310,901,538	Long position*	12.15	5.02
Morgan Stanley	Interest of controlled corporations	7 to 15	335,519,389	Long position*	13.11	5.42
			25,298,499	Short position	0.99	0.41
Morgan Stanley Leveraged Equity Fund II, Inc.	Interest of controlled corporations	11	289,375,848	Long position*	11.31	4.67
Morgan Stanley Leveraged Equity Fund II, L.P.	Interest of controlled corporations	11	289,375,848	Long position*	11.31	4.67
MSCP/PA Holdings Limited (Cayman Islands company)	Interest of controlled corporations	11	289,375,848	Long position*	11.31	4.67
MSCP/PA Holdings Limited (Mauritius company)	Beneficial owner	11	289,375,848	Long position*	11.31	4.67

Long position* represents long position other than through equity derivatives.
Long position** represents long position via physically settled unlisted securities.
Short position represents short position via physically settled unlisted securities.

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Notes:

- (1) Shenzhen Jiangnan Industrial Development Co., Ltd., holding 148,000,000 shares, was owned as to 69.11% by Shenzhen Jingao Industrial Development Co., Ltd. which in turn was owned as to 80% and 20% by Ping An Securities Company Ltd. Labor Union and China Ping An Trust & Investment Co., Ltd. Labor Union respectively. The interest in 479,117,788 shares relates to the same block of shares in the Company.
- (2) Shenzhen New Horse Investment Development Co., Ltd. was owned as to 95% by Ping An Insurance (Group) Company of China, Ltd. Labor Union. The interest in 389,592,366 shares relates to the same block of shares in the Company.
- (3) Guangzhou Hengde Trade Development Co., Ltd. was 90% owned by Li Siu Nam. The interest in 200,000,000 shares relates to the same block of shares in the Company.
- (4) HSBC Insurance Holdings Limited was a wholly owned subsidiary of HSBC Holdings plc and its interest in 618,886,334 shares of the Company was deemed to be the interest of HSBC Holdings plc.
- (5) GS Capital Partners (Asia) LP holding 213,347,476 shares in the Company was a controlled corporation of and owned as to 1% by GS Advisors, L.L.C., which in turn was a wholly owned subsidiary of The Goldman Sachs Group, Inc. GS Capital Partners Offshore (Asia) LP and GS Capital Partners LP, holding 35,373,746 and 62,180,316 shares in the Company, respectively, were controlled corporations of and owned as to 1% by GS Advisors, L.L.C. The interests of GS Capital Partners (Asia) LP, GS Capital Partners Offshore (Asia) LP and GS Capital Partners LP in a total of 310,901,538 shares have been included as the interest of GS Advisors, L.L.C. and part of the interest of The Goldman Sachs Group, Inc.
- (6) Besides (5) above, The Goldman Sachs Group, Inc. also held interest in the Company by virtue of its control over the following corporations:

Name of Controlled Corporation	Percentage of ownership in controlled corporation	No. of Shares
Goldman Sachs (Asia) Finance	100	2,992,000
Goldman, Sachs & Co.	100	1,667,500
Goldman Sachs International	100	67,013,500
Stone Street Fund 1994, LP	1.00	13,584,034
Bridge Street Fund 1994, LP	0.03	14,223,610

- (7) Morgan Stanley Dean Witter Hong Kong Securities Limited ("HKSL") was a wholly owned subsidiary of MSDW Asia Securities Products L.L.C., which in turn was wholly owned by Morgan Stanley Dean Witter (Hong Kong) Holdings Limited. Morgan Stanley Asia Pacific (Holdings) Limited, holding 100% of Morgan Stanley Dean Witter (Hong Kong) Holdings Limited, was owned as to 90% by Morgan Stanley International Holdings Inc. Morgan Stanley held 90% interest in Morgan Stanley International Holdings Inc. HKSL's long position in 38,089 shares and short position in 80,000 shares were included as part of the interest and short position of Morgan Stanley.
- (8) Morgan Stanley Investment Management Company was wholly owned by Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd., which in turn was wholly owned by Morgan Stanley Asia Regional (Holdings) III L.L.C.. Morgan Stanley Asia Pacific (Holdings) Limited owned 100% interest in Morgan Stanley Asia Regional (Holdings) III L.L.C. The 27,181,037 shares held by Morgan Stanley Investment Management Company was included as the interest of Morgan Stanley.

- (9) Morgan Stanley Asset & Investment Trust Management Co., Limited was wholly owned by Morgan Stanley International Incorporated, which was in turn 90% owned by Morgan Stanley. The interest of Morgan Stanley Asset & Investment Trust Management Co., Limited in 274,000 shares was included as the interest of Morgan Stanley.
- (10) Morgan Stanley & Co International Limited holding a long position in 14,227,408 shares and a short position in 22,070,499 shares of the Company was wholly owned by Morgan Stanley UK Group. Morgan Stanley Group (Europe), holding 100% of Morgan Stanley UK Group, was owned as to 98.3% by Morgan Stanley International Limited. Morgan Stanley International Incorporated owned 100% interest in Morgan Stanley International Limited. The said interest and short position of Morgan Stanley & Co International Limited were included as the interest and short position of Morgan Stanley.
- (11) MSCP/PA Holdings Limited (Mauritius company) was wholly owned by MSCP/PA Holdings Limited (Cayman Islands company), which in turn was owned as to 51.6% by Morgan Stanley Leveraged Equity Fund II, L.P. Morgan Stanley held 100% interest in Morgan Stanley Leveraged Equity Fund II, Inc., which held 9% of Morgan Stanley Leveraged Equity Fund II, L.P.
- The interest of MSCP/PA Holdings Limited (Mauritius company) in 289,375,848 shares was included as the interest of MSCP/PA Holdings Limited (Cayman Islands company), Morgan Stanley Leveraged Equity Fund II, L.P., Morgan Stanley Leveraged Equity Fund II, Inc. and Morgan Stanley respectively.
- (12) MSDW Equity Finance Services I (Cayman) Limited ("SI") was wholly owned by MSDW Offshore Equity Services Inc., which was in turn wholly owned by Morgan Stanley. SI's long position in 1,948,000 shares and short position in 1,948,000 shares were included as the interest and short position of Morgan Stanley.
- (13) Morgan Stanley Swiss Holdings GmbH, holding 1,450 shares of the Company, was wholly owned by Morgan Stanley International Incorporated. The interest of Morgan Stanley Swiss Holdings GmbH in 1,450 shares was included as the interest of Morgan Stanley.
- (14) Morgan Stanley Capital Services Inc., wholly owned by Morgan Stanley, held 261,763 shares in the Company. The said interest was included as the interest of Morgan Stanley.
- (15) Morgan Stanley & Co. Incorporated, holding a long position in 2,211,794 shares and a short position in 1,200,000 shares, was a wholly owned subsidiary of Morgan Stanley. The said interest and short position were included as the interest and short position of Morgan Stanley.

There was no person who was entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company.

Save as disclosed above, the Company is not aware of any other person (other than the directors and supervisors of the Company) having any interests or short positions in the shares and underlying shares of the Company as at December 31, 2004 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

21. Continuing connected transactions

In 2004, the Company and the Group had the following continuing connected transactions:

1. *Bank Deposits Arrangements with HSBC*

The Group maintains bank balances with HSBC on normal commercial terms in the ordinary course of business. Interest is accrued on such bank balances at normal commercial rates. HSBC is a connected person of the Company as it is a substantial shareholder of Ping An Bank Limited, a 72.46% owned subsidiary of the Company.

As of December 31, 2004, the aggregate bank balances maintained by the Group with HSBC was approximately US\$361 million.

2. *Bancassurance Arrangement with ICBC*

The Company and Industrial and Commercial Bank of China ("ICBC") entered into a cooperation agreement in respect of insurance agency services ("Bancassurance Agreement") on August 6, 2001 on normal commercial terms in the ordinary course of business. Pursuant to the Bancassurance Agreement, (i) ICBC agreed to provide insurance agency services to the Group through its branches and other channels for the insurance products of the Group, which include marketing insurance products and collecting premiums, and (ii) specific agreements have been and will continue to be entered into between the respective branches of the Company and ICBC in respect of the particular terms of the bancassurance products, the implementation of the services and the determination and payment of the agency fees. ICBC was a promoter of the Company at the time when the Company was established.

In 2004, the aggregate agency fees, which were determined at a fixed percentage of the net premiums, paid by the Group to ICBC in respect of the insurance agency services pursuant to the specific agreements entered into between the respective branches of the Group and ICBC was approximately RMB45 million.

3. *Bank Deposits Arrangements with ICBC*

The Group maintains term deposits and bank balances in Renminbi, Hong Kong dollars and US dollars with ICBC or Industrial and Commercial Bank of China (Asia) Limited ("ICBC (Asia)"), a subsidiary of ICBC, on normal commercial terms in the ordinary course of business in order to generate interest returns.

As of December 31, 2004, the aggregate bank deposits maintained by the Group with ICBC and ICBC (Asia) in all kinds of currencies amounted to approximately RMB10,057 million.

In respect of the above continuing connected transactions entered into by the Group, the Hong Kong Stock Exchange, on application by the Company, granted the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules in respect of continuing connected transactions.

In the opinion of the independent non-executive directors, after having reviewed the above continuing connected transactions, such transactions were entered into by the Group:

1. in the ordinary and usual course of its business;
2. on normal commercial terms or on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and
3. in accordance with the terms of agreements governing them on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole.

The Company has received a letter from the auditors stating that the above connected transactions:

1. have received the approval of the board of directors;
2. have been entered into in accordance with the relevant agreements governing such transactions; and
3. have not exceeded the upper limits set out below in 2004:
 - i. bank deposits arrangements with HSBC: US\$2,336 million on any given day;
 - ii. bancassurance arrangement with ICBC: RMB150 million; and
 - iii. bank deposits with ICBC and its associate: RMB24,900 million on any given day.

22. Board Committees

The Company has established an audit committee, a remuneration committee and a nomination committee. For details regarding these board committees, please see the relevant sections in the Corporate Governance Report in the annual report.

23. Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 49 to the consolidated financial statements.

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24. Code of Best Practice of Appendix 14 of the Hong Kong Listing Rules

So far as the board of directors are aware, for the period commencing from June 24, 2004 (the date on which the H shares of the Company were listed on the Hong Kong Stock Exchange) to December 31, 2004, the Company has complied with the Code of Best Practice of the Hong Kong Listing Rules which was in force prior to January 1, 2005.

25. Auditors

Ernst & Young and Ernst & Young Hua Ming were the international and PRC auditors, respectively, to the Company for the year ended December 31, 2004. A resolution for the re-appointment of Ernst & Young as the international auditors and Ernst & Young Hua Ming as the PRC auditors to the Company will be proposed at the forthcoming Annual General Meeting on June 23, 2005.

By order of the Board of Directors

Ma Mingzhe

Chairman

Shenzhen, PRC

April 18, 2005