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Dear Sir/Madam

AXA Asia Pacific Holdings Limited

Earlier today we released materials in respect of the financial results of AXA Asia Pacific Holdings Limited for the half year ended 30 June 2004. Attached to this letter are speaking notes that will be used in presenting the results today.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Milena Penca'.

Milena Penca
Group General Counsel & Company Secretary

Page 1 of 37 pages.

AXA Asia Pacific Holdings Limited

2004 Half-year results speech

6 August 2004 – Theatrette, Concourse Level

Highlights

Good morning everyone and welcome to the presentation of our results for the six months ending 30 June 2004.

I am pleased to say that we have delivered another very strong set of results which I believe is further evidence that the improvement and repositioning of the business over the last four years is coming through into very healthy operating and financial performance.



I will start with a brief overview, Geoff Roberts, our new Chief Financial Officer, will take you through the results in a little more detail, and I will finish with a review of our activities and prospects.



First, the Group highlights.

Operating Earnings are up very strongly by 20% to \$162.8m which I believe represents an excellent operating result.

Within this, Operating Earnings in Australia and New Zealand increased 32% to \$87.4m and in Hong Kong Operating Earnings were up 9% to \$75.2m.

In local currency, the Hong Kong Operating Earnings were up 29% to HK\$432.8m – also an excellent operating result.

Group Investment Earnings were \$66m, down 65% on the same period last year.

In Australia and New Zealand, Investment Earnings were up 251% to \$51.2m and in Hong Kong were down 92% to \$14.5m. The lower Hong Kong investments earnings are primarily due to the increase in the US 10 year Treasury interest rate in the first six months of this year of about 36 bps, compared to a fall of 26 bps in the corresponding period last year. Corporate spreads have also widened a little this year, whereas in the corresponding period last year, they narrowed. The rise in US interest rates, although resulting in a short term impact on the market value of our bond portfolio, is a positive feature for medium to long term shareholder value as interest rates are moving towards the long term assumptions that underlie our embedded value, pricing and crediting rate assumptions.

Corporate and interest expense reduced by 26% to \$35.3m leaving overall profit after tax and before non-recurring items at \$193.5m down 30% on the same period last year.

We believe that this is a very strong result which demonstrates good performance in all the operating fundamentals of the business.

Group funds under management, administration and advice were up 12% to \$57.3bn.



In Australia and New Zealand, all our major business lines – financial protection, wealth management products and advice – posted strong increases in Operating Earnings.

Net retail funds flows were up 132% to \$1.64bn and we have maintained a top three ranking in both the ASSIRT and Plan for Life surveys.

Margins have also grown with the value of new business for the 6 months up 19% to \$39m.

Funds under management, administration and advice grew 12% to just under \$50bn and, within this, funds under advice grew 10% to \$4.6bn.

Once again we have improved cost efficiency with our cost to income ratio reducing by a further 4 percentage points.

We are well positioned for further growth in Australia and New Zealand and, following the success of K5, we have set out a new set of aspirational goals for 2007 – AXA 6.



In Hong Kong, Operating Earnings were up 29% to HK\$432.8m reflecting strong operating performance as well as the change in profit carriers we implemented last year for our participating business.

New business index – that is new regular premiums plus 10% of single premiums – was up 13% to HK\$542m. Margins on new business were very encouraging with the value of new business for the 6 months up 29% to HK\$271m.

Net funds flows were HK\$3.9b, up 15%.

And despite the negative impact of rising US interest rates on the market value of our bond portfolio, total funds under management grew 4% to HK\$41.8b.

We have seen further improvements in the persistency of our in-force book with the discontinuance rate for the first six months now at 7.9% which is better than the aggregate assumptions in our embedded value.

So excellent results in Hong Kong and another period of strong growth in shareholder value.



And finally the highlights in China and South East Asia.

Although still a small part of our overall operations, we are seeing strong growth, and, particularly, strong growth in value. Total premium income for the region was up 64% on the same period last year to \$206m on a constant currency basis.

New business index for the region was up 15% to \$32.2m, also on a constant currency basis and, very encouragingly, and as a result of our focused efforts on growing value, the value of new business in the 6 months was \$14m up 148%.

We are starting to gain traction in growing shareholder value in our businesses in China and SE Asia – we have a strong platform and are confident about the growth opportunities.

I will now hand over to Geoff Roberts who will take you through the results in a little more detail.

Slide 8 - Profit & loss analysis

- Thanks Les and good morning.
- In my first results presentation I am pleased to have the opportunity to be able to report the benefits from the repositioning of our businesses over the past four years. These benefits are reflected in the very strong Operating Earnings we are reporting to you today.
- Operating earnings are \$162.8m up 20% from last year.
- Operating Earnings increased by 32% in Australia and New Zealand to \$87.4 million and by 9% in Hong Kong and Singapore to \$75.4 million. On a local Hong Kong currency basis this is a 29% increase. A very good performance from both of our major businesses.
- Investment earnings decreased to \$66m, due mainly to an increase in US 10 year treasury and corporate bond interest rates in our Hong Kong portfolio.
- Corporate expenses increased slightly due to a higher proportion of the development spend being incurred in the first half of the year. Overall expenses included within operating earnings have remained constant.
- Our interest expense reduced on our \$US denominated debt by 56% to \$11.9m. This improvement is mainly due to the reduction in our debt levels following the sale of non-core assets last year, favourable interest rate differentials on our cross currency swaps and the appreciation of the Australian dollar.
- Our total profit after tax and non-recurring items is \$193.5m. When non-recurring profits from last year and the effect of the interest rate increase on our Hong Kong portfolio this year are excluded, you see a very strong underlying Operating Earnings growth.

Slide 9 – Investment Earnings

- Last year investment earnings on our shareholder capital were abnormally high. For this 6 months our investment earnings are abnormally low.
- On a normalised basis, our Investment Earnings would have been \$114m for the 6 month period.
- This normalised Investment Earnings represents the long term earning assumptions included in our Enterprise Value calculation on average shareholder asset volumes held over the 6 months to June 2004.
- You will note the majority of the decrease in investment returns relates to an increase of 36 basis points in US 10 year bond rates this year (compared to a 26 basis point decrease last year), a widening of corporate spreads by 10 basis points this year (compared to a narrowing of 56 basis points last year) and equity returns of 3.8% on the MSCI World Index this year (compared to last year's 11.4% increase).
- The other amount of \$29m in the slide primarily represents investment returns on the increased capital retained in our Hong Kong business from June 2003 to June 2004.

Slide 10 - Earnings per share and return on equity

- Turning to our key shareholder measures both before and after the normalisation of investment earnings.
- Earnings per share before non-recurring items is 11.1 cents, a decrease on 2003.
- Return on equity is 12.1%.
- Both our earnings per share and return on equity are affected by the abnormally low investment earnings for the first 6 months of this year.
- When we exclude the sold Health business's Operating Earnings from 2003, and include normalised Investment Earnings in the calculation, earnings per share would be 13.9 cents up 29% and return on equity up 15% to an attractive 12.9%.
- The Board has declared an interim dividend for 2004 of 5.25 cents per share, up 11% on the interim dividend for 2003.
- This interim dividend will be franked to a level of 15%. As previously advised, the level of franking has reduced due to approximately 50% of our earnings being sourced offshore and therefore not attracting Australian income tax and our Australian sourced earnings attracting reduced tax because of available transitional tax concessions.

Slide 11 - Capital structure

- Over the course of the half year, our capital position further strengthened.
- Since December 2003 our debt to equity ratio has remained constant. External debt has increased primarily due to a foreign currency translation loss on our \$US denominated debt.
- 98% of our debt is denominated in, or swapped into USD to provide a natural hedge to our assets in Hong Kong.
- As at 30 June 2004, we had total capital resources of \$5.5bn. This comprises \$3.8bn of ordinary equity, up \$157 million from December, \$944 million of hybrid debt, and \$733 million of senior debt.

Slide 12 - Capital usage at 30 June 2004

- Our total regulatory requirement as at 30 June 2004 is \$2.8bn. The split of our regulatory capital is \$1.9bn for our solvency requirement and \$877m for capital adequacy.
- In addition to this regulatory capital, \$1.7bn of our capital resources represents the excess of market value over net assets of subsidiary companies.
- Target surplus at 30 June was unchanged from 31 December at \$615m. As previously explained this is an internal target to provide a buffer over regulatory capital requirements in periods of market volatility.
- The capital above target surplus has increased \$71m since December 2003 to \$339m. This increase reflects profits less dividends and foreign exchange movements on required regulatory capital.
- In summary we are holding this \$954m in excess of regulatory capital requirements.

Slide 13 – Capital management Initiatives

- We had previously flagged that we were reviewing capital management strategies early this year as part of the continued monitoring of our capital structure.
- Consequently we have increased our interim dividend by 11% from 4.75 cents to 5.25 cents to reflect the confidence we have in our strong Operating Earnings growth.
- Amongst other options we considered was a share buy-back. This has been deferred to retain flexibility to pursue strategic growth opportunities that may arise in China and Asia and the ever-changing requirements of International Financial Reporting Standards.
- We are also continuing to consider lowering our cost of debt by replacing existing senior debt with the possibility of a hybrid debt raising in New Zealand in 2005.

Slide 14 – Value: experience v assumptions

- As we had previously flagged we were not going to publish enterprise value for the half year.
- In both Australia & New Zealand and Hong Kong, experience has been largely in line or better than the assumptions included in our December Enterprise Value.
- Expenses in both businesses are **in line** with assumptions.
- As mentioned, actual investment returns for this last 6 months are lower than expected.
- To assist the market in valuing our businesses we are providing the value of new business results today.

Slide 15 - ANZ Profit after tax and before non-recurring items

- So that is the picture at the Group level, now I will focus on Australia and New Zealand.
- We achieved very strong growth in operating earnings in Australia & New Zealand, up 32% to \$87.4 million.
- Encouragingly we saw growth in profit from most product groups:
- Wealth management products grew by 11% to \$37.2m
- Advice grew by 37% to \$13.6m
 - This growth is due to a combination of positive net funds flow and the rebound of Australian equity markets which has driven funds under management and advice balances higher, and generated additional fee revenue.
- Financial protection grew by 58% to \$36.6m. This result is driven by improved mortality experience on individual life products and continued good experience in income protection.
- We have also had significant reductions in expenses over the last four years which have underpinned improved profits.

Slide 16 - ANZ Investment Earnings

- Investment Earnings in Australia and New Zealand has increased to \$51.2m, largely due to improved domestic equities.
- Return from other assets increased due to higher income from Sterling Grace and other subsidiaries.
- There was also a foreign currency exchange gain on the translation of New Zealand assets due to the strengthening of the New Zealand dollar compared to a loss last year.

Slide 17 - ANZ New business/gross inflows

- Turning now to our strong sales growth.

Financial Protection

- Increased new annual premiums occurred in individual life in both Australia and New Zealand.
- New annual premiums slowed in income protection and group insurance as we very consciously made the choice to reprice and reposition our products for profitable growth.

Wealth Management

- Overall net flows into superannuation increased with increased flows into our “on-sale” products offset by outflows from legacy products.
- Our retirement income products include immediate annuities as well as allocated pensions. Overall retirement income net fund flows have decreased as a result of our repricing of immediate annuities to increase margins. In addition, there was a downturn in the short term annuity market.
- Investment product flows increased markedly due to strong sales from the Australian Monthly Income Fund and our International Equity Funds.
- Institutional inflows increased substantially due to the increasing demand for individual investment mandates from retail products such as master trusts and multi-manager products.
- Encouragingly our flows into our platforms and advice businesses have increased by 26% and 47% respectively.

Slide 18 – Value of new business

- We have had an encouraging start to our Australia and New Zealand AXA 1 goal of doubling the value of new business. The value of new business has increased by 19% to \$39m on a six month basis and by 9% to \$76 million on a rolling 12 month basis.
- These values have been driven by our Summit & ipac platforms together with strong institutional flows into our Alliance Capital joint venture.

Slide 19 - HK Profit after tax and before non-recurring items

- Now turning to Hong Kong.
- In local currency profit after tax and before non-recurring items for the six months is HK\$516.6m compared to HK\$1,173.5m last year.
- Underlying this result is a 29% improvement in Operating Earnings to HK\$432.8m primarily due to improvements in persistency and mortality.
- As stated last year we also introduced a change in the profit carrier assumption for the participating life business which has had a positive impact of around HK\$55m this period. Excluding this, Operating Earnings is up 12%.
- Investment earnings in 2004 are HK\$83.8m, down considerably from 2003. I will comment on this in more detail in a moment.
- The appreciation by 18% of average exchange rates of our Australian dollar relative to the Hong Kong dollar has reduced Operating Earnings by \$14m for the 6 months.

Slide 20 - HK Investment Earnings

- Investment Earnings are down on 2003 at HK\$83.8m.
- Returns on equity investments are HK\$60.7m, compared to HK\$305.8m in 2003. Last year equity growth was strongly supported by the recovery in global equity markets, particularly in the US, following the war in Iraq. There were similar improvements in Asian equity markets. This year's growth was flat comparatively.
- Our return on fixed interest investments is mostly attributable to increases in bond rates. Ultimately the increase in US bond rates and corporate bond rates leads to a short term decrease in investment earnings (from holding bonds at lower interest rates), but is very good for the business in the long term. This makes it easier to achieve investment margins in excess of our guaranteed crediting rates for our closed book of business.

Slide 21 - HK Investment margin on assets backing par business

- The subdued investment performance in 2004 meant that we did not achieve our long term target return of a 1% p.a. margin on participating life business during the first 6 months of this year. In fact the margin, that is the total return less that credited to policyholders, is -1.5%. However when capital losses are removed our investment margin is 0.3% or 0.6% on an annualised basis. This compares to an abnormally high 5.5% return for the 6 months to June 2003.
- So although there is a slight deficit in our active dividend management account today, our long term asset model assumes US interest rates approximately 60 basis points higher than where they are today. On an economic basis therefore there is still a gap between the face value of the accounts and the underlying economic position. This gap will be eliminated over 3-4 years based on our long term assumptions; assuming crediting rates are maintained. So although in the short term a rise in US interest rates creates an unrealised loss for us, the good news is that in the long term interest rate rises lead to a better asset/liability matching and makes it easier to achieve our 1% margin.
- It is also worth mentioning that in the capital slide I put up earlier we have already provided for interest rates at our long term assumed rate. To be clear that means that our surplus above regulatory capital position will not be materially impacted by an increase in US 10 year interest rates of up to 60 basis points.
- This business remains very profitable for us and we remain confident that our target of a 1% margin on investment returns is achievable.

Slide 22 - HK New business

- New business in Hong Kong showed good growth compared to last year.
- The new business index, including regular premiums and 10% of single premiums was up 13% to HK\$542m.
- Individual life (non-linked) regular premium sales continued to be strong, up 16%.
- Individual life (unit linked) regular premium sales reduced slightly due to the softer global equity market. However, as outlined at our Strategy Briefing in March this year, our unit linked product sales as a percentage of total sales is one of the highest in Hong Kong.
- Retirement new business was down on last year reflecting the limited amount of transfers in portfolio from one service provider to another.

Slide 23 - HK Value of new business

- This strong sales performance has flowed through into the value of new business. New business is up 29% to HK\$271m on a 6 month basis and up 12% to HK \$580m on a 12 month basis.
- Value of new business has increased at a faster rate than sales due to focussed profitability initiatives including:
 - tactical repricing
 - aligning agent compensation with the sales of more profitable products and
 - aligning agent compensation with improved persistency.

Slide 24 - China & SEA New business

- Finally a few words on the other Asian businesses.
- New business increased strongly in China, Singapore and Indonesia. It reduced slightly in the Philippines and Thailand.
- Across the region, there has been an increased focus on improving product profitability, with initiatives such as re-pricing, changes to contract terms and conditions and the introduction of unit-linked products in the Philippines, China and Indonesia all taking place in late 2003 and early 2004.

Slide 25 – China & SEA Value of new business

- As a consequence of product repositioning and the increasing of our distribution force, the Value of New Business increased by 148% to \$14m on a June on June basis and up 41% to \$26m on a rolling 12 month basis for the region, on a constant currency basis.
- AXA's group share of this value of new business at current rates is \$16m representing 8% of the Group's total value of new business.

Slide 26 – International Financial Reporting Standards (IFRS)

Now a few words on International Financial Reporting Standards.

- AXA will prepare financial statements in accordance with IFRS from 1 January 2005 and will prepare a comparative balance sheet as at 1 January 2004.
- Any adjustments will be made against opening retained earnings at 1 January 2004 and the larger items will include:
 - removal of internally generated goodwill
 - an increase in the policy liabilities for investment linked business and
 - adjustments to account for defined benefit plans.
- In short it looks like good news for AXA:
 - future profits on the in-force book are likely to increase. With no change to future cash flows, the addition to liabilities booked against opening retained earnings will be released to profits in future years
 - Yet as stated by APRA last week, the introduction of IFRS will not, at least in the short term, require an increase in regulatory capital.

Slide 27 - Summary

- That concludes my comments on the financial results for the half year.
- In summary, our strong operating performance has delivered excellent financial results with progress on every important measure of financial performance. Our transformation programs have clearly delivered a positive impact on our bottom line.
- Advice, a key part of our strategy, is delivering results with Operating Earnings up 37%.
- We are seeing early signs of profitable growth in our South East Asian businesses.
- Whilst Investment Earnings have reduced, US interest rates are moving towards our long term assumptions, assisting in achieving our required 1% investment margin over the medium to long term.
- At the same time as strengthening our operating performance, our already strong capital position has strengthened further. Our capital resources are well in excess of our regulatory capital requirements, and we have increased the interim dividend by 11%.
- We are well placed to continue to grow profitability and provide attractive returns for our shareholders.
- I will now hand back to Les to take you through a more detailed review of activities.

Review of activities

Thank you Geoff. Let me turn first to Australia and New Zealand.



December 2003 saw the successful completion of the K5 programme. K5 helped us to refocus our business on financial protection and wealth management, to instil more of a performance culture, to strengthen management, and to improve operational efficiency, and the last 18 months have seen very strong evidence that this repositioning is leading to improved operating performance.

We are now a credible player in the Australian and New Zealand markets and we are able to compete with the best.

However we have no intention of standing still. We are raising the performance bar and in March this year we announced a new set of aspirational objectives called AXA 6 with the objective of taking AXA from being a “player” to a “leader”.



We have made our strategic positioning very clear and we believe this differentiates us from most of our competitors. We intend to be a leader in every part of the financial protection and wealth management value chain.

A leader in asset management, and in product and platform delivery which together represent our product manufacturing capability. Our strategy is also to be a leader in the provision of services to financial planners through our aligned networks, AXA Financial Planning and Charter, and in third party aligned and self licensed advisers. And we aim to build the leading financial advice businesses in Australia and New Zealand following our acquisitions of ipac and Spicers.

So what are our strengths and what is our positioning in each element of the value chain?



Firstly asset management. Three and half years ago we made the important strategic move of merging our asset management operations with those of Alliance Capital and forming a powerful joint venture making us one of the few players who can bring global scale and capability to this market.

We are now seeing strong investment performance across most of our funds. Over the last six and 12 months, 5 out of 7 of our key funds are ranked in the first or second performance quartiles, and our funds have strong research ratings from Van Eyk and Assirt.

A challenge over the last couple of years has been our relatively weak performance in Australian equities. I am pleased to say that the changes implemented by Alliance Capital over the last 12 months are starting to come through in improved performance with the growth fund ranked in the top quartile over the last 6 months. Our Australian equities value fund has been operating for over a year now, has good performance and is starting to be rated by the research houses. We expect increasing fund flows into this fund towards the end of this year and as we move into 2005.

The global equity value and growth funds continue to be well rated and to attract strong funds flows, and our property funds are in the top quartile.

In New Zealand, Alliance Capital was awarded the Morningstar Fund Manager of the year for Australasian equities.

So strong investment performance across most of our funds.



We are continuing to see strong growth in funds under management and administration which have grown 12% since the end of last year, and now stand at around \$50bn. Within this, we have seen growth from AXA retail funds, from Alliance Capital sourced funds, and from our advice businesses.

In the first half of this year we have also seen some important institutional mandate wins in both Australia and New Zealand, including the New Zealand government superannuation fund.



The other arm of our asset management operations is our multi-manager offerings managed by Arcus, who are number 1 in New Zealand, and by ipac in Australia, where we are second to MLC. Overall, multi-manager funds under management have grown 65% over the last 2 years and have grown over 9% in the last six months. Multi-manager solutions continue to grow retail market share and we are very well positioned in this important segment.



Turning now to our wealth management products, we continue to see growth in net retail fund flows.

Net flows in the six months to 30 June 2004 were a little over \$1.6bn and, within that, AXA sourced flows were nearly \$800m and flows into our advice businesses were \$179m, both strongly up on the same period last year. Alliance Capital sourced flows were \$668m, down on the overall rate for last year, which was boosted by some large mandate wins which are, by their very nature, lumpy.



This strong performance has meant that we have retained our top three position for net retail fund flows in both the Plan for Life and Assirt surveys for the 12 months ending March 2004.

Our market share of net fund flows was 11.9% in Plan for Life and 14.7% in Assirt. Although, as I have said previously, we do not necessarily expect to be able to retain those sorts of market shares as competitors recover, we are nonetheless confident that we can continue to grow net retail fund flows.



Our product positioning with non-AXA aligned distribution channels has further strengthened over the period. In Australia we now have 107 AXA

product entries on the top 50 external dealer group product lists, and 80 entries on the top 10 external master trust product lists. And the representation of our global equity value and growth products which, of course, are higher margin products than the income products, has continued to increase.



Turning to financial protection, you will be aware that four years ago we had over 30% of the income protection market in Australia, but we were losing significant amounts of money. I am pleased to say that we have turned this around and we have made operating profits on income protection for the last 5 half year periods. However this has come at some cost to our market share. Now that our underwriting and claims management capability is fundamentally stronger than it was three or four years ago, and the problems that were leading to the losses are, I believe, behind us, we are focusing our minds on growing our market share in financial protection, but on a profitable basis.

We have recently launched a number of improvements to our product range and we anticipate that these will enable us to grow new business faster than the market over the rest of this year and into 2005.

Recent research that we have commissioned demonstrates that the average Australian is significantly underinsured. Financial protection remains an attractive market and, with our strengthened capabilities, we remain well placed to be one of the leaders.



Master trusts and portfolio administration platforms continue to dominate the retail funds market in Australia, and building and maintaining a leading position in this segment is an important part of our strategy.

Total funds in our master trusts and platforms increased to \$17bn by June 2004 with funds managed by ipac growing particularly strongly.

Whilst we are one of the leading platform providers in Australia, we do need to progressively consolidate these funds onto a single technological platform in order to get the benefits of scale. Funds on our Summit platform have continued to grow strongly and, at the end of June 2004, we had \$4.8bn on Summit, up 17% since the end of last year.



The development of our platform is an important strategic imperative for AXA. A streamlined, lower cost version of Summit – AXA Generations – is well advanced and we will be launching this to the market in August. This is designed for clients with simpler investment and superannuation needs and will compete with platforms such as Colonial's First Choice.

However, we believe that we have a competitive advantage in that AXA Generations, unlike most competing products, is built on the same technological platform as the fuller function Summit which means that advisers and clients will have a single “window” to their investment and superannuation portfolios, a single access point for servicing, a smooth transition as investment needs become more sophisticated, and consolidated reporting.

In New Zealand the Spicers platform has now been rolled out to 100 AXA advisers.



With a return to confidence in the Australian retail market over the last 12 months, the productivity of the AXA aligned networks – AXA Financial Planning and Charter – has continued to improve. In the 12 months to June 2004 the average funds sales per adviser was \$1.51m, up 13% on the 12 months ending December 2003.

The total number of advisers in our aligned networks has grown since the end of last year through initiatives such as the rollout of ipac's Lifestyle Financial Planning model and the bundling and selling of orphan client banks to new advisers through the Discovery programme



Distribution remains well balanced between the AXA aligned network which produced 31% of sales and the non-AXA aligned network – that is advisers aligned to third parties and self licensed advisers – 43%. Our advice business ipac and Monitor Money which produced 26%.



Strong growth in advice fund flows together with improved Australian equity markets and high levels of fund retention have helped us grow total funds under advice to \$4.6bn, up 29% over the same period last year, and up 10% over the year end position.

Gross new advice funds flow were \$571m, up 47% on the same period last year.



Let me turn now to Hong Kong

The M6 Transformation programme launched at the end of 2000 finishes at the end of this year.

We have made very good progress and we are well on track to achieve our overarching financial objective of increasing the enterprise value – that is the embedded value plus the value of new business – by 55% to HK\$23 bn.

We are also tracking well towards achieving five of our M6 aspirational goals. The business has been successfully transformed from a largely single channel, single product business in the late 1990s, to one with multiple distribution channel, a wider product range, much reduced reliance on old fashioned high guarantee participating business, and moving strongly into wealth management. And operational performance has improved in all areas of the business with lower cost ratios and a continued strong focus on product profitability.



Over the last 6 months we have continued our progress in delivering against a number of strategic imperatives. Firstly to increase the number and productivity of our agency force.

The HK agency blueprint was launched in January, has been implemented smoothly and has been accepted and, indeed, welcomed by agency leaders.

Blueprint has restructured agent compensation to be more closely aligned with the key drivers of shareholder value – the profitability of new business, persistency, and consistent sales performance, rather than sales performance driven by periodic competitions.

Agency management remuneration is now more closely aligned to key drivers of shareholder value such as recruitment, and agency and policy holder retention.

The launch of Blueprint was accompanied by the introduction of market leading point of sales technology, improved training, and management development programmes. These have gone down well in the market and we are getting a growing number of inquiries from agents and agency managers who are interested in joining AXA.

And the initial operating results have been encouraging as well. Value of new business per agent is up 12% reflecting increased focus on sales of higher margin products.

Persistency – a key measure of the quality of agency sales – has improved from 76% last year to 81% in the first six months of this year. And agent retention has improved from 77% to 81%.



Agency productivity is now well above the market average for Hong Kong. In the traditional agency force, productivity has reached HK\$25,000 new

business index per adviser per month and AXA adviser productivity has grown 15% to HK\$60,000 new business index per month. Overall productivity is up 7%.

Agent numbers are reasonably stable at just under 2,300. Agency retention has improved and recruitment is running at encouraging levels, but in the short term we have exited some agents who were unable to meet the more stringent productivity criteria demanded by the Agency Blueprint model. We expect the Blueprint to produce growth in agency numbers in the second half of the year.



Our second strategic imperative was to build profitable new distribution channels.

Non agency channels now account for 38% of sales. All distribution channels have grown over the period with particularly strong growth in AXA advisers and through brokers where individual life sales.



We have made further progress in increasing the proportion of agents managed by salaried AXA employed managers which, of course, gives us significant benefits in terms of managing activity and in the recruitment, training and development of agents. The proportion of agents now managed by salaried managers has reached 45%.



Discontinuance rates have further improved during the period and were at 7.9% for the 12 months ending 30 June 2004, a level which is below the long term aggregate assumptions in our pricing and embedded value numbers. This is as a result of a dedicated customer retention team and also a result of the agency Blueprint which has strengthened the alignment of agency management remuneration with persistency.



A lot of management attention has gone in over the last 2 years or so to prepare for the growth of the savings and investment markets in Hong Kong.

The ipac Financial Planning model is now fully operational with full regulatory product approvals being obtained in April. It is getting established in the expatriate market with funds under advice of HK\$78m and we have already seen enough evidence to make us confident of our ability to penetrate the high net worth Chinese market.

In July we launched a new range of single premium investment linked products with a broad range of fund links and with external fund manager choice. Initially this product is aimed at the broker market and we expect that this will help us to deliver strong growth in single premium sales in the second half of the year.

In the retirement market AXA's funds under management were up 29% to HK\$9b.

We are well advanced in developing a new and innovative investment option for launch in the MPF market later this year.



The Hong Kong life and investment markets have grown strongly in the first half of 2004.

Although market statistics for individual life business indicate growth as high as 60% in the first quarter we would urge caution in interpreting this as the statistics can include internal replacement business and certainly include large volumes of short term deposit style products as well as off shore business sold routed through Hong Kong insurers.

Our own analysis, supported by external analysis, suggests that underlying growth from the traditional insurers was in line with AXA's 26% growth in new

business in the first quarter of this year compared to the first quarter of 2003. However we believe we are gaining market share in the value of new business because our growth is primarily based on long term regular premium products which have high unit profitability.

The banks continue to grow market share strongly but much of this is simply transfers from savings accounts to short term endowment products which are often giving interest rate guarantees that are higher than the banks' own deposit rates, and which pay medium to high levels of commission to advisers. We believe these products require quite high levels of capital support, contain risks should interest rates rise sharply and are, at best, low to medium profitability.

We are very happy with our rate of growth and we will continue to focus on growing the value of our new business.

The large increase in the number of mainland Chinese visitors to Hong Kong represents a significant opportunity and we have developed a focussed sales infrastructure to target this market. We have stringent procedures in place to ensure that sales are only made to mainland Chinese residents where they are physically in Hong Kong.



So in summary we are tracking well against our M6 goals.

We are confident of achieving our M1 goal through strong growth in the value of new business, further improvements in persistency, favourable mortality experience and management expenses which are well controlled.



Gross premium income continues to be strong at \$7.1b in the six months but it is clear that we will not meet our M2 objective as we are not prepared to compete in the risky single premium participating endowment market.

Total assets under management are well on track to meet our target of \$42b by the end of the year.



The brand strength of AXA remains high on all measures – 99% aided awareness and 75% unaided. And we have met our SCOPE objective - being in the top quartile in the AXA Group survey for 2004.



And M6 – to grow new business value of \$750m in 2004.

Again we are showing strong progress here, The value of new business is growing faster than sales and we have every chance of achieving this objective over the next 6 months.



Now a few words about China. We continue to make good progress in a market which has huge potential but also presents operational challenges.

Total premium income was up 42% to just over \$70m Remnimbi. Amongst foreign insurers we are now ranked 4th in Shanghai and 6th in Guangzhou.

In Shanghai total premium income was up 24% despite the market being down by 10%. We believe this fall in the market is temporary as a number of the domestic Chinese companies are starting to understand the high risk and capital intensive nature of single premium endowment policies with high guarantees, and have been withdrawing from this segment.

We have nearly 1400 advisers in China all now operating under the new Agency Blueprint. We have also negotiated product sourcing arrangements with five of the major banks in Shanghai and are now selling through 26 bank branches. New business sales through this channel are growing strongly.

Looking to the future we have submitted applications to open new branches in Beijing and Foshan when the market opens up at the end of this year, and we are developing a range of investment linked policies.



In Singapore the repositioning of the business is making good progress. Total premium income was up 39% to Sing\$108m. New business is up 33% to Sing\$9.7m but, importantly, the value of the new business is up 54% to A\$7m on a constant currency basis.

In South East Asia we have joint ventures with the number one banks in the Philippines, Indonesia and Thailand and, over the last 6 months, our bank based adviser force has doubled and we now have advisers present in over 750 bank branches.

Total premium income is up 99% on a constant currency basis to A\$104m and, once again demonstrating our focus on value, the value of new business is up 82% to A\$18m on a rolling 12 months basis.

We are successfully moving our product focus away from the traditional, high guaranteed participating segments. Investment linked products accounted for 77% of sales in the region, excluding Thailand where investment linked products are not yet permitted.

Our joint venture with Bank Mandiri in Indonesia, which is now fully operational, is showing encouraging early results and has helped AXA move from 11th in the market last year to 4th this year.

So we are gaining traction and momentum in SE Asia.



Can I finish by saying that I believe we have once again delivered excellent financial and operating results. The last six months has seen strong growth in our operating earnings and in the value of our new business.

Our financial and market positions are strong which gives me every confidence that we will continue to move all our businesses in the right direction.