

# 2006 | Interim Report



Ping An Insurance (Group) Company of China, Ltd.

Stock Code : 2318

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### Cautionary Statements Regarding Forward-Looking Statements

To the extent any statements made in this report containing information that is not historical are essentially forward-looking. These forward-looking statements include but not limited to projections, targets, estimates and business plans that the Company expects or anticipates will or may occur in the future. These forward-looking statements are subject to known and unknown risks and uncertainties that may be general or specific. Certain statements, such as those include the words or phrases “potential”, “estimates”, “expects”, “anticipates”, “objective”, “intends”, “plans”, “believes”, “will”, “may”, “should”, and similar expressions or variations on such expressions may be considered forward-looking statements.

Readers should be cautioned that a variety of factors, many of which are beyond the Company’s control, affect the performance, operations and results of the Company, and could cause actual results to differ materially from the expectations expressed in any of the Company’s forward-looking statements. These factors include, but are not limited to, exchange rate fluctuations, market shares, competition, environmental risks, changes in legal, financial and regulatory frameworks, international economic and financial market conditions and other risks and factors beyond our control. These and other factors should be considered carefully and readers should not place undue reliance on the Company’s forward-looking statements. In addition, the Company undertakes no obligation to publicly update or revise any forward-looking statement that is contained in this report as a result of new information, future events or otherwise. None of the Company, or any of its employees or affiliates is responsible for, or is making, any representations concerning the future performance of the Company.

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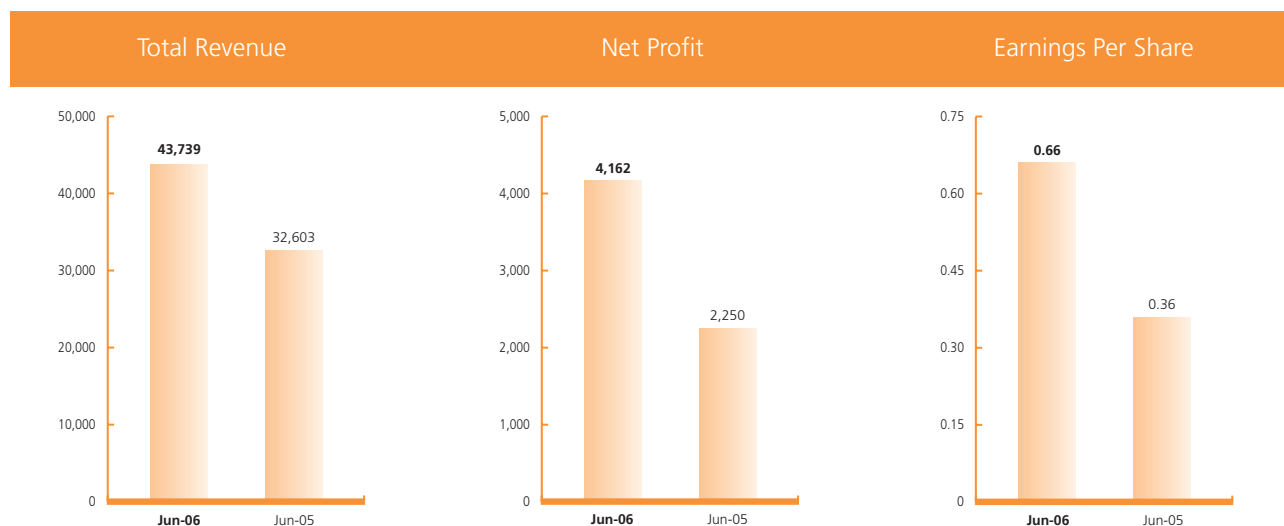
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## FINANCIAL HIGHLIGHTS



### PROFIT AND LOSS

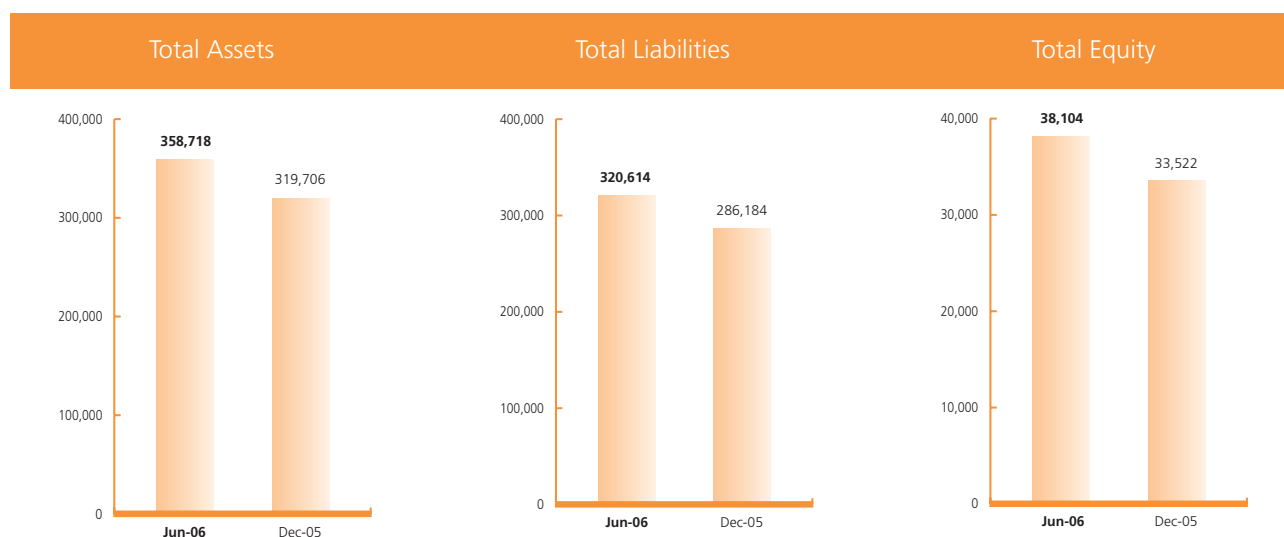
For the six months ended June 30, (in RMB million)

	2006	2005
Total Revenue	43,739	32,603
Net Profit	4,162	2,250

### PER ORDINARY SHARE

For the six months ended June 30, (in RMB)

	2006	2005
Basic Earnings	0.66	0.36



### BALANCE SHEET

(in RMB million)

	As at June 30, 2006	As at December 31, 2005
Total Assets	358,718	319,706
Total Liabilities	320,614	286,184
Total Equity	38,104	33,522

## CHAIRMAN'S STATEMENT

The year 2006 is the first year under the PRC's eleventh "Five-Year Plan". The PRC economy sustained steady growth while reform in the financial sector progressed successfully. All these provided a favorable environment for the development of the insurance industry as a whole. This, together with the full support of our shareholders and staff, enabled the Group to maintain its growth momentum and fulfill our business targets during the period.

### REVIEW OF THE FIRST HALF YEAR

#### **New record in operating results**

As at June 30, 2006, the total assets of the Group was RMB358,718 million, representing an increase of 12.2% from December 31, 2005. Net profit for the six months ended June 30, 2006 was RMB4,162 million, representing a significant increase of 85.0% over RMB2,250 million for the same period last year. Total assets and net profit both reached historical records.

#### **Steady growth in core business**

Our core insurance business continued to grow at a strong pace. Gross written premiums, policy fees and premium deposits increased 26.5% to RMB45,571 million over the same period last year. Total premiums from life insurance was RMB37,182 million, representing an increase of 25.0%. Total premiums from property and casualty insurance was RMB8,389 million, representing an increase of 33.4%. We continued to improve our life insurance portfolio mix during the period. As a result, the more profitable individual life insurance business accounted for 79.4% of total life premiums. For our property and casualty business, premiums from automobile insurance, non-automobile insurance and accident and health insurance were 65.3%, 29.7% and 5.0% respectively. Meanwhile, our service quality remained at a respectable level. Individual life business 13-month persistency ratio improved to 88.6% and the combined ratio of our property and casualty business improved to 94.8%.

#### **Strong investment performance**

Riding on the recovery of the PRC stock market in the first half of the year, the Group achieved respectable investment return. Total investment income and total investment yield improved to RMB9,654 million and 5.8% respectively. Another very positive movement was that the new investment channel in infrastructure projects has been approved by the China Insurance Regulatory Commission ("CIRC"). The Group is working hard to capitalize on this opportunity. In addition, the incorporation in Hong Kong of China Ping An Asset Management (Hong Kong) Company Limited, a part of the Group's global investment platform, was approved by the CIRC, signifying an important step towards global asset allocation.

#### **Strong momentum in other business development**

Apart from the excellent performance from our core insurance businesses, other businesses also reaped positive results during the first six months. Due to the strong stock market performance, Ping An Securities achieved a net profit of RMB174 million through the increase in revenue from brokerage fees and investment banking services. We were also awarded the qualification, by the China Securities Regulatory Commission, to launch innovative products and services. Ping An Trust also issued new trust schemes and completed investment in various projects. Both financing and investment capacity were substantially enhanced as compared with the same period last year. Further, Ping An Bank obtained an approval from the China Banking Regulatory Commission ("CBRC") to provide Renminbi services to corporate customers in June 2006. Its number of customers, deposits, and outstanding loans also increased substantially as compared to the same period last year.



## CHAIRMAN'S STATEMENT

### **Nation-wide back-office operating centre and Ping An School of Financial Services in operation**

The Group's nation-wide back-office operating centre in Shanghai has commenced operation and approximately 1,500 staff have moved in. Centralization of our life insurance underwriting and claims functions was completed and is operating smoothly. Ping An School of Financial Services also began its operation in the first half of 2006 and conducted dozens of seminars for the CIRC and the Group. More than 100 training courses were held during the first six months. The school received wide recognition for both its faculty expertise and modern facilities.

### **PROSPECT FOR THE SECOND HALF OF 2006**

In June 2006, the State Council issued "Several Opinions on the Reform and Development of the Insurance Industry" which entailed a number of measures to support the development of the insurance industry. In particular, it emphasized on the "support for qualified insurance companies in conducting restructurings, mergers and acquisitions" as well as "promoting the steady trial of integrated financial services for insurance companies". This expands the investment channels for insurance funds and provides enormous support for the future development of the Group. We believe that the gradual implementation of these policies will create a more liberal and favorable operating environment for the insurance industry and we will surely benefit from this.

In the second half of 2006, the Group will adhere to its strategy and continue to focus on business quality, profits, legal compliance and attaining new heights. In respect of our core insurance business, we will continue to strengthen our competitive edge in major cities and to enhance our effort in exploring new potential markets, thus building a stronger foothold for our future growth. In respect of investment, we will execute our investment in infrastructure projects and actively set up strategies and channels for overseas investment. In respect of other business, we will accelerate our cross-selling by leveraging the Group's customer bases and business platform. In respect of our nation-wide back-office operating centre, we will make all necessary arrangement and deployment to ensure the smooth migration of our staff to the new site by the end of this year as planned.

We are confident that, with the joint efforts of our staff, we will fulfill our targets successfully and deliver excellent results to our shareholders.

**Ma Mingzhe**

*Chairman and Chief Executive Officer*

August 15, 2006

## MANAGEMENT DISCUSSION AND ANALYSIS

### GROUP'S CONSOLIDATED PERFORMANCE

The following is a summary of the consolidated results of the Group:

<b>For the six months ended June 30, (in RMB million)</b>	<b>2006</b>	2005
Total revenue	<b>43,739</b>	32,603
Total claims, policyholder benefits and expenses	<b>(39,021)</b>	(29,930)
Operating profit	<b>4,718</b>	2,673
Net profit	<b>4,162</b>	2,250

The following table sets forth the breakdown of our net profit by business segment:

<b>For the six months ended June 30, (in RMB million)</b>	<b>2006</b>	2005
Life insurance	<b>3,523</b>	1,868
Property and casualty insurance	<b>317</b>	142
Other businesses	<b>322</b>	240
Net profit	<b>4,162</b>	2,250

Consolidated net profit increased 85.0% to RMB4,162 million in the six months ended June 30, 2006 from RMB2,250 million in the same period in 2005. This increase was primarily due to the better performance in our core life insurance and property and casualty insurance businesses, and the strong total investment returns.

Our core life insurance business and property and casualty insurance business, accounted for approximately 84.6% and 7.6%, respectively, of our net profit.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Consolidated investment income

<b>For the six months ended June 30, (in RMB million, except percentages)</b>	<b>2006</b>	2005
Net investment income	<b>5,783</b>	4,481
Net realized and unrealized gains	<b>3,871</b>	19
Total investment income	<b>9,654</b>	4,500
Net investment yield <sup>(1)</sup>	<b>4.2%</b>	4.1%
Total investment yield <sup>(1)</sup>	<b>5.8%</b>	4.1%

<sup>(1)</sup> Lease income from investment properties and foreign currency gains/losses on investment assets denominated in foreign currencies are excluded in the calculation of the above yields.

Our net investment income increased 29.1% to RMB5,783 million in the six months ended June 30, 2006 from RMB4,481 million in the same period in 2005. This increase was primarily due to the increase in our investment assets to RMB269,596 million as at June 30, 2006 from RMB219,666 million as at June 30, 2005. Net investment yield increased to 4.2% in the six months ended June 30, 2006 from 4.1% in the same period in 2005. This increase was primarily due to the higher dividend income received from our equity investment funds.

Our total investment income increased significantly to RMB9,654 million in the six months ended June 30, 2006 from RMB4,500 million in the same period in 2005. Total investment yield increased to 5.8% in the six months ended June 30, 2006 from 4.1% in the same period in 2005. These increases were primarily due to the strong performance in the PRC equity markets. As a result, the net realized and unrealized gains increased significantly to RMB3,871 million in the six months ended June 30, 2006 from RMB19 million in the same period in 2005.

We continued to improve the asset allocation of our portfolio in response to the changes in the capital markets. As a result, our equity investment as a percentage of our total investment assets increased to 10.1% as at June 30, 2006 from 6.2% as at December 31, 2005.

The following table presents our investment portfolio allocations among the major categories of our investments:

(in RMB million, except percentages)	As at June 30, 2006		As at December 31, 2005	
	Carrying value	% of total	Carrying value	% of total
Fixed maturity investments				
Term deposits	67,962	25.2%	68,959	27.9%
Bond investments <sup>(1)</sup>	170,442	63.2%	159,776	64.8%
Other fixed maturity investments	2,966	1.1%	1,526	0.6%
Equity investments <sup>(2)</sup>	27,079	10.1%	15,244	6.2%
Investment properties	1,147	0.4%	1,243	0.5%
<b>Total investments</b>	<b>269,596</b>	<b>100.0%</b>	<b>246,748</b>	<b>100.0%</b>

<sup>(1)</sup> Bond investments include the carrying value of derivatives embedded with the host contracts.

<sup>(2)</sup> Equity investments include equity investment funds, equity securities and investment in an associate.

### Foreign currency gains/(losses)

In the first half of 2006, the PRC currency, Renminbi, appreciated against other major currencies. As a result, we experienced a net exchange loss of RMB130 million in the six months ended June 30, 2006.



## MANAGEMENT DISCUSSION AND ANALYSIS

### LIFE INSURANCE BUSINESS

The following is a summary of the operation data of our life insurance business:

	As at June 30, 2006	As at December 31, 2005
Market share of gross written premiums, policy fees and premium deposits <sup>(1)</sup>	<b>16.6%</b>	16.1%
Number of customers:		
Individual (in thousands)	<b>31,043</b>	30,312
Corporate (in thousands)	<b>284</b>	267
Total (in thousands)	<b>31,327</b>	30,579
Persistency ratio:		
13-month	<b>88.6%</b>	85.9%
25-month	<b>80.0%</b>	81.9%

<sup>(1)</sup> Based on our PRC GAAP financial data and the PRC insurance industry data calculated in accordance with the PRC GAAP and published by the National Bureau of Statistics of China.  
Market share as at June 30, 2006 was computed based on gross written premiums, policy fees and premium deposits accumulated over a period of six months.  
Market share as at December 31, 2005 was computed based on gross written premiums, policy fees and premium deposits accumulated over a period of one year.

We are the second largest life insurance company in the PRC in terms of gross written premiums, policy fees and premium deposits. For the six months ended June 30, 2006, our life insurance business accounted for approximately 16.6% of the gross written premiums, policy fees and premium deposits received by the PRC life insurance companies, based on our PRC GAAP financial data and the PRC insurance industry data calculated in accordance with the PRC GAAP.

Through the continued refinement of our sales agents training system, we enhanced the productivity and professionalism of our sales agents. We have also continued our efforts in enhancing customer service. As a result, the 13-month and 25-month persistency ratios for our individual life insurance customers maintained at a respectable level of above 85.0% and 80.0%, respectively, as at June 30, 2006.

## Results of operations

The following is a summary of the results of our life insurance business:

<b>For the six months ended June 30, (in RMB million)</b>	<b>2006</b>	2005
Gross written premiums, policy fees and premium deposits	<b>37,182</b>	29,747
Less: Premium deposits	<b>(8,085)</b>	(5,488)
Gross written premiums and policy fees	<b>29,097</b>	24,259
Net earned premiums	<b>28,266</b>	23,516
Investment income	<b>8,744</b>	3,966
Foreign currency losses, net	<b>(114)</b>	–
Other income	<b>396</b>	295
Total revenue	<b>37,292</b>	27,777
Change in deferred policy acquisition costs	<b>2,408</b>	1,565
Increase in policyholder reserves	<b>(21,891)</b>	(14,739)
Claims and policyholder benefits	<b>(8,520)</b>	(8,011)
Commission expenses	<b>(3,272)</b>	(2,465)
Changes in fair value of derivative financial liabilities	<b>34</b>	(137)
General, administrative and other expenses	<b>(2,296)</b>	(1,911)
Total expenses	<b>(33,537)</b>	(25,698)
Income taxes	<b>(232)</b>	(211)
Net profit	<b>3,523</b>	1,868

## MANAGEMENT DISCUSSION AND ANALYSIS

### Gross written premiums, policy fees and premium deposits

For the six months ended June 30, 2006 (in RMB million)	Premiums and policy fees	Premium deposits	Total
<b>Individual life</b>			
New business			
First year regular premiums	3,983	1,247	5,230
First year single premiums	18	–	18
Short term accident and health premiums	1,519	–	1,519
Total new business	5,520	1,247	6,767
Renewal business	19,166	3,577	22,743
Total individual life	24,686	4,824	29,510
<b>Bancassurance</b>			
New business			
First year regular premiums	12	–	12
First year single premiums	341	3,066	3,407
Short term accident and health premiums	1	–	1
Total new business	354	3,066	3,420
Renewal business	125	4	129
Total bancassurance	479	3,070	3,549
<b>Group insurance</b>			
New business			
First year regular premiums	–	–	–
First year single premiums	2,452	191	2,643
Short term accident and health premiums	1,239	–	1,239
Total new business	3,691	191	3,882
Renewal business	241	–	241
Total group insurance	3,932	191	4,123
<b>Total life insurance</b>	<b>29,097</b>	<b>8,085</b>	<b>37,182</b>

For the six months ended June 30, 2005 (in RMB million)	Premiums and policy fees	Premium deposits	Total
<b>Individual life</b>			
New business			
First year regular premiums	2,752	2,094	4,846
First year single premiums	22	–	22
Short term accident and health premiums	1,311	–	1,311
Total new business	4,085	2,094	6,179
Renewal business	15,536	1,726	17,262
Total individual life	19,621	3,820	23,441
<b>Bancassurance</b>			
New business			
First year regular premiums	21	5	26
First year single premiums	587	1,466	2,053
Short term accident and health premiums	1	–	1
Total new business	609	1,471	2,080
Renewal business	112	–	112
Total bancassurance	721	1,471	2,192
<b>Group insurance</b>			
New business			
First year regular premiums	1	–	1
First year single premiums	2,583	197	2,780
Short term accident and health premiums	1,092	–	1,092
Total new business	3,676	197	3,873
Renewal business	241	–	241
Total group insurance	3,917	197	4,114
<b>Total life insurance</b>	<b>24,259</b>	<b>5,488</b>	<b>29,747</b>

*Individual Life Business.* Gross written premiums, policy fees and premium deposits for our individual life business increased 25.9% to RMB29,510 million in the six months ended June 30, 2006 from RMB23,441 million in the same period in 2005. This increase was primarily due to the 31.8% increase in renewal premiums, policy fees and premium deposits to RMB22,743 million in the six months ended June 30, 2006 from RMB17,262 million in the same period in 2005. In addition, first year premiums, policy fees and premium deposits for our individual life business increased 9.5% to RMB6,767 million in the six months ended June 30, 2006 from RMB6,179 million in the same period in 2005. These increases were primarily due to the continued improvement in the quality and productivity of our agency force.

## MANAGEMENT DISCUSSION AND ANALYSIS

*Bancassurance Business.* Gross written premiums, policy fees and premium deposits for our bancassurance business increased 61.9% to RMB3,549 million in the six months ended June 30, 2006 from RMB2,192 million in the same period in 2005. This increase was primarily due to the growth in sales of our universal life products through our bancassurance channel.

*Group Insurance Business.* Gross written premiums, policy fees and premium deposits for our group insurance business increased 0.2% to RMB4,123 million in the six months ended June 30, 2006 from RMB4,114 million in the same period in 2005. This increase was primarily due to our continued efforts to manage the growth of this business line to improve profit margin. We continued to focus on selling employer welfare benefit plans. As a result, gross written premiums and policy fees for our short-term accident and health insurance business increased 13.5% to RMB1,239 million in the six months ended June 30, 2006 from RMB1,092 million in the same period in 2005.

### Investment income

Net investment income for our life insurance business increased 31.2% to RMB5,211 million in the six months ended June 30, 2006 from RMB3,971 million in the same period in 2005. This increase was primarily due to the increase in investment assets to RMB235,534 million as at June 30, 2006 from RMB197,304 million as at June 30, 2005. Net investment yield for our life insurance business increased to 4.3% in the six months ended June 30, 2006 from 4.2% in the same period in 2005.

Total investment income for our life insurance business increased significantly to RMB8,744 million in the six months ended June 30, 2006 from RMB3,966 million in the same period in 2005. Total investment yield for our life insurance business increased to 5.9% in the six months ended June 30, 2006 from 4.2% in the same period in 2005.

<b>For the six months ended June 30, (in RMB million, except percentages)</b>	<b>2006</b>	2005
Net investment income	<b>5,211</b>	3,971
Net investment yield <sup>(1)</sup>	<b>4.3%</b>	4.2%
Total investment income	<b>8,744</b>	3,966
Total investment yield <sup>(1)</sup>	<b>5.9%</b>	4.2%

<sup>(1)</sup> Lease income from investment properties and foreign currency gains/losses on investment assets denominated in foreign currencies are excluded in the calculation of the above yields.

### Change in deferred policy acquisition costs

The change in deferred policy acquisition costs was RMB2,408 million in the six months ended June 30, 2006 as compared to RMB1,565 million in the same period in 2005. The bigger change in deferred policy acquisition costs was primarily due to the increase in first year premiums, policy fees and premium deposits from individual life business.

### Increase in policyholder reserves

The increase in policyholder reserves was RMB21,891 million in the six months ended June 30, 2006 as compared to RMB14,739 million in the same period in 2005. The bigger increase in policyholder reserves was primarily due to the increase in gross written premiums, policy fees and premium deposits.

### Claims and policyholder benefits

Claims and policyholder benefits increased 6.4% to RMB8,520 million in the six months ended June 30, 2006 from RMB8,011 million in the same period in 2005. Claims and policyholder benefits as a percentage of gross written premiums, policy fees and premium deposits decreased to 22.9% in the six months ended June 30, 2006 from 26.9% in the same period in 2005.

The following table summarizes total expenses pursuant to claims, surrenders, annuities, maturities and survival benefits, policyholder dividends and provisions, and interest credited to policyholder contract deposits.

For the six months ended June 30, (in RMB million)	2006	2005
Claims	1,516	1,061
Surrenders	2,689	2,629
Annuities	1,293	1,220
Maturities and survival benefits	1,094	2,449
Policyholder dividends and provisions	1,714	599
Interest credited to policyholder contract deposits	214	53
Total claims and policyholder benefits	8,520	8,011

Payments for claims increased 42.9% to RMB1,516 million in the six months ended June 30, 2006 from RMB1,061 million in the same period in 2005. This increase was primarily due to the higher claims expense incurred for our short term accident and health products.

Payments for maturities and survival benefits decreased 55.3% to RMB1,094 million in the six months ended June 30, 2006 from RMB2,449 million in the same period in 2005. This decrease was primarily due to the lower maturities and survival benefits paid out for certain periodical endowment products as compared to 2005.

Payments for policyholder dividends and provisions increased significantly to RMB1,714 million in the six months ended June 30, 2006 from RMB599 million in the same period in 2005. This increase was primarily due to the higher dividend distribution as a result of better performance in investments for our participating products.

Payments for interest credited to policyholder contract deposits increased significantly to RMB214 million in the six months ended June 30, 2006 from RMB53 million in the same period in 2005. This increase was primarily due to the increase in sales of universal life policies and better investment performance.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Commission Expenses

For the six months ended June 30,	2006	2005
Commission expenses as a percentage of gross written premiums, policy fees and premium deposits	<b>8.8%</b>	8.3%

Commission expenses, which we paid primarily to our sales agents, increased 32.7% to RMB3,272 million in the six months ended June 30, 2006 from RMB2,465 million in the same period in 2005. Commission expenses as a percentage of gross written premiums, policy fees, and premium deposits increased to 8.8% in the six months ended June 30, 2006 from 8.3% in the same period in 2005. These increases were primarily due to the increase in first year premiums, policy fees and premium deposits from individual life products.

### General, Administrative and Other Expenses

For the six months ended June 30,	2006	2005
General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits	<b>6.2%</b>	6.4%

General, administrative and other expenses increased 20.1% to RMB2,296 million in the six months ended June 30, 2006 from RMB1,911 million in the same period in 2005. This increase was primarily due to the increase in sales of first year premiums, policy fees and premium deposits. General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits decreased to 6.2% in the six months ended June 30, 2006 from 6.4% in the same period in 2005. This decrease was primarily due to our continuous cost control initiatives.

### Income taxes

For the six months ended June 30,	2006	2005
Effective tax rate	<b>6.2%</b>	10.1%

Income taxes increased 10.0% to RMB232 million in the six months ended June 30, 2006 from RMB211 million in the same period in 2005. The effective tax rate decreased to 6.2% in the six months ended June 30, 2006 from 10.1% in the same period in 2005. This decrease was primarily due to the tax incentives for salary expense deduction approved by the tax authorities and the increase in interest income from government bonds and dividend income from equity investment funds, which were both entitled to certain tax exemptions.

### Net profit

As a result of the foregoing, net profit for our life insurance business increased 88.6% to RMB3,523 million in the six months ended June 30, 2006 from RMB1,868 million in the same period in 2005.

## PROPERTY AND CASUALTY INSURANCE BUSINESS

The following is a summary of the operation data of our property and casualty insurance business:

	<b>As at June 30, 2006</b>	As at December 31, 2005
Market share of gross written premiums <sup>(1)</sup>	<b>10.7%</b>	9.9%
Number of customers:		
Individual (in thousands)	<b>6,851</b>	6,006
Corporate (in thousands)	<b>1,748</b>	1,680
Total (in thousands)	<b>8,599</b>	7,686
	<b>For the six months ended June 30, 2006</b>	For the year ended December 31, 2005
Combined ratio:		
Expense ratio	<b>23.4%</b>	23.3%
Loss ratio	<b>71.4%</b>	72.0%
Combined ratio	<b>94.8%</b>	95.3%

<sup>(1)</sup> Based on our PRC GAAP financial data and the PRC insurance industry data calculated in accordance with the PRC GAAP and published by the National Bureau of Statistics of China.

Market share as at June 30, 2006 was computed based on gross written premiums accumulated over a period of six months.

Market share as at December 31, 2005 was computed based on gross written premiums accumulated over a period of one year.

We are the third largest property and casualty insurance company in the PRC in terms of gross written premiums. For the six months ended June 30, 2006, our property and casualty insurance business accounted for approximately 10.7% of the gross written premiums received by the PRC property and casualty insurance companies, based on our PRC GAAP financial data and the PRC insurance industry data calculated in accordance with the PRC GAAP.

We continued to focus on disciplined underwriting and service enhancement. This strategy has enabled us to improve our underwriting results consistently. As a result, our combined ratio improved to 94.8% in the six months ended June 30, 2006 from 95.3% in the full year of 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results of operations

The following is a summary of the results of our property and casualty insurance business:

<b>For the six months ended June 30, (in RMB million)</b>	<b>2006</b>	2005
Gross written premiums	<b>8,389</b>	6,290
Net earned premiums	<b>4,490</b>	3,430
Investment income	<b>312</b>	174
Foreign currency losses, net	<b>(8)</b>	–
Other income	<b>783</b>	695
Total revenue	<b>5,577</b>	4,299
Change in deferred policy acquisition costs	<b>203</b>	169
Claims expenses	<b>(3,208)</b>	(2,612)
Commission expenses	<b>(675)</b>	(439)
General, administrative and other expenses	<b>(1,333)</b>	(1,099)
Total expenses	<b>(5,013)</b>	(3,981)
Income taxes	<b>(247)</b>	(176)
Net profit	<b>317</b>	142

### Gross written premiums

<b>For the six months ended June 30, (in RMB million)</b>	<b>2006</b>	2005
Automobile insurance	<b>5,482</b>	3,720
Non-automobile insurance	<b>2,490</b>	2,321
Accident and health insurance	<b>417</b>	249
Total gross written premiums	<b>8,389</b>	6,290

Gross written premiums increased 33.4% to RMB8,389 million in the six months ended June 30, 2006 from RMB6,290 million in the same period in 2005. This increase in gross written premiums was primarily due to the significant growth in all three principal lines of our property and casualty insurance businesses.

*Automobile Insurance Business.* Gross written premiums attributable to our automobile insurance business increased 47.4% to RMB5,482 million in the six months ended June 30, 2006 from RMB3,720 million in the same period in 2005. This increase was primarily due to the continued increase in demand for automobiles in the PRC and the implementation of compulsory third party liability insurance.

*Non-automobile Insurance Business.* Gross written premiums attributable to our non-automobile insurance business increased 7.3% to RMB2,490 million in the six months ended June 30, 2006 from RMB2,321 million in the same period in 2005. This increase was primarily due to the increase in sales of commercial property insurance and liability insurance. Gross written premiums attributable to our commercial property insurance increased 19.2% to RMB1,203 million in the six months ended June 30, 2006 from RMB1,009 million in the same period in 2005. Gross written premiums attributable to our liability insurance increased 46.3% to RMB376 million in the six months ended June 30, 2006 from RMB257 million in the same period in 2005.

*Accident and Health Insurance Business.* Gross written premiums attributable to our accident and health insurance business increased 67.5% to RMB417 million in the six months ended June 30, 2006 from RMB249 million in the same period in 2005. This increase was primarily due to our continued focus on growing this line of business in the first half of 2006.

### Investment income

Net investment income for our property and casualty insurance business increased 20.9% to RMB220 million in the six months ended June 30, 2006 from RMB182 million in the same period in 2005. This increase was primarily due to the increase in investment assets to RMB11,074 million as at June 30, 2006 from RMB8,970 million as at June 30, 2005. Net investment yield for our property and casualty insurance business increased to 4.3% in the six months ended June 30, 2006 from 4.2% in the same period in 2005.

Total investment income for our property and casualty insurance business increased 79.3% to RMB312 million in the six months ended June 30, 2006 from RMB174 million in the same period in 2005. Our total investment yield for our property and casualty insurance business increased to 5.2% in the six months ended June 30, 2006 from 4.1% in the same period in 2005.

#### For the six months ended June 30, (in RMB million, except percentages)

	2006	2005
Net investment income	220	182
Net investment yield <sup>(1)</sup>	4.3%	4.2%
Total investment income	312	174
Total investment yield <sup>(1)</sup>	5.2%	4.1%

<sup>(1)</sup> Lease income from investment properties and foreign currency gains/losses on investment assets denominated in foreign currencies are excluded in the calculation of the above yields.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Change in deferred policy acquisition costs

The change in deferred policy acquisition costs was RMB203 million in the six months ended June 30, 2006 as compared to RMB169 million in the same period in 2005. The bigger change in deferred policy acquisition costs was primarily due to the increase in gross written premiums.

### Claims

For the six months ended June 30, (in RMB million)	2006	2005
Automobile insurance	2,527	1,943
Non-automobile insurance	528	556
Accident and health insurance	153	113
Total claims	3,208	2,612

Total claims increased 22.8% to RMB3,208 million in the six months ended June 30, 2006 from RMB2,612 million in the same period in 2005.

Claims attributable to our automobile insurance business increased 30.1% to RMB2,527 million in the six months ended June 30, 2006 from RMB1,943 million in the same period in 2005. This increase was due to the increase in gross written premiums of our automobile insurance business.

Claims attributable to our non-automobile insurance business decreased 5.0% to RMB528 million in the six months ended June 30, 2006 from RMB556 million in the same period in 2005. This decrease was primarily due to the lower claims expense incurred from our motor loan guarantees insurance business.

Claims attributable to our accident and health insurance business increased 35.4% to RMB153 million in the six months ended June 30, 2006 from RMB113 million in the same period in 2005. This increase was primarily due to the increase in gross written premiums of our accident and health insurance business.

### Commission expenses

For the six months ended June 30,	2006	2005
Commission expenses as a percentage of gross written premiums	8.0%	7.0%

Commission expenses increased 53.8% to RMB675 million in the six months ended June 30, 2006 from RMB439 million in the same period in 2005. As a percentage of gross written premiums, commission expenses increased to 8.0% in the six months ended June 30, 2006 from 7.0% in the same period in 2005. These increases were primarily due to the increase in gross written premiums and the higher market commission rates resulting from increased competition in the property and casualty insurance industry.

### General, administrative and other expenses

For the six months ended June 30,	2006	2005
General, administrative and other expenses as a percentage of gross written premiums	15.9%	17.5%

General, administrative and other expenses increased 21.3% to RMB1,333 million in the six months ended June 30, 2006 from RMB1,099 million in the same period in 2005. This increase was primarily due to the increase in gross written premiums. General, administrative and other expenses as a percentage of gross written premiums decreased to 15.9% in the six months ended June 30, 2006 from 17.5% in the same period in 2005. This decrease was primarily due to our continuous cost control initiatives.

### Income taxes

For the six months ended June 30,	2006	2005
Effective tax rate	43.8%	55.3%

Income taxes increased 40.3% to RMB247 million in the six months ended June 30, 2006 from RMB176 million in the same period in 2005. The effective tax rate decreased to 43.8% in the six months ended June 30, 2006 from 55.3% in the same period in 2005. This decrease was primarily due to the tax incentives for salary expense deduction approved by the tax authorities and the increase in interest income from government bonds and dividend income from equity investment funds, which were both entitled to certain tax exemptions.

### Net profit

As a result of the foregoing, net profit from our property and casualty insurance business increased significantly to RMB317 million in the six months ended June 30, 2006 from RMB142 million in the same period in 2005.

## TRUST BUSINESS

For the six months ended June 30, (in RMB million)	2006	2005
Total revenue <sup>(1)</sup>	140	68
Net profit <sup>(1)</sup>	61	38

(1) Total revenue and net profit are presented at company's level, where interests in subsidiaries are accounted for at cost.

Total revenue from our trust business increased significantly to RMB140 million in the six months ended June 30, 2006 from RMB68 million in the same period in 2005. Net profit from our trust business increased 60.5% to RMB61 million in the six months ended June 30, 2006 from RMB38 million in the same period in 2005. These increases were primarily due to the increase in assets held under its management.



## MANAGEMENT DISCUSSION AND ANALYSIS

### SECURITIES BUSINESS

For the six months ended June 30, (in RMB million)	2006	2005
Total revenue	345	84
Net profit/(loss)	174	(29)

Total revenue from our securities business increased significantly to RMB345 million in the six months ended June 30, 2006 from RMB84 million in the same period in 2005. Net profit from our securities business was RMB174 million in the six months ended June 30, 2006 as compared to net loss of RMB29 million in the same period in 2005. These improvements were primarily due to the increase in revenue from securities trading business and investment banking services as a result of better performance in the PRC equity markets.

### BANK BUSINESS

For the six months ended June 30, (in RMB million)	2006	2005
Total revenue	11	10
Net profit	1	5

Total revenue from our bank business increased to RMB11 million in the six months ended June 30, 2006 from RMB10 million in the same period in 2005. Net profit from our bank business decreased to RMB1 million in the six months ended June 30, 2006 from RMB5 million in the same period in 2005. This decrease is mainly due to higher expense incurred from our preparation for the launches of Renminbi (“RMB”) products. Ping An Bank obtained an approval from the CBRC to provide Renminbi services to corporate customers in June 2006. We expect to launch RMB products by the end of 2006.

### OTHER BUSINESS

Our annuity business, health insurance business and asset management business were launched in 2005 but the scale of operation is still relatively small. The total revenue and net profit of these companies were considerably immaterial as compared to the entire Group.

### LIQUIDITY AND FINANCIAL RESOURCES

Liquidity and financial resources are managed at the Group level on a consolidated basis. We are a holding company and, with the exception of investment management activities, do not conduct any significant business operations on our own. As a result, we depend upon dividends and distributions from our operating subsidiaries for substantially all of our operating cash flows.

In addition to cash and cash equivalents held by the Group, we have two additional sources of liquidity. They are liquid investments held for trading and short-term borrowings.

Liquid investments held for trading are listed or are traded in an active market and can be converted to cash easily without incurring significant charges.

The following table summarizes the carrying amount of liquid assets held by the Group:

(in RMB million)	As at June 30, 2006	As at December 31, 2005
Cash and cash equivalents	22,359	17,636
Held-for-trading investments	21,248	9,410
Total liquid assets	43,607	27,046

The Group utilizes short term borrowing and securities sold under agreements to repurchase as part of the liquidity management for our daily operations. The following table summarizes the carrying amount of these arrangements:

(in RMB million)	As at June 30, 2006	As at December 31, 2005
Short term borrowing	1,015	–
Securities sold under agreements to repurchase	1,056	7,095

The management believes that the liquid assets currently held, together with net cash generated from future operations, and the availability of short term borrowing, will enable the Group to meet its foreseeable cash requirements.

## CAPITAL STRUCTURE

Total equity increased to RMB38,104 million as at June 30, 2006 from RMB33,522 million as at December 31, 2005. This increase was primarily due to our operating profit in the first half of 2006.

The Group does not utilize any form of debt arrangement to finance its capital structure.

The Group had no material charges on its group assets.

### Gearing ratio

	As at June 30, 2006	As at December 31, 2005
Gearing ratio	89.5%	89.7%

The gearing ratio is computed by dividing the sum of total liabilities and minority interests by total assets.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Contractual obligations and other commercial commitments

The following table sets forth our aggregate contractual obligations and other commercial commitments for the periods specified:

<b>(in RMB million)</b>	<b>As at June 30, 2006</b>	As at December 31, 2005
Contractual commitments	<b>575</b>	472
Operating lease commitments	<b>862</b>	850

### FOREIGN CURRENCY RISK

Foreign currency denominated investments and cash assets held by the Group are exposed to foreign currency risks. These assets include term deposits, cash and cash equivalents held in foreign currency that are considered as monetary assets. In addition to foreign currency denominated monetary assets, the Group's foreign currency denominated monetary liabilities are also exposed to fluctuations in exchange rates. These liabilities include foreign currency denominated claim reserves and payable to reinsurers. The exposures to fluctuations in exchange rates from monetary assets and monetary liabilities offset each other.

The Group uses sensitivity analysis to estimate its risk exposure. Foreign currency risk sensitivity is estimated by assuming a simultaneous and uniform 5% depreciation of all foreign currency denominated monetary assets and monetary liabilities against the Renminbi.

#### **As at June 30, 2006 (in RMB million)**

#### **Foreign currency risk**

Net exposure to fluctuations in exchange rates assuming a simultaneous and uniform 5% depreciation of all foreign currency denominated monetary assets and monetary liabilities against the Renminbi

**685**

## EMBEDDED VALUE

### INTRODUCTION

In order to provide investors with an additional tool to understand our economic value and business performance results, the Group has disclosed information regarding embedded value in this section. The embedded value represents the shareholders' adjusted net asset value plus the value of the Group's in-force life insurance business adjusted for the cost of regulatory solvency margin deployed to support this business. The embedded value excludes the value of future new business sales.

### COMPONENTS OF ECONOMIC VALUE

(in RMB million)	As at June 30, 2006	As at December 31, 2005
Adjusted net asset value	37,378	33,072
Value of in-force insurance business written prior to June 1999	(20,938)	(18,089)
Value of in-force insurance business written since June 1999	43,644	38,537
Cost of holding the required solvency margin	(5,599)	(5,157)
<b>Embedded Value</b>	<b>54,485</b>	48,363
Value of one year's new business	5,443	5,148
Cost of holding the required solvency margin	(569)	(609)
<b>Value of one year's new business after cost of solvency</b>	<b>4,874</b>	4,539

The adjusted net asset value is based on the audited shareholders net assets of the Group as measured on the PRC statutory basis. The values placed on certain assets have been adjusted to the market values. It should be noted that the adjusted net asset is for the whole Group, including Ping An Life and other business units, whilst the value of in-force insurance business and the value of one year's new business presented are in respect of Ping An Life only.

### KEY ASSUMPTIONS

The assumptions used in the embedded value calculation in the first half of 2006 have largely been the same as those used in 2005 year-end valuation. The Group has not changed the following key assumptions, namely: risk discount rate, investment returns, mortality rates, morbidity rates, expenses and policyholder dividends. The income tax rate has been assumed to be 15% due to the salary expense deduction quota approved by the government tax authority and the tax exemption treatment from government bond. Policy discontinuance rates for certain products have been updated to reflect the actual experience.

## EMBEDDED VALUE

### NEW BUSINESS VOLUMES AND BUSINESS MIX

The volume of new business sold during the past 12 months prior to June 30, 2006 has been modeled to calculate the value of one year's new business. The volume was RMB23,208 million in terms of first year premium. The mix of the new business measured by first year premium was:

	<b>Percentage</b>
<b>Individual life</b>	<b>43.1%</b>
Long-term business	41.0%
Short-term business	2.1%
<b>Group life</b>	<b>29.3%</b>
Long-term business	20.3%
Short-term business	9.0%
<b>Bancassurance</b>	<b>27.6%</b>
Long-term business	27.6%
<b>Total</b>	<b>100.0%</b>

## INDEPENDENT AUDITORS' REVIEW REPORT

To the board of directors

**Ping An Insurance (Group) Company of China, Ltd. (the "Company")**

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2006 set out on pages 26 to 50.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited requires the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

### REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended June 30, 2006.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong

August 15, 2006



## CONDENSED CONSOLIDATED INCOME STATEMENT

<b>For the six months ended June 30, (in RMB million)</b>	<i>Notes</i>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Gross written premiums and policy fees	5	<b>37,486</b>	30,549
Less: Premiums ceded to reinsurers		<b>(2,466)</b>	(2,311)
Net written premiums and policy fees		<b>35,020</b>	28,238
Increase in unearned premium reserves, net		<b>(2,264)</b>	(1,292)
Net earned premiums		<b>32,756</b>	26,946
Reinsurance commission income		<b>922</b>	772
Net investment income	6(1)	<b>5,783</b>	4,481
Realized gains/(losses)	6(2)	<b>2,090</b>	(190)
Unrealized gains	6(3)	<b>1,781</b>	209
Foreign currency losses, net		<b>(130)</b>	–
Other income	7	<b>537</b>	385
<b>Total revenue</b>		<b>43,739</b>	32,603
Change in deferred policy acquisition costs		<b>2,611</b>	1,734
Claims and policyholder benefits	8	<b>(11,728)</b>	(10,623)
Increase in policyholder reserves		<b>(21,891)</b>	(14,739)
Change in fair value of derivative financial liabilities		<b>86</b>	(137)
Commission expenses		<b>(3,933)</b>	(2,904)
General and administrative expenses		<b>(4,025)</b>	(3,155)
Provision for insurance guarantee fund		<b>(141)</b>	(106)
<b>Total expenses</b>		<b>(39,021)</b>	(29,930)
Operating profit	9	<b>4,718</b>	2,673
Income taxes	10	<b>(556)</b>	(423)
<b>Net profit</b>		<b>4,162</b>	2,250
<b>Attributable to:</b>			
– Equity holders of the parent		<b>4,099</b>	2,235
– Minority interests		<b>63</b>	15
		<b>4,162</b>	2,250
		<b>RMB</b>	RMB
<b>Earnings per share for net profit attributable to equity holders of the parent – basic</b>	12	<b>0.66</b>	0.36

The accompanying notes form an integral part of these condensed consolidated financial statements.

## CONDENSED CONSOLIDATED BALANCE SHEET

(in RMB million)	Notes	(Unaudited) As at June 30, 2006	(Audited) As at December 31, 2005
<b>ASSETS</b>			
Investments			
Fixed maturity investments			
Bonds	13, 20	170,366	159,749
Term deposits	20	67,962	68,959
Policy loans	20	1,077	864
Securities purchased under agreements to resell	20	260	–
Loans and advances to customers	20	1,629	662
Equity investments			
Equity investment funds	14	11,868	10,058
Equity securities	15	15,211	5,183
Derivative financial assets		76	27
Investment in an associate		–	3
Investment properties		1,147	1,243
<b>Total investments</b>		<b>269,596</b>	246,748
Cash and cash equivalents		22,359	17,636
Premium receivables		3,680	749
Interest receivables		1,503	438
Policyholder account assets in respect of insurance contracts		16,483	12,820
Policyholder account assets in respect of investment contracts		3,397	3,078
Reinsurance assets		5,267	4,889
Deferred policy acquisition costs	16	29,084	26,428
Property, plant and equipment		2,849	2,918
Construction-in-progress		1,090	620
Land use rights		946	955
Goodwill		327	327
Statutory deposits		1,240	1,240
Other assets		897	860
<b>Total assets</b>		<b>358,718</b>	319,706

The accompanying notes form an integral part of these condensed consolidated financial statements.

## CONDENSED CONSOLIDATED BALANCE SHEET

(in RMB million)	Notes	(Unaudited) As at June 30, 2006	(Audited) As at December 31, 2005
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to equity holders of the parent			
Share capital	17	6,195	6,195
Reserves		23,188	21,493
Retained profits		8,168	5,308
		<b>37,551</b>	32,996
Minority interests		553	526
		<b>38,104</b>	33,522
Liabilities			
Customer deposits	20	3,062	1,862
Securities sold under agreements to repurchase	20	1,056	7,095
Short term borrowing	20	1,015	–
Premiums received in advance		640	1,880
Commission payable		831	633
Due to reinsurers		1,017	533
Dividends payable to shareholders		82	76
Income tax payable		713	445
Insurance guarantee fund		83	60
Policyholder dividend payable and provisions		4,478	2,864
Insurance contract liabilities			
Policyholder reserves		246,241	223,538
Policyholder contract deposits		15,570	9,795
Policyholder account liabilities in respect of insurance contracts		16,483	12,820
Unearned premium reserves		13,687	11,048
Claim reserves		6,217	5,824
Annuity and other insurance balances payable		2,424	2,234
Investment contract liabilities			
Policyholder account liabilities in respect of investment contracts		3,397	3,078
Investment contract reserves		13	14
Derivative financial liabilities		171	133
Deferred income tax liabilities		589	49
Other liabilities		2,845	2,203
		<b>320,614</b>	286,184
<b>Total equity and liabilities</b>		<b>358,718</b>	319,706

The accompanying notes form an integral part of these condensed consolidated financial statements.

**MA Mingzhe**  
Director

**CHEUNG Chi Yan Louis**  
Director and Chief Financial Officer

**SUN Jianyi**  
Director

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2005

		Equity attributable to equity holders of the parent									
		Reserves									
(in RMB million)	Note	Share capital	Capital reserve	Revenue reserve fund	Common welfare fund	General reserve	Net unrealized gains/ (losses)	Foreign currency translation differences	Retained profits	Minority interests	Total
(Unaudited)											
As at January 1, 2005		6,195	14,835	4,409	616	395	(738)	-	2,485	430	28,627
Net profit for the six months ended June 30, 2005		-	-	-	-	-	-	-	2,235	15	2,250
Net gains on available-for-sale investments		-	-	-	-	-	755	-	-	7	762
Net gains on available-for-sale investments removed from equity and reported in net profit		-	-	-	-	-	(109)	-	-	(1)	(110)
Increase in capital of a subsidiary		-	-	-	-	-	-	-	-	22	22
Deferred tax recognized, net		-	-	-	-	-	(97)	-	-	(1)	(98)
Dividends declared	11(3)	-	-	-	-	-	-	-	(867)	-	(867)
As at June 30, 2005		6,195	14,835	4,409	616	395	(189)	-	3,853	472	30,586
Net profit for the six months ended December 31, 2005		-	-	-	-	-	-	-	1,991	24	2,015
Net gains on available-for-sale investments		-	-	-	-	-	963	-	-	11	974
Net losses on available-for-sale investments removed from equity and reported in net profit		-	-	-	-	-	100	-	-	1	101
Increase in capital of a subsidiary		-	-	-	-	-	-	-	-	24	24
Increase in general reserve		-	-	-	-	35	-	-	(35)	-	-
Deferred tax recognized, net		-	-	-	-	-	(159)	-	-	(2)	(161)
Currency translation adjustments		-	-	-	-	-	-	(13)	-	(4)	(17)
Appropriations to statutory reserves		-	-	334	167	-	-	-	(501)	-	-
As at December 31, 2005		6,195	14,835	4,743	783	430	715	(13)	5,308	526	33,522

The accompanying notes form an integral part of these condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2006

		Equity attributable to equity holders of the parent									
		Reserves							Retained profits	Minority interests	Total
(in RMB million)	Notes	Share capital	Capital reserve	Revenue reserve fund	Common welfare fund	General reserve	Net unrealized gains/ (losses)	Foreign currency translation differences			
(Unaudited)											
As at January 1, 2006		6,195	14,835	4,743	783	430	715	(13)	5,308	526	33,522
Net profit for the six months ended June 30, 2006		-	-	-	-	-	-	-	4,099	63	4,162
Net gains on available-for-sale investments		-	-	-	-	-	3,202	-	-	30	3,232
Net gains on available-for-sale investments removed from equity and reported in net profit		-	-	-	-	-	(1,204)	-	-	(12)	(1,216)
Deferred tax recognized, net		-	-	-	-	-	(300)	-	-	(3)	(303)
Dividends declared	11(1)	-	-	-	-	-	-	-	(1,239)	-	(1,239)
Transfer to revenue reserve fund	18	-	-	783	(783)	-	-	-	-	-	-
Currency translation adjustments		-	-	-	-	-	-	(3)	-	(1)	(4)
Dividends declared by subsidiaries		-	-	-	-	-	-	-	-	(50)	(50)
<b>As at June 30, 2006</b>		<b>6,195</b>	<b>14,835</b>	<b>5,526</b>	<b>-</b>	<b>430</b>	<b>2,413</b>	<b>(16)</b>	<b>8,168</b>	<b>553</b>	<b>38,104</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

<b>For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Net cash from operating activities	<b>23,722</b>	15,112
Net cash used in investing activities	<b>(18,601)</b>	(10,238)
Net cash used in financing activities	<b>(268)</b>	(770)
Net increase in cash and cash equivalents	<b>4,853</b>	4,104
Net foreign exchange differences	<b>(130)</b>	–
Cash and cash equivalents at beginning of period	<b>17,636</b>	15,254
Cash and cash equivalents at end of period	<b>22,359</b>	19,358

The accompanying notes form an integral part of these condensed consolidated financial statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2006

### 1. CORPORATE INFORMATION

Ping An Insurance (Group) Company of China, Ltd. (the "Company") was incorporated in Shenzhen, the People's Republic of China (the "PRC") on March 21, 1988. Its business scope includes investing in insurance enterprises, supervising and managing various domestic and overseas businesses of subsidiaries, and utilizing insurance funds. The Company and its subsidiaries (the "Group") are mainly engaged in the provision of life insurance, property and casualty insurance and other financial services.

The principal structure of the Group changed during the six months ended June 30, 2006 (the "Period") as follows:

- (1) On May 16, 2006, China Ping An Asset Management (Hong Kong) Company Limited was incorporated in Hong Kong.
- (2) On June 23, 2006, Ping An Bank Limited obtained an approval from the China Banking Regulatory Commission to provide Renminbi services to corporate customers.

### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and the disclosure requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these financial statements are consistent with those used in the audited annual financial statements for the year ended December 31, 2005, except as disclosed in note 3 below about changes and revisions in significant accounting policies following the adoption of certain revised International Financial Reporting Standards ("IFRSs"). These financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the audited annual financial statements for the year ended December 31, 2005.

### 3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has revised certain significant accounting policies following adoption of the following revised IFRSs which management considers to be most relevant to its current operations:

#### (1) IAS 39 Financial Instruments: Recognition and Measurement

##### *Fair Value Option*

Effective January 1, 2006, the Group has adopted IAS 39 amendment on fair value option. As a result, the Group has an option to designate a financial asset or financial liability at fair value through profit or loss when one of the following conditions is met:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about such group is provided internally on that basis to an entity's key management personnel.

During the Period, the Group did not opt to designate significant financial asset or liability at fair value through profit or loss.

#### (2) IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts

##### *Financial Guarantee Contracts*

Effective January 1, 2006, the Group has adopted IAS 39 and IFRS 4 amendments on financial guarantee contracts. Under the amended IAS 39, financial guarantee contracts are recognized initially at fair value and generally remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

Other than any financial guarantee contracts issued by the Group's banking operations which are accounted for under IAS 39, the Group has previously regarded certain contracts it issued with financial guarantee element as insurance contracts and has used accounting applicable to insurance contracts, and accordingly has elected to apply IFRS 4 to account for such contracts.

The above revised accounting policies have no significant impact on these financial statements, and the Group considers that the adoption of other new or revised IFRSs and related pronouncements effective in 2006 does not have significant impact on the Group's financial statements for 2006. Currently, the Group is assessing the impact of adopting new or revised IFRSs effective since 2007.

### 4. SEGMENT REPORTING

The Group's business segment information is currently divided into four business segments - life insurance business, property and casualty insurance business, corporate business and other business. Segment net profit represents revenue less expenses directly attributable to a segment and the relevant portion of enterprise revenue less expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2006

### 4. SEGMENT REPORTING (Continued)

The Group's revenue and net profit for the Period were mainly derived from the above activities in the PRC. Accordingly, no further segment analysis by geographical area is provided.

The segment analysis for the Period is as follows:

(in RMB million)	Life insurance (Unaudited)	Property and casualty insurance (Unaudited)	Corporate (Unaudited)	Others (Unaudited)	Elimination (Unaudited)	Total (Unaudited)
Gross written premiums and policy fees	29,097	8,389	-	-	-	37,486
Less: Premiums ceded to reinsurers	(358)	(2,108)	-	-	-	(2,466)
Increase in unearned premium reserves, net	(473)	(1,791)	-	-	-	(2,264)
Net earned premiums	28,266	4,490	-	-	-	32,756
Reinsurance commission income	167	755	-	-	-	922
Net investment income	5,211	220	254	98	-	5,783
Realized gains	1,876	68	26	120	-	2,090
Unrealized gains	1,657	24	69	31	-	1,781
Foreign currency losses, net	(114)	(8)	(5)	(3)	-	(130)
Other income	229	28	30	329	(79)	537
<b>Total revenue</b>	<b>37,292</b>	<b>5,577</b>	<b>374</b>	<b>575</b>	<b>(79)</b>	<b>43,739</b>
Change in deferred policy acquisition costs	2,408	203	-	-	-	2,611
Claims and policyholder benefits	(8,520)	(3,208)	-	-	-	(11,728)
Increase in policyholder reserves	(21,891)	-	-	-	-	(21,891)
Change in fair value of derivative financial liabilities	34	-	-	52	-	86
Commission expenses	(3,272)	(675)	-	-	14	(3,933)
General and administrative expenses	(2,222)	(1,266)	(268)	(334)	65	(4,025)
Provision for insurance guarantee fund	(74)	(67)	-	-	-	(141)
<b>Total expenses</b>	<b>(33,537)</b>	<b>(5,013)</b>	<b>(268)</b>	<b>(282)</b>	<b>79</b>	<b>(39,021)</b>
Operating profit	3,755	564	106	293	-	4,718
Income taxes	(232)	(247)	(38)	(39)	-	(556)
<b>Net profit</b>	<b>3,523</b>	<b>317</b>	<b>68</b>	<b>254</b>	<b>-</b>	<b>4,162</b>

#### 4. SEGMENT REPORTING (Continued)

The segment analysis for the six months ended June 30, 2005 is as follows:

(in RMB million)	Life insurance (Unaudited)	Property and casualty insurance (Unaudited)	Corporate (Unaudited)	Others (Unaudited)	Elimination (Unaudited)	Total (Unaudited)
Gross written premiums and policy fees	24,259	6,290	–	–	–	30,549
Less: Premiums ceded to reinsurers	(420)	(1,891)	–	–	–	(2,311)
Increase in unearned premium reserves, net	(323)	(969)	–	–	–	(1,292)
Net earned premiums	23,516	3,430	–	–	–	26,946
Reinsurance commission income	88	684	–	–	–	772
Net investment income	3,971	182	308	20	–	4,481
Realized gains/(losses)	(172)	(48)	8	22	–	(190)
Unrealized gains	167	40	–	2	–	209
Other income	207	11	67	133	(33)	385
<b>Total revenue</b>	<b>27,777</b>	<b>4,299</b>	<b>383</b>	<b>177</b>	<b>(33)</b>	<b>32,603</b>
Change in deferred policy acquisition costs	1,565	169	–	–	–	1,734
Claims and policyholder benefits	(8,011)	(2,612)	–	–	–	(10,623)
Increase in policyholder reserves	(14,739)	–	–	–	–	(14,739)
Change in fair value of derivative financial liabilities	(137)	–	–	–	–	(137)
Commission expenses	(2,465)	(439)	–	–	–	(2,904)
General and administrative expenses	(1,852)	(1,052)	(118)	(166)	33	(3,155)
Provision for insurance guarantee fund	(59)	(47)	–	–	–	(106)
<b>Total expenses</b>	<b>(25,698)</b>	<b>(3,981)</b>	<b>(118)</b>	<b>(166)</b>	<b>33</b>	<b>(29,930)</b>
Operating profit	2,079	318	265	11	–	2,673
Income taxes	(211)	(176)	(37)	1	–	(423)
<b>Net profit</b>	<b>1,868</b>	<b>142</b>	<b>228</b>	<b>12</b>	<b>–</b>	<b>2,250</b>

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### 5. GROSS WRITTEN PREMIUMS AND POLICY FEES

<b>(1) For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	<b>(Unaudited) 2005</b>
Gross written premiums, policy fees and premium deposits, as reported in accordance with PRC accounting standards	<b>46,191</b>	36,453
Less: Business tax and surcharges	<b>(620)</b>	(416)
Gross written premiums, policy fees and premium deposits (net of business tax and surcharges)	<b>45,571</b>	36,037
Less: Premium deposits allocated to policyholder accounts	<b>(2,048)</b>	(1,923)
Premium deposits allocated to policyholder contract deposits	<b>(6,037)</b>	(3,565)
Gross written premiums and policy fees	<b>37,486</b>	30,549
<b>(2) For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	<b>(Unaudited) 2005</b>
Long term life business gross written premiums and policy fees	<b>26,338</b>	21,876
Short term life business gross written premiums	<b>2,759</b>	2,383
Property and casualty business gross written premiums	<b>8,389</b>	6,290
Gross written premiums and policy fees	<b>37,486</b>	30,549
<b>(3) For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	<b>(Unaudited) 2005</b>
Life		
Individual life	<b>24,686</b>	19,621
Bancassurance	<b>479</b>	721
Group insurance	<b>3,932</b>	3,917
Total	<b>29,097</b>	24,259
Property and casualty		
Automobile insurance	<b>5,482</b>	3,720
Non-automobile insurance	<b>2,490</b>	2,321
Accident and health insurance	<b>417</b>	249
Total	<b>8,389</b>	6,290
Gross written premiums and policy fees	<b>37,486</b>	30,549

## 6. INVESTMENT INCOME

### (1) Net investment income

<b>For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Interest income from fixed maturity investments		
Bonds	<b>3,151</b>	2,506
Term deposits	<b>1,570</b>	1,810
Other loans and receivables	<b>66</b>	22
Dividend income from equity investments		
Equity investment funds	<b>763</b>	99
Equity securities	<b>205</b>	33
Operating lease income from investment properties	<b>58</b>	49
Interest expenses on securities sold under agreements to repurchase	<b>(30)</b>	(38)
<b>Total</b>	<b>5,783</b>	4,481
<b>Yield of net investment income (% per annum)</b>	<b>4.2</b>	4.1

Lease income from investment properties and foreign currency gains/losses on investment assets denominated in foreign currencies are excluded in the calculation of the above yield.

### (2) Realized gains/(losses)

<b>For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Fixed maturity investments	<b>163</b>	207
Equity investments	<b>1,788</b>	(397)
Derivative financial instruments	<b>139</b>	–
<b>Total</b>	<b>2,090</b>	(190)

### (3) Unrealized gains

<b>For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Fixed maturity investments	<b>31</b>	35
Equity investments	<b>1,680</b>	185
Derivative financial assets	<b>70</b>	(11)
<b>Total</b>	<b>1,781</b>	209

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2006

### 6. INVESTMENT INCOME (Continued)

#### (4) Total investment income

For the six months ended June 30, (in RMB million)	(Unaudited) 2006	(Unaudited) 2005
Net investment income	5,783	4,481
Realized gains/(losses)	2,090	(190)
Unrealized gains	1,781	209
<b>Total</b>	<b>9,654</b>	<b>4,500</b>
Estimated yield of total investment income (% per annum)	5.8	4.1

Lease income from investment properties and foreign currency gains/losses on investment assets denominated in foreign currencies are excluded in the calculation of the above yield.

### 7. OTHER INCOME

For the six months ended June 30, (in RMB million)	(Unaudited) 2006	(Unaudited) 2005
Securities brokerage commission	150	49
Investment-linked business administration fees	99	84
Securities underwriting commission	42	30
Interest income on due from banks	12	10
Income on cash equivalents	88	77
Others	146	135
<b>Total</b>	<b>537</b>	<b>385</b>

### 8. CLAIMS AND POLICYHOLDER BENEFITS

For the six months ended June 30, 2006 (in RMB million)	(Unaudited)		
	Gross	Recovered from reinsurers	Net
Claims and claim adjustment expenses	5,825	(1,101)	4,724
Surrenders	2,689	–	2,689
Annuities	1,293	–	1,293
Maturities and survival benefits	1,094	–	1,094
Policyholder dividends and provisions	1,714	–	1,714
Interest credited to policyholder contract deposits	214	–	214
<b>Total</b>	<b>12,829</b>	<b>(1,101)</b>	<b>11,728</b>

## 8. CLAIMS AND POLICYHOLDER BENEFITS (Continued)

For the six months ended June 30, 2005 (in RMB million)	(Unaudited)		Net
	Gross	Recovered from reinsurers	
Claims and claim adjustment expenses	4,421	(748)	3,673
Surrenders	2,629	–	2,629
Annuities	1,220	–	1,220
Maturities and survival benefits	2,449	–	2,449
Policyholder dividends and provisions	599	–	599
Interest credited to policyholder contract deposits	53	–	53
<b>Total</b>	<b>11,371</b>	<b>(748)</b>	<b>10,623</b>

## 9. OPERATING PROFIT

Operating profit is arrived at after charging the following items:

<b>For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Employee costs	<b>2,053</b>	1,515
Depreciation of investment properties	<b>32</b>	26
Depreciation of property, plant and equipment	<b>196</b>	162
Amortization of land use rights	<b>9</b>	12
Loss on disposal of property, plant and equipment and investment properties	<b>6</b>	–
Impairment losses for investment properties, property, plant and equipment, construction-in-progress and land use rights	<b>34</b>	39
Provision for doubtful debts, net	<b>11</b>	154
Operating lease payments in respect of land and buildings	<b>254</b>	250

## 10. INCOME TAXES

According to the "Provisional Regulations of the PRC on Enterprise Income Tax", the taxable income of the Group represents its income for financial reporting purposes, net of deductible items for income tax purposes. The enterprise income tax rates applicable to the Group, the subsidiaries and their branches during the Period are as follows:

<b>Tax</b>	<b>Subsidiaries and branches</b>	<b>Tax rate</b>
Enterprise income tax in the PRC	– Located in the Special Economic Zones	15%
	– Located outside the Special Economic Zones	33%
Hong Kong profits tax	– Subsidiaries in the Hong Kong Special Administrative Region	17.5%

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 10. INCOME TAXES (Continued)

<b>For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Current income tax	319	374
Deferred income tax	237	49
Income taxes	556	423

### 11. DIVIDENDS

#### (1) Special interim dividend approved and paid

<b>For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Special interim dividend of RMB0.20 per ordinary share (Six months ended June 30, 2005: Nil)	1,239	–

On March 29, 2006, the board of directors proposed a 2006 special interim dividend distribution of RMB0.20 per share totaling RMB1,239 million, which was paid by the Company out of dividends amounting to RMB4,364 million received by the Company from one of its subsidiaries in early May 2006. This proposal was approved by the Company's shareholders on May 25, 2006.

#### (2) Interim dividend declared

<b>For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Interim dividend of RMB0.12 per ordinary share (Six months ended June 30, 2005: Nil)	743	–

On August 15, 2006, the board of directors declared an interim dividend distribution of RMB0.12 per share totaling RMB743 million to be paid.

#### (3) Final dividend approved and paid for the previous financial year

<b>For the six months ended June 30, (in RMB million)</b>	<b>(Unaudited) 2006</b>	(Unaudited) 2005
Final dividend: Nil (Six months ended June 30, 2005: RMB0.14 per ordinary share)	–	867

## 12. EARNINGS PER SHARE

The basic earnings per share for the Period is computed by dividing the net profit attributable to equity holders of the parent for the Period by the weighted average number of 6,195,053,334 shares in issue during the Period.

The Company had no dilutive potential shares, hence no diluted earnings per share amount is presented.

## 13. BONDS

(in RMB million)	(Unaudited) June 30, 2006	(Audited) December 31, 2005
Held-to-maturity, at amortized cost	119,833	117,924
Available-for-sale, at fair value	38,795	36,038
Carried at fair value through profit or loss		
Held-for-trading	11,738	5,787
<b>Total</b>	<b>170,366</b>	159,749
Government bonds	92,852	93,033
Finance bonds	43,784	42,495
Corporate bonds	33,730	24,221
<b>Total</b>	<b>170,366</b>	159,749
Listed	49,497	49,053
Unlisted	120,869	110,696
<b>Total</b>	<b>170,366</b>	159,749

## 14. EQUITY INVESTMENT FUNDS

(in RMB million)	(Unaudited) June 30, 2006	(Audited) December 31, 2005
Available-for-sale, at fair value	7,762	6,852
Carried at fair value through profit or loss		
Held-for-trading	3,763	2,947
Designated at fair value	343	259
<b>Total</b>	<b>11,868</b>	10,058
Listed	548	1,851
Unlisted	11,320	8,207
<b>Total</b>	<b>11,868</b>	10,058



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2006

### 15. EQUITY SECURITIES

(in RMB million)	(Unaudited) June 30, 2006	(Audited) December 31, 2005
Available-for-sale, at fair value	9,464	4,507
Carried at fair value through profit or loss		
Held-for-trading	5,747	676
<b>Total</b>	<b>15,211</b>	<b>5,183</b>
Listed	14,806	4,973
Unlisted	405	210
<b>Total</b>	<b>15,211</b>	<b>5,183</b>

### 16. DEFERRED POLICY ACQUISITION COSTS

(in RMB million) (Unaudited)	Life	Property and Casualty	Total
As at January 1, 2005	21,674	948	22,622
Deferred	2,919	845	3,764
Amortized	(1,354)	(676)	(2,030)
As at June 30, 2005	23,239	1,117	24,356
Deferred	3,524	801	4,325
Amortized	(1,444)	(785)	(2,229)
Effect of net unrealized gains on investments through equity	(24)	–	(24)
As at December 31, 2005	25,295	1,133	26,428
<b>(Unaudited)</b>	<b>Life</b>	<b>Property and Casualty</b>	<b>Total</b>
As at January 1, 2006	25,295	1,133	26,428
Deferred	3,986	1,071	5,057
Amortized	(1,578)	(868)	(2,446)
Effect of net unrealized gains on investments through equity	45	–	45
<b>As at June 30, 2006</b>	<b>27,748</b>	<b>1,336</b>	<b>29,084</b>

## 17. SHARE CAPITAL

(in million)	(Unaudited) June 30, 2006	(Audited) December 31, 2005
Number of shares registered, issued and fully paid at RMB1 each	6,195	6,195

## 18. COMMON WELFARE FUND

According to the revised PRC Company Law effective January 1, 2006, the Group is no longer required to make appropriation for common welfare fund. According to a circular effective on April 1, 2006 which was issued by the Ministry of Finance, the Company has transferred the balance of common welfare fund as at January 1, 2006 to revenue reserve fund.

## 19. RISK MANAGEMENT

### Insurance risk

The risk under insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur due to any of the following factors:

*Occurrence risk* – the possibility that the number of insured events will differ from those expected.

*Severity risk* – the possibility that the cost of the events will differ from those expected.

*Development risk* – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Group comprises both long term life insurance contracts, property and casualty and short term life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For property and casualty insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

These risks may vary significantly in relation to the location of the risk insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2006

### 19. RISK MANAGEMENT (Continued)

#### Insurance risk (Continued)

There would be no significant mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums. However, for contracts with discretionary participation features, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party.

Insurance risk is also affected by the policyholders' rights to terminate the contract, to pay reduced premiums, to reject premium payments or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behaviors and decisions.

The Group's concentration of insurance risk is reflected by its major lines of business.

#### Market risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

##### (a) Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the Renminbi and other currencies in which the Group conducts business may affect its financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimizing its net foreign currency position.

##### (b) Price risk

The Group's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices. They are principally available-for-sale investments and financial assets carried at fair value through profit or loss.

Such investments are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

##### (c) Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## 19. RISK MANAGEMENT *(Continued)*

### **Financial risk**

#### *(a) Credit risk*

Credit risk is the risk of economic loss resulting from the failure of one of the Group's obligors to make payment of any principal or interest when due in the case of fixed income investments or, in the case of an equity investment, the loss in value resulting from a corporate failure. The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in bonds, equity investments, reinsurance arrangements with reinsurers, policy loans, etc. The Group mitigates credit risk by utilizing credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counter party exposure limits, etc.

#### *(b) Liquidity risk*

Liquidity risk is the risk of not having access to sufficient funds to meet the Group's obligations as they become due. The Group is exposed to liquidity risk on insurance policies that permit surrender, withdrawal or other forms of early termination. The Group seeks to manage its liquidity risk by matching to the extent possible the duration of its investment assets with the duration of its insurance policies.

### **Mismatching risk of asset and liability**

The objective of the Group's asset and liability management is to match assets with liabilities on the basis of both duration and interest rate. Given the current regulatory and market environment, the Group is unable to invest in assets that have duration of sufficient length to match the duration of its insurance and investment contract liabilities. The Group is trying to lengthen the duration of its assets by matching the new liabilities of lower guarantee rates, while narrowing the gap of existing liabilities of higher guarantee rates.

### **Operational risk**

Operational risk is the risk of loss resulting from inadequate or failure of proper internal controls on business processes, people and systems or from uncontrollable external events. The Group is exposed to many types of operational risks in the conduct of its business from inadequate or failure to obtain proper authorizations, supporting documentations and ensuring operational and informational security procedures as well as from frauds or errors by employees. The Group attempts to manage operational risk by establishing clear policies and requiring well-documented business processes to ensure transactions are properly authorized, supported and recorded.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2006

### 20. MATURITY PROFILE OF FINANCIAL INSTRUMENTS

#### (1) Bonds

(in RMB million)	(Unaudited) June 30, 2006			Total
	Held-to-maturity	Available-for-sale	Carried at fair value through profit or loss	
Within 1 year	71	289	8,331	8,691
1 – 2 years	2,659	1,712	568	4,939
2 – 3 years	2,731	1,445	574	4,750
3 – 4 years	3,173	3,484	97	6,754
4 – 5 years	6,000	332	100	6,432
More than 5 years	102,446	29,258	1,422	133,126
Floating rate	2,753	2,275	646	5,674
<b>Total</b>	<b>119,833</b>	<b>38,795</b>	<b>11,738</b>	<b>170,366</b>
Effective interest rate (% per annum)	2.29-7.02	2.23-6.16	Not applicable	Not applicable

(in RMB million)	(Audited) December 31, 2005			Total
	Held-to-maturity	Available-for-sale	Carried at fair value through profit or loss	
Within 1 year	126	706	3,863	4,695
1 – 2 years	1,349	1,390	76	2,815
2 – 3 years	3,868	2,203	561	6,632
3 – 4 years	2,438	2,646	133	5,217
4 – 5 years	898	1,684	–	2,582
More than 5 years	106,495	23,703	381	130,579
Floating rate	2,750	3,706	773	7,229
<b>Total</b>	<b>117,924</b>	<b>36,038</b>	<b>5,787</b>	<b>159,749</b>
Effective interest rate (% per annum)	1.95-7.02	1.95-6.27	Not applicable	Not applicable

Interest on bonds with floating rate is mainly repriced at intervals of no more than one year.

## 20. MATURITY PROFILE OF FINANCIAL INSTRUMENTS (Continued)

### (2) Other financial assets

(in RMB million)	(Unaudited) June 30, 2006			
	Term deposits	Policy loans	Securities purchased under agreements to resell	Loans and advances to customers
Within 1 year	32,936	1,077	260	1,524
1 – 2 years	14,049	–	–	26
2 – 3 years	5,223	–	–	5
3 – 4 years	–	–	–	4
4 – 5 years	2,480	–	–	32
More than 5 years	13,274	–	–	38
<b>Total</b>	<b>67,962</b>	<b>1,077</b>	<b>260</b>	<b>1,629</b>
Effective interest rate (% per annum)	<b>2.07-8.80</b>	<b>5.22-6.50</b>	<b>1.45-2.90</b>	<b>4.94-8.00</b>

(in RMB million)	(Audited) December 31, 2005		
	Term deposits	Policy loans	Loans and advances to customers
Within 1 year	16,581	864	533
1 – 2 years	24,405	–	1
2 – 3 years	10,637	–	8
3 – 4 years	1,477	–	85
4 – 5 years	1,590	–	–
More than 5 years	14,269	–	35
<b>Total</b>	<b>68,959</b>	<b>864</b>	<b>662</b>
Effective interest rate (% per annum)	<b>2.25-8.80</b>	<b>5.22-6.50</b>	<b>2.31-6.12</b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2006

### 20. MATURITY PROFILE OF FINANCIAL INSTRUMENTS (Continued)

#### (3) Financial liabilities

(in RMB million)	(Unaudited) June 30, 2006		
	Customer deposits	Securities sold under agreements to repurchase	Short term borrowing
Within 1 year	3,059	1,056	1,015
1 – 2 years	3	–	–
Total	3,062	1,056	1,015
Effective interest rate (% per annum)	0.72-5.48	2.08-3.54	5.38-5.48

(in RMB million)	(Audited) December 31, 2005	
	Customer deposits	Securities sold under agreements to repurchase
Within 1 year	1,862	7,095
Effective interest rate (% per annum)	0.00-1.62	1.52-1.78

### 21. SIGNIFICANT RELATED PARTY TRANSACTIONS

(in RMB million)	(Unaudited) June 30, 2006	(Audited) December 31, 2005
Aggregate bank balances with HSBC	201	232

For the six months ended June 30, (in RMB million)	(Unaudited) 2006	(Unaudited) 2005
Interest income earned on aggregate bank balances with HSBC	5	3

## 22. COMMITMENTS

### (1) Capital commitments

The Group had the following capital commitments relating to property development projects and investments:

(in RMB million)	(Unaudited) June 30, 2006	(Audited) December 31, 2005
Contracted, but not provided for	575	472
Authorized, but not contracted for	2,498	3,030

### (2) Operating lease commitments

The Group leases office premises and staff quarters under various rental agreements. Future minimum lease payments under non-cancelable operating leases are as follows:

(in RMB million)	(Unaudited) June 30, 2006	(Audited) December 31, 2005
Within 1 year	368	372
Between 1 year and 5 years	481	473
After 5 years	13	5
Total	862	850

### (3) Operating lease rental receivables

The Group leases its investment properties under various rental agreements. Future minimum lease receivables under non-cancelable operating leases are as follows:

(in RMB million)	(Unaudited) June 30, 2006	(Audited) December 31, 2005
Within 1 year	54	64
Between 1 year and 5 years	28	33
Total	82	97



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 2006

### 23. CONTINGENT LIABILITIES

Owing to the nature of insurance and financial service business, the Group is involved in estimates, contingencies and legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Legal proceedings mostly involve claims on the Group's insurance policies. Provision has been made for probable losses to the Group, including those claims where management can reasonably estimate the outcome of the lawsuits taking into account any legal advice.

No provision has been made for pending lawsuits, possible violations of contracts, etc., when the outcome cannot be reasonably estimated or management believes the probability is low or remote. For pending lawsuits, management also believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group or any of its subsidiaries.

### 24. EVENT AFTER THE BALANCE SHEET DATE

On July 28, 2006, the Company entered into a share purchase agreement with certain shareholders of Shenzhen Commercial Bank Company Limited ("SZCB") to acquire their 1,008,186,384 shares, representing approximately 63% of the entire issued share capital of SZCB for a consideration of RMB1,008,186,384. Further, as part of the reorganization of SZCB and pursuant to the said share purchase agreement, the Company also entered into a subscription agreement with SZCB on July 28, 2006 to subscribe for a further 3,902 million new shares in SZCB, representing approximately 70.92% of the enlarged issued share capital of SZCB. Upon completion, SZCB will become an approximately 89.24% owned subsidiary of the Company.

### 25. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements have been approved and authorized for issue by the Company's board of directors on August 15, 2006.

## OTHER INFORMATION

### DISCLOSURE OF INTERESTS

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

As at June 30, 2006, 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 Securities and Futures Ordinance ("SFO"):

- Interests and short positions of substantial shareholders who were entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company

Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total shares in issue (%)
HSBC Holdings plc	H	Interest of controlled corporations	1, 2, 3	1,233,870,388	Long position	48.22	19.92

- Interests and short positions of other substantial shareholders

Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total shares in issue (%)
HSBC Insurance Holdings Limited	H	Beneficial owner	1	618,886,334	Long position	24.19	9.99
The Hongkong and Shanghai Banking Corporation Limited	H	Beneficial owner	3	614,099,279	Long position	24.00	9.91
Shenzhen Jingao Industrial Development Co., Ltd.	D	Interest of controlled corporations	4	148,000,000	Long position	4.07	2.39
				331,117,788	Long position	9.11	5.34
				479,117,788		13.18	7.73
Ping An Securities Company, Ltd. Labor Union	D	Interest of controlled corporations	4	479,117,788	Long position	13.18	7.73
China Ping An Trust & Investment Co., Ltd. Labor Union	D	Interest of controlled corporations	4	479,117,788	Long position	13.18	7.73

## OTHER INFORMATION

Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total shares in issue (%)
Shenzhen New Horse Investment Development Co., Ltd	D	Beneficial owner	5	389,592,366	Long position	10.71	6.29
Ping An Insurance (Group) Company of China, Ltd. Labor Union	D	Interest of controlled corporations	5	389,592,366	Long position	10.71	6.29
Guangzhou Hengde Trade Development Co., Ltd.	D	Beneficial owner	6	200,000,000	Long position	5.50	3.23
Li Siu Nam	D	Interest of controlled corporations	6	200,000,000	Long position	5.50	3.23
Shenzhen Investment Holdings Co., Ltd.	D	Beneficial owner		543,181,445	Long position	14.94	8.77
Shenzhen Shum Yip Investment Development Company Ltd.	D	Beneficial owner		301,585,684	Long position	8.29	4.87
Yuan Trust Investment Company Ltd.	D	Beneficial owner		380,000,000	Long position	10.45	6.13
Shenzhen Wuxin Yufu Industrial Co., Ltd*	D	Beneficial owner		195,455,920	Long position	5.37	3.16

\* Formerly known as Wuhan Wuxin Industrial Co., Ltd.

*Notes:*

- (1) 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.
- (2) Besides (1) above, HSBC Holdings plc was also interested in the Company by virtue of its control over HSBC CCF Financial Products (France) SNC ("CCF SNC") which held a direct interest in 884,775 shares in the Company.  
  
CCF SNC was 100% owned by CCF S.A. which was owned as to 99.99% by HSBC Bank plc. HSBC Holdings plc owned 100% interest in HSBC Bank plc.
- (3) The Hongkong and Shanghai Banking Corporation Limited was owned as to 84.19% by HSBC Asia Holdings BV, a wholly-owned subsidiary of HSBC Asia Holdings (UK), which in turn was a wholly-owned subsidiary of HSBC Holdings BV. The remaining 15.81% of The Hongkong and Shanghai Banking Corporation Limited was owned by HSBC Finance (Netherlands), a wholly-owned subsidiary of HSBC Holdings plc. HSBC Finance (Netherlands) owned 100% interest in HSBC Holdings BV.

- (4) Shenzhen Jingao Industrial Development Co., Ltd. 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.
- (5) 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.
- (6) 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.

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 June 30, 2006 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### Interests and short positions of directors and supervisors

As at June 30, 2006, the following Directors and Supervisors had interests in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules (the "Model Code"):

Name	Position	H/Domestic ("D") shares	Capacity	Note	No. of H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total shares in issue (%)
Lin Li	Supervisor	D	Interest of controlled corporations	a	176,000,000	Long position	4.84	2.84
Cheung Chi Yan Louis	Executive Director	H	Beneficial owner		248,000	Long position	0.01	0.004

Note:

- a. Lin Li was interested in the Company by virtue of his control over 93.33% shareholding of Shenzhen Liye Group Company Limited, which held a direct interest in 176,000,000 shares in the Company.

Save as disclosed above, as at June 30, 2006, none of the Directors or Supervisors held or was deemed to hold any interests or short positions in the shares and underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the Directors or Supervisors to the Company and the Stock Exchange pursuant to the Model Code nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

### PURCHASE, SALE, OR REDEMPTION OF LISTED SHARES

Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed shares from January 1, 2006 to June 30, 2006.

## OTHER INFORMATION

### AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Code on Corporate Governance Practices (the “**Code on Corporate Governance Practices**”) contained in Appendix 14 to the Listing Rules.

The primary duties of the audit committee are to review and supervise the Company’s financial reporting process, internal audit and control procedures. The audit committee is also responsible for reviewing the external auditor’s appointment, the external auditor’s remuneration and any matters relating to the termination of the appointment or resignation of the external auditors. In addition, the audit committee also examines the effectiveness of the Company’s internal controls to ensure the effectiveness of the Company’s business operations and the realization of its corporate objectives and strategies.

The audit committee comprises four Independent Non-executive Directors, namely Mr. Bao Youde, Mr. Kwong Che Keung Gordon, Mr. Cheung Wing Yui and Mr. Chow Wing Kin Anthony and one Non-executive Director, namely Mr. Anthony Philip HOPE. The audit committee is chaired by Mr. Kwong Che Keung Gordon, an Independent Non-executive Director who also possesses the appropriate professional qualifications of accounting and related financial management expertise.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed the internal controls and financial reporting matters including a review of the condensed interim accounts of the Company.

The Company has also established a remuneration committee and a nomination committee. Further details of the roles and functions, composition and summary of work of these Board committees were set out under the paragraph headed “Board Committees” in the Corporate Governance Report on pages 46 to 49 of the Company’s 2005 annual report issued on March 29, 2006.

### COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable Code Provisions set out in the Code on Corporate Governance Practices for any part of the period from January 1, 2006 to June 30, 2006 except that Mr. Ma Mingzhe has occupied the positions of both the Chairman of the Board of Directors and Chief Executive Officer of the Company.

Although Code Provision A.2.1 of the Code on Corporate Governance Practices provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual, the Board is of the opinion that although the Chairman of the Board has a casting vote in the event of an equality of votes at Board meetings, Board decisions are nevertheless collective decisions of all Directors made by way of voting and not decisions of the Chairman of the Board alone. Further, there is a clear division of the responsibilities between the management of the Board, which is a collective decision reached by way of majority voting, and the day-to-day management of the Company’s business, which relies on the support of the Company’s senior management. As such, the management power of the Company is not concentrated in any one individual.

Therefore, the Board is of the opinion that the Company’s management structure is able to provide the Company with efficient management and at the same time, protects shareholders’ rights. The Company therefore does not currently intend to separate the roles of the Chairman and the Chief Executive Officer.

Further details of the Company’s arrangements and considered reasons for the Company’s intention not to separate the roles of the Chairman of the Board of Directors and the Chief Executive Officer of the Company were set out under the paragraph headed “Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules” in the Corporate Governance Report on pages 42 to 43 of the Company’s 2005 annual report issued on March 29, 2006.

## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS OF THE COMPANY

On May 28, 2004, the Company adopted the Code of Conduct regarding securities transactions by Directors and Supervisors of the Company ("Code of Conduct") on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all Directors and Supervisors of the Company who have confirmed that they complied with the required standard set out in the Model Code and the Code of Conduct for the period from January 1, 2006 to June 30, 2006.

## INTERIM DIVIDEND

The Board declared that an interim dividend of RMB0.12 (equivalent to HK\$0.1170) per share for the six months ended June 30, 2006 (2005: nil) be paid to Shareholders whose names are on the Company's registers of members on September 4, 2006.

According to the Articles of Association of the Company, dividends will be denominated and declared in Renminbi. Dividends on Domestic Shares will be paid in Renminbi and dividends on H Shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average middle rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of declaration of dividends (RMB1.02576 equivalent to HK\$1.00).

In order to determine the list of Shareholders who are entitled to receive the interim dividend, the Company's registers of members will be closed from August 30, 2006 to September 4, 2006, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the interim dividend, holders of H Shares whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at or before 4:00 p.m. on August 29, 2006. The address of the transfer office of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The Company has appointed Bank of China (Hong Kong) Trustees Limited as the receiving agent in Hong Kong (the "Receiving Agent") and will pay to the Receiving Agent the interim dividend declared for payment to holders of H Shares. The interim dividend will be paid by the Receiving Agent and relevant cheques will be dispatched on or before September 8, 2006 to holders of H Shares whose names appear on the registers of members of the Company on September 4, 2006 by ordinary post at their own risk.

## DISCLOSURE OF INFORMATION OF THE STOCK EXCHANGE'S WEBSITE

All information required by paragraphs 46(1) to 46(9) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange (<http://www.hkex.com.hk>) in due course.

By Order of the Board of Directors

**Ma Mingzhe**

*Chairman and Chief Executive Officer*

Shenzhen, PRC  
August 15, 2006

## CORPORATE INFORMATION

### REGISTERED NAMES

#### Chinese name

中國平安保險(集團)股份有限公司

#### English name

Ping An Insurance (Group) Company of China, Ltd.

### REGISTERED ADDRESS

Ping An Building,  
Ba Gua No. 3 Road,  
Shenzhen,  
PRC

### PLACE OF BUSINESS

Ping An Building,  
Ba Gua No. 3 Road,  
Shenzhen,  
PRC

### LEGAL REPRESENTATIVE

MA Mingzhe

### AUTHORIZED REPRESENTATIVES

SUN Jianyi  
YAO Jun

### JOINT COMPANY SECRETARIES

SENG Sze Ka Mee Natalia  
YAO Jun

### AUDITORS

Ernst & Young

### CONSULTING ACTUARIES

Watson Wyatt Insurance Consulting Limited

### LEGAL ADVISORS

Dibb Lupton Alsop

### PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

### TYPE OF STOCK

H share

### STOCK CODE

2318

### H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### AMERICAN DEPOSITARY SHARES

The Bank of New York  
SYMBOL: PNGAY  
CUSIP : 72341E304

### COMPANY WEBSITE

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