专业·价值 中国平安 PING AN OF CHINA

# 2007 Interim Report

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

Hong Kong Exchanges and Clearing Limited Stock Code: 2318

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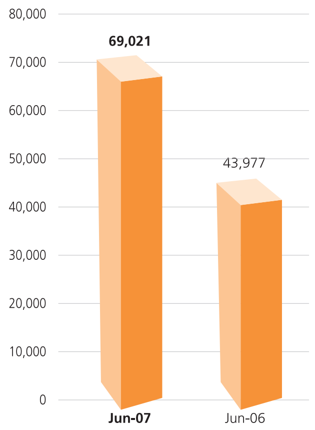
## Cautionary Statement Regarding Forward-Looking Statements

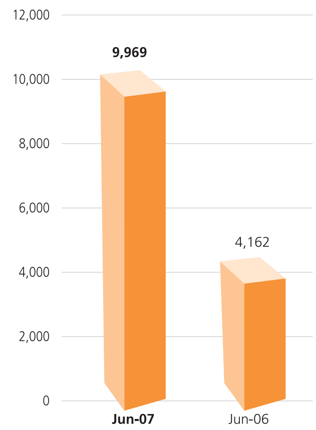
To the extent any statements made in this report contains information that is not historical are essentially forward-looking. These forward-looking statements include but are not limited to projections, targets, estimates and business plans that the Company expects or anticipates will or may occur in 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.

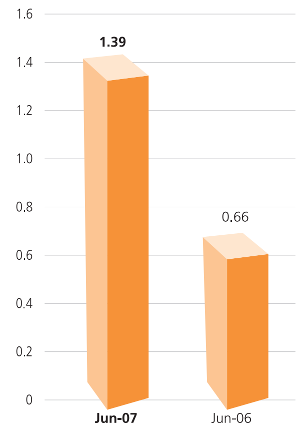
Readers should be cautioned that a variety of factors, many of which are beyond the Company's control, affect the performance, operations and results of the Company, and could cause actual results to differ materially from the expectations expressed in any of the Company's forward-looking statements. 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.

# Financial Highlights

| Total Income | Net Profit | Earnings Per Share |
|---|---|---|



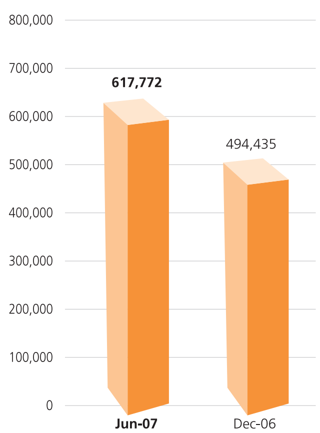



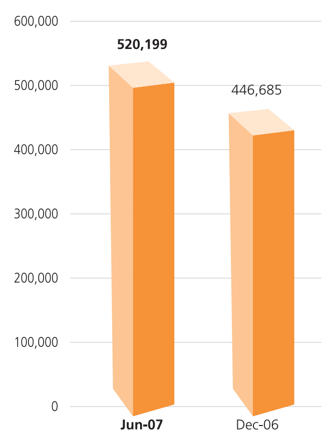



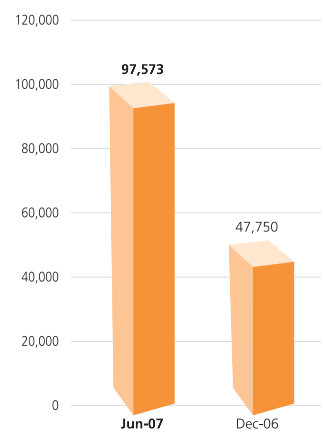

| **PROFIT AND LOSS**<br>**For the six months ended June 30, (in RMB million)** | **2007** | 2006 |
|---|---|---|
| Total Income | **69,021** | 43,977 |
| Net Profit | **9,969** | 4,162 |

| **PER ORDINARY SHARE**<br>**For the six months ended June 30, (in RMB)** | **2007** | 2006 |
|---|---|---|
| Basic Earnings | **1.39** | 0.66 |

| Total Assets | Total Liabilities | Total Equity |
|---|---|---|




| **BALANCE SHEET**<br>**(in RMB million)** | **As at**<br>**June 30, 2007** | As at<br>December 31, 2006 |
|---|---|---|
| Total Assets | **617,772** | 494,435 |
| Total Liabilities | **520,199** | 446,685 |
| Total Equity | **97,573** | 47,750 |

* Certain comparative figures have been reclassified to conform to current period's presentation.

For the first half of 2007, the PRC economy sustained fast and steady development, and saw continued strong growth momentum in the three major demands, namely consumption, investment and export. As the reform and opening-up of the financial sector progressed, the financial and insurance industry continued its fast development. Under favorable macro environment, the Group achieved outstanding results in the first half of the year by leveraging on its solid business foundation and competitive advantages and improving profitability across various businesses. Net profit for the six months ended June 30, 2007 was RMB9,969 million, representing a substantial increase of 139.5% as compared to the same period last year. Total income for the six months ended June 30, 2007 was RMB69,021 million, representing an increase of 56.9% as compared to the same period last year. The A shares of the Company were successfully listed on the Shanghai Stock Exchange on March 1, 2007 and the H shares of the Company were selected to be included in the Hang Seng Index on June 4, 2007.

The Group achieved the following outstanding performance in the first half of the year:

**Steady growth from insurance business**

Our core life insurance and property and casualty insurance businesses achieved steady growth. The product mix of life insurance business has been further optimized. Thanks to the strong economy, individual life insurance business recorded robust growth unseen in the past few years, in particular the number of individual life insurance sales agents increased to approximately 244,000 from approximately 205,000 at the beginning of the year, representing an increase of 19.0%. Meanwhile, the Group has been proactively seeking new business growth opportunities and has implemented the "Two Tier Market Development" strategy that focused on the balanced development of both urban and rural areas. Ping An Life initiated the pilot programs in the rural areas of Jiangsu and Zhejiang provinces. Ping An Life was the first to offer foreign exchange insurance products in the PRC and received encouraging market response. Ping An Property & Casualty maintained its market position and more than doubled its net profits. Ping An Annuity obtained business licences for all 35 branches to start operation across the nation.

**Successful integration of banking business**

As approved by the China Banking Regulatory Commission ("CBRC"), Shenzhen Commercial Bank merged with and took in Ping An Bank and was renamed as Shenzhen Ping An Bank Co., Ltd. ("Shenzhen Ping An Bank"). Shenzhen Ping An Bank has branches and sub-branches in Shenzhen, Shanghai and Fuzhou, providing corporate and individual customers with comprehensive financial services and products. The merger of the two banks further integrated the banking resources within the Group and helped strengthen the banking business by creating a single banking brand name and laying a strong banking business platform for nationwide expansion. On May 21, 2007, after years of dedicated preparations, we successfully launched the Wanlitong Affinity Credit Card, a China UnionPay standard credit card. This is one of the affinity credit cards offering the most comprehensive insurance protection in the PRC, demonstrating the combined strength of our insurance and banking platforms.

**Breakthrough development in investment and asset management business**

Benefiting from the rapid development of the domestic equity market and the surge in trading volume, the Group recorded strong growth in its securities brokerage, investment banking and derivative products businesses; total investment return on its insurance funds increased significantly; non-capital market investment of our trust business generated encouraging results and third-party asset management business achieved breakthrough development. Ping An Asset Management (Hong Kong) obtained its asset management licence and a global investment platform has been gradually established. Besides record-breaking operating results from our securities business, four analysts from Ping An Securities were ranked among the "Top Analysts of 2006 for Earnings Estimates and Stockpickers" in Asia by StarMine, a world renowned professional evaluation agency of securities analysts. Ping An Securities as a whole was ranked No. 8 among a large number of prestigious research institutions.

**Refinement of our integrated financial services platform**

The Group's integrated financial services platform has been further refined. Along with the smooth integration of various back-office functions, the performance of cross-selling various financial products within the Group exceeded targets. The synergy across our three business pillars, namely insurance, banking and asset management, has been gradually realized, and the Group is steadily progressing toward its "One Customer, Multiple Products" strategic goal.

**Fulfillment of corporate citizenship responsibilities**

Apart from the outstanding business performance, the Group is continuously and actively fulfilling its corporate citizenship responsibilities to contribute to the cause of public welfare. The Group issued its "Corporate Citizenship Report of 2007" in the first half of the year and initiated a series of large-scale public welfare programs, including the "Little Orange Lamp Program", aimed at establishing libraries for elementary schools in rural areas; "Ping An Education Support Program for Hope Primary Schools", "Chinese Youth Safety Program", and "Ping An Scholarship for Elite University Students".

In the first half of the year, Ping An won accolades from various sectors of the society. In April 2007, the Group was ranked 440 among the top 500 of Forbes Global 2000 top public companies. In the same month, the Group was ranked first and accredited with the "Best Company in China in Corporate Governance" by The Asset Magazine, an internationally renowned financial publication in its 2007 Corporate Governance Awards. In June 2007, Ping An became the first financial and insurance company from the PRC to be granted the "Best of Asia Class in Corporate Governance Asia Recognition Awards 2007" by Corporate Governance Asia, a prominent magazine in the Asia-Pacific Region. Ping An was the only company from the insurance sector to be named as one of the "Most Respected Enterprises in China 2006" for six consecutive years since the commencement of this award in 2001. The Group was also awarded first place as the "Most Viable Corporates" for three consecutive years.

In general, the Group has delivered outstanding operating results to the shareholders in the first half of 2007. Looking ahead at the second half of the year, we expect that the PRC macro economy will continue to maintain its steady growth and the country will further stimulate domestic demands to proactively increase the quality and efficiency of economic growth. Meanwhile, the further escalation of market competition and the fluctuations in the capital market will also expose us to certain challenges and earnings volatility. In the second half of the year, according to its strategic targets and business plan, the Group will continue to execute balanced development of the three major businesses of insurance, banking and asset management. We will maintain our leading market position within the insurance sector and strengthen the performance of our banking and asset management businesses. With the concerted efforts from our employees, I firmly believe that the Group's core competencies will be further strengthened to deliver more value to our shareholders and our customers.

**Ma Mingzhe**
*Chairman and Chief Executive Officer*

Shenzhen, the PRC
August 16, 2007

# Management Discussion and Analysis[1]

## GROUP'S CONSOLIDATED PERFORMANCE

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

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| Total income | **69,021** | 43,977 |
| Total expenses | **(58,205)** | (39,259) |
| Operating profit before tax | **10,816** | 4,718 |
| Net profit | **9,969** | 4,162 |

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

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| Life insurance | **6,018** | 3,530 |
| Property and casualty insurance | **760** | 317 |
| Banking | **1,086** | 1 |
| Securities | **676** | 174 |
| Other businesses(1) | **1,429** | 140 |
| Net profit | **9,969** | 4,162 |

(1) Other businesses mainly include corporate, trust business and asset management business.

Consolidated net profit increased 139.5% to RMB9,969 million in the six months ended June 30, 2007 from RMB4,162 million in the same period in 2006. This increase was primarily due to the better performance across our portfolio of businesses and the strong total investment returns.

Our life insurance business, property and casualty insurance business, banking business and securities business accounted for approximately 60.4%, 7.6%, 10.9% and 6.8%, respectively, of our net profit.

1 Certain comparative figures have been reclassified to conform to current period's presentation.

## Consolidated Investment Income

| For the six months ended June 30, (in RMB million, except percentages) | 2007 | 2006 |
|---|---|---|
| Net investment income | **9,930** | 5,722 |
| Net realized and unrealized gains | **15,738** | 3,871 |
| Total investment income | **25,668** | 9,593 |
| Net investment yield(1) | **4.9%** | 4.2% |
| Total investment yield(1) | **9.9%** | 5.8% |

(1) Lease income from investment properties and net 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 73.5% to RMB9,930 million in the six months ended June 30, 2007 from RMB5,722 million in the same period in 2006. This increase was primarily due to the increase in our investment assets to RMB335,489 million as at June 30, 2007 from RMB269,596 million as at June 30, 2006. Net investment yield increased to 4.9% in the six months ended June 30, 2007 from 4.2% in the same period in 2006. This increase was primarily due to the higher dividend income received from our equity investment funds.

Our total investment income increased 167.6% to RMB25,668 million in the six months ended June 30, 2007 from RMB9,593 million in the same period in 2006. Total investment yield increased to 9.9% in the six months ended June 30, 2007 from 5.8% in the same period in 2006. These increases were primarily due to the strong performance in the PRC equity markets during the first half of 2007. In order to lock-in profits accumulated in previous periods, the realized investment gains increased significantly to RMB15,238 million whereby the total net realized and unrealized gains increased significantly to RMB15,738 million in the six months ended June 30, 2007 from RMB3,871 million in the same period in 2006.

We continued to improve the asset allocation of our portfolio to capture the opportunities in the capital markets. As a result, our term deposits as a percentage of our total investment assets decreased to 13.1% as at June 30, 2007 from 19.0% as at December 31, 2006, and our equity investments increased to 18.7% as at June 30, 2007 from 14.4% as at December 31, 2006.

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

| (in RMB million, except percentages) | As at June 30, 2007 Carrying Value | As at June 30, 2007 % of Total | As at December 31, 2006 Carrying Value | As at December 31, 2006 % of Total |
|---|---|---|---|---|
| Fixed maturity investments | | | | |
| Term deposits[3] | **43,994** | **13.1%** | 59,107 | 19.0% |
| Bond investments[1][3] | **222,992** | **66.5%** | 204,282 | 65.6% |
| Other fixed maturity investments[3] | **2,149** | **0.6%** | 1,600 | 0.5% |
| Equity investments[2][3] | **62,698** | **18.7%** | 44,791 | 14.4% |
| Investment properties | **3,656** | **1.1%** | 1,528 | 0.5% |
| Total investments | **335,489** | **100.0%** | 311,308 | 100.0% |

(1) Bond investments include the carrying value of derivatives embedded with the host contracts.
(2) Equity investments include equity investment funds, equity securities and investment in an associate.
(3) The above figures exclude items that are classified as cash and cash equivalents.

### Foreign Currency Losses

In the first half of 2007, Renminbi continued to appreciate against other major currencies, especially the U.S. Dollar. As a result, we experienced a net exchange loss of RMB335 million in the six months ended June 30, 2007 as compared to a loss of RMB130 million in the same period in 2006.

## LIFE INSURANCE BUSINESS

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

| | As at June 30, 2007 | As at December 31, 2006 |
|---|---|---|
| Market share of gross written premiums, policy fees and premium deposits[1] | **16.3%** | 17.0% |
| Number of customers: | | |
| Individual (in thousands) | **32,853** | 31,761 |
| Corporate (in thousands) | **321** | 307 |
| Total (in thousands) | **33,174** | 32,068 |
| Persistency ratio: | | |
| 13-month | **89.0%** | 89.0% |
| 25-month | **80.7%** | 80.3% |

(1) Based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards and published by the National Bureau of Statistics of China.
Market share as at June 30, 2007 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, 2006 was computed based on gross written premiums, policy fees and premium deposits accumulated over a period of one year.

For the six months ended June 30, 2007, our life insurance business accounted for approximately 16.3% of the total gross written premiums, policy fees and premium deposits received by PRC life insurance companies, based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards. We are the second largest life insurance company in the PRC in terms of gross written premiums, policy fees and premium deposits.

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 satisfactory level of above 85% and 80% respectively as at June 30, 2007.

### Results of Operations

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

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| Gross written premiums, policy fees and premium deposits | **42,179** | 36,991 |
| Less: Premium deposits | **(10,045)** | (7,894) |
| Gross written premiums and policy fees | **32,134** | 29,097 |
| Net earned premiums | **31,381** | 28,374 |
| Investment income | **21,607** | 8,764 |
| Other income | **781** | 397 |
| Total income | **53,769** | 37,535 |
| Change in deferred policy acquisition costs | **3,727** | 2,408 |
| Claims and policyholders' benefits | **(43,045)** | (30,519) |
| Changes in fair value of derivative financial liabilities | **13** | 34 |
| Commission expenses of insurance operations | **(4,601)** | (3,272) |
| Foreign currency losses | **(316)** | (114) |
| General, administrative and other expenses | **(3,573)** | (2,306) |
| Total expenses | **(47,795)** | (33,769) |
| Income taxes | **44** | (236) |
| Net profit | **6,018** | 3,530 |

## Gross Written Premiums, Policy Fees and Premium Deposits

| For the six months ended June 30, 2007 (in RMB million) | Premiums and policy fees | Premium deposits | Total |
|---|---|---|---|
| **Individual life** | | | |
| New business | | | |
| First year regular premiums | 6,471 | 1,890 | 8,361 |
| First year single premiums | 12 | – | 12 |
| Short term accident and health premiums | 911 | – | 911 |
| Total new business | 7,394 | 1,890 | 9,284 |
| Renewal business | 20,286 | 4,638 | 24,924 |
| Total individual life | 27,680 | 6,528 | 34,208 |
| **Bancassurance** | | | |
| New business | | | |
| First year regular premiums | 45 | – | 45 |
| First year single premiums | 175 | 3,517 | 3,692 |
| Short term accident and health premiums | 1 | – | 1 |
| Total new business | 221 | 3,517 | 3,738 |
| Renewal business | 126 | – | 126 |
| Total bancassurance | 347 | 3,517 | 3,864 |
| **Group insurance** | | | |
| New business | | | |
| First year regular premiums | – | – | – |
| First year single premiums | 2,277 | – | 2,277 |
| Short term accident and health premiums | 1,618 | – | 1,618 |
| Total new business | 3,895 | – | 3,895 |
| Renewal business | 212 | – | 212 |
| Total group insurance | 4,107 | – | 4,107 |
| **Total life insurance** | 32,134 | 10,045 | 42,179 |

| For the six months ended June 30, 2006 (in RMB million) | Premiums and policy fees | Premium deposits | Total |
|---|---|---|---|
| **Individual life** | | | |
| 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 |
| **Bancassurance** | | | |
| 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 |
| **Group insurance** | | | |
| New business | | | |
| First year regular premiums | – | – | – |
| First year single premiums | 2,452 | – | 2,452 |
| Short term accident and health premiums | 1,239 | – | 1,239 |
| Total new business | 3,691 | – | 3,691 |
| Renewal business | 241 | – | 241 |
| Total group insurance | 3,932 | – | 3,932 |
| **Total life insurance** | 29,097 | 7,894 | 36,991 |

*Individual Life Business.* Gross written premiums, policy fees and premium deposits for our individual life business increased 15.9% to RMB34,208 million in the six months ended June 30, 2007 from RMB29,510 million in the same period in 2006. This increase was primarily due to the 37.2% increase in first year premiums, policy fees and premium deposits to RMB9,284 million in the six months ended June 30, 2007 from RMB6,767 million in the same period in 2006. In addition, renewal premiums, policy fees and premium deposits for our individual life business increased 9.6% to RMB24,924 million in the six months ended June 30, 2007 from RMB22,743 million in the same period in 2006. These increases were primarily due to the continued improvement in the quantity and productivity of our agency force.

*Bancassurance Business.* Gross written premiums, policy fees and premium deposits for our bancassurance business increased 8.9% to RMB3,864 million in the six months ended June 30, 2007 from RMB3,549 million in the same period in 2006. 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 4.5% to RMB4,107 million in the six months ended June 30, 2007 from RMB3,932 million in the same period in 2006. 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 employee welfare benefit plans. As a result, gross written premiums and policy fees for our short-term accident and health insurance business increased 30.6% to RMB1,618 million in the six months ended June 30, 2007 from RMB1,239 million in the same period in 2006.

### Investment Income

Net investment income for our life insurance business increased 63.3% to RMB8,519 million in the six months ended June 30, 2007 from RMB5,216 million in the same period in 2006. This increase was primarily due to the increase in investment assets to RMB275,734 million as at June 30, 2007 from RMB235,534 million as at June 30, 2006. Net investment yield for our life insurance business increased to 5.2% in the six months ended June 30, 2007 from 4.3% in the same period in 2006.

Total investment income for our life insurance business increased 146.5% to RMB21,607 million in the six months ended June 30, 2007 from RMB8,764 million in the same period in 2006. Total investment yield for our life insurance business increased to 10.5% in the six months ended June 30, 2007 from 5.9% in the same period in 2006.

| **For the six months ended June 30, (in RMB million, except percentages)** | **2007** | 2006 |
|---|---|---|
| Net investment income | **8,519** | 5,216 |
| Net investment yield(1) | **5.2%** | 4.3% |
| Total investment income | **21,607** | 8,764 |
| Total investment yield(1) | **10.5%** | 5.9% |

(1) Lease income from investment properties and net 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 RMB3,727 million in the six months ended June 30, 2007 as compared to RMB2,408 million in the same period in 2006. The bigger change in deferred policy acquisition costs was primarily due to the increase in first year premiums, policy fees and premium deposits from our individual life business.

### Claims and Policyholders' Benefits

Claims and policyholders' benefits increased 41.0% to RMB43,045 million in the six months ended June 30, 2007 from RMB30,519 million in the same period in 2006. The following table summarizes total expenses pursuant to claims, surrenders, annuities, maturities and survival benefits, policyholders' dividends and provisions, interest credited to policyholder contract deposits, and increase in policyholders' reserves.

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| Claims | **1,604** | 1,404 |
| Surrenders | **4,181** | 2,804 |
| Annuities | **1,427** | 1,293 |
| Maturities and survival benefits | **3,582** | 1,094 |
| Policyholders' dividends and provisions | **897** | 1,714 |
| Interest credited to policyholder contract deposits | **451** | 214 |
| Increase in policyholders' reserves | **30,903** | 21,996 |
| Total claims and policyholders' benefits | **43,045** | 30,519 |

Payments for surrenders increased 49.1% to RMB4,181 million in the six months ended June 30, 2007 from RMB2,804 million in the same period in 2006. This increase was primarily due to the increase in payments for surrenders of certain single premium participating products sold through our group and bancassurance channels.

Payments for maturities and survival benefits increased significantly to RMB3,582 million in the six months ended June 30, 2007 from RMB1,094 million in the same period in 2006. This increase was primarily due to the increase in survival benefits paid as a result of the product features of certain individual life insurance products.

Payments for policyholder dividends and provisions decreased 47.7% to RMB897 million in the six months ended June 30, 2007 from RMB1,714 million in the same period in 2006. Within the policyholders' participating funds, a proportion of the realized or unrealized investment gains are held as the special dividend reserves which will be distributed to the policyholders in future years. The special dividend reserves were recorded under policyholders' dividend payable and provisions as at June 30, 2006, while in 2007 we reclassified them under policyholders' reserves and the change in special dividend reserves would go through the increase in policyholders' reserves. This was the primary reason for the decrease of policyholders' dividends and provisions in the six months ended June 30, 2007 as compared to the same period in 2006. In fact, the total policyholders' dividends and provisions, including special dividend reserves, increased significantly in the six months ended June 30, 2007 as compared to the same period in 2006 due to the strong investment returns in the first half of 2007.

Payments for interest credited to policyholder contract deposits increased 110.7% to RMB451 million in the six months ended June 30, 2007 from RMB214 million in the same period in 2006. This increase was primarily due to the increase in sales of universal life policies and better investment results.

The increase in policyholders' reserves was RMB30,903 million in the six months ended June 30, 2007 as compared to RMB21,996 million in the same period in 2006. The bigger increase in policyholders' reserves was primarily due to the increase in gross written premiums and policy fees.

### Commission Expenses of Insurance Operations

| For the six months ended June 30, | 2007 | 2006 |
|---|---|---|
| Commission expenses as a percentage of gross written premiums, policy fees and premium deposits | **10.9%** | 8.8% |

Commission expenses of insurance operations, which we paid primarily to our sales agents, increased 40.6% to RMB4,601 million in the six months ended June 30, 2007 from RMB3,272 million in the same period in 2006. Commission expenses as a percentage of gross written premiums, policy fees, and premium deposits increased to 10.9% in the six months ended June 30, 2007 from 8.8% in the same period in 2006. These increases were primarily due to the increase in sales of first year premiums, policy fees and premium deposits from individual life products, which have a relatively higher level of commission.

### General, Administrative and Other Expenses

| For the six months ended June 30, | 2007 | 2006 |
|---|---|---|
| Business tax and surcharges | **684** | 99 |
| Other general, administrative expenses and other expenses | **2,889** | 2,207 |
| Total | **3,573** | 2,306 |
| General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits | **8.5%** | 6.2% |

General, administrative and other expenses increased 54.9% to RMB3,573 million in the six months ended June 30, 2007 from RMB2,306 million in the same period in 2006. General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits increased to 8.5% in the six months ended June 30, 2007 from 6.2% in the same period in 2006. These increases were primarily due to the increase in sales of first year premiums, policy fees and premium deposits and the significant increase in business tax and surcharges paid on realized investment gains.

### Income Taxes

| For the six months ended June 30, | 2007 | 2006 |
|---|---|---|
| Effective tax rate | **-0.7%** | 6.3% |

Income taxes decreased to a RMB44 million reversal in the six months ended June 30, 2007 from RMB236 million in the same period in 2006. The effective tax rate decreased to -0.7% in the six months ended June 30, 2007 from 6.3% in the same period in 2006. These decreases were primarily due to the increase in dividend income from equity investment funds, which was entitled to certain tax exemptions, and decrease of deferred income tax liabilities relating to the income taxes reported in the income statement.

### Net Profit

As a result of the foregoing, the net profit from our life insurance business increased 70.5% to RMB6,018 million in the six months ended June 30, 2007 from RMB3,530 million in the same period in 2006.

## PROPERTY AND CASUALTY INSURANCE BUSINESS

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

| | **As at June 30, 2007** | As at December 31, 2006 |
|---|---|---|
| Market share of gross written premiums[1] | **10.2%** | 10.7% |
| Number of customers: | | |
| Individual (in thousands) | **6,895** | 6,222 |
| Corporate (in thousands) | **1,628** | 1,724 |
| Total (in thousands) | **8,523** | 7,946 |

| | **For the six months ended June 30, 2007** | For the year ended December 31, 2006 |
|---|---|---|
| Combined ratio: | | |
| Expense ratio | **29.7%** | 25.8% |
| Loss ratio | **69.0%** | 69.6% |
| Combined ratio | **98.7%** | 95.4% |

(1) Based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards and published by the National Bureau of Statistics of China.
Market share as at June 30, 2007 was computed based on gross written premiums accumulated over a period of six months.
Market share as at December 31, 2006 was computed based on gross written premiums accumulated over a period of one year.

For the six months ended June 30, 2007, our property and casualty insurance business accounted for approximate 10.2% of the total gross written premiums received by PRC property and casualty insurance companies, based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards. We are the third largest property and casualty insurance company in the PRC in terms of gross written premiums.

We continued to focus on disciplined underwriting and service quality. This strategy has enabled us to maintain our underwriting results steadily. As a result, our loss ratio improved to 69.0% in the six months ended June 30, 2007 from 69.6% in the full year of 2006.

## Results of Operations

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

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| Gross written premiums | 11,004 | 8,389 |
| Net earned premiums | 6,966 | 4,490 |
| Investment income | 930 | 312 |
| Other income | 602 | 783 |
| Total income | 8,498 | 5,585 |
| Change in deferred policy acquisition costs | 409 | 203 |
| Claims expenses | (4,804) | (3,208) |
| Commission expenses of insurance operations | (1,124) | (675) |
| Foreign currency losses | (11) | (8) |
| General, administrative and other expenses | (1,917) | (1,333) |
| Total expenses | (7,447) | (5,021) |
| Income taxes | (291) | (247) |
| Net profit | 760 | 317 |

## Gross Written Premiums

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| Automobile insurance | 7,366 | 5,482 |
| Non-automobile insurance | 3,084 | 2,490 |
| Accident and health insurance | 554 | 417 |
| Total gross written premiums | 11,004 | 8,389 |

Gross written premiums increased 31.2% to RMB11,004 million in the six months ended June 30, 2007 from RMB8,389 million in the same period in 2006. This increase in gross written premiums was primarily due to the significant growth in all three principal lines of our property and casualty insurance business.

*Automobile Insurance Business.* Gross written premiums attributable to our automobile insurance business increased 34.4% to RMB7,366 million in the six months ended June 30, 2007 from RMB5,482 million in the same period in 2006. This increase was primarily due to the continued increase in demand for automobiles in the PRC and the implementation of the compulsory third party liability insurance.

*Non-automobile Insurance Business.* Gross written premiums attributable to our non-automobile insurance business increased 23.9% to RMB3,084 million in the six months ended June 30, 2007 from RMB2,490 million in the same period in 2006. This increase was primarily due to the increase in sales of commercial property insurance, construction insurance, special risk insurance and cargo insurance. Gross written premiums attributable to our commercial property insurance increased 19.7% to RMB1,440 million in the six months ended June 30, 2007 from RMB1,203 million in the same period in 2006.

*Accident and Health Insurance Business.* Gross written premiums attributable to our accident and health insurance business increased 32.9% to RMB554 million in the six months ended June 30, 2007 from RMB417 million in the same period in 2006. This increase was primarily due to our continued focus on growing this line of business.

## Investment Income

Net investment income for our property and casualty insurance business increased 73.2% to RMB381 million in the six months ended June 30, 2007 from RMB220 million in the same period in 2006. This increase was primarily due to the higher dividend income received from our equity investment funds. Net investment yield for our property and casualty insurance business increased to 4.9% in the six months ended June 30, 2007 from 4.3% in the same period in 2006.

Total investment income for our property and casualty insurance business increased 198.1% to RMB930 million in the six months ended June 30, 2007 from RMB312 million in the same period in 2006. Our total investment yield for our property and casualty insurance business increased to 9.6% in the six months ended June 30, 2007 from 5.2% in the same period in 2006.

| **For the six months ended June 30, (in RMB million, except percentages)** | **2007** | 2006 |
|---|---|---|
| Net investment income | **381** | 220 |
| Net investment yield(1) | **4.9%** | 4.3% |
| Total investment income | **930** | 312 |
| Total investment yield(1) | **9.6%** | 5.2% |

(1) Lease income from investment properties and net 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 RMB409 million in the six months ended June 30, 2007 as compared to RMB203 million in the same period in 2006. The bigger change in deferred policy acquisition costs was primarily due to the bigger increase in unearned premium reserves in the six months ended June 30, 2007 as compared to the same period in 2006.

### Claims Expenses

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| Automobile insurance | 3,935 | 2,527 |
| Non-automobile insurance | 594 | 528 |
| Accident and health insurance | 275 | 153 |
| Total claims | 4,804 | 3,208 |

Total claims increased 49.8% to RMB4,804 million in the six months ended June 30, 2007 from RMB3,208 million in the same period in 2006.

Claims attributable to our automobile insurance business increased 55.7% to RMB3,935 million in the six months ended June 30, 2007 from RMB2,527 million in the same period in 2006. This increase was primarily due to the increase in gross written premiums during the past twelve months.

Claims attributable to our non-automobile insurance business increased 12.5% to RMB594 million in the six months ended June 30, 2007 from RMB528 million in the same period in 2006. This increase was primarily due to the increase in gross written premiums during the past twelve months.

Claims attributable to our accident and health insurance business increased 79.7% to RMB275 million in the six months ended June 30, 2007 from RMB153 million in the same period in 2006. This increase was primarily due to the increase in gross written premiums during the past twelve months.

### Commission Expenses of Insurance Operations

| For the six months ended June 30, | 2007 | 2006 |
|---|---|---|
| Commission expenses as a percentage of gross written premiums | 10.2% | 8.0% |

Commission expenses of insurance operations increased 66.5% to RMB1,124 million in the six months ended June 30, 2007 from RMB675 million in the same period in 2006. As a percentage of gross written premiums, commission expenses increased to 10.2% in the six months ended June 30, 2007 from 8.0% in the same period in 2006. These increases were primarily due to the increase in gross written premiums and the higher market commission rates resulting from the increased market competition in the industry.

### General, Administrative and Other Expenses

| For the six months ended June 30, | 2007 | 2006 |
|---|---|---|
| General, administrative and other expenses as a percentage of gross written premiums | **17.4%** | 15.9% |

General, administrative and other expenses increased 43.8% to RMB1,917 million in the six months ended June 30, 2007 from RMB1,333 million in the same period in 2006. General, administrative and other expenses as a percentage of gross written premiums increased to 17.4% in the six months ended June 30, 2007 from 15.9% in the same period in 2006. These increases were primarily due to the increase in gross written premiums and increased competition in the property and casualty insurance industry.

### Income Taxes

| For the six months ended June 30, | 2007 | 2006 |
|---|---|---|
| Effective tax rate | **27.7%** | 43.8% |

Income taxes increased 17.8% to RMB291 million in the six months ended June 30, 2007 from RMB247 million in the same period in 2006. This increase was primarily due to the increase of taxable profit. The effective tax rate decreased to 27.7% in the six months ended June 30, 2007 from 43.8% in the same period in 2006. This decrease was primarily due to the increase in dividend income from equity investment funds, which was entitled to certain tax exemptions.

### Net Profit

As a result of the foregoing, the net profit from our property and casualty insurance business increased 139.7% to RMB760 million in the six months ended June 30, 2007 from RMB317 million in the same period in 2006.

## BANKING BUSINESS

Our banking business consists of two subsidiaries namely: Ping An Bank Limited (“Ping An Bank”) and Shenzhen Commercial Bank Co., Ltd. (“SZCB”). Ping An Bank operates in Shanghai and Fuzhou and obtained an approval from CBRC to provide Renminbi services in June 2006. SZCB operates in Shenzhen and was established on August 3, 1995. SZCB is amongst the top 6 banks in Shenzhen in terms of total loans and deposits size. By the end of 2006, SZCB had completed its restructuring and its registered capital was increased from RMB1,600 million to RMB5,502 million. The Company, through equity transfer and capital injection, acquired 89.36% of SZCB and became its largest shareholder.

On June 16, 2007, the CBRC approved the merger of SZCB and Ping An Bank by pooling of interest. After the merger, SZCB was renamed as Shenzhen Ping An Bank and the existing headquarters of Ping An Bank in Shanghai and branch in Fuzhou are reorganised as Shenzhen Ping An Bank Shanghai Branch and Fuzhou Branch respectively. On June 27, 2007, the industrial and commercial registration procedures for the renaming of Shenzhen Ping An Bank were completed. After the merger, Shenzhen Ping An Bank has 49 sub-branches and 157 ATMs network across Shenzhen, Shanghai and Fuzhou.

The integration and transformation of SZCB into the Group has been progressing smoothly. The organization structure has been reorganized; the segregation of duties and responsibilities has been refined and the IT capability has been significantly enhanced. On business development, the wealth management business kicks off with the launch of three "Anchor Wealth Management Centers" in Shenzhen. On May 21, 2007, we successfully launched the Wanlitong Affinity Credit Card, a China UnionPay standard credit card. This is one of the best affinity credit cards which offers comprehensive insurance protection in the PRC by leveraging the combined strength of our insurance and banking platform.

### Results of Operation

The following table sets forth certain key financial information of our banking business:

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| Net interest income | **1,488** | 11 |
| General and administrative expenses(1) | **(900)** | (9) |
| Net profit | **1,086** | 1 |

The net profit from our banking business increased significantly to RMB1,086 million for the six months ended June 30, 2007 from RMB1 million in the same period in 2006. The increase in net profit was primarily due to the profit contribution from SZCB after the acquisition as compared to the contribution from Ping An Bank alone for the six months ended June 30, 2006.

Besides, the first half of 2007 operation results recognized some non-recurring items(2) amounting to RMB409 million, which mainly included gain from non-performing assets disposals and reversals of litigation provision.

(1) General and administrative expenses included operating expenses, business tax and surcharges, other expenses, non-operating expenses and other assets impairment provisions.

(2) These represent items as allowed by CSRC under CSRC [2004] No. 4 requirement on non-recurring items disclosure.

## Core Business Profitability

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 1,348 | 7 |
| Balances with central bank | 73 | – |
| Due from banks and other financial institutions | 295 | 15 |
| Total interest income | 1,716 | 22 |
| **Interest expenses** | | |
| Customers deposits | (641) | (2) |
| Due to banks and other financial institutions | (157) | (9) |
| Total interest expenses | (798) | (11) |
| **Lending business net interest income** | 918 | 11 |
| **Bond interest income** | 570 | – |
| **Net interest income** | 1,488 | 11 |
| **Net interest spread** (1) | 2.4% | 0.6% |
| **Average interest earning assets balance (in RMB million)** | 118,411 | 1,170 |
| **Average interest bearing liabilities balance (in RMB million)** | 110,507 | 681 |

(1) Net interest spread represents the difference between the annualised average yield on interest earning assets and the annualised average cost on interest bearing liabilities.

Net interest income increased to RMB1,488 million for the six months ended June 30, 2007 from RMB11 million in the same period in 2006. As discussed above, the significant increase in net interest income is due to the acquisition of SZCB.

Net interest spread increased to 2.4% for the six months ended June 30, 2007 from 0.6% in the same period in 2006. In the first half of 2006, Ping An Bank mainly engaged in foreign currency businesses and obtained funding from interbank market where funding cost was not low. With the acquisition of SZCB, our banking business now has a mix of Renminbi and foreign currency banking business with over 3 million customers accounts. Accordingly, funding is now mainly sourced from customer deposits, which has a relatively low cost. As a result, net interest spread improved to 2.4%.

### Operational Efficiency

| For the six months ended June 30, | 2007 | 2006 |
|---|---|---|
| Cost-to-income ratio [(1)] | 46.3% | 84.4% |

(1) Cost-to-income ratio is defined as operating expenses/net operating income. Operating expenses for the calculation of cost-to-income ratio has excluded business tax and surcharges and other expenses, non-operating expenses and other impairment provisions.

Cost-to-income ratio decreased to 46.3% in the six months ended June 30, 2007 from 84.4% in the same period in 2006. However, the cost-to-income ratio for the six months ended June 30, 2006 was solely from Ping An Bank. After the acquisition, for the same period of 2007, the cost-to-income ratio reflects the combined results of SZCB and Ping An Bank.

### Supplementary Reference Information on Shenzhen Ping An Bank's Comparative Data

The following table sets forth the key performance indicators of Shenzhen Ping An Bank for the first half of 2007 as compared to the same period in 2006 [(1)]:

| As at June 30 or for the six months ended June 30, | 2007 | 2006 |
|---|---|---|
| Cost-to-income ratio[(2)] | 46.3% | 35.5% |
| Loan to deposit ratio[(3)] | 52.6% | 72.6% |
| Non-performing loans ratio[(4)] | 1.1% | 8.2% |
| Loan loss provisions/non-perfoming loans ratio | 66.0% | 39.1% |
| Capital adequacy ratio | 10.6% | 4.9% |

(1) The 2006 ratios as stated in this table are unaudited proforma results as if SZCB and Ping An Bank were merged in the first half of 2006 for comparable reference purpose only.

(2) Cost-to-income ratio is defined as operating expenses/net operating income. Due to the increase in costs related to the reorganisation and integration of SZCB as well as those expenses for future development such as key hirings, investments in IT infrastructure and re-branding after Ping An's acquisition, cost-to-income ratio was expected to be maintained at a relatively high level.

(3) Total loans include general term loans and discounted bills.

(4) Non-performing loan is defined as those loans and advances graded as substandard, doubtful and loss. The drop in non-performing loans ratio is mainly due to the disposal of RMB2.8 billion non-performing assets package to Cinda Asset Management Company in 2nd Quarter of 2007.

As at June 30, 2007, after the merger, Shenzhen Ping An Bank's total assets amounted to RMB124,788 million. The capital adequacy ratio was 10.6% and the non-performing loan's ratio was reduced to 1.1%.

## SECURITIES BUSINESS

Our securities business is mainly carried out by our 86.1%-owned subsidiary Ping An Securities. Ping An Securities has 22 branches across China and www.PA18.com as the internet portal.

### Results of Operation

The net profit from our securities business increased significantly to RMB676 million in the six months ended June 30, 2007 from RMB174 million in the same period in 2006.

The following are certain key financial information of our securities business:

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| Net fees and commission income | **975** | 218 |
| Investment income | **396** | 116 |
| Net profit | **676** | 174 |

### Net Fees and Commission Income

The following table sets forth the major components of net fees and commission income:

| For the six months ended June 30, (in RMB million) | 2007 | 2006 |
|---|---|---|
| **Fees and commission income** | | |
| Brokerage fees | **790** | 150 |
| Underwriting commission income | **224** | 35 |
| Others | **32** | 45 |
| Total fees and commission income | **1,046** | 230 |
| **Fees and commission expenses** | | |
| Brokerage fees paid | **(71)** | (12) |
| Total fees and commission expenses | **(71)** | (12) |
| Net fees and commission income | **975** | 218 |

Brokerage fees income from our brokerage business increased significantly to RMB790 million in the six months ended June 30, 2007 from RMB150 million in the same period in 2006. This increase was primarily due to the significant increase in trading volume of the booming PRC stock market.

Underwriting commission income from our investment banking business increased significantly to RMB224 million in the six months ended June 30, 2007 from RMB35 million in the same period in 2006. This increase was primarily due to the booming equity market and our business development efforts.

Total fees and commission expenses increased in line with the business growth. As a result, net fees and commission income increased significantly to RMB975 million in the six months ended June 30, 2007 from RMB218 million in the same period in 2006.

### Investment Income

Investment income from our securities business increased significantly to RMB396 million in the six months ended June 30, 2007 from RMB116 million in the same period in 2006. This increase was primarily due to the increase in realized investment gains from our proprietary trading business.

## TRUST BUSINESS

| **For the six months ended June 30, (in RMB million)** | **2007** | 2006 |
|---|---|---|
| Total income[1] | **448** | 140 |
| Net profit[1] | **275** | 61 |

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

Total income from our trust business increased significantly to RMB448 million in the six months ended June 30, 2007 from RMB140 million in the same period in 2006. Net profit from our trust business increased significantly to RMB275 million in the six months ended June 30, 2007 from RMB61 million in the same period in 2006. These increases were primarily due to the significant increase in assets held under its management and better investment results.

## 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, 2007 | As at December 31, 2006 |
|---|---|---|
| Cash and cash equivalents | **115,851** | 45,964 |
| Held-for-trading investments | **22,756** | 23,615 |
| Total liquid assets | **138,607** | 69,579 |

The Group utilizes short-term borrowings and assets 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, 2007 | As at December 31, 2006 |
|---|---|---|
| Short-term borrowings | **2,428** | 1,518 |
| Assets sold under agreements to repurchase | **22,805** | 13,436 |

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

## CAPITAL STRUCTURE

Total equity increased to RMB97,573 million as at June 30, 2007 from RMB47,750 million as at December 31, 2006. This increase was primarily due to our issue of A shares in the PRC and our operating profit in the six months ended June 30, 2007.

The Group had no material charges on its group assets.

### Gearing Ratio

| | As at June 30, 2007 | As at December 31, 2006 |
|---|---|---|
| Gearing ratio | **84.5%** | 90.6% |

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

### Contractual Obligation and Other Commercial Commitments

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

| (in RMB million) | **As at June 30, 2007** | As at December 31, 2006 |
|---|---|---|
| Contractual commitments (contracted, but not provided for) | **5,947** | 3,431 |
| Operating lease commitments | **1,257** | 1,167 |

## 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, financial assets at fair value 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, against the Renminbi, of all foreign currency denominated monetary assets and monetary liabilities.

| As at June 30, 2007 (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 | **770** |

## 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, 2007 | As at December 31, 2006 |
|---|---|---|
| Adjusted net asset value | **95,567** | 46,282 |
| Value of in-force insurance business written prior to June 1999 | **(16,446)** | (20,932) |
| Value of in-force insurance business written since June 1999 | **51,251** | 48,011 |
| Cost of holding the required solvency margin | **(9,573)** | (7,788) |
| **Embedded Value** | **120,799** | 65,573 |
| Value of one year's new business | **7,323** | 6,007 |
| Cost of holding the required solvency margin | **(1,108)** | (875) |
| **Value of one year's new business after cost of solvency** | **6,215** | 5,132 |

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 only in respect of Ping An Life and not other business units.

## KEY ASSUMPTIONS

The key assumptions used in the embedded value calculation as at June 30, 2007 have been the same as those used in 2006 year-end valuation.

## NEW BUSINESS VOLUMES AND BUSINESS MIX

The volume of new business sold during the past 12 months prior to June 30, 2007 has been modelled to calculate the value of one year's new business. The volume was RMB27,272 million in terms of first year premium. The mix of the new business measured by first year premium was:

| | Percentage |
|---|---|
| **Individual life** | **51.3%** |
| Long-term business | 49.5% |
| Short-term business | 1.8% |
| **Group life** | **26.0%** |
| Long-term business | 16.7% |
| Short-term business | 9.3% |
| **Bancassurance** | **22.7%** |
| Long-term business | 22.7% |
| **Total** | **100.0%** |

* Figures may not be additive due to rounding.

## SENSITIVITY ANALYSIS

The Group has investigated the effect, on the value of in-force business and the value of one year's new business, of varying independently certain assumptions regarding future experience. Specifically, the following changes in assumptions have been considered:

- Risk discount rate
- Investment return increased by 50 basis points every year
- Investment return increased by 100 basis points every year
- A 10% reduction in mortality and morbidity for assured lives
- A 10% reduction in policy discontinuance rates
- A 10% reduction in maintenance expense
- A 5% increase in the policyholders' dividend payout ratio

| (in RMB million) | Risk Discount Rate | | | |
|---|---|---|---|---|
| | **Earned Rate/11.0%** | **Earned Rate/12.0%** | **Earned Rate/13.0%** | **12.0%** |
| Value of in-force business | 27,309 | 25,232 | 23,330 | 25,902 |
| | **11.0%** | **12.0%** | **13.0%** | **Earned Rate/12.0%** |
| Value of one year's new business | 6,814 | 6,215 | 5,694 | 7,060 |

| Assumptions (in RMB million) | Value of in-force business | Value of one year's new business |
|---|---|---|
| Central case | 25,232 | 6,215 |
| Investment return increased by 50bp every year | 33,339 | 6,473 |
| Investment return increased by 100bp every year | 40,838 | 6,733 |
| 10% reduction in mortality and morbidity rates | 25,566 | 6,343 |
| 10% reduction in policy discontinuance rates | 25,769 | 6,452 |
| 10% reduction in maintenance expense | 26,064 | 6,353 |
| 5% increase in the policyholders' dividend payout ratio | 24,046 | 6,070 |

Risk discount rates were earned rate/12.0% and 12.0% for in-force business and new business respectively.

# Independent Auditors' Report

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

We have audited the consolidated financial statements of Ping An Insurance (Group) Company of China, Ltd. (the "Company") and its subsidiaries (collectively the "Group") set out on pages 31 to 138 which comprise the consolidated balance sheet as at June 30, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended June 30, 2007, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditors' Report

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at June 30, 2007 and of the Group's profit and cash flows for the six months then ended in accordance with International Financial Reporting Standards.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong
August 16, 2007

# Consolidated Income Statement

*For the six months ended June 30, 2007*

| For the six months ended June 30, (in RMB million) | Notes | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|---|
| Gross written premiums and policy fees | 7 | **43,138** | 37,486 |
| Less: Premiums ceded to reinsurers | | **(2,600)** | (2,466) |
| Net written premiums and policy fees | | **40,538** | 35,020 |
| Increase in unearned premium reserves, net | | **(2,191)** | (2,156) |
| Net earned premiums | | **38,347** | 32,864 |
| Reinsurance commission income | | **675** | 922 |
| Interest income of banking operations | 8 | **1,716** | 22 |
| Other fees and commission income | 9 | **1,357** | 218 |
| Investment income | 10 | **25,668** | 9,593 |
| Share of profits and losses of an associate | | **–** | – |
| Other income | 11 | **1,258** | 358 |
| **Total income** | | **69,021** | 43,977 |
| Change in deferred policy acquisition costs | 26 | **4,136** | 2,611 |
| Claims and policyholders' benefits | 12 | **(47,849)** | (33,727) |
| Changes in fair value of derivative financial liabilities | | **106** | 86 |
| Commission expenses of insurance operations | | **(5,673)** | (3,933) |
| Interest expenses of banking operations | 8 | **(689)** | (1) |
| Other fees and commission expenses | 9 | **(213)** | (30) |
| Loan loss provisions, net of reversals | 22 | **105** | – |
| Foreign currency losses | | **(335)** | (130) |
| General and administrative expenses | | **(7,793)** | (4,135) |
| **Total expenses** | | **(58,205)** | (39,259) |
| Operating profit before tax | 13 | **10,816** | 4,718 |
| Income taxes | 14 | **(847)** | (556) |
| **Net profit** | | **9,969** | 4,162 |
| **Attributable to:** | | | |
| – Equity holders of the parent | | **9,690** | 4,099 |
| – Minority interests | | **279** | 63 |
| | | **9,969** | 4,162 |
| | | ***RMB*** | *RMB* |
| **Earnings per share for net profit attributable to equity holders of the parent – basic** | 16 | **1.39** | 0.66 |

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

# Consolidated Balance Sheet

*As at June 30, 2007*

| **(in RMB million)** | *Notes* | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| Balances with central bank and statutory deposits | *17* | **11,220** | 9,234 |
| Cash and amounts due from banks and other financial institutions | *18* | **119,403** | 95,912 |
| Fixed maturity investments | *19* | **261,587** | 213,041 |
| Equity investments | *20* | **66,542** | 46,729 |
| Derivative financial assets | *21* | **16** | 21 |
| Loans and advances to customers | *22* | **58,427** | 49,152 |
| Investments in an associate | *23* | **176** | 176 |
| Premium receivables | *24* | **5,123** | 2,939 |
| Reinsurance assets | *25* | **5,120** | 4,130 |
| Policyholder account assets in respect of insurance contracts | | **27,340** | 20,961 |
| Policyholder account assets in respect of investment contracts | | **4,550** | 3,971 |
| Deferred policy acquisition costs | *26* | **36,069** | 31,866 |
| Investment properties | *27* | **3,656** | 1,528 |
| Property and equipment | *28* | **7,047** | 4,766 |
| Intangible assets | *29* | **1,530** | 1,484 |
| Deferred income tax assets | *38* | **260** | 417 |
| Other assets and receivables | *30* | **9,706** | 8,108 |
| **Total assets** | | **617,772** | 494,435 |

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

| (in RMB million) | Notes | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | *31* | **7,345** | 6,195 |
| Reserves | *32* | **70,939** | 29,703 |
| Retained profits | *32* | **17,749** | 10,477 |
| Equity attributable to equity holders of the parent | | **96,033** | 46,375 |
| Minority interests | | **1,540** | 1,375 |
| Total equity | | **97,573** | 47,750 |
| **Liabilities** | | | |
| Due to banks and other financial institutions | *33* | **9,382** | 5,138 |
| Assets sold under agreements to repurchase | *34* | **22,805** | 13,436 |
| Derivative financial liabilities | *21* | **356** | 178 |
| Customer deposits | *35* | **77,930** | 75,960 |
| Insurance contract liabilities | *36* | **379,315** | 329,541 |
| Investment contract liabilities for policyholders | *37* | **5,020** | 4,233 |
| Policyholder dividend payable and provisions | | **4,771** | 4,107 |
| Income tax payable | | **681** | 691 |
| Deferred income tax liabilities | *38* | **4,189** | 1,657 |
| Other liabilities | *39* | **15,750** | 11,744 |
| Total liabilities | | **520,199** | 446,685 |
| **Total equity and liabilities** | | **617,772** | 494,435 |

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

| | | |
|---|---|---|
| **MA Mingzhe** | **CHEUNG Chi Yan Louis** | **SUN Jianyi** |
| *Director* | *Chief Financial Officer, and Director* | *Director* |

# Consolidated Statement of Changes in Equity

*For the six months ended June 30, 2007*

| (in RMB million) | Notes | Equity attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | |
| | | Share capital (Audited) | Capital reserve (Audited) | Surplus reserve fund (Audited) | General reserve (Audited) | Net unrealized gains (Audited) | Foreign currency translation differences (Audited) | Retained profits (Audited) | Minority interests (Audited) | Total (Audited) |
| As at January 1, 2007 | | 6,195 | 14,835 | 6,126 | 517 | 8,250 | (25) | 10,477 | 1,375 | 47,750 |
| Issue of new shares in the PRC | | 1,150 | 37,720 | – | – | – | – | – | – | 38,870 |
| Shares issue expenses | | – | (648) | – | – | – | – | – | – | (648) |
| Net profit for the six months ended June 30, 2007 | | – | – | – | – | – | – | 9,690 | 279 | 9,969 |
| Net gains on available-for-sale investments | | – | – | – | – | 15,397 | – | – | 154 | 15,551 |
| Net gains on available-for-sale investments removed from equity and reported in net profit | | – | – | – | – | (8,727) | – | – | (88) | (8,815) |
| Deferred tax recognized, net | 14 | – | – | – | – | (2,422) | – | – | (24) | (2,446) |
| Dividends declared | 15 | – | – | – | – | – | – | (1,616) | – | (1,616) |
| Appropriations to statutory reserve | 32 | – | – | 808 | – | – | – | (808) | – | – |
| Transfer of surplus reserve fund | 32 | – | – | (6) | – | – | – | 6 | – | – |
| Acquisition of minority interests | | – | – | – | – | – | – | – | (113) | (113) |
| Currency translation adjustments | | – | – | – | – | – | (23) | – | – | (23) |
| Dividends for minority interests | | – | – | – | – | – | – | – | (34) | (34) |
| Shadow accounting adjustment | 26, 36 | – | – | – | – | (863) | – | – | (9) | (872) |
| As at June 30, 2007 | | 7,345 | 51,907 | 6,928 | 517 | 11,635 | (48) | 17,749 | 1,540 | 97,573 |

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

*For the six months ended June 30, 2006*

| | | Equity attributable to equity holders of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | | | |
| (in RMB million) | *Notes* | Share capital (Unaudited) | Capital reserve (Unaudited) | Surplus reserve fund (Unaudited) | Statutory public welfare fund (Unaudited) | General reserve (Unaudited) | Net unrealized gains (Unaudited) | Foreign currency translation differences (Unaudited) | Retained profits (Unaudited) | Minority interests (Unaudited) | Total (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 | | – | – | – | – | – | 3,961 | – | – | 38 | 3,999 |
| Net gains on available-for-sale investments removed from equity and reported in net profit | | – | – | – | – | – | (1,204) | – | – | (12) | (1,216) |
| Deferred tax recognized, net | *14* | – | – | – | – | – | (300) | – | – | (3) | (303) |
| Dividends declared | *15* | – | – | – | – | – | – | – | (1,239) | – | (1,239) |
| Transfer to surplus reserve fund | | – | – | 783 | (783) | – | – | – | – | – | – |
| Currency translation adjustments | | – | – | – | – | – | – | (3) | – | (1) | (4) |
| Dividends for minority interests | | – | – | – | – | – | – | – | – | (50) | (50) |
| Shadow accounting adjustment | *26, 36* | – | – | – | – | – | (759) | – | – | (8) | (767) |
| As at June 30, 2006 | | 6,195 | 14,835 | 5,526 | – | 430 | 2,413 | (16) | 8,168 | 553 | 38,104 |

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

# Consolidated Cash Flow Statement

*For the six months ended June 30, 2007*

| For the six months ended June 30, (in RMB million) | *Notes* | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|---|
| **Net cash from operating activities** | *44* | **19,851** | 25,044 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of investment properties, property and equipment, and intangible assets | | **(2,043)** | (527) |
| Proceeds from disposal of investment properties, property and equipment, and intangible assets | | **92** | 9 |
| Purchases of investments, net | | **(17,481)** | (17,297) |
| Term deposits withdrawal, net | | **15,113** | 997 |
| Acquisition of a subsidiary | *5* | **(382)** | – |
| Acquisition of minority interest in a subsidiary | | **(229)** | – |
| Proceeds from assets purchased under agreements to resell | | **(131)** | (260) |
| Interest received | | **6,123** | 4,757 |
| Dividends received | | **4,470** | 968 |
| Rentals received | | **151** | 58 |
| Net cash inflow/(outflow) from investing activities for policyholders' accounts | | **2,673** | (1,667) |
| **Net cash used in investing activities** | | **8,356** | (12,962) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from share issued | | **38,222** | – |
| Proceeds from sales in assets sold under agreements to repurchase | | **9,369** | (6,039) |
| Proceeds from borrowed funds | | **192** | 2 |
| Interest paid | | **(361)** | (43) |
| Dividends paid | | **(1,719)** | (1,282) |
| Net cash outflow from financing activities for policyholders' accounts | | **(1,059)** | (421) |
| **Net cash from financing activities** | | **44,644** | (7,783) |
| Net increase in cash and cash equivalents | | **72,851** | 4,299 |
| Net foreign exchange differences | | **(74)** | (18) |
| Cash and cash equivalents at beginning of period | | **47,327** | 25,488 |
| **Cash and cash equivalents at end of period** | *43* | **120,104** | 29,769 |

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

*As at June 30, 2007*

## 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's principal subsidiaries are mainly engaged in the provision of life insurance, property and casualty insurance, banking and other financial services.

The registered address of the Company is Ping An Building, Ba Gua No.3 Road, Shenzhen, the PRC.

The principal structure and business of the Company and its subsidiaries (collectively the "Group") changed during the six months ended June 30, 2007 (the "Period") as follows:

(1) By January 1, 2007, China Ping An Trust & Investment Co., Ltd ("Ping An Trust") completed the acquisition of 99% equity interest in Shenzhen CITIC City Plaza Investment Co., Ltd ("Shenzhen CITIC Plaza"). The paid-up capital of Shenzhen CITIC Plaza is RMB20 million.

(2) By June 26, 2007, Shenzhen Commercial Bank Co., Ltd ("SZCB") completed the acquisition of 100% equity interest in Ping An Bank Limited ("Ping An Bank") from Ping An Trust and the minority investor of Ping An Bank. Subsequent to the acquisition, SZCB was renamed as Shenzhen Ping An Bank Co., Ltd. ("Shenzhen Ping An Bank") on June 27, 2007.

## 2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has not applied the following key new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| IAS 23 | Borrowing Costs |
| IFRS 8 | Operating Segments |
| IFRIC-Int 11 | IFRS 2 – Group and Treasury Share Transaction |
| IFRIC-Int 12 | Service Concession Arrangements |
| IFRIC-Int 13 | Customer Loyalty Programmes |
| IFRIC-Int 14 | IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

IAS 23 (revised) shall be applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. The main change is the removal of the option to immediately recognise as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

IFRS 8 shall be applied for annual periods beginning on or after January 1, 2009 and will replace the existing IAS 14 "Segment Reporting". IFRS 8 requires an entity to adopt the "management approach" to report on the financial performance of its operating segments. Generally, the information to be reported would be that used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

## 2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

IFRIC-Int 12 and IFRIC-Int 14 shall be applied for annual period beginning after 1 January 2008. IFRIC-Int 11 and IFRIC-Int 13 shall be applied for annual periods beginning on or after March 1, 2007 and July 1, 2008, respectively.

The Group is in the process of making an assessment of the impact of the new and revised IFRSs upon initial application. So far, it has concluded that the adoption of the above new or revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. The financial statements have been prepared under the historical cost convention other than those financial instruments that have been measured at fair values and insurance contract liabilities that have been measured based on actuarial methods. The above basis of preparing financial statements differs from that used in the statutory accounts of the Group and the Company, which are prepared in accordance with prevailing PRC Accounting Standards. The major adjustments made include restating insurance contract liabilities and deferred policy acquisition costs, related deferred tax.

The Group presents its balance sheet broadly with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), presented in the notes.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

As in prior years, to the extent a specific topic is not covered specifically by IFRSs, the IFRS framework permits reference to another comprehensive body of accounting principles, and therefore:

– The Group has chosen to use the revenue accounting practices currently adopted by insurance companies reporting under the Companies Ordinance and Insurance Companies Ordinance of Hong Kong; and

– The Group has made reference to specific accounting principles generally accepted in the United States for guidance on the measurement of its insurance liabilities and associated deferred policy acquisition costs, specifically, the measurement guidance provisions contained within Statements of Financial Accounting Standards No. 60 and 97.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (2) Changes in 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:

- IAS 1 Amendment: Capital Disclosure

  IAS 1 Amendment affects the disclosure about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

- IFRS 7 Financial Instruments: Disclosure

  IFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

- | | |
  |---|---|
  | IFRIC-Int 7 | Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies |
  | IFRIC-Int 8 | Scope of IFRS 2 |
  | IFRIC-Int 9 | Reassessment of Embedded Derivatives |
  | IFRIC-Int 10 | Interim Financial Reporting and Impairment |

  Other than additional disclosures, adoption of these revised standards and new interpretations did not have significant impact on the Group's financial statements.

The above revised accounting policies have no significant impact on these financial statements, and the Group considers other new or revised IFRSs and related pronouncements effective in the Period do not have significant impact on these financial statements either.

### (3) Foreign currency translation

The Group's presentation currency is Renminbi ("RMB"). This is also the functional currency of the Company and its domestic subsidiaries.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement, except when it relates to items when gains or losses are recognized directly in equity, the gain or loss is then recognized net of the exchange component in equity.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (3) Foreign currency translation *(Continued)*

The functional currency of the overseas subsidiaries is Hong Kong dollars. As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of the Company at the exchange rate ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences, if material, arising on the retranslation are taken directly to a separate component of equity.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

### (4) Principles of consolidation

The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at June 30, 2007. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The acquisition of subsidiaries during the period has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (5) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### (6) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are stated at cost less any impairment losses.

### (7) Financial assets

The Group classifies its investments into financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired or originated. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are relatively passively managed and/or carried at amortized cost. Financial assets are classified as at fair value through profit or loss when, for example, the Group acquires such assets to cover certain insurance and investment contract liabilities measured at fair value.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date the Group commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (7) Financial assets *(Continued)*

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on a different basis; or

– the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realized gain and loss are recognized in the income statement.

Financial assets at fair value through profit or loss include derivative financial instruments.

Held-to-maturity financial assets are non-derivative financial assets that comprise fixed or determinable payments and maturities of which the Group has the positive intention and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost using the effective interest method. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost, using the effective interest method. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (7) Financial assets *(Continued)*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the income statement.

### (8) Derivative financial instruments

The Group's derivative financial instruments mainly include stock warrants issued, interest rate swaps, derivatives embedded in certain insurance contracts, options embedded in convertible bonds purchased by the Group, forward currency contracts. Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Embedded derivatives are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through the income statement. Embedded derivatives that meet the definition of insurance contracts are treated and measured as insurance contracts.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are initially recorded at fair value. Subsequent to initial recognition, these instruments are remeasured at fair value. Fair value adjustments and realized gains and losses are recognized in the income statement.

### (9) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar instruments. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (9) Fair value of financial instruments *(Continued)*

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the balance sheet date.

If the fair value cannot be measured reliably, financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

### (10) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

For held-to-maturity financial assets and loans and other receivables carried at amortized cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

(a) significant financial difficulty of the issuer or debtor;

(b) a breach of contract, such as a default or delinquency in payments;

(c) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

(d) the disappearance of an active market for that financial asset because of financial difficulties; or

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (10) Impairment of financial assets *(Continued)*

(e) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

- adverse changes in the payment status of issuers or debtors in the Group; or

- national or local economic conditions that correlate with defaults on the assets in the Group.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognized in the income statement.

For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted equity investment that is not carried at fair value, because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment is recognized in the income statement. Impairment for these assets is not reversed.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (11) Derecognition of financial assets

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### (12) Assets purchased under agreements to resell

The Group enters into purchases of assets under agreements to resell substantially identical assets. These agreements are classified as loans and receivables. Assets purchased under agreements to resell are recorded at the cost of the amounts advanced. The amounts advanced under these agreements are reflected as assets in the balance sheet. The Group may not take physical possession of assets purchased under agreements to resell. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying assets.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (13) Investment properties

Investment properties are interest in buildings that are held to earn rental income rather than for the supply of services or for administrative purposes.

Investment properties are initially measured at cost, which is the fair value of the consideration given to acquire them, including transaction costs. Subsequently, all investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is computed on a straight-line basis, after taking into account the estimated residual value (5% of original cost), over the estimated useful lives. The estimated useful lives of investment properties vary from 30 to 35 years.

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the individual investment properties.

Fully depreciated assets are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

Transfers to, or from, investment properties are made when, and only when, there is evidence of a change in use.

### (14) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits, current accounts with central bank and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

### (15) Assets sold under repurchase agreements

Assets sold under repurchase agreements continue to be recognized but a liability is established for the consideration received. The Group may be required to provide additional collateral based on the fair value of the underlying assets and such collateral assets continue to be carried on the balance sheet.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (16) Deferred policy acquisition costs

**(a) Deferred policy acquisition costs for long term traditional insurance, investment-linked and universal life insurance contracts**

The costs of acquiring new business, including commissions, underwriting, marketing and policy issue expenses, which vary with and are directly related to the production of the new business, are deferred. Deferred policy acquisition costs are subject to recoverability testing at the time of the issue of the policy and at the end of each accounting period.

Deferred policy acquisition costs for traditional life insurance and annuity policies are amortized over the expected life of the insurance contracts as a constant percentage of expected premiums, which are estimated at the date of the issue of the policy and are consistently applied throughout the life of the contract unless a premium deficiency occurs, in which case the deferred policy acquisition costs will be written down.

Deferred policy acquisition costs for long term investment-linked and universal life insurance contracts are amortized over the expected life of the contracts based on a constant percentage of the present value of estimated gross profits that are expected to be realized over the life of the contract. Estimated gross profits include expected amounts to be assessed for mortality, administration, investment and surrender, less benefit claims in excess of policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in the consolidated income statement.

**(b) Deferred policy acquisition costs for property and casualty and short term life insurance policies**

Acquisition costs, being primarily commissions and premium taxes, which vary with and are directly related to the acquisition of business, are deferred and amortized over the period in which the related written premiums are earned. Deferred policy acquisition costs are periodically reviewed to determine that they do not exceed recoverable amounts, after considering expected future investment income. Contributions received from reinsurers towards acquisition costs are deferred in an identical manner.

### (17) Property and equipment

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (17) Property and equipment *(Continued)*

The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | Estimated residual values | Estimated useful lives |
|---|---|---|
| Leasehold improvements | – | Over the shorter of economic useful lives and terms of the leases |
| Buildings | 5% | 30-35 years |
| Office equipment, furniture and fixtures | 5% | 5 years |
| Motor vehicles | 5% | 5-8 years |

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

Fully depreciated assets are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

### (18) Construction-in-progress

Construction-in-progress mainly represents costs incurred in the construction of office premises, as well as the cost of equipment pending installation.

No provision for depreciation is made on construction-in-progress until such time the relevant assets are completed and put into use.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (19) Prepaid land premiums

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognized on a straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and the buildings as a finance lease in property and equipment.

### (20) Business combinations and goodwill

Business combinations are accounted for using acquisition accounting method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring costs) of the acquired business at fair value.

Goodwill acquired in business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest within the Group at which the goodwill is monitored for internal management purpose; and

- is not larger than a segment based on either the Group's primary or secondary reporting format determined in accordance with IAS 14 *Segment Reporting*.

Where goodwill forms part of cash generating unit (or group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the income statement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (21) Insurance product classification

#### (a) Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contracts, or those where at the inception of the contracts there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk as determined by the Group is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

#### (b) Investment contracts

Insurance policies not considered insurance contracts under IFRS 4 are classified as investment contracts. Investment contracts are classified into with and without discretionary participation features ("DPF"). Deposits collected under investment contracts without DPF are not accounted for through the income statement but are accounted for directly through the balance sheet as an adjustment to investment contract liabilities. Deposits collected under investment contracts with DPF are accounted for through the income statement as if they are insurance contracts.

### (22) Insurance contract liabilities

#### (a) Long term life insurance policyholders' reserves

Long term life insurance contracts are intended to be of greater than twelve months duration, are not subject to unilateral changes in the contract terms and require the performance of various functions and services (including, but not limited to, insurance protection) for an extended period.

Policyholders' reserves represent the estimated future benefit liability payable to policyholders for long term life insurance policies, other than policyholders' account balances in respect of investment-linked and universal life insurance contracts. Liabilities for contractual benefits that are expected to be incurred in the future are recorded when the related premiums are recognized. Such liabilities for life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses, policyholder dividends and investment return, including a margin for adverse deviation. The assumptions are established at the time of the issue of the policy and remain unchanged except where loss recognition occurs.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (22) Insurance contract liabilities *(Continued)*

**(a) Long term life insurance policyholders' reserves** *(Continued)*

For participating life insurance policies, under current PRC insurance regulations, not less than 70% of the distributable surplus would be allocated for the benefit of policyholders (the exact percentage is estimated based on the Group's distribution basis, contract terms and prevailing regulations), and this obligation is provided for within total liabilities; after the respective amounts allocated to participating policyholders and to the Group have been deducted from distributable surplus, any unallocated portion at the end of the reporting period is held within liabilities. Also included in liabilities is reserve held for the future benefit of universal life policies, as allowed by PRC reserving regulations mainly to smooth credit rate for such policyholders. Therefore, the Group's insurance contract liabilities include estimated policyholders' share of realized and unrealized gain on investments payable to participating and universal life policyholders in the future (shadow accounting will apply if part of the unrealized gain is captured within equity).

For policies where the premium payment period is less than the policy term, an extra reserve, often known as deferred profit liability, is also included in policyholders' reserves. The deferred profit liability ensures a profit emergence in a constant relationship to the amount of insurance in force.

**(b) Claim reserves**

These comprise a best estimate of insurance contract provisions for the ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of claims and therefore, the ultimate cost cannot be known with certainty at the balance sheet date. The methods of determining such estimates and establishing the resulting liabilities are continually reviewed and updated. Resulting adjustments are reflected in the income statement for the period. The Group does not discount its claim reserves.

**(c) Unearned premium reserves**

Upon inception of property and casualty and short term life insurance contracts, premiums are recorded as written and are earned on a pro-rata basis over the term of the related policy coverage. The unearned premium reserves represent the portions of premiums written relating to unexpired periods of coverage.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (22) Insurance contract liabilities *(Continued)*

#### (d) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of the related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement initially by writing off deferred policy acquisition costs and subsequently by establishing a provision for losses arising from the liability adequacy tests. As mentioned above, long term life insurance contracts with fixed terms are measured based on assumptions set out at the inception of the policies. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions are used for the subsequent measurement of these liabilities. For short term life and property and casualty insurance contracts, a provision is assessed on the basis of estimates of future claims, costs, premiums earned, etc.

### (23) Investment contract liabilities

The insurance policies that do not meet the definition of an insurance contract are investment contracts and carried at amortized cost or estimated fair value.

### (24) Investment-linked business

The assets and liabilities related to investment-linked contracts which are regarded as insurance contracts are presented as policyholder account assets and liabilities in respect of insurance contracts. For assets and liabilities related to investment-linked contracts regarded as investment contracts, they are presented as policyholder account assets and liabilities in respect of investment contracts. Policyholder account assets and liabilities represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. The net investment income on policyholder account assets accrues directly to the policyholders and are not credited to the Group's income statement. The assets and liabilities of each investment-linked fund are carried at estimated market value based on application requirements and are segregated from each other and from the rest of the Group's invested assets for recording purposes.

Revenue from investment-linked business consists of policy fees which are used to cover the insured risks and associated costs. Policy fees include fees for the cost of insurance, administration fees and gains on surrenders. Amounts received other than policy fees collected as premiums and administration fees from these contracts are reported as policyholder account liabilities. Policy benefits and claims incurred in the period are charged to claim expenses in the consolidated income statement, to the extent such amounts are not covered by the said liabilities.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (25) Universal life business

Revenue for these contracts consists of policy fees which are used to cover the insured risks and associated costs, as well as related investment income. Policy fees include fees for the cost of insurance, administration fees and gains on surrenders. These fees collected with respect to future services are deferred and recognized in a manner similar to the deferred policy acquisition costs related to such contracts. Expenses include interest credited to policyholder contract deposits and benefit payments made in excess of policyholder contract deposits.

### (26) Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognized on the following bases:

**(a) Premium income**

Premiums from long term, traditional and participating life insurance contracts are recognized as revenue when premiums as stated in the contracts are considered collectible from the policyholders. Premiums from long term property and casualty insurance contracts are recognized as revenue when due from policyholders. Short term property and casualty and life insurance premiums, net of endorsements, are recorded as written at the inception of risk.

**(b) Investment-linked business**

Policy fees from investment-linked business are the difference between premiums received for investment-linked contracts and the amounts of premiums allocated to policyholder account liabilities.

Administration fees are computed at the predetermined contract rate and are charged at the end of each month.

**(c) Universal life business**

Those parts of the premiums used to cover the insured risks and associated costs are treated as premium income. These include fees for the cost of insurance, administration fees, surrender charges, etc.

**(d) Interest income**

Interest income for interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognized in the income statement using the effective interest rate method. When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (26) Revenue recognition *(Continued)*

#### (e) Other fees and commission income

The Group earns other fees and commission income from a diverse range of services it provides to its customers. Other fees income can be divided into the following two categories:

*Fees income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund administration fees, custodian fees, fiduciary fees, credit related fees, asset management fees, portfolio and other management fees, advisory fees, etc. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

*Fees income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on the completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, brokerage fees, etc. Loan syndication fees are recognized in the income statement when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

#### (f) Dividend income

Dividends income is recognized when the right to receive dividend payment is established.

### (27) Reinsurance

The Group cedes insurance risk in the normal course of business for its insurance businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the income statement.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (27) Reinsurance *(Continued)*

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contracts.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

### (28) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases.

Where the Group is the lessor, assets leased by the Group under operating leases are included in investment properties and rentals receivable under such operating leases are credited to the consolidated income statement on a straight-line basis over the lease terms.

Where the Group is the lessee, rentals payable under operating leases are charged to the consolidated results on a straight-line basis over the lease terms. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expenses over the lease terms on a straight-line basis.

### (29) Employee benefits

**(a) Pension obligations**

The employees of the Group are mainly covered by various defined contribution pension plans. The Group makes and accrues on a monthly basis contributions to the pension plans, which are mainly sponsored by the related government authorities that are responsible for the pension liability to retired employees. Under such plans, the Group has no other significant legal or constructive obligations for retirement benefits beyond the said contributions, which are expensed as incurred. Certain employees are also provided with group life insurance but the amounts involved are insignificant.

**(b) Housing benefits**

The employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (29) Employee benefits *(Continued)*

**(c) Medical benefits**

The Group makes contributions for medical benefits to the local authorities in accordance with the relevant local regulations.

### (30) Share-based payment transactions

Certain employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for share appreciation rights which are settled in cash.

The cost of share appreciation rights is measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments are granted. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognized in the income statement.

### (31) Tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (31) Tax *(Continued)*

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (32) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for a non-financial asset is required, the Group makes an estimate of the asset's recoverable amount. A non-financial asset's recoverable amount is the higher of the asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of a non-financial asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For non-financial assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit (or group of cash generating units), to which the goodwill relates. The recoverable amount is the higher of its fair value less costs to sell and its value-in-use, determined on an individual asset (or cash generating unit) basis, unless the individual asset (or cash generating unit) does not generate cash flows that are largely independent from those of other assets or groups of assets (or groups of cash generating units). Impairment losses recognized in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Intangible assets with indefinite useful lives are tested for impairment annually at each year end either individually or at the cash generating unit level, as appropriate.

*As at June 30, 2007*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (33) Fiduciary activities

Where the Group acts in a fiduciary capacity such as nominee, trustee or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the balance sheet.

The Group's banking operation grants entrusted loans on behalf of third-party lenders, which are recorded off-balance sheet. The Group, as an agent, grants such entrusted loans to borrowers under the direction of those third-party lenders who fund these loans. The Group has been contracted by those third-party lenders to manage the administration and collection of these loans on their behalf. Those third-party lenders determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which is recognized ratably over the period in which the service is provided. The risk of loss is borne by those third-party lenders.

### (34) Financial guarantee contracts

The Group's banking operation issues letters of credit and letters of guarantee. These financial guarantee contracts provide for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation. The Group initially measures such contracts at fair value. This amount is recognized ratably over the period of the contract to fees and commission income. Subsequently, the liabilities are measured as the higher of the initial fair value less cumulative amortization and the fair value of the provision related to the Group's obligation under the contract. The change in fair value of the provision due to impairment is recognized in the income statement as impairment losses.

Apart from the above 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.

### (35) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (35) Related parties *(Continued)*

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgments that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognized in the financial statements.

**(1) Classification of investments**

Management shall make significant judgments on classification of investments. Different classifications would affect the accounting treatment and the Group's financial position and operating results. If the Group's investment classification is subsequently proved to be wrong, reclassification may be required for certain investment categories as a whole.

**(2) Classification of insurance contracts**

Management shall make significant judgments on classification of insurance contracts. Different classifications would affect the accounting treatment and the Group's financial position and operating results.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period are discussed below.

**(1) Valuation of insurance contract liabilities**

*Life insurance contract liabilities*

The liability for life insurance contracts (including investment contracts with DPF) is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

*As at June 30, 2007*

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(Continued)*

### Estimates and assumptions *(Continued)*

**(1) Valuation of insurance contract liabilities** *(Continued)*

Certain acquisition costs related to the sale of new policies are recorded in deferred policy acquisition costs and are amortized to the income statement over time. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and may require additional write-offs to the income statement.

The main assumptions used relate to mortality, morbidity, investment returns, expenses, lapse and surrender rates. The Group base mortality and morbidity tables on standard industry tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

Lapse and surrender rates depend on product features, policy duration and external circumstance, such as sale trends. Credible own experience is used in establishing these assumptions.

*Property and casualty and short term life insurance contract liabilities*

For property and casualty and short term life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported at the balance sheet date ("IBNR"). It may take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(Continued)*

### Estimates and assumptions *(Continued)*

**(1) Valuation of insurance contract liabilities** *(Continued)*

*Property and casualty and short term life insurance contract liabilities (Continued)*

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future (for example to reflect one-off occurrences, changes in external or maker factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures), so as to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

**(2) Valuation of investment contracts without DPF liabilities**

Unitized investment contract fair values are determined by reference to the values of the assets backing the liabilities, which are based on the value of the investment-linked funds.

Non-unitized investment contract fair values are approximated by the account value held by the relevant policy holders.

**(3) Fair value of financial assets and derivative financial instruments determined using valuation techniques**

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing model. For reference to similar instruments, instruments should have similar credit ratings.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

*As at June 30, 2007*

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(Continued)*

### Estimates and assumptions *(Continued)*

**(3) Fair value of financial assets and derivative financial instruments determined using valuation techniques** *(Continued)*

Option pricing models incorporate all factors that market participants would consider and are based on observable market data when available. These models consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions.

The valuation techniques described above are calibrated annually.

**(4) Impairment losses of loans and advances**

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

**(5) Deferred income tax assets and liabilities**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Significant management judgement is required to estimate the amount and timing of future taxable profit as well as the applicable tax rates so as to determine, together with the tax planning strategies, the amount of deferred income tax assets and liabilities to be recognized.

## 5. BUSINESS COMBINATION

As mentioned in Note 1, on January 1, 2007, the Group completed its acquisition of 99% equity interests in Shenzhen CITIC Plaza.

The fair values of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition were:

| (in RMB million) | Fair value recognized on acquisition | Carrying value |
|---|---|---|
| Cash and amounts due from banks and other financial institutions | 29 | 29 |
| Investment properties | 1,955 | 1,543 |
| Other assets | 4 | 4 |
| Sub-total | 1,988 | 1,576 |
| Long term loans | 1,319 | 1,319 |
| Deferred income tax liabilities | 62 | – |
| Other liabilities | 234 | 234 |
| Sub-total | 1,615 | 1,553 |
| Fair value of net assets | 373 | 23 |
| Fair value of net assets acquired attributable to the Group | 373 | |
| Goodwill arising on acquisition | 66 | |
| Cost of acquisition | 439 | |
| Less: payable balance | (28) | |
| Cash paid | 411 | |

Cash outflow on acquisition of the subsidiary:

| | |
|---|---|
| Net cash acquired with the subsidiary | 29 |
| Cash paid | (411) |
| Net cash outflow | (382) |

*As at June 30, 2007*

## 6. SEGMENT REPORTING

The Group's business segment information is currently divided into life insurance business, property and casualty insurance business, banking business, securities business, corporate 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.

Segment assets and liabilities mainly comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's consolidated balance sheet. The Group's revenue and net profit for the year were mainly derived from the above activities in the PRC. Accordingly, no further segment analysis by geographical area is provided.

## 6. SEGMENT REPORTING *(Continued)*

The segment analysis as at June 30, 2007 and for the Period is as follows:

| (in RMB million) | Life insurance (Audited) | Property and casualty insurance (Audited) | Banking (Audited) | Securities (Audited) | Corporate (Audited) | Others (Audited) | Elimination (Audited) | Total (Audited) |
|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | |
| Gross written premiums and policy fees | 32,134 | 11,004 | – | – | – | – | – | 43,138 |
| Less: Premiums ceded to reinsurers | (476) | (2,124) | – | – | – | – | – | (2,600) |
| Increase in unearned premium reserves, net | (277) | (1,914) | – | – | – | – | – | (2,191) |
| Net earned premiums | 31,381 | 6,966 | – | – | – | – | – | 38,347 |
| Reinsurance commission income | 111 | 564 | – | – | – | – | – | 675 |
| Interest income of banking operations | – | – | 1,716 | – | – | – | – | 1,716 |
| Other fees and commission income | 52 | – | 68 | 1,046 | – | 258 | (67) | 1,357 |
| Investment income | 21,607 | 930 | 586 | 396 | 1,774 | 384 | (9) | 25,668 |
| Other income | 618 | 38 | 455 | – | 130 | 289 | (272) | 1,258 |
| Total income | 53,769 | 8,498 | 2,825 | 1,442 | 1,904 | 931 | (348) | 69,021 |
| Change in deferred policy acquisition costs | 3,727 | 409 | – | – | – | – | – | 4,136 |
| Claims and policyholders' benefits | (43,045) | (4,804) | – | – | – | – | – | (47,849) |
| Changes in fair value of derivative financial liabilities | 13 | – | (2) | 95 | – | – | – | 106 |
| Commission expenses of insurance operations | (4,601) | (1,124) | – | – | – | – | 52 | (5,673) |
| Interest expenses of banking operations | – | – | (798) | – | – | – | 109 | (689) |
| Other fees and commission expenses | – | – | (16) | (71) | – | (126) | – | (213) |
| Loan loss provisions, net of reversals | – | – | 111 | – | – | (6) | – | 105 |
| Foreign currency losses | (316) | (11) | 22 | (2) | (25) | (3) | – | (335) |
| General and administrative expenses | (3,573) | (1,917) | (900) | (605) | (560) | (403) | 165 | (7,793) |
| Total expenses | (47,795) | (7,447) | (1,583) | (583) | (585) | (538) | 326 | (58,205) |
| Operating profit before tax | 5,974 | 1,051 | 1,242 | 859 | 1,319 | 393 | (22) | 10,816 |
| Income taxes | 44 | (291) | (156) | (183) | (179) | (82) | – | (847) |
| Net profit | 6,018 | 760 | 1,086 | 676 | 1,140 | 311 | (22) | 9,969 |

*As at June 30, 2007*

## 6. SEGMENT REPORTING *(Continued)*

The segment analysis as at June 30, 2007 and for the Period is as follows: *(Continued)*

| (in RMB million) | Life insurance (Audited) | Property and casualty insurance (Audited) | Banking (Audited) | Securities (Audited) | Corporate (Audited) | Others (Audited) | Elimination (Audited) | Total (Audited) |
|---|---|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | | | |
| Segment assets | 419,491 | 34,665 | 124,788 | 19,962 | 73,948 | 11,781 | (66,863) | 617,772 |
| Segment liabilities | 396,254 | 29,236 | 117,620 | 17,239 | 3,137 | 5,072 | (48,359) | 520,199 |
| **Other segment information** | | | | | | | | |
| Capital expenditure | 2,636 | 63 | 66 | 19 | 13 | 296 | – | 3,093 |
| Depreciation and amortization | 1,760 | 1,737 | 38 | 9 | 7 | 33 | – | 3,584 |
| Total other non-cash expenses charged to consolidated results | – | 73 | (62) | 1 | – | 5 | – | 17 |

## 6. SEGMENT REPORTING *(Continued)*

The segment analysis for the six months ended June 30, 2006 and as at December 31, 2006 is as follows:

| (in RMB million) | Life insurance (Unaudited) | Property and casualty insurance (Unaudited) | Banking (Unaudited) | Securities (Unaudited) | Corporate (Unaudited) | Others (Unaudited) | Elimination (Unaudited) | Total (Unaudited) |
|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | |
| 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 | (365) | (1,791) | – | – | – | – | – | (2,156) |
| Net earned premiums | 28,374 | 4,490 | – | – | – | – | – | 32,864 |
| Reinsurance commission income | 167 | 755 | – | – | – | – | – | 922 |
| Interest income of banking operations | – | – | 22 | – | – | – | – | 22 |
| Other fees and commission income | 21 | – | – | 230 | – | – | (33) | 218 |
| Investment income | 8,764 | 312 | – | 116 | 317 | 84 | – | 9,593 |
| Other income | 209 | 28 | – | – | 62 | 112 | (53) | 358 |
| Total income | 37,535 | 5,585 | 22 | 346 | 379 | 196 | (86) | 43,977 |
| Change in deferred policy acquisition costs | 2,408 | 203 | – | – | – | – | – | 2,611 |
| Claims and policyholders' benefits | (30,519) | (3,208) | – | – | – | – | – | (33,727) |
| Changes in fair value of derivative financial liabilities | 34 | – | – | 52 | – | – | – | 86 |
| Commission expenses of insurance operations | (3,272) | (675) | – | – | – | – | 14 | (3,933) |
| Interest expenses of banking operations | – | – | (11) | – | – | – | 10 | (1) |
| Other fees and commission expenses | (18) | – | – | (12) | – | (18) | 18 | (30) |
| Foreign currency losses | (114) | (8) | – | (1) | (5) | (2) | – | (130) |
| General and administrative expenses | (2,288) | (1,333) | (9) | (190) | (268) | (91) | 44 | (4,135) |
| Total expenses | (33,769) | (5,021) | (20) | (151) | (273) | (111) | 86 | (39,259) |
| Operating profit before tax | 3,766 | 564 | 2 | 195 | 106 | 85 | – | 4,718 |
| Income taxes | (236) | (247) | (1) | (21) | (38) | (13) | – | (556) |
| Net profit | 3,530 | 317 | 1 | 174 | 68 | 72 | – | 4,162 |

*As at June 30, 2007*

## 6. SEGMENT REPORTING *(Continued)*

The segment analysis for the six months ended June 30, 2006 and as at December 31, 2006 is as follows: *(Continued)*

| (in RMB million) | Life insurance (Audited) | Property and casualty insurance (Audited) | Banking (Audited) | Securities (Audited) | Corporate (Audited) | Others (Audited) | Elimination (Audited) | Total (Audited) |
|---|---|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | | | |
| Segment assets | 359,825 | 24,337 | 85,591 | 8,914 | 31,272 | 6,837 | (22,341) | 494,435 |
| Segment liabilities | 340,917 | 19,747 | 79,410 | 6,866 | 1,721 | 2,967 | (4,943) | 446,685 |
| **Other segment information** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** |
| Capital expenditure | 290 | 102 | 48 | 12 | 20 | 49 | – | 521 |
| Depreciation and amortization | 1,770 | 914 | – | 10 | 4 | 5 | – | 2,703 |
| Total other non-cash expenses charged to consolidated results | 14 | 27 | – | – | – | 4 | – | 45 |

## 6. SEGMENT REPORTING *(Continued)*

Analysis of written premiums and policy fees is as follows:

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| **Gross** | | |
| Life | | |
| Individual life | | |
| Single premiums and policy fees | **923** | 1,537 |
| First year regular premiums and policy fees | **6,471** | 3,983 |
| Renewal premiums and policy fees | **20,286** | 19,166 |
| | **27,680** | 24,686 |
| Bancassurance | | |
| Single premiums and policy fees | **176** | 342 |
| First year regular premiums and policy fees | **45** | 12 |
| Renewal premiums and policy fees | **126** | 125 |
| | **347** | 479 |
| Group insurance | **4,107** | 3,932 |
| Life business gross written premiums and policy fees | **32,134** | 29,097 |
| Property and casualty | | |
| Automobile insurance | **7,366** | 5,482 |
| Non-automobile insurance | **3,084** | 2,490 |
| Accident and health insurance | **554** | 417 |
| Property and casualty business gross written premiums | **11,004** | 8,389 |
| Gross written premiums and policy fees | **43,138** | 37,486 |

*As at June 30, 2007*

## 6. SEGMENT REPORTING *(Continued)*

Analysis of written premiums and policy fees is as follows: *(Continued)*

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| **Net of reinsurance premiums ceded** | | |
| Life | | |
| Individual life | **27,661** | 24,667 |
| Bancassurance | **347** | 479 |
| Group insurance | **3,650** | 3,593 |
| | **31,658** | 28,739 |
| Property and casualty | | |
| Automobile insurance | **6,738** | 4,614 |
| Non-automobile insurance | **1,601** | 1,344 |
| Accident and health insurance | **541** | 323 |
| | **8,880** | 6,281 |
| Net written premiums and policy fees | **40,538** | 35,020 |

## 7. GROSS WRITTEN PREMIUMS AND POLICY FEES

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Gross written premiums, policy fees and premium deposits, as reported in accordance with PRC Accounting Standards | **53,885** | 46,000 |
| Less: Business tax and surcharges | **(702)** | (620) |
| Gross written premiums, policy fees and premium deposits (net of business tax and surcharges) | **53,183** | 45,380 |
| Less: Premium deposits allocated to policyholder contract deposits | **(8,372)** | (6,037) |
| Premium deposits allocated to policyholder accounts | **(1,673)** | (1,857) |
| Gross written premiums and policy fees | **43,138** | 37,486 |

## 7. GROSS WRITTEN PREMIUMS AND POLICY FEES *(Continued)*

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Long term life business gross written premiums and policy fees | **29,605** | 26,338 |
| Short term life business gross written premiums | **2,529** | 2,759 |
| Property and casualty business gross written premiums | **11,004** | 8,389 |
| Gross written premiums and policy fees | **43,138** | 37,486 |

## 8. INTEREST INCOME AND INTEREST EXPENSES OF BANKING OPERATIONS

### (1) Interest income of banking operations

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Loans and advances to customers | **1,348** | 7 |
| Balances with central bank | **73** | – |
| Cash and amounts due from banks and other financial institutions | **295** | 15 |
| Total | **1,716** | 22 |

### (2) Interest expenses of banking operations

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Customer deposits | **532** | 1 |
| Due to banks and other financial institutions | **157** | – |
| Total | **689** | 1 |

*As at June 30, 2007*



## 9. NET OTHER FEES AND COMMISSION INCOME

### (1) Other fees and commission income

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Credit related fees and commissions | **11** | – |
| Brokerage fees | **790** | 150 |
| Underwriting commission income | **224** | 43 |
| Trust service fees | **246** | 22 |
| Others | **86** | 3 |
| Total | **1,357** | 218 |

### (2) Other fees and commission expenses

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Brokerage fees paid | **71** | 12 |
| Other fees paid | **142** | 18 |
| Total | **213** | 30 |

### (3) Net other fees and commission income

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Other fees and commission income | **1,357** | 218 |
| Less: other fees and commission expenses | **(213)** | (30) |
| Net other fees and commission income | **1,144** | 188 |

## 10. INVESTMENT INCOME

### (1) Net investment income

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Interest income on fixed maturity investments | | |
| Bonds | | |
| – Held-to-maturity | **2,669** | 2,457 |
| – Available-for-sale | **1,272** | 681 |
| – Carried at fair value through profit or loss | **501** | 13 |
| Term deposits | | |
| – Loans and receivables | **1,170** | 1,570 |
| Others | | |
| – Loans and receivables | **126** | 5 |
| Dividend income on equity investments | | |
| Equity investment funds | | |
| – Available-for-sale | **2,975** | 449 |
| – Carried at fair value through profit or loss | **1,364** | 314 |
| Equity securities | | |
| – Available-for-sale | **96** | 114 |
| – Carried at fair value through profit or loss | **35** | 91 |
| Operating lease income from investment properties | **151** | 58 |
| Interest expenses on assets sold under agreements to repurchase | **(429)** | (30) |
| Total | **9,930** | 5,722 |
| Yield of net investment income (% per annum) | **4.9** | 4.2 |

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

*As at June 30, 2007*

## 10. INVESTMENT INCOME *(Continued)*

### (2) Realized gains

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Fixed maturity investments | | |
| – Available-for-sale | **98** | 99 |
| – Carried at fair value through profit or loss | **117** | 64 |
| Equity investments | | |
| – Available-for-sale | **8,717** | 1,117 |
| – Carried at fair value through profit or loss | **6,303** | 671 |
| Derivative financial instruments | | |
| – Carried at fair value through profit or loss | **3** | 139 |
| Total | **15,238** | 2,090 |

### (3) Unrealized gains/(losses)

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Fixed maturity investments | | |
| – Carried at fair value through profit or loss | **(188)** | 31 |
| Equity investments | | |
| – Carried at fair value through profit or loss | **684** | 1,680 |
| Derivative financial instruments | | |
| – Carried at fair value through profit or loss | **4** | 70 |
| Total | **500** | 1,781 |

## 10. INVESTMENT INCOME *(Continued)*

### (4) Total investment income

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Net investment income | **9,930** | 5,722 |
| Realized gains | **15,238** | 2,090 |
| Unrealized gains | **500** | 1,781 |
| Total | **25,668** | 9,593 |
| Yield of total investment income (% per annum) | **9.9** | 5.8 |

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

## 11. OTHER INCOME

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Investment-linked business administration fees | **161** | 99 |
| Interest income on cash equivalents from insurance operations | **488** | 100 |
| Others | **609** | 159 |
| Total | **1,258** | 358 |

*As at June 30, 2007*

## 12. CLAIMS AND POLICYHOLDERS' BENEFITS

(1)

| For the six months ended June 30 (in RMB million) | (Audited) 2007 Gross | Recovered from reinsurers | Net |
|---|---|---|---|
| Claims and claim adjustment expenses | **7,918** | **(1,510)** | **6,408** |
| Surrenders | **4,181** | **–** | **4,181** |
| Annuities | **1,427** | **–** | **1,427** |
| Maturities and survival benefits | **3,582** | **–** | **3,582** |
| Policyholder dividends and provisions | **897** | **–** | **897** |
| Interest credited to policyholder contract deposits | **451** | **–** | **451** |
| Subtotal | **18,456** | **(1,510)** | **16,946** |
| Increase in policyholders' reserves | **30,917** | **(14)** | **30,903** |
| Total | **49,373** | **(1,524)** | **47,849** |

| For the six months ended June 30 (in RMB million) | (Unaudited) 2006 Gross | Recovered from reinsurers | Net |
|---|---|---|---|
| Claims and claim adjustment expenses | 5,713 | (1,101) | 4,612 |
| Surrenders | 2,804 | – | 2,804 |
| 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 |
| Subtotal | 12,832 | (1,101) | 11,731 |
| Increase in policyholders' reserves | 21,996 | – | 21,996 |
| Total | 34,828 | (1,101) | 33,727 |

## 12. CLAIMS AND POLICYHOLDERS' BENEFITS *(Continued)*

**(2)**

| **For the six months ended June 30 (in RMB million)** | **(Audited) 2007 Gross** | **Recovered from reinsurers** | **Net** |
| --- | --- | --- | --- |
| Long term life insurance contracts benefits | **42,201** | **(19)** | **42,182** |
| Short term life insurance claims | **1,111** | **(248)** | **863** |
| Property and casualty insurance claims | **6,061** | **(1,257)** | **4,804** |
| Total | **49,373** | **(1,524)** | **47,849** |

| For the six months ended June 30 (in RMB million) | (Unaudited) 2006 Gross | Recovered from reinsurers | Net |
| --- | --- | --- | --- |
| Long term life insurance contracts benefits | 29,777 | (2) | 29,775 |
| Short term life insurance claims | 995 | (251) | 744 |
| Property and casualty insurance claims | 4,056 | (848) | 3,208 |
| Total | 34,828 | (1,101) | 33,727 |

## 13. OPERATING PROFIT BEFORE TAX

### (1) Operating profit before tax is arrived at after charging/(crediting) the following items:

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Employee costs *(Note 13(2))* | **3,731** | 2,053 |
| Provision for insurance guarantee fund | **176** | 141 |
| Depreciation of investment properties | **76** | 32 |
| Depreciation of property and equipment | **324** | 196 |
| Amortization of intangible assets | **81** | 9 |
| Gains on disposal of non-performing assets | **(284)** | – |
| Loss on disposal of property and equipment and investment properties | **1** | 6 |
| Charge of impairment losses on investment properties, property and equipment, and intangible assets | **9** | 34 |
| Provision for doubtful debts, net | **76** | 11 |
| Operating lease payments in respect of land and buildings | **283** | 254 |

### (2) Employee costs

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Wages, salaries and bonuses | **3,106** | 1,595 |
| Retirement benefits, social security contributions and welfare benefits | **625** | 458 |
| Total | **3,731** | 2,053 |

## 14. INCOME TAXES

According to the "Provisional Regulations of the PRC on Enterprise Income Tax", which remains effective in 2007, the taxable income of the Group represents its income for financial reporting purposes, net of deductible and non-taxable 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:

| Tax | Subsidiaries and branches | Tax rate |
|---|---|---|
| Enterprise income tax in the PRC | – Located in Special Economic Zones and Ping An Bank | 15% |
| | – Located outside the Special Economic Zones | 33% |
| Hong Kong profits tax | – Subsidiaries in Hong Kong Special Administrative Region | 17.5% |

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| **Consolidated income statement** | | |
| Current income tax | **666** | 319 |
| Deferred income tax relating to the origination and reversal of temporary differences: | | |
| Policyholders' reserves | **(3,910)** | (337) |
| Claim reserves | **(24)** | (51) |
| Unearned premium reserves | **(13)** | (15) |
| Deferred policy acquisition costs | **3,914** | 392 |
| Fair value adjustment on financial assets and liabilities carried at fair value through profit or loss | **457** | 271 |
| Others | **(243)** | (23) |
| Total deferred income tax | **181** | 237 |
| Income taxes reported in consolidated income statement | **847** | 556 |
| **Consolidated statement of changes in equity** | | |
| Deferred income tax related to net unrealized gains charged directly to equity | **2,446** | 303 |

*As at June 30, 2007*

## 14. INCOME TAXES *(Continued)*

A reconciliation between tax expense and the product of accounting profit multiplied by the main applicable tax rate of 15% is as follows:

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Accounting profit before income taxes | **10,816** | 4,718 |
| Tax computed at the main applicable tax rate of 15% | **1,622** | 708 |
| Tax effect of income not taxable in determining taxable income | **(1,558)** | (562) |
| Tax effect of expenses not deductible in determining taxable income | **573** | 240 |
| Tax effect of higher tax rate on branches and entities (in the PRC) that are located outside the Special Economic Zones | **205** | 170 |
| Tax effect of changes in tax rate | **5** | – |
| Income taxes reported in consolidated income statement | **847** | 556 |

On March 16, 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which is effective from January 1, 2008. Under the New CIT Law, corporate income tax rate for domestic companies will decrease from 33% to 25% since January 1, 2008. In addition, for those enterprises benefiting from lower preferential tax rates (e.g. 15%), such preferential rates will be gradually phased out by increasing them over the next five years. This change in the income tax rate will directly increase the Group's effective tax rate prospectively from 2008. According to IAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, based on current best estimate of impact which could be reasonably estimated, management estimated that the change in the corporate income tax rate has had the following impact on the results and financial position of the Group:

| | RMB million |
|---|---|
| Increase in income tax expense for current period (net impact of deferred tax on applicable temporary differences) | **5** |
| Decrease in revaluation reserve for available-for-sale financial assets as at June 30, 2007 | **1,567** |
| Increase in deferred tax assets as at June 30, 2007 | **104** |
| Increase in deferred tax liabilities as at June 30, 2007 | **1,676** |

The net impact for the current period operating results is relatively small because there are temporary differences with offsetting deferred tax and liabilities.

## 14. INCOME TAXES *(Continued)*

At the date of these financial statements, detailed implementation and administrative requirements for the New CIT Law have not been announced. These detailed requirements include regulations concerning the computation of taxable income, specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

## 15. DIVIDENDS

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Final dividend approved and paid for the previous year: RMB0.22 per ordinary share (Six months ended June 30, 2006: Nil) | **1,616** | – |
| Special interim dividend approved and paid: Nil (Six months ended June 30, 2006: RMB0.20 per ordinary share) | **–** | 1,239 |

On August 16, 2007, the board of directors proposed an interim dividend distribution of RMB0.20 per share totaling RMB1,469 million to be paid (2006: RMB0.12 per share totaling RMB743 million).

## 16. EARNINGS PER SHARE

The basic earnings per share for the Period is computed by dividing the net profit attributable to equity holders of the Company for the Period by the weighted average number of 6,961,720,001 shares in issue (June 30, 2006: weighted average number of 6,195,053,334 shares in issue).

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

## 17. BALANCES WITH CENTRAL BANK AND STATUTORY DEPOSITS

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Mandatory deposits with central bank for banking operations | **7,558** | 5,787 |
| Other deposits with central bank | **2,142** | 1,927 |
| Statutory deposits for insurance operations | **1,520** | 1,520 |
| Total | **11,220** | 9,234 |

*As at June 30, 2007*

## 17. BALANCES WITH CENTRAL BANK AND STATUTORY DEPOSITS *(Continued)*

Details of statutory deposits for insurance operations are as follows:

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Ping An Life | **760** | 760 |
| Ping An Property & Casualty | **600** | 600 |
| Ping An Health | **100** | 100 |
| Ping An Annuity | **60** | 60 |
| Total | **1,520** | 1,520 |
| Maturing: | | |
| Within 1 year | **440** | 1,520 |
| 1-5 years | **1,080** | – |
| Total | **1,520** | 1,520 |

The above deposits are made with PRC banks in accordance with the PRC Insurance Law based on not less than 20% of the respective registered capital of the said subsidiaries of the Company.

The paid-up capital of Ping An Annuity was increased from RMB300 million to RMB500 million during the Period. The change of business registration was still in progress. Ping An Annuity's statutory deposit will be increased to RMB100 million in due course.

## 18. CASH AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Cash on hand | **405** | 347 |
| Term deposits | **59,073** | 77,463 |
| Due from banks and other financial institutions | **58,824** | 16,375 |
| Loans and advances | **1,101** | 1,727 |
| Total | **119,403** | 95,912 |

## 18. CASH AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS *(Continued)*

### Amounts due from banks and other financial institutions

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Top five banks | | |
| China Construction Bank Corporation | **37,164** | 21,741 |
| Bank of China Limited | **14,908** | 7,542 |
| Agricultural Bank of China | **11,282** | 5,787 |
| China Minsheng Banking Corp., Ltd. | **8,546** | 11,062 |
| Industrial and Commercial Bank of China Limited | **7,715** | 5,327 |
| Other banks and financial institutions | | |
| Guangdong Development Bank | **5,504** | 5,046 |
| Industrial Bank Co., Ltd. | **5,032** | 11,429 |
| The Hongkong and Shanghai Banking Corporation Limited ("HSBC") | **235** | 710 |
| Others | **28,612** | 26,921 |
| Total | **118,998** | 95,565 |

Due from banks and other financial institutions amounting to RMB983 million as at June 30, 2007 (Audited December 31, 2006: RMB259 million) were pledged by the Group as collateral for warrants issued by a subsidiary of the Group.

Of the above, none of the cash and amounts due from banks and other financial institutions has been designated at fair value.

## 19. FIXED MATURITY INVESTMENTS

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Bonds | **248,640** | 204,710 |
| Policy loans | **1,799** | 1,381 |
| Assets purchased under agreements to resell | **11,148** | 6,950 |
| Total | **261,587** | 213,041 |

*As at June 30, 2007*

## 19. FIXED MATURITY INVESTMENTS *(Continued)*

### Bonds

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Held-to-maturity, at amortized cost | **130,193** | 129,250 |
| Available-for-sale, at fair value | **84,307** | 63,768 |
| Carried at fair value through profit or loss | | |
| Held-for-trading | **34,140** | 11,692 |
| Total | **248,640** | 204,710 |
| Government bonds | **92,286** | 93,787 |
| Finance bonds | **107,314** | 67,744 |
| Corporate bonds | **49,040** | 43,179 |
| Total | **248,640** | 204,710 |
| Listed | **48,396** | 50,063 |
| Unlisted | **200,244** | 154,647 |
| Total | **248,640** | 204,710 |

## 20. EQUITY INVESTMENTS

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Equity investment funds | **17,417** | 14,934 |
| Equity securities | **49,125** | 31,795 |
| Total | **66,542** | 46,729 |

## 20. EQUITY INVESTMENTS *(Continued)*

### (1) Equity investment funds

| (in RMB million) | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Available-for-sale, at fair value | **8,725** | 8,286 |
| Carried at fair value through profit or loss | | |
| Held-for-trading | **8,609** | 6,020 |
| Designated at fair value | **83** | 628 |
| Total | **17,417** | 14,934 |
| Listed | **1,304** | 2,849 |
| Unlisted | **16,113** | 12,085 |
| Total | **17,417** | 14,934 |

### (2) Equity securities

| (in RMB million) | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Available-for-sale, at fair value | **39,446** | 23,340 |
| Carried at fair value through profit or loss | | |
| Held-for-trading | **9,679** | 8,455 |
| Total | **49,125** | 31,795 |
| Listed | **48,955** | 31,395 |
| Unlisted | **170** | 400 |
| Total | **49,125** | 31,795 |

Held-for-trading equity securities amounting to RMB39 million as at June 30, 2007 (Audited December 31, 2006: RMB94 million) were pledged by the Group as collateral for warrants issued by a subsidiary of the Group.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

| | **(Audited) June 30, 2007** | | (Audited) December 31, 2006 | |
|---|---|---|---|---|
| **(in RMB million)** | **Fair value assets** | **Fair value liabilities** | Fair value assets | Fair value liabilities |
| Options embedded in convertible bonds | **4** | **–** | 10 | – |
| Derivatives embedded in insurance policies | **–** | **16** | – | 29 |
| Stock warrants | **1** | **278** | – | 88 |
| Interest rate swaps | **–** | **35** | 11 | 61 |
| Credit default swaps | **6** | **21** | – | – |
| Others | **5** | **6** | – | – |
| Total | **16** | **356** | 21 | 178 |

| **(in RMB million)** | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Nominal amount of stock warrants | **864** | 324 |
| Nominal amount of interest rate swaps | **1,033** | 2,506 |
| Nominal amount of credit default swaps | **914** | – |
| Nominal amount of forward currency contracts | **–** | 5 |
| Nominal amount of other derivatives | **448** | – |
| Total | **3,259** | 2,835 |

None of the above derivatives have been designated as a hedging instrument.

## 22. LOANS AND ADVANCES TO CUSTOMERS

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Corporate customers | **38,914** | 32,020 |
| Public authorities | **3,298** | 3,269 |
| Private customers | **16,720** | 16,294 |
| Subtotal | **58,932** | 51,583 |
| Less: Loan loss provisions | **(505)** | (2,431) |
| Total | **58,427** | 49,152 |

Loans and advances to customers amounting to RMB911 million (Audited December 31, 2006: RMB2,231 million) are used as collateral for collateralized borrowings of the Group.

Movement in loan loss provisions is as follows:

| (in RMB million) | (Audited) 2007 | (Audited) 2006 |
|---|---|---|
| As at January 1, | **2,431** | 94 |
| Additions | **5** | 3 |
| Less: Reversal | **(111)** | – |
| Transfer out | **(1,800)** | – |
| Write-off | **–** | (193) |
| Unwind of interest for impaired loans | **(20)** | (2) |
| Add: Acquisition of SZCB | **–** | 2,529 |
| As at June 30/December 31, | **505** | 2,431 |

Of the above, none of the loans and advances to customers has been designated at fair value.

The majority of the Group's loans and advances are for use within Mainland China, and major off-balance sheet items such as bank acceptances are also related to the domestic customers in Mainland China. However, different industries in Mainland China have their unique characteristics in terms of economic development. Therefore, each industry in Mainland China could present a different credit risk.

## 22. LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

The composition by industry of the Group's loans and advances to customers gross of loan loss provisions is as follows:

| (in RMB million) | (Audited) June 30, 2007 | % | (Audited) December 31, 2006 | % |
|---|---|---|---|---|
| Agriculture, forestry and fishing | 55 | 0.1 | 187 | 0.4 |
| Mining | 18 | – | 683 | 1.3 |
| Manufacturing | 9,823 | 16.7 | 9,199 | 17.8 |
| Energy and utilities | 5,664 | 9.6 | 1,395 | 2.7 |
| Transportation and logistics | 4,793 | 8.1 | 1,386 | 2.7 |
| Commercial | 6,553 | 11.1 | 7,375 | 14.3 |
| Real estate | 11,081 | 18.8 | 7,812 | 15.2 |
| Construction | 2,153 | 3.7 | 3,768 | 7.3 |
| Personal loans | 15,861 | 26.9 | 14,300 | 27.7 |
| Others | 2,931 | 5.0 | 5,478 | 10.6 |
| Total | 58,932 | 100.0 | 51,583 | 100.0 |

## 23. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

Particulars of the Company's principal subsidiaries and an associate as at June 30, 2007 are set out below:

| Subsidiaries | Date/place of incorporation | Attributable equity interest Direct | Attributable equity interest Indirect | Registered and paid-up capital (RMB unless otherwise stated) | Principal activities |
|---|---|---|---|---|---|
| Ping An Life Insurance Company of China, Ltd. | December 17, 2002 The PRC | 99.00% | – | 3,800,000,000 | Life insurance |
| Ping An Property & Casualty Insurance Company of China, Ltd. | December 24, 2002 The PRC | 99.06% | – | 3,000,000,000 | Property and casualty insurance |
| China Ping An Trust & Investment Co., Ltd. | November 19, 1984 The PRC | 99.88% | – | 4,200,000,000 | Trust and investment |
| Ping An Securities Company, Ltd. | July 18, 1996 The PRC | – | 86.11% | 1,800,000,000 | Security investment and brokerage |

## 23. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE *(Continued)*

| Subsidiaries | Date/place of incorporation | Attributable equity interest Direct | Attributable equity interest Indirect | Registered and paid-up capital (RMB unless otherwise stated) | Principal activities |
|---|---|---|---|---|---|
| Shenzhen Ping An Bank Co., Ltd. | August 3, 1995 The PRC | 89.36% | – | 5,502,000,000 | Banking |
| Ping An Annuity Insurance Company of China, Ltd. ("Ping An Annuity") | December 13, 2004 The PRC | 97.00% | 2.98% | 500,000,000 | Annuity insurance |
| Ping An Asset Management Co., Ltd. | May 27, 2005 The PRC | 90.00% | 9.90% | 200,000,000 | Asset management |
| Ping An of China Asset Management (Hong Kong) Company Limited | May 16, 2006 Hong Kong | – | 100.00% | HK$38,500,000 | Asset management |
| Ping An Health Insurance Company of China, Ltd. | June 13, 2005 The PRC | 95.00% | 4.96% | 500,000,000 | Health insurance |
| China Ping An Insurance Overseas (Holdings) Limited | October 24, 1996 Hong Kong | 100.00% | – | HK$555,000,000 | Investment holding |
| China Ping An Insurance (Hong Kong) Company Limited | August 17, 1976 Hong Kong | – | 75.00% | HK$110,000,000 | Property and casualty insurance |
| Shenzhen Ping An Futures Brokerage Co., Ltd. | April 10, 1996 The PRC | – | 93.13% | 50,000,000 | Futures brokerage |
| Shenzhen Ping An Industries Co., Ltd. | November 24, 1992 The PRC | – | 99.88% | 20,000,000 | Investment |
| Shenzhen Ping An Property and Facility Management Co., Ltd. | January 6, 1995 The PRC | – | 99.88% | 20,000,000 | Property management |

*As at June 30, 2007*

## 23. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE *(Continued)*

| Subsidiaries | Date/place of incorporation | Attributable equity interest Direct | Attributable equity interest Indirect | Registered and paid-up capital (RMB unless otherwise stated) | Principal activities |
|---|---|---|---|---|---|
| Fuzhou Ping An Real Estate Development Co., Ltd. | March 28, 1994 The PRC | – | 74.25% | US$5,000,000 | Development of property in Fuzhou (completed) |
| Shenzhen Ping An Real Estate Investment Co., Ltd. | March 8, 2005 The PRC | – | 99.88% | 300,000,000 | Real estate investment |
| Yuxi Ping An Real Estate Co., Ltd. | July 31, 2006 The PRC | – | 79.90% | 38,500,000 | Property leasing |
| Shenzhen Xin An Investment Consultant Co., Ltd. | September 5, 2005 The PRC | – | 99.88% | 3,000,000 | Consulting |
| Pan-China Real Estate (Jingzhou) Co., Ltd. | March 1, 2005 The PRC | – | 50.94% | US$9,700,000 | Real estate investment |
| Shenzhen CITIC City Plaza Investment Co., Ltd. | September 26, 2001 The PRC | – | 98.88% | 20,000,000 | Real estate investment |
| Anseng Investment Company Limited | April 6, 2006 BVI | – | 100.00% | US$2 | Investment holding |
| Timely Reach Investments Limited | August 11, 2006 BVI | – | 100.00% | US$1 | Investment holding |
| Total Faith Investments Limited | September 8, 2006 BVI | – | 100.00% | US$1 | Investment holding |
| Jade Reach Investments Limited | November 13, 2006 BVI | – | 100.00% | US$1 | Investment holding |
| Veolia Water (Kunming) Investment Limited | May 11, 2005 Hong Kong | – | 24.00% | US$95,000,000 | Water services investment |

## 24. PREMIUM RECEIVABLES

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Premium receivables | **5,320** | 3,094 |
| Less: Provision for doubtful receivables | **(197)** | (155) |
| Premium receivables, net | **5,123** | 2,939 |

Provision is made on a periodic basis for those amounts that are considered uncollectible. The credit terms is generally for a period of one month, extending up to five months for major customers. Overdue balances are reviewed regularly by senior management.

An aging analysis of premium receivables is as follows:

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Within 3 months | **4,949** | 2,838 |
| Over 3 and within 6 months | **144** | 79 |
| Over 6 months | **30** | 22 |
| Total | **5,123** | 2,939 |

The Group has relevant credit control procedures for premium receivables aged over the credit terms provided to the policyholders.

## 25. REINSURANCE ASSETS

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Ceded unearned premium reserves | **3,048** | 2,406 |
| Anticipated claims recoverable from reinsurers in respect of outstanding claims | **2,058** | 1,724 |
| Ceded policyholders' reserves | **14** | – |
| Total | **5,120** | 4,130 |

## 26. DEFERRED POLICY ACQUISITION COSTS

| **(in RMB million)** **(Audited)** | **Life** | **Property and Casualty** | **Total** |
|---|---|---|---|
| As at January 1, 2007 | **30,061** | **1,805** | **31,866** |
| Deferred | **5,176** | **2,082** | **7,258** |
| Amortized | **(1,449)** | **(1,673)** | **(3,122)** |
| Effect of net unrealized gains on investments through equity (shadow accounting adjustment) | **67** | **–** | **67** |
| As at June 30, 2007 | **33,855** | **2,214** | **36,069** |

| (in RMB million) (Unaudited) | Life | Property and Casualty | Total |
|---|---|---|---|
| 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 (shadow accounting adjustment) | 45 | – | 45 |
| As at June 30, 2006 | 27,748 | 1,336 | 29,084 |

## 27. INVESTMENT PROPERTIES

| (in RMB million) | (Audited) 2007 | (Audited) 2006 |
|---|---|---|
| Cost | | |
| As at January 1 | **1,918** | 1,762 |
| Acquisition of a subsidiary | **2,046** | 124 |
| Additions | **301** | 398 |
| Transfer from/(to) property and equipment, net | **(24)** | 41 |
| Disposal | **(66)** | (407) |
| As at June 30/December 31 | **4,175** | 1,918 |
| Accumulated depreciation and impairment losses | | |
| As at January 1 | **390** | 519 |
| Acquisition of a subsidiary | **91** | 17 |
| Charge for the period | **76** | 86 |
| Transfer from/(to) property and equipment, net | **(3)** | (1) |
| Disposal | **(7)** | (79) |
| Write-back of impairment losses | **(28)** | (152) |
| As at June 30/December 31 | **519** | 390 |
| Net book value | | |
| As at June 30/December 31 | **3,656** | 1,528 |
| Fair value | **4,031** | 2,095 |

The fair value of the investment properties as at June 30, 2007 was estimated by the directors of the Company having regard to valuations performed by independent valuers.

The rental income arising from investment properties during the Period amounted to RMB151 million (Unaudited six months ended June 30, 2006: RMB58 million), which is included in net investment income.

The Group is still in the process of applying for title certificates for investment properties with a net book value of RMB25 million as at June 30, 2007 (Audited December 31, 2006: RMB93 million).

*As at June 30, 2007*

## 28. PROPERTY AND EQUIPMENT

| (Audited) (in RMB million) | Leasehold improvements | Buildings | Office equipment, furniture and fixtures | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at January 1, 2006 | 472 | 2,511 | 1,579 | 400 | 646 | 5,608 |
| Acquisition of SZCB | 72 | 363 | 106 | 1 | 10 | 552 |
| Additions | 46 | 115 | 368 | 86 | 764 | 1,379 |
| Transfer of construction in progress | 103 | 673 | – | – | (776) | – |
| Transfer to investment properties, net | – | (41) | – | – | – | (41) |
| Disposals | (125) | (27) | (103) | (74) | – | (329) |
| As at December 31, 2006 | 568 | 3,594 | 1,950 | 413 | 644 | 7,169 |
| Additions | 54 | 40 | 139 | 29 | 2,397 | 2,659 |
| Transfer of construction in progress | 6 | – | – | – | (6) | – |
| Transfer from investment properties, net | – | 24 | – | – | – | 24 |
| Disposals | (157) | (100) | (55) | (6) | (3) | (321) |
| As at June 30, 2007 | 471 | 3,558 | 2,034 | 436 | 3,032 | 9,531 |
| **Accumulated depreciation and impairment losses** | | | | | | |
| As at January 1, 2006 | 285 | 577 | 932 | 250 | 26 | 2,070 |
| Acquisition of SZCB | 47 | 30 | 33 | – | – | 110 |
| Depreciation charge | 96 | 152 | 196 | 51 | – | 495 |
| Transfer from investment properties, net | – | 1 | – | – | – | 1 |
| Disposals | (125) | (17) | (64) | (55) | (15) | (276) |
| Impairment losses | – | 3 | – | – | – | 3 |
| As at December 31, 2006 | 303 | 746 | 1,097 | 246 | 11 | 2,403 |
| Depreciation charge | 55 | 94 | 150 | 25 | – | 324 |
| Transfer from investment properties, net | – | 3 | – | – | – | 3 |
| Disposals | (143) | (80) | (39) | (6) | – | (268) |
| Impairment losses | – | 22 | – | – | – | 22 |
| As at June 30, 2007 | 215 | 785 | 1,208 | 265 | 11 | 2,484 |
| **Net book value** | | | | | | |
| As at June 30, 2007 | 256 | 2,773 | 826 | 171 | 3,021 | 7,047 |
| As at December 31, 2006 | 265 | 2,848 | 853 | 167 | 633 | 4,766 |

## 28. PROPERTY AND EQUIPMENT *(Continued)*

The Group is still in the process of applying for the title certificates for its buildings with a net book value of RMB210 million as at June 30, 2007 (Audited December 31, 2006: RMB187 million).

## 29. INTANGIBLE ASSETS

| **(Audited)**<br>**(in RMB million)** | **Goodwill** | **Prepaid land premiums** | **Other intangible assets** | **Total** |
|---|---|---|---|---|
| **Cost** | | | | |
| As at January 1, 2006 | 327 | 1,044 | 310 | 1,681 |
| Additions | – | 2 | 81 | 83 |
| Acquisition of SZCB | 82 | – | 9 | 91 |
| Disposal | – | (20) | (16) | (36) |
| As at December 31, 2006 | 409 | 1,026 | 384 | 1,819 |
| Additions | 66 | – | 69 | 135 |
| Disposal | – | – | (11) | (11) |
| As at June 30, 2007 | 475 | 1,026 | 442 | 1,943 |
| **Accumulated amortization and impairment losses** | | | | |
| As at January 1, 2006 | – | 89 | 181 | 270 |
| Amortization charge | – | 21 | 60 | 81 |
| Disposal | – | – | (16) | (16) |
| As at December 31, 2006 | – | 110 | 225 | 335 |
| Amortization charge | – | 21 | 60 | 81 |
| Disposal | – | – | (3) | (3) |
| As at June 30, 2007 | – | 131 | 282 | 413 |
| **Net book value** | | | | |
| As at June 30, 2007 | 475 | 895 | 160 | 1,530 |
| As at December 31, 2006 | 409 | 916 | 159 | 1,484 |

*As at June 30, 2007*

## 29. INTANGIBLE ASSETS *(Continued)*

### (1) Goodwill

The recoverable amount of goodwill has been estimated based on value in use calculation using cash flow projections and financial plans approved by management and pretax, company specific, risk adjusted discount rates. Projected cash flows beyond five years are extrapolated using a steady growth rate. The projected cash flows are determined by future estimated profits based on management expectations for market development.

### (2) Prepaid land premiums

Prepaid land premiums are acquired under PRC laws for fixed periods, and the related costs are amortized on a straight-line basis. All of the Group's prepaid land premiums are related to lands located in the PRC. The net book value of the prepaid land premiums as at June 30, 2007 is expected to be amortized over lease terms ranging from 50 to 70 years (Audited December 31, 2006: 50 to 70 years).

The Group is still in the process of applying for title certificates for prepaid land premiums with a net book value of RMB490 million as at June 30, 2007 (Audited December 31, 2006: RMB498 million). This amount as at June 30, 2007 represents costs incurred to acquire lands in Shanghai for the construction of new properties. In the opinion of the Company's management, where necessary, adequate provision for impairment losses has been made for prepaid land premiums without title certificates as at June 30, 2007.

## 30. OTHER ASSETS AND RECEIVABLES

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Prepayments | **959** | 1,815 |
| Due from reinsurers | **1,298** | 787 |
| Interest receivables | **4,515** | 3,208 |
| Settled assets | **710** | 464 |
| Interest rate swap deposits | **113** | 238 |
| Other assets | **2,111** | 1,596 |
| Total | **9,706** | 8,108 |

## 31. SHARE CAPITAL

| (in million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Number of shares registered, issued and fully paid at RMB1 each | **7,345** | 6,195 |

The Company issued 1.15 billion ordinary A-shares with par value of RMB1.00 at a price of RMB33.80 per share in February 2007. As of February 15, 2007, the Company has collected net proceeds of RMB38,222 million for the initial public offering of A shares. The increase in paid-up share capital amounts to RMB1,150 million and the difference between the proceeds and paid-up share capital of RMB37,072 million is recorded in capital reserve. The total registered capital increased to RMB7,345 million after the change.

## 32. RESERVES AND RETAINED PROFITS

According to the Company's Articles of Association, the Company shall set aside 10% of its net profit determined in its statutory financial statements, prepared in accordance with PRC Accounting Standards, to a statutory surplus reserve fund. The Company can cease such profit appropriation to this fund if the fund reaches 50% of the Company's registered share capital. The Company may also make appropriations from its net profit to the discretionary surplus reserve fund provided the appropriation is approved by a resolution of the shareholders. These reserves cannot be used for purposes other than those for which they are created. Profits are used against prior year losses before allocations to such reserves.

Capital reserve mainly represents share premiums arising from the issuance of shares.

Subject to resolutions passed in shareholders' meetings, the statutory surplus reserve fund, discretionary surplus reserve fund and capital reserve can be transferred to share capital. The balance of the statutory surplus reserve fund after transfers to share capital should not be less than 25% of the registered capital.

In accordance with the relevant PRC financial regulations, general reserve should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance, banking, trust, securities and futures business. The Group's respective entities in such business would need to make appropriations for such reserve based on their respective year end profit or risk assets determined in accordance with PRC Accounting Standards, and based on the applicable PRC financial regulations, in the annual financial statements. Such reserve is not available for profit distribution or transfer to capital.

In accordance with the relevant regulations, the net profit after tax of the Company for profit distribution is deemed to be the lower of (i) the retained profits determined in accordance with PRC Accounting Standards and (ii) the retained profits determined in accordance with IFRSs. The profit appropriation for the year ended December 31, 2006 was approved in the shareholders' meeting held on June 7, 2007.

During the Period, because of the adoption of the new PRC Accounting Standards, the Company transferred surplus reserve fund of RMB6 million to retained profits.

*As at June 30, 2007*

## 33. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Deposits from other banks and financial institutions | **5,318** | 3,465 |
| Short-term borrowing | **2,428** | 1,518 |
| Long-term borrowing | **1,636** | 155 |
| Total | **9,382** | 5,138 |
| Current portion* | **7,746** | 4,983 |
| Non-current portion | **1,636** | 155 |
| Total | **9,382** | 5,138 |

* *Expected settlement within 12 months from the balance sheet date.*

The Group has not had defaults of principal, interest or other significant breaches with respect to its liabilities during the Period.

## 34. ASSETS SOLD UNDER AGREEMENTS TO REPURCHASE

The face value of the assets which are used as collateral for the collateralized borrowings of the Group approximates the borrowed amount.

## 35. CUSTOMER DEPOSITS

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Corporate customers | | |
| – Current accounts | **22,559** | 38,838 |
| – Term deposits | **29,428** | 21,911 |
| – Settlement balances | **6,967** | 348 |
| Individual customers | | |
| – Current/saving accounts | **5,487** | 5,744 |
| – Term deposits | **4,457** | 5,677 |
| – Settlement balances | **9,032** | 3,442 |
| Total | **77,930** | 75,960 |
| Current portion* | **74,319** | 72,413 |
| Non-current portion | **3,611** | 3,547 |
| Total | **77,930** | 75,960 |

* *Expected settlement within 12 months from the balance sheet date.*

## 36. INSURANCE CONTRACT LIABILITIES

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Policyholders' reserves | **300,278** | 268,436 |
| Policyholder contract deposits | **28,608** | 20,844 |
| Policyholder account liabilities in respect of insurance contracts | **27,340** | 20,961 |
| Unearned premium reserves | **15,653** | 12,820 |
| Claim reserves | **7,436** | 6,480 |
| Total | **379,315** | 329,541 |

*As at June 30, 2007*

## 36. INSURANCE CONTRACT LIABILITIES *(Continued)*

| (in RMB million) | **(Audited) June 30, 2007** Insurance contract liability | Reinsurers' share | Net | (Audited) December 31, 2006 Insurance contract liability | Reinsurers' share | Net |
|---|---|---|---|---|---|---|
| Long term life insurance contracts and investment contracts with DPF | **356,226** | **(14)** | **356,212** | 310,241 | – | 310,241 |
| Short term life insurance contracts | **2,979** | **(575)** | **2,404** | 2,519 | (466) | 2,053 |
| Property and casualty insurance contracts | **20,110** | **(4,531)** | **15,579** | 16,781 | (3,664) | 13,117 |
| Total | **379,315** | **(5,120)** | **374,195** | 329,541 | (4,130) | 325,411 |

| **(in RMB million)** | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Current gross insurance contract liabilities* | | |
| Long term life | **15,897** | 12,108 |
| Short term life | **2,948** | 2,488 |
| Property and casualty | **14,660** | 12,231 |
| Non-current gross insurance contract liabilities | | |
| Long term life | **340,329** | 298,133 |
| Short term life | **31** | 31 |
| Property and casualty | **5,450** | 4,550 |
| Total | **379,315** | 329,541 |

* *Expected settlement within 12 months from the balance sheet date.*

## 36. INSURANCE CONTRACT LIABILITIES *(Continued)*

### (1) Long term life insurance contracts and investment contracts with DPF

| (in RMB million) | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Policyholders' reserves | **300,278** | 268,436 |
| Policyholder contract deposits | **28,608** | 20,844 |
| Policyholder account liabilities in respect of insurance contracts | **27,340** | 20,961 |
| Total | **356,226** | 310,241 |

The policyholders' reserves are analyzed as follows:

| (in RMB million) | **(Audited) 2007** | (Unaudited) 2006 |
|---|---|---|
| As at January 1, | **268,436** | 223,632 |
| New business | **7,165** | 5,437 |
| Inforce change | **23,738** | 16,559 |
| Effect of net unrealized gain on investments through equity (shadow accounting adjustment) | **939** | 812 |
| As at June 30, | **300,278** | 246,440 |

The Group does not have significant reinsurance assets in respect of the policyholders' reserves carried for long term life insurance contracts and investment contracts with DPF.

### (2) Short term life insurance contracts

| (in RMB million) | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Unearned premium reserves | **2,280** | 1,890 |
| Claim reserves | **699** | 629 |
| Total | **2,979** | 2,519 |

*As at June 30, 2007*

## 36. INSURANCE CONTRACT LIABILITIES *(Continued)*

### (2) Short term life insurance contracts *(Continued)*

The unearned premium reserves of short term life insurance are analyzed as follows:

| | (Audited) 2007 | | | (Unaudited) 2006 | | |
|---|---|---|---|---|---|---|
| **(in RMB million)** | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| As at January 1, | **1,890** | **(273)** | **1,617** | 1,789 | (349) | 1,440 |
| Premiums written in the period | **2,577** | **(460)** | **2,117** | 2,264 | (347) | 1,917 |
| Premiums earned during the period | **(2,187)** | **346** | **(1,841)** | (1,864) | 312 | (1,552) |
| As at June 30, | **2,280** | **(387)** | **1,893** | 2,189 | (384) | 1,805 |

The claim reserves of short term life insurance are analyzed as follows:

| | (Audited) 2007 | | | (Unaudited) 2006 | | |
|---|---|---|---|---|---|---|
| **(in RMB million)** | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| As at January 1, | **629** | **(193)** | **436** | 510 | (200) | 310 |
| Claims incurred during the period | **1,111** | **(248)** | **863** | 995 | (251) | 744 |
| Claims paid during the period | **(1,041)** | **253** | **(788)** | (981) | 278 | (703) |
| As at June 30, | **699** | **(188)** | **511** | 524 | (173) | 351 |

## 36. INSURANCE CONTRACT LIABILITIES *(Continued)*

### (3) Property and casualty insurance contracts

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Unearned premium reserves | **13,373** | 10,930 |
| Claim reserves | **6,737** | 5,851 |
| Total | **20,110** | 16,781 |

The unearned premium reserves of property and casualty insurance are analyzed as follows:

| | (Audited) 2007 | | | (Unaudited) 2006 | | |
|---|---|---|---|---|---|---|
| (in RMB million) | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| As at January 1, | **10,930** | **(2,133)** | **8,797** | 8,821 | (2,146) | 6,675 |
| Premiums written in the period | **11,637** | **(2,124)** | **9,513** | 8,871 | (2,108) | 6,763 |
| Premiums earned during the period | **(9,194)** | **1,596** | **(7,598)** | (6,740) | 1,770 | (4,970) |
| As at June 30, | **13,373** | **(2,661)** | **10,712** | 10,952 | (2,484) | 8,468 |

The claim reserves of property and casualty insurance are analyzed as follows:

| | (Audited) 2007 | | | (Unaudited) 2006 | | |
|---|---|---|---|---|---|---|
| (in RMB million) | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| As at January 1, | **5,851** | **(1,531)** | **4,320** | 5,314 | (1,490) | 3,824 |
| Claims incurred during the period | **6,061** | **(1,257)** | **4,804** | 4,056 | (848) | 3,208 |
| Claims paid during the period | **(4,975)** | **918** | **(4,057)** | (3,767) | 851 | (2,916) |
| Portfolio transfer | **(200)** | **–** | **(200)** | – | – | – |
| As at June 30, | **6,737** | **(1,870)** | **4,867** | 5,603 | (1,487) | 4,116 |

*As at June 30, 2007*

## 37. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Policyholder account liabilities in respect of investment contracts | **4,550** | 3,971 |
| Investment contract reserves | **470** | 262 |
| Total | **5,020** | 4,233 |
| Current portion* | **134** | 61 |
| Non-current portion | **4,886** | 4,172 |
| Total | **5,020** | 4,233 |

* *Expected settlement within 12 months from the balance sheet date.*

The investment contract liabilities are analyzed as follows:

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| As at January 1, | **4,233** | 3,092 |
| Premiums received | **693** | 506 |
| Accretion of investment income | **798** | 275 |
| Liabilities released for benefits paid | **(573)** | (111) |
| Policy administration fees and surrender charges deducted | **(24)** | (24) |
| Others | **(107)** | (327) |
| As at June 30, | **5,020** | 3,411 |

The benefits offered under the Group's investment-linked investment contracts are based on the return of selected securities; it cannot be associated to an individual benchmark index with a sufficiently high correlation with the Group's asset selection for the linked funds.

The liabilities originated from investment-linked contracts are measured by reference to their respective underlying assets of these contracts. Changes in the credit risk of the underlying assets do not normally impact the measurement of the investment-linked liabilities.

The value of these financial liabilities is determined by the fair value of the linked assets. There will be no significant difference between the carrying amount and the fair value at the balance sheet date.

## 38. DEFERRED INCOME TAX ASSETS/LIABILITIES

| (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Net deferred income tax liabilities, as at January 1 | **1,240** | 49 |
| Acquisition of a subsidiary | **62** | – |
| Recognized as income or expenses | **181** | 237 |
| Recognized in equity | **2,446** | 303 |
| Net deferred income tax liabilities, as at June 30 | **3,929** | 589 |

### Net deferred income tax (assets)/liabilities

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Policyholders' reserves | **(9,870)** | (5,364) |
| Deferred policy acquisition costs | **9,017** | 5,093 |
| Claim reserves | **(525)** | (501) |
| Unearned premium reserves | **–** | 13 |
| Fair value adjustment on available-for-sale investments | **5,055** | 2,023 |
| Fair value adjustment on financial assets and liabilities carried at fair value through profit or loss | **971** | 514 |
| Loan loss provisions | **(126)** | (280) |
| Provisions for placement and settled assets | **(69)** | (103) |
| Others | **(524)** | (155) |
| Total | **3,929** | 1,240 |

*As at June 30, 2007*

## 39. OTHER LIABILITIES

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Annuity and other insurance payable | **3,931** | 3,183 |
| Premiums received in advance | **666** | 1,353 |
| Salaries and welfare payable | **3,381** | 2,133 |
| Commission payable | **1,427** | 894 |
| Due to reinsurers | **1,879** | 746 |
| Insurance guarantee fund | **106** | 82 |
| Others | **4,360** | 3,353 |
| Total | **15,750** | 11,744 |

According to the relevant regulations, the Group should provide for insurance guarantee fund at 0.15% of the net premiums of long term life insurance with guaranteed investment returns and long term health insurance, at 0.05% of the net premiums of other long term life insurance, and at 1% of the net premiums of property and casualty insurance, accident insurance, short-term health insurance, etc. No additional provision is required when the accumulated provision balances of Ping An Life, Ping An Health and Ping An Annuity reach 1% of their respective total assets as determined in accordance with PRC Accounting Standards. On the other hand, no additional provision is required when the accumulated balance of Ping An Property & Casualty's provision reaches 6% of its total assets as determined in accordance with PRC Accounting Standards.

## 40. FIDUCIARY ACTIVITIES

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Assets under trust schemes | **28,676** | 16,677 |
| Assets under corporate annuity schemes | **1,198** | 634 |
| Entrusted loans | **1,931** | 2,120 |
| Total | **31,805** | 19,431 |

## 41. RISK AND CAPITAL MANAGEMENT

### (1) 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 currently do not 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.

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 DPF, 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, pay reduced premiums or refuse to pay premiums, etc. Thus, the resultant insurance risk is subject to policyholders' behavior and decisions.

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note 6.

*As at June 30, 2007*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (1) Insurance risk *(Continued)*

#### (a) Long term life insurance contracts and investment contracts with DPF

*Assumptions*

Material judgment is required in determining the liabilities and in the choice of assumptions relating to both long term life insurance contracts and investment contracts. Such assumptions are determined as appropriate and prudent estimates at the date of valuation.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality, morbidity and lapse rates

Mortality and morbidity rates, varying by age of the insured, and lapse rates, varying by contract type, are based upon expected experience at the date of contract issue plus, where applicable, a margin for adverse deviation. The mortality, morbidity and lapse assumptions are based on experience studies of the Group's actual experience.

For long term life insurance policies, increased mortality rates will lead to a larger number of claims and claims will occur sooner than anticipated, which will increase the expenditure and reduce profits for the shareholders.

For annuity contracts, a high mortality will decrease payments, thereby reducing expenditure and increase profits.

Impact of increase in lapse rates at early duration of the policy would tend to reduce profits for the shareholders but lapse rates at later policy durations is broadly neutral in effect.

Investment return

Future investment return has been assumed to be 4.3% in 2007 to increase by 0.1% every year to 4.7% in 2011 and thereafter. These rates have been derived by consideration of the current market condition and the Group's current and expected future asset allocation. They are the best estimate rates used in gross premium reserve valuation and liability adequacy test on a portfolio basis.

An increase in investment return assumption would lead to a decrease in policyholders' liabilities.

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (1) Insurance risk *(Continued)*

#### (a) Long term life insurance contracts and investment contracts with DPF *(Continued)*

*Assumptions (Continued)*

Expenses

Maintenance expenses assumptions reflect the projected costs of maintaining and servicing in force policies. The assumption for policy administration expenses is determined based on expected unit costs. Unit costs have been based on an analysis of actual experience.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

Others

Other assumptions include taxation, future bonus rates, etc.

*Change in assumptions*

The assumptions used to estimate the liabilities of the Group's long term life insurance contracts and investment contracts with DPF require judgment and are subject to uncertainty. During the Period, the long term life insurance policyholders' reserves increased by RMB3,281 million mainly due to the recognition of changes in lapse and mortality rate assumptions for certain group life insurance business.

*Sensitivities*

The Group has investigated the impact on long term life insurance contract liabilities, of varying independently certain assumptions regarding future experience. For most insurance contracts, the assumptions are established at the inception of the policies and remain unchanged. The impact of assumption changes to liabilities mainly comes from the potential reserve increase due to failing the liability adequacy test. The following changes in assumptions have been considered:

- investment return assumption increased by 25 basis points every year;
- investment return assumption decreased by 25 basis points every year;
- a 10% increase in maintenance expense rates;
- a 10% decrease in mortality and morbidity rates; and
- a 10% decrease in policy lapse rates.

*As at June 30, 2007*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (1) Insurance risk *(Continued)*

**(a) Long term life insurance contracts and investment contracts with DPF** *(Continued)*

*Sensitivities (Continued)*

| Assumptions | Impact on gross policyholders' reserves* (in RMB million) | Impact of assumption change as a percentage of gross policyholders' reserves |
|---|---|---|
| Investment return increased by 25 basis points | (1,306) | (0.43%) |
| Investment return decreased by 25 basis points | 1,401 | 0.47% |
| 10% increase in maintenance expense rates | 17 | 0.01% |
| 10% decrease in morbidity/mortality rates | 341 | 0.11% |
| 10% decrease in policy lapse rates | 189 | 0.06% |

* *Including investment contracts with DPF*

The above impact on policyholders' reserves will be reflected in the Group's profit before tax and equity.

The sensitivity analysis also does not take into account the fact that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above analysis include the use of hypothetical market movements to demonstrate potential risk and the assumption that interest rates move in identical fashion.

**(b) Property and casualty and short term life insurance contracts**

*Assumptions*

The principal assumption underlying the estimates is the Group's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include delays in settlement, etc.

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (1) Insurance risk *(Continued)*

#### (b) Property and casualty and short term life insurance contracts *(Continued)*

*Sensitivities*

The property and casualty and short term life insurance claim reserves are sensitive to the above key assumptions. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim reserves are not known with certainty at the balance sheet date.

Reproduced below is an exhibit that shows the development of net claim reserves:

| | Property and casualty insurance (accident year) Gross | | | | | |
|---|---|---|---|---|---|---|
| **(Audited) (in RMB million)** | **2003** | **2004** | **2005** | **2006** | **Six months ended June 30, 2007** | **Total** |
| Estimated cumulative claims paid as of: | | | | | | |
| End of current year/period | 5,429 | 5,955 | 7,171 | 9,317 | **5,446** | |
| One year later | 5,403 | 5,948 | 7,172 | 9,864 | **–** | |
| Two years later | 5,403 | 5,397 | 7,046 | – | **–** | |
| Three years later | 5,277 | 5,320 | – | – | **–** | |
| Four years later | 5,255 | – | – | – | **–** | |
| Estimated cumulative claims paid | 5,255 | 5,320 | 7,046 | 9,864 | **5,446** | 32,931 |
| Cumulative claims paid | (5,132) | (5,091) | (6,437) | (7,503) | **(2,241)** | (26,404) |
| Prior period adjustments and unallocated loss adjusting expenses | | | | | | 210 |
| Unpaid claim expenses | | | | | | 6,737 |

*As at June 30, 2007*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (1) Insurance risk *(Continued)*

**(b) Property and casualty and short term life insurance contracts** *(Continued)*

*Sensitivities (Continued)*

| (Audited) (in RMB million) | Property and casualty insurance (accident year) Net 2003 | 2004 | 2005 | 2006 | Six months ended June 30, 2007 | Total |
|---|---|---|---|---|---|---|
| Estimated cumulative claims paid as of: | | | | | | |
| End of current year/period | 3,726 | 4,181 | 5,266 | 7,219 | **4,477** | |
| One year later | 3,687 | 4,228 | 5,280 | 7,375 | **–** | |
| Two years later | 3,705 | 3,833 | 5,204 | – | **–** | |
| Three years later | 3,611 | 3,776 | – | – | **–** | |
| Four years later | 3,596 | – | – | – | **–** | |
| Estimated cumulative claims paid | 3,596 | 3,776 | 5,204 | 7,375 | **4,477** | 24,428 |
| Cumulative claims paid | (3,522) | (3,597) | (4,756) | (5,960) | **(1,918)** | (19,753) |
| Prior period adjustments and unallocated loss adjusting expenses | | | | | | 192 |
| Unpaid claim expenses | | | | | | 4,867 |

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (1) Insurance risk *(Continued)*

#### (b) Property and casualty and short term life insurance contracts *(Continued)*

*Sensitivities (Continued)*

| (Audited) (in RMB million) | Short term life insurance (accident year) Gross 2003 | 2004 | 2005 | 2006 | Six months ended June 30, 2007 | Total |
|---|---|---|---|---|---|---|
| Estimated cumulative claims paid as of: | | | | | | |
| End of current year/period | 1,376 | 1,571 | 1,767 | 2,039 | **994** | |
| One year later | 1,349 | 1,577 | 1,960 | 2,030 | **–** | |
| Two years later | 1,354 | 1,582 | 1,938 | – | **–** | |
| Three years later | 1,354 | 1,582 | – | – | **–** | |
| Four years later | 1,354 | – | – | – | **–** | |
| Estimated cumulative claims paid | 1,354 | 1,582 | 1,938 | 2,030 | **994** | 7,898 |
| Cumulative claims paid | (1,354) | (1,582) | (1,931) | (1,885) | **(465)** | (7,217) |
| Prior period adjustments and unallocated loss adjusting expenses | | | | | | 18 |
| Unpaid claim expenses | | | | | | 699 |

*As at June 30, 2007*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (1) Insurance risk *(Continued)*

#### (b) Property and casualty and short term life insurance contracts *(Continued)*

*Sensitivities (Continued)*

| (Audited) (in RMB million) | Short term life insurance (accident year) Net 2003 | 2004 | 2005 | 2006 | Six months ended June 30, 2007 | Total |
|---|---|---|---|---|---|---|
| Estimated cumulative claims paid as of: | | | | | | |
| End of current year/period | 978 | 1,053 | 1,156 | 1,616 | **750** | |
| One year later | 959 | 1,057 | 1,482 | 1,540 | **–** | |
| Two years later | 916 | 1,086 | 1,499 | – | **–** | |
| Three years later | 916 | 1,086 | – | – | **–** | |
| Four years later | 916 | – | – | – | **–** | |
| Estimated cumulative claims paid | 916 | 1,086 | 1,499 | 1,540 | **750** | 5,791 |
| Cumulative claims paid | (916) | (1,086) | (1,493) | (1,438) | **(365)** | (5,298) |
| Prior period adjustments and unallocated loss adjusting expenses | | | | | | 18 |
| Unpaid claim expenses | | | | | | 511 |

To illustrate the sensitivities of ultimate claims costs, for example, a respective percentage change in average claim costs or the number of claims alone result in a similar percentage change in claim reserves. In other words, while other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short term life insurance as at June 30, 2007 by approximately RMB243 million and RMB25 million, respectively.

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (1) Insurance risk *(Continued)*

#### (c) Reinsurance

The Group limits its exposure to losses within insurance operations mainly through participation in reinsurance arrangements. The majority of the business ceded is placed on quota share basis and surplus basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

### (2) 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 foreign currency risk facing the Group mainly comes from the movements in the US dollar/Renminbi and Hong Kong dollar/Renminbi exchange rates. The Group seeks to limit its exposure to foreign currency risk by minimizing its net foreign currency position.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

| | | **(Audited) June 30, 2007** | | (Audited) December 31, 2006 | |
|---|---|---|---|---|---|
| **(in RMB million)** | **Change in variables** | **Impact on profit** | **Impact on equity** | Impact on profit | Impact on equity |
| All foreign currencies | –5% | **770** | **770** | 678 | 678 |

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (2) Market risk *(Continued)*

#### (b) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of investment-linked business.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

The Group considers that it has no significant concentration of price risk.

The Group uses the 10-day market price value-at-risk ("VaR") technique to estimate its risk exposure.

The analysis below is the impact on equity for listed equity securities and equity investments funds with 10-day reasonable market fluctuation in using risk value module in the normal market.

| **(in RMB million)** | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Listed stocks and equity investment funds | **9,746** | 4,241 |

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (2) Market risk *(Continued)*

#### (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.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, for the following financial instruments, showing the pre-tax impact on profit and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

| | | **(Audited) June 30, 2007** | | (Audited) December 31, 2006 | |
|---|---|---|---|---|---|
| **(in RMB million)** | **Change in interest rate** | **Impact on profit** | **Impact on equity** | Impact on profit | Impact on equity |
| Bond investments | | | | | |
| Held-for-trading and available-for-sale | +50 basis points | **(197)** | **(3,082)** | (144) | (3,088) |

| | | **Increase in interest income/(expense)** | |
|---|---|---|---|
| **For the six months ended June 30, (in RMB million)** | | **(Audited) 2007** | (Unaudited) 2006 |
| Floating rate bonds | +50 basis points | **17** | 16 |
| Loans and advances to customers | +50 basis points | **68** | 61 |
| Customer deposits | +50 basis points | **(161)** | (124) |

*As at June 30, 2007*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (3) Financial risk

#### (a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, loans and advances to customers, investments in bonds, equity investments, reinsurance arrangements with reinsurers, policy loans, etc. The Group mitigates credit risk by using a variety of controls including utilizing credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counter party exposure limits.

The Group's banking business carries out credit assessment before granting credit to customers and monitors on a regular basis the credit granted. Credit risk is also managed through obtaining collateral and guarantees. In the case of off-balance sheet credit related commitments, guarantee deposits are in general received by the Group to reduce credit risk.

*Credit quality*

Majority of the Group's financial assets are bond investments which include government bonds, finance bonds and corporate bonds. The finance bonds held by the Group have domestic credit rating of A or above and the corporate bonds held by the Group have credit rating of AA or above.

*Credit exposure*

The table below shows the maximum exposure to credit risk for the components of the balance sheet and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancements.

| **(in RMB million)** | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Balances with central bank and statutory deposits | **11,220** | 9,234 |
| Cash and amounts due from banks and other financial institutions | **119,403** | 95,912 |
| Fixed maturity investments | **261,587** | 213,041 |
| Derivative financial assets | **16** | 21 |
| Loans and advances to customers | **58,427** | 49,152 |
| Premium receivables | **5,123** | 2,939 |
| Reinsurance assets | **5,120** | 4,130 |
| Other assets and receivables | **9,706** | 8,108 |
| Total | **470,602** | 382,537 |
| Commitments | **30,691** | 29,115 |
| **Total credit risk exposure** | **501,293** | 411,652 |

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (3) Financial risk *(Continued)*

#### (a) Credit risk *(Continued)*

*Credit exposure (Continued)*

Where financial instruments are recorded at fair value, the amounts shown above represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in values.

*Collateral and other credit enhancements*

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters.

The main types of collateral obtained are as follows:

– for securities lending and reverse repurchase transactions, cash or securities;

– for commercial lending, charges over real estate properties, inventories and trade receivables, etc; and

– for retail lending, mortgages over residential properties, etc.

Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

*As at June 30, 2007*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (3) Financial risk *(Continued)*

#### (a) Credit risk *(Continued)*

*Aging analysis of financial assets past-due*

| | June 30, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| (Audited) (in RMB million) | In due assets | Less than 30 days | 31 to 90 days | More than 90 days | Total past-due but not impaired | Past-due and impaired | Total |
| Cash and amounts due from banks and other financial institutions | 119,403 | – | – | – | – | 64 | 119,467 |
| Balances with central bank and statutory deposits | 11,220 | – | – | – | – | – | 11,220 |
| Loans and advances to customers | 57,208 | 784 | 247 | 93 | 1,124 | 600 | 58,932 |
| Premium receivables | 4,952 | 4 | 4 | 2 | 10 | 358 | 5,320 |
| Due from reinsurers | 1,298 | – | – | – | – | 88 | 1,386 |
| Gross total | 194,081 | 788 | 251 | 95 | 1,134 | 1,110 | 196,325 |
| Less: impairment provision | – | – | – | – | – | (854) | (854) |
| Net | 194,081 | 788 | 251 | 95 | 1,134 | 256 | 195,471 |

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (3) Financial risk *(Continued)*

#### (a) Credit risk *(Continued)*

*Aging analysis of financial assets past-due (Continued)*

| (Audited) (in RMB million) | December 31, 2006 In due assets | Less than 30 days | 31 to 90 days | More than 90 days | Total past-due but not impaired | Past-due and impaired | Total |
|---|---|---|---|---|---|---|---|
| Cash and amounts due from banks and other financial institutions | 95,912 | – | – | – | – | 376 | 96,288 |
| Balances with central bank and statutory deposits | 9,234 | – | – | – | – | – | 9,234 |
| Loans and advances to customers | 47,914 | 434 | 240 | 215 | 889 | 2,780 | 51,583 |
| Premium receivables | 2,831 | 3 | 2 | 2 | 7 | 256 | 3,094 |
| Due from reinsurers | 787 | – | – | – | – | 55 | 842 |
| Gross total | 156,678 | 437 | 242 | 217 | 896 | 3,467 | 161,041 |
| Less: impairment provision | – | – | – | – | – | (3,017) | (3,017) |
| Net | 156,678 | 437 | 242 | 217 | 896 | 450 | 158,024 |

Of the aggregate amount of gross past-due but not impaired loans and advances to customers, the fair value of collateral that the Group held as at June 30, 2007 was RMB1,983 million (Audited December 31, 2006: RMB1,907 million).

Of the aggregate amount of gross past-due and impaired loans and advances to customers, the fair value of collateral that the Group held as at June 30, 2007 was RMB809 million (Audited December 31, 2006: RMB2,071 million).

*Financial assets whose terms have been renegotiated*

| **(in RMB million)** | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Loans and advances to customers | **477** | 2,336 |

*As at June 30, 2007*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (3) Financial risk *(Continued)*

#### (b) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price 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 and to ensure that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

The table below summarises the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations.

| | June 30, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| (Audited) (in RMB million) | Past due | Less than 3 months | 3 to 12 months | Over 1 year | Undated | Investment-linked | Total |
| Due to banks and other financial institutions | – | 6,950 | 796 | 167 | 2,174 | – | 10,087 |
| Assets sold under agreements to repurchase | – | 21,705 | 1,100 | – | – | – | 22,805 |
| Derivative financial liabilities | – | 229 | 95 | 241 | – | – | 565 |
| Customer deposits | 54 | 45,724 | 19,042 | 4,174 | 9,846 | – | 78,840 |
| Investment contract liabilities for policyholders | – | 132 | – | 333 | – | 4,555 | 5,020 |
| Policyholder dividend payable and provisions | – | 4,771 | – | – | – | – | 4,771 |
| Other liabilities | – | 12,130 | 1,829 | 932 | 859 | – | 15,750 |
| Total | 54 | 91,641 | 22,862 | 5,847 | 12,879 | 4,555 | 137,838 |

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (3) Financial risk *(Continued)*

#### (b) Liquidity risk *(Continued)*

| | December 31, 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| (Audited)<br>(in RMB million) | Past due | Less than 3 months | 3 to 12 months | Over 1 year | Undated | Investment-linked | Total |
| Due to banks and other financial institutions | – | 4,225 | 758 | 155 | – | – | 5,138 |
| Assets sold under agreements to repurchase | – | 11,770 | 1,172 | 494 | – | – | 13,436 |
| Derivative financial liabilities | – | 19 | 119 | 286 | – | – | 424 |
| Customer deposits | – | 57,841 | 11,156 | 4,088 | 3,750 | – | 76,835 |
| Investment contract liabilities for policyholders | – | 58 | – | 204 | – | 3,971 | 4,233 |
| Policyholder dividend payable and provisions | – | 4,107 | – | – | – | – | 4,107 |
| Other liabilities | – | 9,084 | 705 | 699 | 1,256 | – | 11,744 |
| Total | – | 87,104 | 13,910 | 5,926 | 5,006 | 3,971 | 115,917 |

The table below summarises the maturity profile of the notional amount of derivative financial liabilities of the Group based on remaining contractual obligations.

| **(in RMB million)** | **Less than 3 months** | **3 to 12 months** | **Over 1 year** | **Undated** | **Investment-linked** | **Total** |
|---|---|---|---|---|---|---|
| **June 30, 2007 (Audited)** | **754** | **430** | **1,039** | **–** | **–** | **2,223** |
| December 31, 2006 (Audited) | 327 | 865 | 1,015 | – | – | 2,207 |

*As at June 30, 2007*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (3) Financial risk *(Continued)*

#### (b) Liquidity risk *(Continued)*

The table below summarises the expected recovery or settlement of assets.

| (Audited) (In RMB million) | June 30, 2007 Current* | Non-current | Investment-linked | Total |
|---|---|---|---|---|
| Balances with central bank and statutory deposits | **2,142** | **9,078** | **–** | **11,220** |
| Cash and amounts due from banks and other financial institutions | **90,443** | **28,960** | **–** | **119,403** |
| Fixed maturity investments | **71,460** | **190,127** | **–** | **261,587** |
| Equity investments | **18,371** | **48,171** | **–** | **66,542** |
| Derivative financial assets | **9** | **7** | **–** | **16** |
| Loans and advances to customers | **35,326** | **23,101** | **–** | **58,427** |
| Investments in associates | **–** | **176** | **–** | **176** |
| Premium receivables | **5,025** | **98** | **–** | **5,123** |
| Reinsurance assets | **3,308** | **1,812** | **–** | **5,120** |
| Policyholder account assets in respect of insurance contracts | **–** | **–** | **27,340** | **27,340** |
| Policyholder account assets in respect of investment contracts | **–** | **–** | **4,550** | **4,550** |
| Deferred policy acquisition costs | **6,509** | **29,560** | **–** | **36,069** |
| Investment properties | **–** | **3,656** | **–** | **3,656** |
| Property and equipment | **–** | **7,047** | **–** | **7,047** |
| Intangible assets | **–** | **1,530** | **–** | **1,530** |
| Deferred income tax assets | **–** | **260** | **–** | **260** |
| Other assets and receivables | **7,538** | **2,168** | **–** | **9,706** |
| Total | **240,131** | **345,751** | **31,890** | **617,772** |

* *Expected recovery within 12 months from the balance sheet date.*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (3) Financial risk *(Continued)*

#### (b) Liquidity risk *(Continued)*

| (Audited) (In RMB million) | December 31, 2006 Current* | Non-current | Investment-linked | Total |
|---|---|---|---|---|
| Balances with central bank and statutory deposits | 1,927 | 7,307 | – | 9,234 |
| Cash and amounts due from banks and other financial institutions | 63,414 | 32,498 | – | 95,912 |
| Fixed maturity investments | 22,612 | 190,429 | – | 213,041 |
| Equity investments | 15,103 | 31,626 | – | 46,729 |
| Derivative financial assets | 10 | 11 | – | 21 |
| Loans and advances to customers | 27,886 | 21,266 | – | 49,152 |
| Investments in an associate | – | 176 | – | 176 |
| Premium receivables | 2,866 | 73 | – | 2,939 |
| Reinsurance assets | 2,664 | 1,466 | – | 4,130 |
| Policyholder account assets in respect of insurance contracts | – | – | 20,961 | 20,961 |
| Policyholder account assets in respect of investment contracts | – | – | 3,971 | 3,971 |
| Deferred policy acquisition costs | 5,664 | 26,202 | – | 31,866 |
| Investment properties | – | 1,528 | – | 1,528 |
| Property and equipment | – | 4,766 | – | 4,766 |
| Intangible assets | – | 1,484 | – | 1,484 |
| Deferred income tax assets | – | 417 | – | 417 |
| Other assets and receivables | 6,418 | 1,690 | – | 8,108 |
| Total | 148,564 | 320,939 | 24,932 | 494,435 |

* *Expected recovery within 12 months from the balance sheet date.*

*As at June 30, 2007*

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (4) 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. In the current regulatory and market environment, however, 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. When the current regulatory and market environment permits, however, the Group will 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.

### (5) 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.

### (6) Capital management

The Group's capital requirements are primarily dependent on the scale and the type of business that it underwrites, as well as the industry and geographic location in which it operates. The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital requirements by assessing shortfalls, if any, between the reported and the required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid, return capital to ordinary shareholders or issue capital securities.

The Group fully complied with the externally imposed capital requirements during the Period and no changes were made to its capital base, objectives, policies and processes from the previous year.

## 41. RISK AND CAPITAL MANAGEMENT *(Continued)*

### (6) Capital management *(Continued)*

The table below summarises the minimum regulatory capital for major insurance subsidiaries of the Group and the regulatory capital held against each of them.

| | **(Audited) June 30, 2007** | | | (Audited) December 31, 2006 | | |
|---|---|---|---|---|---|---|
| | **Regulatory capital held** | **Minimum regulatory capital** | **Solvency margin ratio** | Regulatory capital held | Minimum regulatory capital | Solvency margin ratio |
| Ping An Life | **34,561** | **14,535** | **238%** | 23,983 | 13,096 | 183% |
| Ping an Property & Casualty | **3,041** | **2,389** | **127%** | 2,613 | 1,990 | 131% |

The regulatory capital of Shenzhen Ping An Bank is analysed below.

| | **(Audited) June 30, 2007*** | | (Audited) December 31, 2006* | |
|---|---|---|---|---|
| | **Regulatory capital held** | **Minimum regulatory capital** | Regulatory capital held | Minimum regulatory capital |
| Core capital | **6,007** | **2,243** | 4,761 | 1,765 |
| Capital | **5,960** | **4,486** | 4,714 | 3,530 |
| Risk weighted assets | **56,075** | | 44,128 | |
| Core capital adequacy ratio | **10.7%** | | 10.8% | |
| Capital adequacy ratio | **10.6%** | | 10.7% | |

* As Shenzhen Ping An Bank (its original company name was Shenzhen Commercial Bank Co., Ltd. before its renaming on June 27, 2007) acquired 100% equity interest in Ping An Bank on June 26, 2007, the above capital information as at June 30, 2007 is presented based on the financial information of Shenzhen Ping An Bank after such business combination while the comparative information as at December 31, 2006 is presented based on the financial information of Shenzhen Commercial Bank Co., Ltd. only.

Regulatory capital of the Group's banking subsidiaries consists of core capital and supplementary capital. Core capital comprises paid-in capital, capital reserve, surplus reserve fund, retained earnings and minority interests less goodwill and 50% of certain long term investments etc. Supplementary capital includes subordinated long term debts, convertible bonds, preference shares, general reserves and revaluation reserves.

*As at June 30, 2007*

## 42. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by category of carrying amounts and estimated fair values of the Group's major financial instruments.

| | **Carrying amounts** | | **Estimated fair values** | |
|---|---|---|---|---|
| **(in RMB million)** | **(Audited) June 30, 2007** | (Audited) December 31, 2006 | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
| **Financial assets** | | | | |
| Balances with central bank and statutory deposits | **11,220** | 9,234 | **11,220** | 9,234 |
| Cash and amounts due from banks and other financial institutions | **119,403** | 95,912 | **119,403** | 95,912 |
| Fixed maturity investments | **261,587** | 213,041 | **260,817** | 220,288 |
| Equity investments | **66,542** | 46,729 | **66,542** | 46,729 |
| Derivative financial assets | **16** | 21 | **16** | 21 |
| Loan and advances to customers | **58,427** | 49,152 | **58,427** | 49,152 |
| Premium receivables | **5,123** | 2,939 | **5,123** | 2,939 |
| **Financial liabilities** | | | | |
| Due to banks and other financial institutions | **9,382** | 5,138 | **9,382** | 5,138 |
| Assets sold under agreements to repurchase | **22,805** | 13,436 | **22,805** | 13,436 |
| Derivative financial liabilities | **356** | 178 | **356** | 178 |
| Customer deposits | **77,930** | 75,960 | **77,930** | 75,960 |

The principal methods and assumptions used by the Group in estimating the fair values of the financial instruments are:

(1) Fixed maturity investments: fair values are generally based upon quoted market prices. Where quoted market prices are not readily available, fair values are estimated using either prices observed in recent transactions or values obtained from discounted cash flow models using current market yield rate of comparable investments.

(2) Equity investments: fair values are based on quoted market prices except for certain unlisted equity investments, which are carried at cost as a reasonable estimate of their fair value.

(3) Others: carrying amounts of these assets and liabilities would approximate their fair values.

## 43. CASH AND CASH EQUIVALENTS

| (in RMB million) | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Balances with central bank | **2,142** | 1,927 |
| Cash and amounts due from banks and other financial institutions | | |
| – Cash on hand | **405** | 347 |
| – Term deposits | **15,079** | 18,356 |
| – Placements with banks and other financial institutions | **57,572** | 15,732 |
| – Loans and advances | **183** | 319 |
| Equity investments | | |
| – Money-market placements | **4,020** | 2,114 |
| Fixed maturity investments | | |
| – Bonds within 3 months | **25,652** | 438 |
| – Assets purchased under agreements to resell | **10,798** | 6,731 |
| Subtotal | **115,851** | 45,964 |
| Investment-Linked | **4,253** | 1,363 |
| Total | **120,104** | 47,327 |

The above money-market placements are non-interest bearing. The carrying amounts disclosed above approximate fair values at year end.

*As at June 30, 2007*

## 44. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before tax to net cash from operating activities:

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Operating profit before tax | **9,969** | 4,162 |
| Adjustments for: | | |
| Charge of impairment losses on investment properties, property and intangible assets | **9** | 34 |
| Depreciation | **400** | 228 |
| Amortization of intangible assets | **81** | 9 |
| Loss on disposal of investment properties, property and equipment and intangible assets | **1** | 6 |
| Investment income | **(25,668)** | (9,593) |
| Foreign currency losses | **335** | 130 |
| Provision for doubtful debts, net | **76** | 11 |
| Loan loss provisions, net of reversals | **(105)** | – |
| Operating loss before working capital changes | **(14,902)** | (5,013) |

## 44. NOTE TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

Reconciliation of profit before tax to net cash from operating activities: *(Continued)*

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Operating loss before working capital changes | (14,902) | (5,013) |
| Changes in operational assets and liabilities: | | |
| Increase in balances with central bank and statutory deposits | (1,771) | (5) |
| Decrease/(increase) in amounts due from banks and other financial institutions | 490 | (179) |
| Increase in premium receivables | (2,184) | (2,931) |
| Increase in reinsurance assets | (990) | (344) |
| Increase in loans and advances to customers | (9,275) | (1,098) |
| Increase in deferred policy acquisition costs | (4,136) | (2,702) |
| Increase in policyholder account assets in respect of insurance contracts | (6,379) | (3,663) |
| Increase in policyholder account assets in respect of investment contracts | (579) | (319) |
| Decrease/(increase) in other assets | (1,706) | 851 |
| Increase in insurance contract liabilities | 48,835 | 33,682 |
| Increase in investment contract liabilities for policyholders | 787 | 319 |
| Increase in due to banks and other financial institutions | 4,244 | 72 |
| Increase in customer deposits | 1,970 | 2,143 |
| Increase in derivative financial liabilities | 178 | 38 |
| Increase in policyholder dividend payable and provisions | 664 | 1,614 |
| Increase in other liabilities | 4,006 | 984 |
| Net cash inflow from financing activities for policyholders' accounts | 1,275 | 1,646 |
| Cash generated from operations | 20,527 | 25,095 |
| Income taxes paid | (676) | (51) |
| Net cash from operating activities | 19,851 | 25,044 |

*As at June 30, 2007*

## 45. COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel comprise the Company's directors, supervisors, and senior officers as defined in the Company's articles of association. The summary of compensation of key management personnel for the Period is as follows:

| For the six months ended June 30, (in RMB million) | (Audited) 2007 | (Unaudited) 2006 |
|---|---|---|
| Salaries and other short term employee benefits | **53** | 42 |

The compensation expenses for share appreciation rights granted to key management personnel are not included in the above analysis. The cumulative number of share appreciation right units granted to key management personnel as at June 30, 2007 is 20 million (Audited December 31, 2006: 20 million). The expense in respect of cumulative share appreciation right units granted to key management personnel recognized in the income statement during the Period is RMB226 million (Unaudited six months ended June 30, 2006: RMB79 million).

## 46. SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) The Company's related parties where control exists are mainly subsidiaries of the Company. For details, please refer to Note 23.

(2) The Company's related parties where significant influence exists are set out below:

| Name of related parties | Relationship with the Company |
|---|---|
| HSBC Holdings Limited ("HSBC Holdings") | Parent of shareholders |
| HSBC Insurance Holdings Limited ("HSBC Insurance") | Shareholder |
| HSBC | Shareholder |

In late August 2005, HSBC Holdings through its wholly owned subsidiaries, HSBC Insurance and HSBC held 19.9% of the Company's shares. Since then, HSBC Holdings and its subsidiaries became the Company's related parties who had significant influence over the Group.

As at June 30, 2007, HSBC Holdings held, through its subsidiaries, 16.79% equity interests in the Company.

As at June 30, 2007, the Group's aggregate bank balances with HSBC were approximately RMB235 million (Audited December 31, 2006: RMB710 million). Interest income earned by the Group on such bank balances for the Period was approximately RMB6 million (Unaudited six months ended June 30, 2006: RMB10 million).

(3) Please refer to Note 45 for compensation of key management personnel.

## 47. COMMITMENTS

### (1) Capital commitments

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

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Contracted, but not provided for | **5,947** | 3,431 |
| Authorized, but not contracted for | **1,036** | 1,182 |
| Total | **6,983** | 4,613 |

### (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) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Within 1 year | **491** | 453 |
| 1-5 years | **725** | 649 |
| More than 5 years | **41** | 65 |
| Total | **1,257** | 1,167 |

### (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) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Within 1 year | **115** | 59 |
| 1-5 years | **56** | 63 |
| More than 5 years | **64** | 69 |
| Total | **235** | 191 |

*As at June 30, 2007*

## 47. COMMITMENTS *(Continued)*

### (4) Credit commitments

| (in RMB million) | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Letter of credit issued | **652** | 734 |
| Acceptance issued | **9,680** | 9,017 |
| Guarantee issued | **7,404** | 6,536 |
| Loan commitment | **12,951** | 12,823 |
| Others | **4** | 5 |
| Total | **30,691** | 29,115 |

## 48. EMPLOYEE BENEFITS

### (1) Pension

The employees of the Group are mainly covered by various defined contribution pension plans. The Group makes and accrues on a monthly basis contributions to the pension plans, which are mainly sponsored by the related government authorities that are responsible for the pension liability to retired employees. Under such plans, the Group has no other significant legal or constructive obligations for retirement benefits beyond the said contributions, which are expensed as incurred. Certain employees are also provided with group life insurance but the amounts involved are insignificant.

### (2) Housing benefits

The employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

### (3) Medical benefits

The Group makes contributions for medical benefits to the local authorities in accordance with the relevant local regulations.

### (4) Share appreciation rights scheme

On February 5, 2004, the Company's board of directors approved a scheme of share appreciation rights for the senior executives and certain key employees of the Group. No shares will be issued under this scheme. The rights are granted in units with each unit representing one H share of the Company. The rights to the units will be issued in the next five years. Upon exercise of the said rights, the participants will receive a cash payment, subject to the restrictions that the annual amount of aggregate benefit to all participants shall not exceed a percentage of the estimated net profits in the year in which the rights are exercised, which is equal to the product of the number of units exercised and the difference between the exercise price and market price of an H share at the time of exercise.

## 48. EMPLOYEE BENEFITS *(Continued)*

### (4) Share appreciation rights scheme *(Continued)*

The expense recognized for employee services received during the Period is RMB777 million (Unaudited six months ended June 30, 2006: RMB249 million).

The following table illustrates the number of units in share appreciation rights during the Period.

| (in million) | (Audited) 2007 Number of units | (Unaudited) 2006 Number of units |
|---|---|---|
| As at January 1, | **69** | 54 |
| Granted during the Period | **–** | – |
| As at June 30, | **69** | 54 |

The fair value of share appreciation rights is initially measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share appreciation rights were granted. The following table lists the inputs to the model used for the Period.

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Risk-free interest rate (%) | **1.5%** | 1.5% |
| Expected dividend yield (%) | **1.0%** | 1.0% |
| Expected volatility (%) | **33.1%** | 31.0% |
| Expected life (in years) | **3-5** | 3-5 |

The services received and liabilities to pay for those services are recognized over the expected vesting period. Until the liability is settled, it is remeasured at each reporting date with changes in fair value recognized in the income statement. The carrying amount of the liability relating to the share appreciation rights as at June 30, 2007 is RMB1,886 million (Audited December 31, 2006: RMB1,109 million).

## 49. CONTINGENT LIABILITIES

### (1) Guarantees

Ping An Real Estate provided guarantees for value of certain investment properties under trust schemes managed by Ping An Trust. The guarantees provided were RMB160 million as at June 30, 2007 (Audited December 31, 2006: RMB 426 million.)

*As at June 30, 2007*

## 49. CONTINGENT LIABILITIES *(Continued)*

### (2) Litigation

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 of any legal advice.

No provision has been made for pending lawsuits or possible violations of contracts 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.

## 50. POST BALANCE SHEET EVENTS

(1) By July 20, 2007, the Group completed, through Ping An Trust, its acquisition of 30% equity interests in Shanxi Taichang Expressway Co., Ltd., 60% equity interests in Shanxi Changjin Expressway Co., Ltd. and 60% equity interests in Shanxi Jiaojin Expressway Co., Ltd. at an aggregate consideration of RMB 2.3 billion.

(2) On August 16, 2007, the directors proposed 2007 interim dividend distribution of RMB0.20 per ordinary share totaling RMB1,469 million.

## 51. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period's presentation. These reclassifications mainly include:

- reclassification to present interest income and interest expense for banking operation separately;
- reclassification to present fees and commission income from fees and commission expenses for non-insurance operations separately;
- reclassification to present loan loss provisions separately; and
- reclassification to present assets and liabilities on the face of balance sheet in a more condensed manner and to provide breakdown of certain assets and liabilities in the notes to the financial statements.

## 52. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved and authorized for issue by the Company's directors on August 16, 2007.

# Auditors' Report

Ernst & Young Hua Ming (2007) Shen Zi No.60468101-B31

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

We have audited the accompanying financial statements of Ping An Insurance (Group) Company of China, Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated and company balance sheets as at June 30, 2007, the consolidated and company income statements, statements of changes in equity and cash flow statements for the six months ended June 30, 2007 and notes to the financial statements.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining internal controls relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal controls relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the accounting polices used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Auditors' Report



## OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material aspects, the financial position of the Group and the Company as at June 30, 2007 and the results of their operations and their cash flows for the six months ended June 30, 2007.

**Ernst & Young Hua Ming**

*Chinese Certified Public Accountant* **Zhang Xiaodong**

*Chinese Certified Public Accountant* **Huang Yuedong**

Beijing, The People's Republic of China

August 16, 2007

# Consolidated Balance Sheet

*June 30, 2007*
*(in RMB million)*

| | Notes VI | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash on hand and at bank | 1 | **83,789** | 42,585 |
| Balances with clearing companies | 2 | **1,591** | 875 |
| Precious metal | | **1** | 111 |
| Placements with banks and other financial institutions | 3 | **1,101** | 1,727 |
| Held-for-trading financial assets | 4 | **73,436** | 44,003 |
| Derivative financial assets | 5 | **16** | 21 |
| Financial assets purchased under agreements to resell | 6 | **12,854** | 7,251 |
| Interest receivables | 7 | **4,716** | 3,249 |
| Premium receivables | 8 | **5,307** | 3,073 |
| Receivable from reinsurers | | **2,205** | 795 |
| Unearned premium reserves receivable from reinsurers | | **3,048** | 2,437 |
| Claim reserves receivable from reinsurers | | **2,058** | 1,724 |
| Policyholders' reserves for life insurance receivable from reinsurers | | **7** | – |
| Long-term reserves for health insurance receivable from reinsurers | | **7** | – |
| Policy loans | 9 | **1,799** | 1,381 |
| Loans and advances to customers | 10 | **58,427** | 49,152 |
| Deposits with stock and futures exchanges | | **1,139** | 334 |
| Term deposits | 11 | **50,503** | 65,416 |
| Available-for-sale financial assets | 12 | **132,443** | 95,200 |
| Held-to-maturity investments | 13 | **130,193** | 129,250 |
| Long-term equity investments | 14 | **211** | 415 |
| Goodwill | 15 | **475** | 409 |
| Statutory deposits | | **1,520** | 1,520 |
| Investment properties | 16 | **3,789** | 1,660 |
| Fixed assets | 17 | **6,839** | 4,552 |
| Intangible assets | 18 | **922** | 940 |
| Deferred tax assets | 19 | **592** | 888 |
| Other assets | 20 | **4,155** | 4,320 |
| **Total assets** | | **583,143** | 463,288 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Consolidated Balance Sheet

*June 30, 2007*
*(in RMB million)*

| | Notes VI | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **LIABILITIES** | | | |
| Short-term borrowings | 22 | **557** | 527 |
| Due to banks and other financial institutions | 23 | **5,318** | 3,465 |
| Guarantee deposits | 24 | **5,865** | 5,485 |
| Placements from banks and other financial institutions | 25 | **1,871** | 992 |
| Derivative financial liabilities | 5 | **356** | 178 |
| Financial assets sold under agreements to repurchase | 26 | **22,883** | 14,573 |
| Customer bank deposits | 27 | **62,219** | 66,725 |
| Customer brokerage deposits | 28 | **9,846** | 3,750 |
| Premiums received in advance | | **666** | 1,352 |
| Handling charges and commission payable | | **1,427** | 894 |
| Due to reinsurers | | **2,786** | 746 |
| Salary and welfare payable | 29 | **3,381** | 2,133 |
| Taxes payable | 30 | **1,509** | 1,166 |
| Interest payable | | **355** | 287 |
| Claims payable | | **4,274** | 3,981 |
| Policyholder dividends payable | | **4,771** | 4,107 |
| Policyholder deposits and investments | 31 | **4,945** | 4,049 |
| Unearned premium reserves | 32 | **15,653** | 12,937 |
| Claim reserves | 32 | **7,436** | 6,480 |
| Policyholders' reserves for life insurance | 32 | **289,351** | 248,574 |
| Long-term reserves for health insurance | 32 | **34,399** | 30,694 |
| Long-term borrowings | 33 | **1,636** | 155 |
| Deferred tax liabilities | 19 | **3,555** | 1,441 |
| Other liabilities | 34 | **3,173** | 1,971 |
| **Total liabilities** | | **488,232** | 416,662 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

| | Notes VI | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** *(Continued)* | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | *35* | **7,345** | 6,195 |
| Capital reserves | *36* | **63,833** | 23,246 |
| Surplus reserves | | **6,928** | 6,120 |
| General risk provision | *37* | **517** | 517 |
| Retained profits | | **14,821** | 9,182 |
| Foreign currency translation differences | | **(48)** | – |
| **Attributable to shareholders of the parent** | | **93,396** | 45,260 |
| **Minority interests** | | **1,515** | 1,366 |
| **Total shareholders' equity** | | **94,911** | 46,626 |
| **Total liabilities and shareholders' equity** | | **583,143** | 463,288 |

The financial statements on pages 141 to 270 have been signed by:

| **MA Mingzhe** | **CHEUNG Chi Yan Louis** | **MAK, Wai Lam William** |
|---|---|---|
| *Chairman and Chief Executive Officer* | *President and Chief Financial Officer* | *Deputy Chief Financial Officer* |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Consolidated Income Statement

*For the six months ended June 30, 2007*
*(in RMB million)*

| | Notes VI | (Audited) For the six months ended June 30, 2007 | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|
| **Operating income** | | | |
| Premium income | 39 | **53,885** | 46,000 |
| Including reinsurance premium income | 39 | **47** | 7 |
| Less: Premium ceded to reinsurers | | **(2,600)** | (2,466) |
| Change in unearned premium reserves | 40 | **(2,105)** | (2,054) |
| **Earned premium** | | **49,180** | 41,480 |
| Interest income from banking operations | | **1,716** | 22 |
| Interest expense of banking operations | | **(689)** | (1) |
| **Net interest income from banking operations** | 41 | **1,027** | 21 |
| Fees and commission income | | **1,357** | 218 |
| Fees and commission expenses | | **(213)** | (30) |
| **Net income from fees and commission** | 42 | **1,144** | 188 |
| Investment income | 43 | **29,124** | 8,802 |
| Gains from changes in fair values | 44 | **3,094** | 4,001 |
| Foreign exchange losses | | **(335)** | (130) |
| Other operating income | | **817** | 265 |
| **Total operating income** | | **84,051** | 54,627 |
| **Operating expenses** | | | |
| Surrenders | | **(5,919)** | (3,910) |
| Claims paid | 45 | **(11,791)** | (7,814) |
| Less: Reinsurers' share of claims paid | | **1,167** | 1,132 |
| Change in insurance contract reserves | 46 | **(44,949)** | (30,021) |
| Less: Reinsurers' share of insurance contract reserves | 47 | **348** | 9 |
| Policyholder dividends | | **(897)** | (1,714) |
| Expenses for reinsurance accepted | | **(7)** | (1) |
| Business tax and surcharges | 48 | **(1,742)** | (774) |
| Insurance related handling charges and commission | 49 | **(5,666)** | (3,932) |
| General and administrative expenses | 50 | **(6,571)** | (3,986) |
| Less: Reinsurers' share of expenses | | **675** | 922 |
| Other operating expenses | | **(195)** | (66) |
| Impairment losses | 51 | **(17)** | (45) |
| **Total operating expenses** | | **(75,564)** | (50,200) |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

| | Notes VI | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|
| **Operating profit** | | **8,487** | 4,427 |
| Add: Non-operating income | | **435** | 16 |
| Less: Non-operating expenses | | **(50)** | (17) |
| **Profit before tax** | | **8,872** | 4,426 |
| Less: Income taxes | *52* | **(546)** | (420) |
| **Net Profit** | | **8,326** | 4,006 |
| Attributable to: | | | |
| Shareholders of the parent | | **8,063** | 3,945 |
| Minority interests | | **263** | 61 |
| | | **8,326** | 4,006 |
| | | ***RMB*** | *RMB* |
| **Earnings per share** | | | |
| Basic and diluted earnings per share | *53* | **1.16** | 0.64 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Consolidated Cash Flow Statement

*For the six months ended June 30, 2007*
*(in RMB million)*

| | | Notes VI | (Audited) For the six months ended June 30, 2007 | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|---|
| **I.** | **Cash flows from operating activities:** | | | |
| | Premiums received from direct business | | **50,918** | 41,567 |
| | Net cash from reinsurance business | | **(88)** | 32 |
| | Increase in policyholder deposits and investments | | **896** | 342 |
| | Increase/(decrease) in customer bank deposits and due to banks and other financial institutions | | **(2,653)** | 92 |
| | Increase in placement from other financial institutions | | **491** | 681 |
| | Cash received from interest, fees and commission income | | **3,073** | 238 |
| | Net increase in placements from banks and other financial institutions | | **879** | – |
| | Cash received from other operating activities | | **7,993** | 1,370 |
| | **Sub-total of cash inflows** | | **61,509** | 44,322 |
| | Direct business claims paid | | **(11,366)** | (7,535) |
| | Policyholder dividends paid | | **(232)** | (100) |
| | Net increase in loans and advances to customers | | **(9,196)** | – |
| | Net increase in deposits with central bank and other financial institutions | | **(1,577)** | (5) |
| | Interest, handling charges and commission paid | | **(6,035)** | (3,746) |
| | Cash paid to and for employees | | **(2,115)** | (1,849) |
| | Cash paid for taxes and surcharges | | **(2,065)** | (705) |
| | Cash paid for other operating activities | | **(8,921)** | (5,374) |
| | **Sub-total of cash outflows** | | **(41,507)** | (19,314) |
| | **Net cash flows from operating activities** | 56 | **20,002** | 25,008 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

| | | Notes VI | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|---|
| **II.** | **Cash flows from investing activities:** | | | |
| | Cash received from sales and redemption of investments | | **116,021** | 56,536 |
| | Cash received from returns on investment | | **12,117** | 5,160 |
| | Net cash received from disposals of fixed assets, intangible assets and other long-term assets | | **92** | 9 |
| | **Sub-total of cash inflows** | | **128,230** | 61,705 |
| | Cash paid for acquisition of fixed assets, intangible assets and other long-term assets | | **(2,043)** | (527) |
| | Cash paid for acquisition of investments | | **(116,953)** | (73,892) |
| | Policy loans drawn | | **(418)** | (212) |
| | Acquisition of a subsidiary | | **(382)** | – |
| | Acquisition of minority interest in a subsidiary | | **(229)** | – |
| | **Sub-total of cash outflows** | | **(120,025)** | (74,631) |
| | **Net cash flows from investing activities** | | **8,205** | (12,926) |
| **III.** | **Cash flows from financing activities:** | | | |
| | Cash received from capital contributions | | **38,222** | – |
| | Cash received from borrowings | | **192** | 2 |
| | Cash received from other financing activities | | **8,310** | – |
| | **Sub-total of cash inflows** | | **46,724** | 2 |
| | Cash paid for distribution of dividends and interest | | **(2,080)** | (1,325) |
| | Including dividends paid to minority shareholders | | **(34)** | (50) |
| | Cash paid for other financing activities | | **–** | (6,460) |
| | **Sub-total of cash outflows** | | **(2,080)** | (7,785) |
| | **Net cash flows from financing activities** | | **44,644** | (7,783) |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Consolidated Cash Flow Statement



*For the six months ended June 30, 2007*
*(in RMB million)*

| | | Notes VI | (Audited) For the six months ended June 30, 2007 | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|---|
| **IV.** | **Effect of changes in foreign exchange rate on cash and cash equivalents** | | **(74)** | (18) |
| **V.** | **Net increase in cash and cash equivalents** | *56* | **72,777** | 4,281 |
| | Add: Beginning balance of cash and cash equivalents | *56* | **47,327** | 25,488 |
| **VI.** | **Ending balance of cash and cash equivalents** | *56* | **120,104** | 29,769 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the six months ended June 30, 2007*
*(in RMB million)*

| | | For the six months ended June 30, 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Equity attributable to shareholders of the parent | | | | | | | |
| Item | Notes III | Share capital (Audited) | Capital reserves (Audited) | Surplus reserves (Audited) | General risk provision (Audited) | Retained profits (Audited) | Foreign currency translation differences (Audited) | Minority interests (Audited) | Total (Audited) |
| **I. Prior year's ending balance** | | 6,195 | 15,163 | 6,126 | 517 | 8,667 | – | 1,251 | 37,919 |
| Add: Changes in accounting policies | 39 | – | 8,083 | (6) | – | 515 | – | 115 | 8,707 |
| **II. Current period's beginning balance** | | 6,195 | 23,246 | 6,120 | 517 | 9,182 | – | 1,366 | 46,626 |
| **III. Changes in current period** | | | | | | | | | |
| (1) Net profit | | – | – | – | – | 8,063 | – | 263 | 8,326 |
| (2) Gains/(losses) recognized directly in equity | | | | | | | | | |
| Net gains from changes in fair values of available-for-sale financial assets | | | | | | | | | |
| Recognized directly in equity | | – | 15,367 | – | – | – | – | 154 | 15,521 |
| Transferred to the income statement | | – | (8,727) | – | – | – | – | (88) | (8,815) |
| Related tax effect of items recognized directly in equity | | – | (2,443) | – | – | – | – | (25) | (2,468) |
| Others | | – | (682) | – | – | – | (48) | (121) | (851) |
| Sub-total of (1) and (2) | | – | 3,515 | – | – | 8,063 | (48) | 183 | 11,713 |
| (3) Paid-in-capital | | 1,150 | 37,072 | – | – | – | – | – | 38,222 |
| (4) Profit appropriation | | | | | | | | | |
| Appropriation to surplus reserves | | – | – | 808 | – | (808) | – | – | – |
| Distribution to shareholders | | – | – | – | – | (1,616) | – | (34) | (1,650) |
| **IV. Current period's ending balance** | | 7,345 | 63,833 | 6,928 | 517 | 14,821 | (48) | 1,515 | 94,911 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the six months ended June 30, 2007*
*(in RMB million)*

| | | | For the six months ended June 30, 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Equity attributable to shareholders of the parent | | | | | | | |
| Item | | *Notes III* | Share capital (Unaudited) | Capital reserves (Unaudited) | Surplus reserves (Unaudited) | General risk provision (Unaudited) | Retained profits (Unaudited) | Foreign currency translation differences (Unaudited) | Minority interests (Unaudited) | Total (Unaudited) |
| **I.** | **Prior year's ending balance** | | 6,195 | 15,163 | 5,526 | 430 | 5,350 | – | 525 | 33,189 |
| | Add: Changes in accounting policies | *39* | – | 626 | (127) | – | (721) | – | (2) | (224) |
| **II.** | **Current period's beginning balance** | | 6,195 | 15,789 | 5,399 | 430 | 4,629 | – | 523 | 32,965 |
| **III.** | **Changes in current period** | | | | | | | | | |
| | (1) Net profit | | – | – | – | – | 3,945 | – | 61 | 4,006 |
| | (2) Gains/(losses) recognized directly in equity | | | | | | | | | |
| | Net gains from changes in fair values of available-for-sale financial assets | | | | | | | | | |
| | Recognized directly in equity | | – | 4,124 | – | – | – | – | 37 | 4,161 |
| | Transferred to the income statement | | – | (1,204) | – | – | – | – | (12) | (1,216) |
| | Related tax effect of items recognized directly in equity | | – | (438) | – | – | – | – | (4) | (442) |
| | Others | | – | (908) | – | – | – | – | (9) | (917) |
| | Sub-total of (1) and (2) | | – | 1,574 | – | – | 3,945 | – | 73 | 5,592 |
| | (3) Profit appropriation | | | | | | | | | |
| | Distribution to shareholders | | – | – | – | – | (1,239) | – | (50) | (1,289) |
| **IV.** | **Current period's ending balance** | | 6,195 | 17,363 | 5,399 | 430 | 7,335 | – | 546 | 37,268 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Balance Sheet





*June 30, 2007*
*(in RMB million)*

| | Notes XIV | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash on hand and at bank | *1* | **44,458** | 3,139 |
| Held-for-trading financial assets | *2* | **5,318** | 5,458 |
| Interest receivables | | **92** | 29 |
| Term deposits | *3* | **448** | 776 |
| Available-for-sale financial assets | *4* | **5,455** | 4,227 |
| Long-term equity investments | 5 | **17,568** | 17,368 |
| Fixed assets | | **63** | 69 |
| Intangible assets | | **10** | 18 |
| Other assets | | **328** | 422 |
| **Total assets** | | **73,740** | 31,506 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **LIABILITIES** | | | |
| Placements from banks and other financial institutions | *7* | **1,751** | 820 |
| Salary and welfare payable | *8* | **890** | 586 |
| Taxes payable | *9* | **179** | 75 |
| Deferred tax liabilities | *6* | **170** | 93 |
| Other liabilities | | **132** | 146 |
| **Total liabilities** | | **3,122** | 1,720 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | | **7,345** | 6,195 |
| Capital reserves | *10* | **52,425** | 15,731 |
| Surplus reserves | | **5,429** | 4,969 |
| General risk provision | | **395** | 395 |
| Retained profits | | **5,024** | 2,496 |
| **Total shareholders' equity** | | **70,618** | 29,786 |
| **Total liabilities and shareholders' equity** | | **73,740** | 31,506 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Income Statement

*For the six months ended June 30, 2007*
*(in RMB million)*

| | Notes XIV | (Audited) For the six months ended June 30, 2007 | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|
| **Operating income** | | | |
| Investment income | 11 | **4,878** | 5,213 |
| Gains from changes in fair values | 12 | **359** | 69 |
| Foreign exchange losses | | **(25)** | (5) |
| Other operating income | | **130** | 30 |
| **Total operating income** | | **5,342** | 5,307 |
| **Operating expenses** | | | |
| Business tax and surcharges | 13 | **(54)** | (3) |
| General and administrative expenses | 14 | **(504)** | (265) |
| **Total operating expenses** | | **(558)** | (268) |
| **Operating profit** | | **4,784** | 5,039 |
| Less: Non-operating expenses | | **(1)** | – |
| **Profit before tax** | | **4,783** | 5,039 |
| Less: Income taxes | 15 | **(179)** | (38) |
| **Net profit** | | **4,604** | 5,001 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Cash Flow Statement





*For the six months ended June 30, 2007*
*(in RMB million)*

| | | (Audited) For the six months ended June 30, 2007 | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|
| **I.** | **Cash flows from operating activities:** | | |
| | Cash received from other operating activities | **129** | 5 |
| | **Sub-total of cash inflows** | **129** | 5 |
| | Cash paid to and for employees | **(89)** | (107) |
| | Cash paid for taxes and surcharges | **(90)** | (5) |
| | Cash paid for other operating activities | **(185)** | (53) |
| | **Sub-total of cash outflows** | **(364)** | (165) |
| | **Net cash flows from operating activities** | **(235)** | (160) |
| **II.** | **Cash flows from investing activities:** | | |
| | Cash received from sales and redemption of investments | **7,443** | 4,737 |
| | Cash received from return on investment | **3,897** | 5,087 |
| | Net cash received from disposals of fixed assets and intangible assets | **14** | – |
| | **Sub-total of cash inflows** | **11,354** | 9,824 |
| | Cash paid for acquisitions of fixed assets | **(11)** | (21) |
| | Cash paid for acquisition of investments | **(6,359)** | (10,798) |
| | **Sub-total of cash outflows** | **(6,370)** | (10,819) |
| | **Net cash flows from investing activities** | **4,984** | (995) |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Cash Flow Statement

*For the six months ended June 30, 2007*
*(in RMB million)*

| | | Notes XIV | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|---|
| **III.** | **Cash flows from financing activities:** | | | |
| | Cash received from capital contributions | | **38,222** | – |
| | Cash received from borrowings | | **931** | 1,247 |
| | **Sub-total of cash inflows** | | **39,153** | 1,247 |
| | Cash paid for distribution of dividends and interests | | **(1,571)** | (1,243) |
| | Cash paid for other financing activities | | **–** | (1,119) |
| | **Sub-total of cash outflows** | | **(1,571)** | (2,362) |
| | **Net cash flows from financing activities** | | **37,582** | (1,115) |
| **IV.** | **Effect of changes in foreign exchange rate on cash and cash equivalents** | | **(16)** | (5) |
| **V.** | **Net increase in cash and cash equivalents** | *16* | **42,315** | (2,275) |
| | Add: Beginning balance of cash and cash equivalents | *16* | **3,448** | 2,637 |
| **VI.** | **Ending balance of cash and cash equivalents** | *16* | **45,763** | 362 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Statement of Changes in Equity





*For the six months ended June 30, 2007*
*(in RMB million)*

| Item | | | Share capital (Audited) | Capital reserves (Audited) | Surplus reserves (Audited) | General risk provision (Audited) | Retained profits (Audited) | Total (Audited) |
|---|---|---|---|---|---|---|---|---|
| | | | For the six months ended June 30, 2007 | | | | | |
| **I.** | **Prior year's ending balance** | | **6,195** | **15,163** | **6,126** | **517** | **8,678** | **36,679** |
| | Add: Changes in accounting policies | | **–** | **568** | **(1,157)** | **(122)** | **(6,182)** | **(6,893)** |
| **II.** | **Current period's beginning balance** | | **6,195** | **15,731** | **4,969** | **395** | **2,496** | **29,786** |
| **III.** | **Changes in current period** | | | | | | | |
| | (1) | Net profit | **–** | **–** | **–** | **–** | **4,604** | **4,604** |
| | (2) | Gains/(losses) recognized directly in equity | | | | | | |
| | | Net gains from changes in fair values of available-for-sale financial assets | | | | | | |
| | | Recognized directly in equity | **–** | **(379)** | **–** | **–** | **–** | **(379)** |
| | | Transferred to the income statement | **–** | **(125)** | **–** | **–** | **–** | **(125)** |
| | | Related tax effect of items recognized directly in equity | **–** | **126** | **–** | **–** | **–** | **126** |
| | | Sub-total of (1) and (2) | **–** | **(378)** | **–** | **–** | **4,604** | **4,226** |
| | (3) | Paid-in-capital | **1,150** | **37,072** | **–** | **–** | **–** | **38,222** |
| | (4) | Profit appropriation | | | | | | |
| | | Appropriation to surplus reserves | **–** | **–** | **460** | **–** | **(460)** | **–** |
| | | Distribution to shareholders | **–** | **–** | **–** | **–** | **(1,616)** | **(1,616)** |
| **IV.** | **Current period's ending balance** | | **7,345** | **52,425** | **5,429** | **395** | **5,024** | **70,618** |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

# Statement of Changes in Equity

*For the six months ended June 30, 2007*
*(in RMB million)*

| Item | | | Share capital (Unaudited) | Capital reserves (Unaudited) | Surplus reserves (Unaudited) | General risk provision (Unaudited) | Retained profits (Unaudited) | Total (Unaudited) |
|---|---|---|---|---|---|---|---|---|
| | | | For the six months ended June 30, 2006 | | | | | |
| **I.** | **Prior year's ending balance** | | 6,195 | 15,163 | 5,526 | 430 | 5,350 | 32,664 |
| | Add: Changes in accounting policies | | – | 7 | (1,112) | (35) | (7,002) | (8,142) |
| **II.** | **Current period's beginning balance** | | 6,195 | 15,170 | 4,414 | 395 | (1,652) | 24,522 |
| **III.** | **Changes in current period** | | | | | | | |
| | (1) | Net profit | – | – | – | – | 5,001 | 5,001 |
| | (2) | Gains/(losses) recognized directly in equity | | | | | | |
| | | Net gains from changes in fair values of available-for-sale financial assets | | | | | | |
| | | Recognized directly in equity | – | 301 | – | – | – | 301 |
| | | Transferred to the income statement | – | (17) | – | – | – | (17) |
| | | Related tax effect of items recognized directly in equity | – | (43) | – | – | – | (43) |
| | | Sub-total of (1) and (2) | – | 241 | – | – | 5,001 | 5,242 |
| | (3) | Profit appropriation | | | | | | |
| | | Distribution to shareholders | – | – | – | – | (1,239) | (1,239) |
| **IV.** | **Current period's ending balance** | | 6,195 | 15,411 | 4,414 | 395 | 2,110 | 28,525 |

The accompanying notes on pages 157 to 270 form an integral part of these financial statements.

*June 30, 2007*
*(in RMB million)*

## I. 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 as Shenzhen Ping An Insurance Company, and was engaged primarily in property & casualty insurance business in Shenzhen. With the expansion of business, the Company was renamed as Ping An Insurance Company of China in 1992. The Company started to be engaged in life insurance business from July 1994 and subsequently changed its name to Ping An Insurance Company of China, Ltd. in January 1997.

China Insurance Regulatory Commission (the "CIRC") issued the "Approval of separation of business operations of Ping An Insurance Company of China, Ltd (Baojianfu [2002] No.32)"on April 2, 2002 and agreed with the Company's proposal on the "Separation of business operations of Ping An Insurance Company of China, Ltd". According to the proposal, the Company will be renamed as Ping An Insurance (Group) Company of China, Ltd. The Company will also establish Ping An Property & Casualty Insurance Company of China, Ltd. (the "Ping An Property & Casualty") and Ping An Life Insurance Company of China, Ltd. (the "Ping An Life"), China Ping An Trust & Investment Co., Ltd. (the "Ping An Trust") which holds shares of Ping An Securities Company, Ltd (the "Ping An Securities").

Based on "Approval of changes in Ping An Insurance Company of China" (Baojianbianshen [2002] No.98), "Approval of establishment of Ping An Property & Casualty Insurance Company of China, Ltd." (Baojianjishen [2002] No.350) and "Approval of establishment of Ping An Life Insurance Company of China, Ltd." (Baojianjishen [2002] No.351) issued by CIRC on October 28, 2002, the Company was renamed as Ping An Insurance (Group) Company of China, Ltd., and Ping An Property & Casualty and Ping An Life were established. The Company obtained its revised business license on January 24, 2003 while Ping An Property & Casualty and Ping An Life obtained their revised business licenses on December 24, 2002 and December 17, 2002, respectively.

Based on "Approval of Ping An Insurance (Group) Company of China, Ltd. to list overseas and issue H Shares," (Baojianfu [2003] No.228) issued by CIRC and "Approval of Overseas Share Issuance by Ping An Insurance (Group) Company of China, Ltd., "(Zhengjianguohezi [2004] No.18) issued by China Securities Regulatory Commission (the "CSRC"), the Company was allowed to issue 1,261,720,000 H shares. The H shares were listed on the Hong Kong Stock Exchange on June 24, 2004.

Based on "Approval of Ping An Insurance (Group) Company of China, Ltd. to issue A shares," (Zhengjianfaxingzi [2007] No.29) issued by CSRC, the Company was allowed to issue 1,150,000,000 A shares. The A shares were listed on the Shanghai Stock Exchange on March 1, 2007.

The business scope of the Company includes investing in insurance and authorized financial enterprises, supervising and managing domestic and overseas business of subsidiaries and utilizing insurance funds. The Company is also approved to carry out domestic and overseas insurance and other businesses. The Group mainly provides integrated financial products and services, including life insurance, property and casualty insurance, trust business, securities business, banking business and other services.

*June 30, 2007*
*(in RMB million)*

## II. STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises (ASBE) and the Implementation Guidelines issued by the Ministry of Finance of the PRC (MOF) in 2006 and other relevant regulations.

The Company is listed in both the A and H share stock markets and needs to prepare financial statements using PRC GAAP and International Financial Reporting Standards for investors of both markets. In accordance with the Accounting Standards for Business Enterprises No. 38 – First-Time Adoption of Accounting Standards for Business Enterprises and Experts' Opinions on Implementation of Accounting Standards for Business Enterprises issued by the Ministry of Finance on February 1, 2007, the Group restated its comparative figures retrospectively as a result of the change in accounting policies and consistently applied the accounting policies for the accounting periods covered by this financial statements. The impact of the change in accounting policies on the Group's equity as at December 31, 2006 and the Group's net profit for the six-months accounting period ended June 30, 2006 is shown in note III, 39.

The financial statements fairly and completely reflect the financial position on June 30, 2007 and the operating results and cash flow for the 6 months ended June 30, 2007 of the Company and the Group.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. Accounting year

The accounting year of the Group is from January 1 to December 31 of each calendar year.

### 2. Functional currency

The functional currency of the Company's domestic subsidiaries is Renminbi ("RMB"), and the functional currency of its overseas subsidiaries is Hong Kong dollars ("HKD"). The financial statements adopt RMB as the presentation currency and are expressed in RMB million unless otherwise stated.

### 3. Basis of accounting and measurement basis

The Group's accounts have been prepared on an accrual basis. Assets and liabilities are recorded using historical cost as the basis of measurement except for those financial instruments measured at fair value and certain insurance contract reserves.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 4. Principles of consolidation

The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries are those entities which the Company has control over. The Company has control over an entity when it can exercise control over the entity's financial and operating policies in order to gain economic benefits from the entity's operations.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All significant intra-group transactions and balances are eliminated in consolidation.

The consolidated portion of shareholders' equity of the subsidiaries not held by the Group is presented separately as minority interests in the consolidated financial statements.

**Business combinations not involving entities under common control**

Business combinations not involving entities under common control are accounted for using the purchase method. The cost of acquisition is measured as the aggregate of the fair values of the assets given, liabilities incurred or assumed and equity instruments issued by the acquirer at the acquisition date, in exchange for control of the acquiree. The Group, at the acquisition date, recognizes the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date.

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill and measured at cost less accumulated impairment losses. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is, after reassessment, recognized in the profit or loss for the current period.

The operating results of the acquiree are consolidated from the date the Group obtains control, until the date when such control transfers out of the Group.

**Business combinations involving entities under common control**

Business combinations involving entities under common control are accounted for using a method similar to the pooling of interest method. Except for adjustments made due to different accounting policies compared to those of the Group, assets and liabilities of the party being absorbed, which are obtained in the business combination, are measured at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the consideration paid for the combination and the carrying amount of the net assets obtained is adjusted to capital reserve; if the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted to retained earnings. The net profit made by the party being absorbed before the combination is included in the consolidated income statement.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 5. Foreign currency translation

Domestic subsidiaries of the Group keep separate books for foreign currency transactions, and these transactions are initially recorded in the original currencies. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date, while foreign currency non-monetary items measured at historical cost continue to be translated at the spot exchange rate at the dates of the transactions. Exchange differences arising from differences between the spot exchange rate prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date are recognized in profit or loss for the current period in which they arise.

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained earnings, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the period when transactions occur. Translation differences arising from the above translation are presented as a separate line item under shareholders' equity in the balance sheet. When a foreign operation is disposed of, the translation differences relating to translation of the financial statements of that foreign operation are transferred to profit or loss in the period in which the disposal occurs. All items in the cash flow statement are translated using the current period's average exchange rate.

### 6. Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value, and includes balances with central bank without restrictions, balances with banks and other financial institutions and placements with banks and other financial institutions with original maturities of less than three months.

### 7. Customer deposits held for securities trading

Customer deposits held for securities trading are deposited in designated bank accounts by the Group. These deposits are recognized as a liability when received for the purpose of settlement with customers.

The Group acts on behalf of customers to purchase and sell securities through stock exchanges. If the total amount of securities purchased is greater than that of securities sold on each settlement date, customer deposits are reduced for the net purchases of securities on the settlement day plus withholding stamp duty and commission expenses due from customers. If the total amount of securities purchased is less than that of securities sold, customer deposits are increased for the net sales of securities less withholding stamp duty and commission expenses due from customers.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 8. Securities underwriting business

The Group accounts for securities underwriting business on the following basis according to the underwriting methods agreed with the issuers:

(1) Where the Group undertakes to purchase all underwritten securities upfront, the Group recognizes an asset at cost upon purchase of the underwritten securities. When the securities are sold to investors, the income for underwriting the securities is determined at the sales price, while the cost is calculated at purchase price. Unsold securities are transferred into investments at cost after the underwriting period.

(2) Where the Group undertakes to purchase all underwritten securities not sold to investors at the end of the underwriting period, the Group will not recognize an asset or a liability upon receipt of the underwritten securities, but will keep a specific record of these securities. Unsold securities are transferred into investments at underwriting price after the underwriting period.

(3) Where the Group does not undertake to purchase any underwritten securities unsold at the end of the underwriting period, the Group does not recognize an asset or a liability upon receipt of the underwritten securities, but will keep a specific record of these securities.

(4) Underwriting commission income is recognized upon completion of underwriting service.

### 9. Financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

The Group classifies its financial assets into four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The Group classifies its financial liabilities into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. Financial assets and financial liabilities are initially recognized at fair value. For financial assets or liabilities at fair value through profit or loss, relevant transaction costs are directly recognized in profit or loss; for other financial assets or financial liabilities, relevant transaction costs are recognized in their initial recognition amount.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 9. Financial instruments *(Continued)*

Financial assets or financial liabilities at fair value through profit or loss comprise held-for-trading financial assets or financial liabilities and those designated at fair value through profit or loss at inception. Financial assets or financial liabilities and derivative financial instruments are classified as held-for-trading if they are acquired or incurred principally for the purpose of selling or repurchasing in the near term. For financial assets or financial liabilities designated as at fair value through profit or loss, one of the following criteria must be met:

– the designation eliminates or significantly reduces recognition or measurement inconsistency of the related gains or losses that would otherwise arise from measuring the assets or liabilities on a different basis; or

– the group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with the formal documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or

– the financial asset or financial liability comprises embedded derivative instrument which needs to be performed separately.

Financial assets or financial liabilities at fair value through profit or loss are initially recorded at fair value. Subsequent to initial recognition, they are re-measured at fair value. Gains or losses arising from fair value changes are recognized in profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, these financial assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when such financial assets are derecognized or impaired, as well as through the amortization process.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, these financial assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when such financial assets are derecognized or impaired, as well as through the amortization process.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 9. Financial instruments *(Continued)*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Gains and losses arising from fair value changes except for impairment losses and translation differences, are recognized directly in shareholders' equity, until the financial assets are derecognized or impaired upon which the cumulative gains or losses are removed from shareholders' equity and recognized in profit or loss. Dividend or interest income derived from available-for sale financial assets are recognized in profit and loss.

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Other financial liabilities are carried at amortized cost using the effective interest method.

### 10. Derivative financial instruments

Derivative financial instruments include options embedded in convertible bonds purchased by the Group, embedded derivatives separated from insurance contracts, interest rate swaps and futures, credit default swaps, cross currency swaps, forward currency contracts, and options on interest rates, currencies and equities, etc. Derivativel financial instruments are classified as held-for-trading financial assets or financial liabilities unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Embedded derivatives are treated as separate derivatives and are recorded at fair value, if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through the income statement. If embedded derivatives cannot be measured separately at acquisition or at balance sheet date, the hybrid instrument is designated wholly as financial asset or financial liability at fair value through profit or loss.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 11. Fair value of financial instruments

If there is an active market for a financial instrument, the Group uses quoted prices in the active market to establish its fair value.

For financial instruments where there is no active market, the fair value is established by using valuation techniques. For application of valuation techniques in establishing fair value of financial instruments, please refer to Note III, 40.

### 12. Impairment of financial assets

The Group assesses at the balance sheet date the carrying amount of financial assets other than those at fair value through profit and loss. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses.

If financial assets carried at amortized cost are impaired, the carrying amount of the financial assets is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The reduction is recognized as an impairment loss in the income statement. If, in a subsequent period, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit and loss. Any reversal of an impairment loss is recognized, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date, as if no impairment provision was made for that asset.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment, and recognizes the amount of impairment in profit or loss if there is objective evidence of impairment. For a financial asset that is not individually significant, the Group assess the asset individually for impairment or include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognized are not included in the collective assessment for impairment.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 12. Impairment of financial assets *(Continued)*

If an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in shareholders' equity is removed from shareholders' equity and recognized in profit or loss. The cumulative loss that is removed from shareholders' equity is the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit and loss. Impairment losses recognized for equity instruments classified as available-for-sale are not reversed. If, after an impairment loss has been recognized on an available-for-sale debt instrument, and the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognized, the impairment loss is reversed and recognized in profit or loss.

If an impairment loss has been incurred on an investment in an unquoted equity instrument (without a quoted price from an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the equity instrument or the derivative financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment losses recognized on such assets cannot be reversed.

### 13. Derecognition of financial assets

A financial asset is derecognized when one of the following criterias is met:

(1) the contractual right of receiving the cash flows generated from the financial asset is terminated;

(2) the financial asset has been transferred, and met the following derecognizing criterias for financial assets transformation.

A financial asset is derecognized when the Group has transferred substantially all the risks and rewards of the ownership of such financial asset; if the Group has retained substantially all the risks and rewards of ownership of the financial asset, such financial asset is not derecognized.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, if the Group has relinquished control of the financial asset, the financial asset is derecognized. If the Group has control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 14. Assets purchased under agreements to resell and assets sold under repurchase agreements

Assets purchased under agreements to resell and assets sold under repurchase agreements are recorded as the amount actually paid or received when the transactions occurred, and are recognized in the balance sheet. The underlying assets of the agreements to resell are recorded off balance sheet, while the underlying assets of the repurchase agreements continue to be recorded in the balance sheet.

The bid and ask spread of the assets purchased under agreements to resell and assets sold under repurchase agreements are recognized using actual interest rate method as interest income and interest expense in the reselling or repurchasing period.

### 15. Long-term equity investments

Long-term equity investments are initially accounted for at cost on acquisition.

The cost method is used when the Company controls the investee or when the Company does not control, jointly control or have significant influence over the investee and the long-term equity investments have no quotation in active markets, and no fair value can be reliably measured.

When the cost method is used, profit distributions or cash dividends declared by the investee are recognized as investment income for the current period. The amount of investment income recognized is limited to the amount distributed out of accumulated net profit of the investee that arises after the investment was made. The amount of profit distributions or cash dividends declared by the investee in excess of the above threshold is treated as a recovery of initial investment cost.

The equity method is used to account for long-term equity investments the Company can jointly control or has significant influence over the investee.

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and the difference is charged to profit and loss for the current period.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 15. Long-term equity investments *(Continued)*

Under the equity method, investment gains or losses are recognized and the carrying amount of the investment is adjusted to reflect the Company's share of the investment's net profit or loss. When the investee declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Company's share of the profit appropriations and dividends. The Company shall discontinue recognizing its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Company's net investment in the investee are reduced to zero, except to the extent that the Company has incurred obligations to assume additional losses. The Company also adjusts the carrying amount of the long-term equity investment for other changes in owner's equity of the investee (other than net profits or losses), and include the corresponding adjustment in equity.

On disposal of the long-term equity investment, the difference between book value and market price is charged to profit and loss for the current period.

### 16. Investment properties

Investment properties are interest in buildings that are held to earn rental income or capital gain or both. Investment properties of the Group are mainly buildings that are for rental and related land-use-rights.

An investment property is recognized when, and only when, it is probable that future economic benefits that are associated with the investment properties will flow to the Group and the cost can be measured reliably.

Investment properties are initially measured at cost and subsequent recognized by using the cost model. Investment properties are depreciated on a straight-line basis. For detailed estimated useful lives and estimated residual values, please refer to Notes III, 17 (Fixed Assets).

### 17. Fixed assets

Fixed assets are tangible assets held for rental or administrative purposes that are used for more than one accounting year. Construction-in-progress represents necessary costs incurred for fixed assets before they can be put into use. These costs include direct materials cost, direct labor cost, installment fees of equipments, construction cost and permitted capitalized borrowing fees. Construction-in-progress are transferred into fixed assets when put in use.

A fixed asset is recognized when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent costs related to a fixed asset are recognized in the carrying amount of the fixed asset at the time those costs are incurred if the above recognition criteria are met; otherwise, those costs are recognized in profit or loss as incurred.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 17. Fixed assets *(Continued)*

Fixed assets are initially accounted for at cost. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditures for bring the asset to working condition for its intended use such as delivery and handling costs, installation costs and others.

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives and estimated residual values are as follows:

| | Estimated useful lives | Estimated residual values |
|---|---|---|
| Buildings | 30-35 years | 5% |
| Office equipments, furnitures and fixtures | 5 years | 5% |
| Motor vehicles | 5-8 years | 5% |

The Group review, at least each year end, the useful lives and the estimated residual values and the depreciation methods of fixed assets, with change made accordingly if necessary.

### 18. Intangible assets

Intangible assets are mainly land-use-rights (except for those of investment properties), computer software and membership fees. Intangible assets are initially measured at actual cost or fair value (if acquired through business combinations involving entities not under common control).

Depending on their useful lives, the Group separates intangible assets into intangible assets with finite lives and intangible assets with indefinite useful lives. Intangible assets with indefinite lives are those intangible assets with no foreseeable limit to the period over which those assets are expected to bring economic benefits. The Group allocates on a systematic basis the depreciable amount of intangible assets with finite useful lives over their useful lives. Intangible assets with indefinite lives are not amortized. The Group review, at least each year end, the useful lives of the intangible assets and their amortization methods, with changes made accordingly if necessary.

### 19. Repossessed assets

Repossessed assets are tangible assets or properties that borrowers, guarantors or other third parties use to exercise their debtors' or guarantors' rights. Repossessed assets are initially recognized at their fair value.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 20. Insurance guarantee fund

According to "Administrative Regulations on the Insurance Guarantee Fund" (Baojianhuiling [2004] No.16), the Group calculates the insurance guarantee fund as follows:

(1) For property insurance, accident insurance and short-term health insurance, insurance guarantee fund is provided at 1% of net premiums respectively.

(2) For long-term life insurance and long-term health insurance with guaranteed interest rate, insurance guarantee fund is provided at 0.15% of net premiums respectively.

(3) For long-term life insurance without guaranteed interest rate, insurance guarantee fund is provided at 0.05% of net premiums.

No additional provision is required when the accumulated insurance guarantee fund balances of Ping An Life, Ping An Annuity Insurance Company of China, Ltd. ("Ping An Annuity") and Ping An Health Insurance Company of China, Ltd. ("Ping An Health") reaches 1% of their respective total assets. For Ping An Property & Casualty, no additional provision is required when the accumulated balance reaches 6% of its total assets.

### 21. Direct insurance contract

Direct insurance contracts are contracts entered into by the Group and policyholders where the Group undertakes insurance risks. The Group undertakes insurance risks when the occurrence of an accident within the scope of an insurance contract is likely to cause the Group to undertake the insurance claim liability. Contracts entered into by the Group and policyholders that cause the Group to accept both insurance risk and other risks are insurance contracts in their entirety with no separation of insurance risk and other risks.

When direct insurance contracts are terminated prior to their expiration dates, the Group transfers the residual unearned premiums reserves, life insurance liabilities, and long-term health insurance liabilities, and recognizes them in the current period's profits or losses together with the corresponding surrender payments.

### 22. Unearned premium reserves

Unearned premium reserves are reserves made for the unexpired portion of in-force non-life insurance policies. Unearned premium reserves are recorded based on actuarial valuation results (1/365 method). In accordance with the regulation issued by the CIRC (Baojianfa [1999] No.90), unearned premium reserves for life insurance should not be less than 50% of net premiums for the current period.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 22. Unearned premium reserves *(Continued)*

The Group performs the following tests on the balance sheet date and makes additional provision for unearned premium reserves for the difference between the unearned premium provided and the greater of the following two basis:

(1) Balance of estimated future claims and expenses after deduction of relevant investment income.

(2) Surrender amount on the date of premium reserve valuation assuming all insurance policies were surrendered.

### 23. Claim reserves

The Group, as the insurer, provides claim reserves for non-life insurance accidents claims incurred but not settled, which include claims reported but not settled, claims incurred but not reported, and claim expense provisions.

Reserves for claims incurred and reported but not yet settled are those reserves for which the non-life insurance accidents have occurred and the claims have been reported to the Group but are not yet settled. Reserves for claims reported but not settled are prudently provided on the basis of the estimated claim losses but not more than the maximum insured amount on the insurance policy using the Average Incurred Claim Projection, Average Paid Claim Projection and other methods for the valuation of the reserves.

Reserves for claims incurred but not reported are those reserves for non-life insurance accidents incurred but not yet reported for loss. Reserves for claims incurred but not reported are prudently provided using at least two of the following methods: the Chain-ladder method, the Average Paid Claim Projection, Loss Development method and the Bornhuetter-Ferguson method.

Provisions for claim expenses are those reserves for expenses incurred for claims reported but not yet settled such as lawyer fees, litigation fees, loss inspection expenses and salaries of related claims handling staff. The Group uses the Average Case Projection method and Proportional Allocation method to provide for these reserves.

### 24. Policyholders' reserves for life insurance

Policyholders' reserves for life insurance are reserves provided to meet future insurance obligations arising from life insurance business and are provided using actuarial valuation methods. In accordance with the CIRC's regulations, the Group provides for policyholders' reserves for life insurance in excess of the statutory minimum standard. The statutory policyholders' reserves are calculated in accordance with "Actuarial Regulations on Life Products", "Actuarial Regulations on Interest-Dividend-Only Products" (Baojianfa [1999] No.90), "Actuarial Regulations on Individual Participating Products" (Baojianfa [2003] No.67) , "Actuarial Regulations on Universal Life Products", "Actuarial Regulations on Investment-linked Products" (Baojianfa [2007] No.335), "Notice on Actuarial report" (Baojianshouxian [2005] No.8), "Notice on Amendment of the Usage of Mortality Table in Actuarial Regulations" (Baojianfa [2005] No. 118) and other regulations promulgated by the CIRC.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 24. Policyholders' reserves for life insurance *(Continued)*

The main basis of measuring the policyholders' reserves for life insurance of the Group is as follows:

(1) Using the prospective method on a seriatim basis or using the retrospective method on a seriatim basis if it has obtained the approval of CIRC.

(2) The valuation interest rate used for life insurance should be capped at the lower of:

- 7.5% set by the CIRC; or
- Pre-set interest rate that is used in determining the insurance premium of the product.

(3) The mortality rates used for life insurance products valuation are based on the China life Insurance Mortality Table (2000-2003).

(4) The policyholders' reserves for life insurance valuation method (excluding universal life insurance and investment-linked life insurance) are as below:

- The one-year term Full Preliminary Term is adopted for traditional non-participating life insurance contracts, other than whole life annuities, while participating life insurance products are calculated according to actuarial regulations;
- For whole life annuities, a modified net level premium method is adopted;
- Premium deficiency reserve is required if the renewal year valuation premium, calculated by modified method, is higher than the gross premium;
- Amount of policyholders' reserves for life insurance should be no less than the cash value of policy at valuation date.

(5) The reserve valuation method for universal life insurance, which includes account reserve and non-account reserve, is as follows:

- Account reserve is calculated on a seriatim basis; and the amount should equal the policy's account value at valuation date.
- Non-account reserves are calculated by using cash flow discounted method on the basis of generally accepted actuarial principles. The discount rate used is based on expected rate of return and should not exceed 5%.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 24. Policyholders' reserves for life insurance *(Continued)*

- The Group makes provision for non-account reserves for the guaranteed benefits of universal insurance according to related rules.

- The Group sets smoothing reserves for universal account in order to smooth settlement interest rates of different settlement periods. Smoothing reserves should not be negative and should only be derived from the accumulated difference between the actual investment return and the settlement interest. The Group will maintain the smoothing nature of the settlement interest rates.

(6) The reserves for investment-linked life insurance are the sum of unit reserve and non-unit reserve. The calculation method is as below:

- Unit reserve is calculated on a seriatim basis and should be equal to the value of the unit investment account as at valuation date;

- Non-unit reserves are calculated by using cash flow discounted method on the basis of generally accepted actuarial principles. The discount rate used is based on expected rate of return and should not exceed 5%;

- The Group makes provision for non-unit reserve for the guaranteed benefits of investment-linked insurance according to related rules.

(7) The changes in fair values of financial assets at fair value through profit and loss for both participating insurance and universal life insurance are recorded in policyholders' reserves for life insurance for those portions that are reasonably attributable to the policyholders and in profit and loss for the period for those that are attributable to the shareholders. For available-for-sale financial assets, fair value changes are recorded in policyholders' reserves for insurance for those portions that are reasonably attributable to the policyholders and in capital reserves for those that are attributable to the shareholders.

### 25. Long-term reserves for health insurance

Long-term reserves for health insurance is provided to meet future obligations arising from long-term health insurance business and is recorded based on actuarial valuation results. According to the CIRC's regulations, long-term reserves for health insurance are provided at a level not less than the statutory minimum standard. The statutory reserve is calculated in accordance with "Actuarial Regulations on Health Products" (Baojianfa [1999] No.90), other regulations and approvals promulgated by the CIRC. The expected loss rates and expected Mobidity rates that are used to calculate long-term reserves for health insurance are based on the experience data of the Company and the existed experience table of reinsurance companies. "The Actuarial Regulation on Life Products" (Baojianfa [1999] No.90) is also, followed accordingly.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 26. Liability adequacy test

The Group performs adequacy tests on claim reserves, policyholders' reserves for life insurance and long-term reserves for health insurance on each balance sheet day. If the reserves re-calculated by using actuarial methods exceed the balance of the relevant reserves on the day of adequacy test, the Group will provide for additional reserves to top up the reserve deficiency and recognize it in current profit and loss, if any, and if the related reserve is adequate, no adjustment is made.

When performing liability adequacy tests on policyholders' reserves for life insurance and long-term reserves for health insurance, the Group applies actuarial models on the basis of best estimate hypothesis in order to estimate the future cash flow of the policies. The actuarial hypothesis parameters includes premium receipts, benefit expenditure, surrender expenditure, commission and handling fees, operating expenses, policyholder dividends and other non-beneficial expenditure. The discount rates used for discounting future cash flows takes into account those assets related to reserves and the yield rates of expected future cash flows for investments.

### 27. Revenue recognition

Revenue is recognized only when economic benefits associated with the transaction will flow to the Group, so that the Group's assets will increase or its liabilities will decrease, and the relevant amount of revenue can be measured reliably.

**Premium income**

Premium income and reinsurance premium income is recognized when the insurance contracts are issued, related insurance risk is undertaken by the Group, related economic benefits will most likely flow to the Group and related net income can be reliably measured. Premiums from original non-life contracts are recognized as revenue per the amount of total premium stated in the contracts. Premiums from original life contracts with installment or single payments are recognized as revenue when due. Reinsurance premiums are recognized as revenue in accordance with the terms of the related reinsurance contracts.

**Interest income**

Interest income is recognized in income statement as it accrues and is calculated by using the effective interest rate method.

**Other income**

Commission income mainly arises from securities brokerage and trust management business. Commission income from securities brokerage business is recognized on the transaction dates while, trust management income is recognized according to the terms, conditions and returns to be assumed by the trustors as stipulated in the trust contracts. Securities premium income arises from securities underwriting business and is recognized upon the completion of underwriting services when cash is received. Rental income is recognized on a straight-line basis over the lease terms.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 28. Policyholder dividends

Policyholder dividends represent dividends paid by the Group to policyholders in accordance with the terms of direct insurance contracts. The dividends are calculated and provided based on dividends allocation method and results of actuarial valuation.

### 29. General risk provision

The general risk provision on the Group's consolidated financial report consists of the general reserves of insurance company subsidiaries, general provision of bank subsidiaries, general risk provisions of security company subsidiaries, loss provision for trust business of trust company subsidiaries and risk provisions of subsidiaries with dealings in futures contracts. The above mentioned general risk provision accrued by the Group is appropriated from profit.

### 30. Reinsurance

**Reinsurance outwards**

The Group cedes insurance risk in the normal course of business for its insurance businesses. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group calculates, in accordance with the terms of relevant reinsurance contracts, premiums ceded to reinsurers and expenses recoverable from reinsurers and recognizes them in income statement. The Group determines, in accordance with the terms of the relevant reinsurance contracts, and recognizes as assets the reserves to be recovered from reinsurers in the period in which the Group recognizes the outstanding claims reserves, policyholders' reserves for life insurance and long-term reserves for health insurance of the direct insurance contracts. When the Group reduces the balance of the corresponding reserves as the amounts of claims and benefits payments are ascertained or actual claim handling expenses are incurred for the direct insurance contracts, it also reduces the balance of the corresponding reserves attributable to the outward reinsurance contracts. At the same time, the Group also determines the costs of claims and benefits recoverable from reinsurers according to the terms of the reinsurance contracts and recognizes the amount in income statement for the period. When early termination of the direct insurance contracts occurs, the Group determines the adjustments required for the premium ceded to reinsurers and commissions recoverable in accordance with the terms of the related reinsurance contracts and recognizes these amounts in income statement for the period. At the same time, the Group adjusts the relevant reserves attributable to the outward reinsurance contracts.

As the cedent, the Group does not offset but presents separately in the balance sheet the assets and liabilities, as well as in the income statement the income and expenses arising from the reinsurance contracts and their related direct insurance contracts.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 30. Reinsurance *(Continued)*

**Reinsurance inwards**

The Group calculates and recognizes reinsurance expenses in current period's income statement in the same period the reinsurance premium income is recognized according to the terms of the related reinsurance contracts. Profit commission expenses are recognized in current period's income statement when the Group is able to calculate and determine the expenses according to the terms of the reinsurance contracts.

The Group adjusts and recognizes in current period's income statement the related reinsurance premium income and expenses according to the actual amounts stated on the reinsurance statement of accounts when received.

### 31. Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rental income and expenses applicable to such operating leases are charged to profit or loss on a straight-line basis over the lease terms.

### 32. Financial guarantee contracts

Financial guarantee contracts other than insurance contract are initially recognized at fair value. After initial recognition, they are subsequently measured at the higher of the amount of the estimated liabilities or the initial amount less accumulated amortization.

### 33. Fiduciary business

Transactions arising from assets held in trust on behalf of third parties arising from fiduciary business are not shown in the balance sheet because the legal interest of any risk and return are borne by policyholders.

### 34. Accounting methods for income tax

Income tax include current and deferred tax. Income tax are recognized in current period's profit and loss as income tax expense or income except for the adjustment made for goodwill in a business consolidation and income tax from transactions or items that directly related to equity.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them using the expected payment or refund amount in according to relevant taxation regulations.

The Group recognizes deferred tax liabilities or assets based on temporary differences. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base. Temporary differences also include the differences between the book values and tax bases of items not recognized as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 34. Accounting methods for income taxes *(Continued)*

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss ; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and carry-forward of unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the temporary differences are not likely to be reversed in the foreseeable future and taxable profit in the future may not be obtained to offset the temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and reflect the tax consequences at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The Group re-assesses book value of deferred tax assets at each balance sheet date. The Group reduces the book value of deferred tax assets if future taxable profit may not be sufficient to offset the benefits from the assets. When future taxable profit is sufficient, the reduction is reversed.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 35. Impairment of non-financial assets

The Group assesses impairment to assets other than inventory, financial assets and deferred tax assets using the methods described below.

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed annually regardless of whether there are indications of impairment.

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is hard to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized in the current period's profit or loss and provision for impairment is made accordingly.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the related cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

When testing for impairment, if there is indication that a cash generating unit or a group of cash generating units with related goodwill may be impaired, the unit without goodwill allocated is first tested for impairment by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount and any related impairment loss is recognized accordingly. Then, the unit to which goodwill has been allocated is tested for impairment by comparing the carrying amount of the unit, including goodwill, with the recoverable amount of the unit and if the carrying amount exceeds the recoverable amount of the unit, impairment loss is recognized on the goodwill.

Previously recorded impairment losses for goodwill are not reversed in future periods.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 36. Share-based payment transactions

Senior management and some of the key employees of the Group receive remuneration in the form of share-based payment transactions (i.e. share appreciation rights) whereby the above mentioned employees render services as consideration for share appreciation rights which are settled in cash.

Share appreciation rights are settled in cash after completion of services by the above mentioned employees in the vesting period. The fair value of share appreciation rights is expensed over the period until vesting with recognition of a corresponding liability. The cost of share appreciation rights is measured initially at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments are granted.

The liability is re-measured at each balance sheet date up to and including the settlement date with changes in fair value recognized in the income statement.

### 37. Employee benefit

The employees of the Group are entitled to participate in government-managed social insurance schemes, including pension plans, medical benefits, housing funds and other social insurance schemes. The Group's liability in respect of these benefits is limited to the contributions paid in each period, which are expensed as incurred. Certain employees are also provided with group life insurance, but the amount involved is insignificant. The Group has no other significant legal or constructive (welfare) obligations for employee benefits beyond the said contributions.

### 38. Related party

Parties are considered to be related if the Group has the ability, directly or indirectly, to control the other party or to exercise joint control or significant influence over the other party in making financial and operating decisions, and vice versa.

### 39. First-time adoption of Accounting Standards for Business Enterprises

In accordance with "Issuance of 'ASBE No.1 – Inventory' and other 38 specific standards" (Caikuai [2006] No.3), the Group started to implement the ASBE since January 1, 2007 to replace the old accounting standards and Accounting Standards for Financial Institutes. In this financial statements, retrospective adjustments are made on the comparative data in accordance with "ASBE No. 38 – First-time Adoption of ASBE", "Experts' Opinions on Implementation of ASBE" issued by Accounting Standard Committee of MOF and etc., in respect of the translations and events affected by the change in accounting policies.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 39. First-time adoption of Accounting Standards for Business Enterprises *(Continued)*

The impact of first-time adoption of Accounting Standards for Business Enterprises are as follows:

| | **(Audited) January 1, 2007** | | | | |
|---|---|---|---|---|---|
| | **Capital reserves** | **Surplus reserves** | **Retained profits** | **Minority interests** | **Total** |
| Balance before retrospective adjustment | **15,163** | **6,126** | **8,667** | **1,251** | **31,207** |
| Adjustments: | | | | | |
| Goodwill | **–** | **6** | **52** | **–** | **58** |
| Financial assets | **13,352** | **369** | **3,047** | **169** | **16,937** |
| Derivative financial instruments | **–** | **(4)** | **2** | **–** | **(2)** |
| Policyholders' reserves for life insurance | **(3,825)** | **(186)** | **(1,659)** | **(57)** | **(5,727)** |
| Claim reserves | **–** | **(240)** | **(1,147)** | **(14)** | **(1,401)** |
| Land-use-rights | **–** | **(8)** | **(47)** | **(1)** | **(56)** |
| Deferred tax | **(1,429)** | **57** | **252** | **(11)** | **(1,131)** |
| Others | **(15)** | **–** | **15** | **29** | **29** |
| Balance after retrospective adjustment | **23,246** | **6,120** | **9,182** | **1,366** | **39,914** |

| | (Audited) January 1, 2006 (restated) | | | | |
|---|---|---|---|---|---|
| | Capital reserves | Surplus reserves | Retained profits | Minority interests | Total |
| Balance before retrospective adjustment | 15,163 | 5,526 | 5,350 | 525 | 26,564 |
| Adjustments: | | | | | |
| Goodwill | – | – | (3) | – | (3) |
| Financial assets | 1,074 | 54 | 308 | 15 | 1,451 |
| Derivative financial instruments | – | (8) | (46) | (1) | (55) |
| Policyholders' reserves for life insurance | (318) | – | – | (3) | (321) |
| Claim reserves | – | (231) | (1,307) | (16) | (1,554) |
| Land-use-rights | – | (6) | (37) | – | (43) |
| Deferred tax | (113) | 62 | 351 | 3 | 303 |
| Others | (17) | 2 | 13 | – | (2) |
| Balance after retrospective adjustment | 15,789 | 5,399 | 4,629 | 523 | 26,340 |

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 39. First-time adoption of Accounting Standards for Business Enterprises *(Continued)*

The impact of first-time adoption of ASBE on net profit after minority interests for the six months ended June 30, 2006 is as follows:

| | (Unaudited) Six months ended June 30, 2006 (restated) |
|---|---|
| Balance before retrospective adjustment | 2,670 |
| Adjustments: | |
| Goodwill | 20 |
| Financial assets | 1,730 |
| Claim reserves | (337) |
| Land-use-rights | (7) |
| Deferred tax | (119) |
| Others and minority interests | (12) |
| Balance after retrospective adjustment | 3,945 |

### 40. Critical accounting estimates and judgments in applying accounting policies

The Group makes critical estimates and judgments that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Judgments**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which has the most significant effect on the amounts recognized in the financial statements.

***(1) Classification of financial assets***

Management needs to make significant judgment in classification of financial assets. Different classifications may affect accounting methods as well as the financial condition and operational results of the Group. After the balance sheet date, if it is discovered that inaccurate judgment was made for the classification of financial assets, the whole financial assets may need to be reclassified.

***(2) Classification of insurance contracts***

Management needs to make significant judgment in classification of insurance contracts. Different classifications may affect accounting methods as well as the financial condition and operational results of the Group.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 40. Critical accounting estimates and judgments in applying accounting policies *(Continued)*

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

***(1) Valuation of insurance contract reserves***

*Policyholders' reserves for life insurance and long-term reserves for health insurance*

Policyholders' reserves for life insurance and long-term reserves for health insurance are valued according to the regulations of CIRC, using the main assumptions which include interest rates and mortality rates.

All life insurance policies must also be subject to a liability adequacy test, which reflects management's current best estimate of future cash flows. The main assumptions used are mortality, morbidity, investment returns, expenses, lapse and surrender rates. The Group base their mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Assumptions on future expense are based on current expense levels, adjusted for expected inflation when appropriate. Lapse and surrender rates depend on product features, policy duration and etc. Historical experience is used in choosing these assumptions.

The reserves for investment-linked policies, where the Group undertakes both insurance risks and other risks, are determined with reference to the fair values of the assets supporting such liabilities.

*Claims reserves*

For property and casualty and short term life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported at the balance sheet date ("IBNR"). The ultimate cost of outstanding claims is estimated by using at least two of the actuarial claims projection techniques, such as Chain Ladder Method, Average Claim Method, Reserve Development Method and Bornhuetter-Ferguson methods.

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 40. Critical accounting estimates and judgments in applying accounting policies *(Continued)*

**Estimates and assumptions *(Continued)***

***(1) Valuation of insurance contract reserves (Continued)***

The main assumption underlying these techniques is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or maker factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the most likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

***(2) Fair value of financial instruments determined using valuation methods***

Fair value of financial instrument, in the absence of an active market, is estimated by using valuation techniques, such as the price used in recent arm's length transactions, reference to the current fair value of another instrument which is substantially the same, discounted cash flow analysis and option pricing model.

When using valuation techniques to determine the fair value of financial instruments, the Group makes use of all factors, whenever possible, considered by market participants in pricing technique instruments including risk-free rates, credit risk, foreign currency exchange rates, commodity prices, stock price or stock index, magnitude of future changes in price of the financial instrument and prepayment and surrender risk.

Using different valuation techniques or references assumptions may result in the existence of relatively significant differences in fair value estimations.

***(3) Impairment losses of loans and advances***

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, estimation by management is required in respect of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ.

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 40. Critical accounting estimates and judgments in applying accounting policies *(Continued)*

**Estimates and assumptions *(Continued)***

***(4) Deferred tax assets and liabilities***

Deferred tax assets and liabilities are measured, based on tax laws, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax assets are recognized for all unused tax losses, to the extent that it is likely that taxable profit will be available to offset these unused tax losses. Many judgments are needed from the management to estimate the timing and amount of taxable profit as well as applicable tax rate in the future, with tax planning strategies, to determine the amount of the deferred tax assets and liabilities that should be recognized.

### 41. Major changes in accounting estimates

Changes in accounting estimates are applied prospectively.

(1) In compliance with Baojianfa [1999] No.90 that reserves provided for the year should not be less than the statutory minimum reserves, and valuation interest rate should not be higher than the pricing interest rate or the determined rate of 7.5%, the Group uses a more prudent valuation interest rate for insurance products with pricing interest rate equal to or higher than 7.5%. In the current period, the valuation interest rate of high interest rate insurance products of the Group was reduced to 6% – 6.5% from 6.5% – 7.5%. The accounting estimation changes result in a decrease in profit before tax of approximately RMB6,260 million.

(2) On March 16, 2007, the National people's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from January 1, 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from January 1, 2008 will decrease from 33% to 25%. In addition, for those enterprises which are benefiting from lower preferential tax rates (e.g. 15%); such preferential rates will be gradually phased out by increasing them over the next five years. According to 'ASBE No.18 – Income Tax', deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. As a result, the change in the corporate income tax rate has had the following impact on the operation results and financial position of the Group for the period:

| | **(Audited) Six months ended June 30, 2007** |
|---|---:|
| Decrease in income tax expense of current period | **382** |
| Decrease in capital reserve (change in fair value of available-for-sale financial assets) | **1,567** |
| Increase in deferred tax assets | **237** |
| Increase in deferred tax liabilities | **1,422** |

*June 30, 2007*
*(in RMB million)*

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 41. Major changes in accounting estimates *(Continued)*

At the date of approval of these financial statements, detailed implementation guidelines and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their related transitional provisions. The Group will further evaluate the impact on its operating results and financial positions of future periods as more detailed requirements are issued.

## IV. TAXATION

The major types of taxes and related tax rates applicable to the Group are as follows:

### Business tax and surcharges

Business tax is levied on 5% of taxable premium income, other operating income and investment income. Business tax surcharges, comprising city maintenance and construction tax and education surcharges are calculated at a pre-determined percentage of business tax.

### Income tax

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 and non-taxable items for income tax purposes.

The income tax rates applicable to the Group, the subsidiaries and their branches during the period are as follows:

| Types of tax | Subsidiaries and branches | Tax rate |
|---|---|---|
| Enterprise income tax in the PRC | – Ping An Bank Limited ("Ping An bank") and subsidiaries and branches of the Group located in Special Economic Zones | 15% |
| | – Subsidiaries and branches of the Group located outside Special Economic Zones | 33% |
| Hong Kong profits tax | – Subsidiaries in Hong Kong Special Administrative Region | 17.5% |

## V. INFORMATION OF SUBSIDIARIES

The major changes in the subsidiaries of the Group during the period are as follows:

(1) On January 1, 2007, Ping An Trust completed its acquisition of 99% equity interest in Shenzhen CITIC City Plaza Investment Co., Ltd ("Shenzhen CITIC Plaza"). The paid-up capital of Shenzhen CITIC Plaza is RMB20 million.

The fair values of the identifiable assets and liabilities acquired as at the date of acquisition were:

| | **Fair value recognized on acquisition** | **Carrying value** |
|---|---|---|
| Cash on hand and at bank | 29 | 29 |
| Investment properties | 1,955 | 1,543 |
| Other assets | 4 | 4 |
| Sub-total | 1,988 | 1,576 |
| Long term loans | 1,319 | 1,319 |
| Deferred income tax liabilities | 62 | – |
| Other liabilities | 234 | 234 |
| Sub-total | 1,615 | 1,553 |
| Fair value of net assets | 373 | 23 |
| Fair value of net assets acquired attributable to the Group | 373 | |
| Goodwill arising on acquisition | 66 | |
| Cost of acquisition | 439 | |
| Less: payable balance | (28) | |
| Cash paid | 411 | |
| Cash outflow on acquisition of the subsidiary: | | |
| Net cash acquired with the subsidiary | 29 | |
| Cash paid | (411) | |
| Net cash outflow | (382) | |

*June 30, 2007*
*(in RMB million)*

## V. INFORMATION OF SUBSIDIARIES *(Continued)*

(2) On June 26, 2007, Shenzhen Commercial Bank Co., Ltd. finished its acquisition of 100% equity interest in Ping An Bank from Ping An Trust and other minority shareholder of Ping An Bank. Subsequent to the acquisition, Shenzhen Commercial Bank Co., Ltd. renamed as Shenzhen Ping An Bank Co., Ltd. ("Shenzhen Ping An Bank") on June 27, 2007.

Particulars of the Company's principal subsidiaries as at June 30, 2007 are set out below:

| Name | Date/place of incorporation | Attributable equity interest | | Registered and paid-up capital (RMB unless otherwise stated) | Principal activities |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| Ping An Life Insurance Company of China, Ltd. | December 17, 2002 The PRC | 99.00% | – | 3,800,000,000 | Life insurance |
| Ping An Property & Casualty Insurance Company of China, Ltd. | December 24, 2002 The PRC | 99.06% | – | 3,000,000,000 | Property and casualty insurance |
| Shenzhen Ping An Bank Co., Ltd | August 3, 1995 The PRC | 89.36% | – | 5,502,000,000 | Banking |
| China Ping An Trust & Investment Co., Ltd. | November 19, 1984 The PRC | 99.88% | – | 4,200,000,000 | Trust and investment |
| Ping An Securities Company, Ltd. | July 18, 1996 The PRC | – | 86.11% | 1,800,000,000 | Security investment and brokerage |
| Ping An Annuity Insurance Company of China, Ltd. | December 13, 2004 The PRC | 97.00% | 2.98% | 500,000,000 | Annuity insurance |
| Ping An Asset Management Co., Ltd. | May 27, 2005 The PRC | 90.00% | 9.90% | 200,000,000 | Asset management |
| Ping An Health Insurance Company of China, Ltd. | June 13, 2005 The PRC | 95.00% | 4.96% | 500,000,000 | Health insurance |
| China Ping An Insurance Overseas (Holdings) Limited | October 24, 1996 Hong Kong | 100.00% | – | HK$555,000,000 | Investment holding |
| China Ping An Insurance (Hong Kong) Company Limited | August 17, 1976 Hong Kong | – | 75.00% | HK$110,000,000 | Property and casualty insurance |
| Shenzhen Ping An Futures Brokerage Co., Ltd. | April 10, 1996 The PRC | – | 93.13% | 50,000,000 | Futures brokerage |

## V. INFORMATION OF SUBSIDIARIES *(Continued)*

| Name | Date/place of incorporation | Attributable equity interest Direct | Attributable equity interest Indirect | Registered and paid-up capital (RMB unless otherwise stated) | Principal activities |
|---|---|---|---|---|---|
| Shenzhen Ping An Industries Co., Ltd. | November 24, 1992 The PRC | – | 99.88% | 20,000,000 | Investment |
| Shenzhen Ping An Property and Facility Management Co., Ltd. | January 6, 1995 The PRC | – | 99.88% | 20,000,000 | Property management |
| Fuzhou Ping An Real Estate Development Co., Ltd. | March 28, 1994 The PRC | – | 74.25% | US$5,000,000 | Development of property in Fuzhou (completed) |
| Shenzhen Ping An Real Estate Investment Co., Ltd. | March 8, 2005 The PRC | – | 99.88% | 300,000,000 | Real estate development, investment |
| Shenzhen Xin An Investment Consultant Co., Ltd | September 5, 2005 The PRC | – | 99.88% | 3,000,000 | Consulting |
| Ping An of China Asset Management (Hong Kong) Company Limited | May 16, 2006 Hong Kong | – | 100.00% | HK$38,500,000 | Asset management |
| Yuxi Ping An Real Estate Co., Ltd. | July 31, 2006 The PRC | – | 79.90% | 38,500,000 | Property leasing |
| Pan-China Real Estate (Jingzhou) Co., Ltd | March 1, 2005 The PRC | – | 50.94% | US$9,700,000 | Real estate Investment |
| Shenzhen CITIC City Plaza Investment Co., Ltd. | September 26,2001 The PRC | – | 98.88% | 20,000,000 | Real estate Investment |
| Anseng Investment Company Limited | April 6, 2006 BVI | – | 100.00% | US$2 | Investment holding |
| Timely Reach Investments Limited | August 11, 2006 BVI | – | 100.00% | US$1 | Investment holding |
| Total Faith Investments Limited | September 8, 2006 BVI | – | 100.00% | US$1 | Investment holding |
| Jade Reach Investments Limited | November 13, 2006 BVI | – | 100.00% | US$1 | Investment holding |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash on hand and at bank

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Cash on hand | **405** | 347 |
| Cash at bank | **71,111** | 31,623 |
| Balances with central bank | **9,700** | 7,714 |
| Including: Mandatory reserves deposits | **7,558** | 5,787 |
| Surplus reserves deposits | **2,142** | 1,927 |
| Due from banks and other financial institutions | **2,311** | 2,840 |
| Other monetary funds | **262** | 61 |
| Total | **83,789** | 42,585 |

On June 30, 2007, the cash on hand and at bank of the Group included deposits from customers held for securities trading of RMB8,239 million (Audited December 31, 2006: RMB2,958 million).

In accordance with relevant regulations, the Group's subsidiaries in the banking business maintain mandatory reserves deposits with PBOC in both RMB and foreign currencies. As at June 30, 2007 and December 31, 2006, the mandatory reserves deposits are calculated at 11.5 % and 9% for eligible RMB deposits respectively and 5% and 4% for foreign currencies deposits for both periods.

### 2. Balances with clearing companies

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Company-owned | **64** | 107 |
| Broker clients | **1,527** | 768 |
| Total | **1,591** | 875 |

On June 30, 2007, balances with clearing companies of the Group are mainly deposits placed by Ping An Securities Company, Ltd with China Securities Depository and Clearing Corporation, which includes customer deposits of RMB1,527 million (Audited December 31,2006: RMB768 million).

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 3. Placements with banks and other financial institutions

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Placements with banks | **1,100** | 1,727 |
| Placements with other financial institutions | **64** | 376 |
| Total | **1,164** | 2,103 |
| Less: Provision for bad debts | **(63)** | (376) |
| Placements with banks and other financial institutions, net | **1,101** | 1,727 |

### 4. Held-for-trading financial assets

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Bonds | | |
| Government bonds | **1,881** | 1,820 |
| Financial bonds | **27,477** | 5,298 |
| Corporate bonds | **8,980** | 10,643 |
| Equity instruments | | |
| Funds | **24,270** | 17,219 |
| Stocks | **10,828** | 9,023 |
| Total | **73,436** | 44,003 |

Stocks investments amounting to RMB39 million as at June 30, 2007 (Audited December 31, 2006: RMB94 million) were pledged by the Group as collateral for warrants issued by a subsidiary of the Group. Management is of the opinion that there are no other material restrictions on the sale of held-for-trading financial assets.

### 5. Derivative financial instruments

| | **(Audited) June 30, 2007** | | | (Audited) December 31, 2006 | | |
|---|---|---|---|---|---|---|
| | **Nominal amount** | **Fair value Asset** | **Fair value Liability** | Nominal amount | Fair value Asset | Fair value Liability |
| Interest derivative instruments | **1,033** | **–** | **35** | 2,506 | 11 | 61 |
| Currency derivative instruments | **76** | **–** | **1** | 5 | – | – |
| Equity derivative instruments | **1,236** | **10** | **283** | 324 | 10 | 88 |
| Credit derivative instruments | **914** | **6** | **21** | – | – | – |
| Other derivative instruments | **–** | **–** | **16** | – | – | 29 |
| Total | **3,259** | **16** | **356** | 2,835 | 21 | 178 |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 6. Financial assets purchased under agreements to resell

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Securities | **9,465** | 6,162 |
| Notes | **2,784** | 889 |
| Loans | **605** | 200 |
| Total | **12,854** | 7,251 |
| Less: Provision for impairment losses | **–** | – |
| Net | **12,854** | 7,251 |

The fair value of the assets held as collateral for financial assets purchased under agreements to resell approximates the fair value of the collateral.

### 7. Interest receivables

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Interest receivables from banking operations | **1,064** | 482 |
| Interest receivables from loans | **150** | 88 |
| Interest receivables from bonds | **3,477** | 2,640 |
| Others | **25** | 39 |
| Total | **4,716** | 3,249 |
| Less: Provision for impairment losses | **–** | – |
| Net | **4,716** | 3,249 |

# VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

## 8. Premium receivables

| | **(Audited) June 30, 2007** | | |
|---|---|---|---|
| **Aging** | **Balance** | **Provision** | **Net book value** |
| Within 3 months (including 3 months) | **5,133** | **–** | **5,133** |
| 3 months to 1 year (including 1 year) | **272** | **(98)** | **174** |
| More than 1 year | **99** | **(99)** | **–** |
| Total | **5,504** | **(197)** | **5,307** |

| | (Audited) December 31, 2006 | | |
|---|---|---|---|
| Aging | Balance | Provision | Net book value |
| Within 3 months (including 3 months) | 2,972 | – | 2,972 |
| 3 months to 1 year (including 1 year) | 170 | (69) | 101 |
| More than 1 year | 86 | (86) | – |
| Total | 3,228 | (155) | 3,073 |

There are no premium receivables from shareholders who individually hold not less than 5% of the Company's voting share capital.

## 9. Policy loans

The interest rate on policy loan of the Group ranges from 5.22% to 6.50% (Audited December 31, 2006: 5.22% to 6.50%).

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 10. Loans and advances to customers

(1) Loans and advances by individual and corporate customers are set out below:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Individual loans | | |
| Credit card | **353** | – |
| Loans secured by mortgages | **13,795** | 12,666 |
| Others | **1,713** | 1,634 |
| Corporate loans | | |
| Loans | **25,440** | 24,331 |
| Discounted bills | **17,631** | 12,634 |
| Others | **–** | 318 |
| Total | **58,932** | 51,583 |
| Loan loss provision | | |
| Including: Specific provision | **(417)** | (2,263) |
| Collective provision | **(88)** | (168) |
| Net | **58,427** | 49,152 |

Loans of RMB911 million (Audited December 31, 2006: RMB2,231 million) were pledged as assets sold under agreements to repurchase.

(2) Loans and advances by industry are set out below:

| **Industry** | **(Audited) June 30, 2007** | **Percentage** | (Audited) December 31, 2006 | Percentage |
|---|---|---|---|---|
| Agriculture, forestry and fishing | **55** | **0.09%** | 187 | 0.36% |
| Mining | **18** | **0.03%** | 683 | 1.33% |
| Manufacturing | **9,823** | **16.67%** | 9,199 | 17.83% |
| Energy | **5,664** | **9.61%** | 1,395 | 2.70% |
| Transportation and communications | **4,793** | **8.13%** | 1,386 | 2.69% |
| Commercial | **6,553** | **11.12%** | 7,375 | 14.30% |
| Real estate | **11,081** | **18.80%** | 7,812 | 15.14% |
| Construction | **2,153** | **3.65%** | 3,768 | 7.31% |
| Personal loans | **15,861** | **26.92%** | 14,300 | 27.72% |
| Others | **2,931** | **4.98%** | 5,478 | 10.62% |
| Total | **58,932** | **100%** | 51,583 | 100% |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 10. Loans and advances to customers *(Continued)*

(3) Loans and advances by region are set out below:

| Region | **(Audited) June 30, 2007** | **Percentage** | (Audited) December 31, 2006 | Percentage |
|---|---|---|---|---|
| Southern China region | **55,558** | **94.27%** | 49,646 | 96.24% |
| Eastern China region | **3,170** | **5.38%** | 1,469 | 2.85% |
| Other region | **204** | **0.35%** | 468 | 0.91% |
| Total | **58,932** | **100%** | 51,583 | 100% |

(4) Loans and advances by guarantee type are set out below:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Unsecured loans | **7,765** | 6,524 |
| Guaranteed loans | **8,887** | 8,667 |
| Secured loans | **42,280** | 36,392 |
| Including: Loans secured by mortgages | **21,833** | 20,538 |
| Loans secured by other collaterals | **20,447** | 15,854 |
| Total | **58,932** | 51,583 |

(5) Analysis of overdue loans are as follows:

| | **(Audited) June 30, 2007** | | | | |
|---|---|---|---|---|---|
| | **Within 3 months** | **3 months to 1 year** | **1-3 years** | **More than 3 years** | **Total** |
| Unsecured loans | **7** | **1** | **8** | **99** | **115** |
| Guaranteed loans | **76** | **7** | **116** | **10** | **209** |
| Secured loans | **1,004** | **256** | **117** | **22** | **1,399** |
| Including: Loans secured by mortgages | **949** | **219** | **86** | **22** | **1,276** |
| Loans secured by other collaterals | **55** | **37** | **31** | **–** | **123** |
| Total | **1,087** | **264** | **241** | **131** | **1,723** |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 10. Loans and advances to customers *(Continued)*

(5) Analysis of overdue loans are as follows: *(continued)*

| | (Audited) December 31, 2006 | | | | |
|---|---|---|---|---|---|
| | Within 3 months | 3 months to 1 year | 1-3 years | More than 3 years | Total |
| Unsecured loans | 14 | 27 | 2 | 104 | 147 |
| Guaranteed loans | 104 | 175 | 425 | 539 | 1,243 |
| Secured loans | 777 | 679 | 356 | 479 | 2,291 |
| Including: Loans secured by mortgages | 728 | 314 | 135 | 474 | 1,651 |
| Loans secured by other collaterals | 49 | 365 | 221 | 5 | 640 |
| Total | 895 | 881 | 783 | 1,122 | 3,681 |

(6) Loan loss provision:

| | **(Audited) For the six months ended June 30, 2007** | | (Unaudited) For the six months ended June 30, 2006 | |
|---|---|---|---|---|
| | **Specific** | **Collective** | Specific | Collective |
| Beginning of period | **2,263** | **168** | 94 | – |
| Charge for the period | **5** | **–** | – | 1 |
| Recoveries during the period | **(1,758)** | **(42)** | – | – |
| Write-offs during the period | **–** | **–** | (7) | – |
| Write-backs during the period | | | | |
| Due to increase in present value of loans and advances | **(73)** | **–** | – | – |
| Interest income from impaired loans | **(20)** | **–** | – | – |
| Write-backs of other reasons | **–** | **(38)** | – | – |
| End of period | **417** | **88** | 87 | 1 |

Gains on disposal of non-performing assets during the period is RMB267 million (audited 2006: nil).

# VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

## 11. Term deposits

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Less than 3 months (including 3 months) | **6,776** | 6,599 |
| 3 months to 1 year (including 1 year) | **8,704** | 22,326 |
| 1-2 years (including 2 years) | **5,221** | 10,684 |
| 2-3 years (including 3 years) | **30** | 1,330 |
| 3-4 years (including 4 years) | **1,200** | 1,200 |
| 4-5 years (including 5 years) | **18,730** | 10,600 |
| More than 5 years | **9,842** | 12,677 |
| Total | **50,503** | 65,416 |

## 12. Available-for-sale financial assets

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Bonds | | |
| Government bonds | **12,020** | 14,374 |
| Financial bonds | **43,259** | 27,095 |
| Corporate bonds | **29,028** | 22,299 |
| Equity instruments | | |
| Funds | **8,725** | 8,286 |
| Stocks | **39,411** | 23,146 |
| Total | **132,443** | 95,200 |

Terms of bonds which were classified as available-for-sale financial assets are as follows:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Less than 3 months (including 3 months) | **10,398** | 149 |
| 3 months to 1 year (including 1 year) | **10,929** | 595 |
| 1-2 years (including 2 years) | **1,787** | 2,659 |
| 2-3 years (including 3 years) | **3,491** | 3,159 |
| 3-4 years (including 4 years) | **1,121** | 2,297 |
| 4-5 years (including 5 years) | **4,988** | 3,863 |
| More than 5 years | **51,593** | 51,046 |
| Total | **84,307** | 63,768 |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 13. Held-to-maturity investments

| | (Audited) Book value | | (Audited) Fair value | |
|---|---|---|---|---|
| | **June 30, 2007** | December 31, 2006 | **June 30, 2007** | December 31, 2006 |
| Bonds | | | | |
| Government bonds | **78,994** | 78,913 | **79,402** | 83,511 |
| Financial bonds | **37,968** | 37,142 | **36,962** | 39,364 |
| Corporate bonds | **13,231** | 13,195 | **13,059** | 13,585 |
| Total | **130,193** | 129,250 | **129,423** | 136,460 |

Terms of bonds which were classified as held-to-maturity investments are as follows:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Less than 3 months (including 3 months) | **1,259** | 68 |
| 3 months to 1 year (including 1 year) | **1,787** | 1,777 |
| 1-2 years (including 2 years) | **4,089** | 4,951 |
| 2-3 years (including 3 years) | **5,282** | 3,101 |
| 3-4 years (including 4 years) | **7,060** | 2,843 |
| 4-5 years (including 5 years) | **17,695** | 20,740 |
| More than 5 years | **93,021** | 95,770 |
| Total | **130,193** | 129,250 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 14. Long-term equity investments

| Investees | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Equity method: Veolia Water (Kunming) Investment Co., Ltd. | **176** | 176 |
| Cost method: Industrial Bank Co., Ltd. | **–** | 113 |
| Bank of Communications Co., Ltd. | **–** | 92 |
| Others | **35** | 34 |
| Total | **211** | 415 |

The Group's investment in associate as at June 30, 2007 is as follows:

| Name of the investee | Registered share capital | Percentage of holding capital | Investment amount at period end | Business scope |
|---|---|---|---|---|
| Veolia Water (Kunming) Investment Co., Ltd. | US$95,000,000 | 24% | 176 | Water services investment |

### 15. Goodwill

| Investee | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Ping An Security | **313** | 313 |
| Ping An Bank | **13** | 13 |
| Shenzhen Ping An Bank | **83** | 83 |
| Shenzhen CITIC Plaza | **66** | – |
| Total | **475** | 409 |
| Less: provision for impairment losses | **–** | – |
| Net | **475** | 409 |

The Group finished the acquisition of CITIC City Plaza in January 2007 and generated goodwill of RMB66 million. Please refer to Notes V for detailed computation.

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 16. Investment properties

| | (Audited) For the six months ended June 30, 2007 | | |
|---|---|---|---|
| | Buildings | Land use rights | Total |
| **Cost** | | | |
| Beginning of period | 1,918 | 154 | 2,072 |
| Acquisition of a subsidiary | 2,046 | – | 2,046 |
| Addition | 301 | 6 | 307 |
| Transfer to fixed assets | (24) | – | (24) |
| Disposals | (66) | – | (66) |
| **End of period** | 4,175 | 160 | 4,335 |
| **Accumulated depreciation and amortization** | | | |
| Beginning of period | 339 | 22 | 361 |
| Addition | 76 | 5 | 81 |
| Acquisition of a subsidiary | 91 | – | 91 |
| Transfer to fixed assets | (3) | – | (3) |
| Disposals | (7) | – | (7) |
| **End of period** | 496 | 27 | 523 |
| **Impairment losses** | | | |
| Beginning of period | 51 | – | 51 |
| Addition | 19 | – | 19 |
| Disposals | (47) | – | (47) |
| **End of period** | 23 | – | 23 |
| **Net** | | | |
| **End of period** | 3,656 | 133 | 3,789 |
| **Beginning of period** | 1,528 | 132 | 1,660 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 16. Investment properties *(Continued)*

| | (Audited) For the year ended December 31, 2006 | | |
|---|---|---|---|
| | Buildings | Land use rights | Total |
| **Cost** | | | |
| Beginning of year | 1,762 | 154 | 1,916 |
| Acquisition of subsidiaries | 124 | – | 124 |
| Addition | 398 | – | 398 |
| Transfer from fixed assets | 41 | – | 41 |
| Disposals | (407) | – | (407) |
| **End of year** | 1,918 | 154 | 2,072 |
| **Accumulated depreciation and amortization** | | | |
| Beginning of year | 316 | 19 | 335 |
| Addition | 86 | 3 | 89 |
| Acquisition of subsidiaries | 17 | – | 17 |
| Transfer from fixed assets | (1) | – | (1) |
| Disposals | (79) | – | (79) |
| **End of year** | 339 | 22 | 361 |
| **Impairment losses** | | | |
| Beginning of year | 203 | – | 203 |
| Disposals | (152) | – | (152) |
| **End of year** | 51 | – | 51 |
| **Net** | | | |
| **End of year** | 1,528 | 132 | 1,660 |
| **Beginning of year** | 1,243 | 135 | 1,378 |

The Group is in the process of applying for property certificates in respect of certain buildings with a net book value of RMB25 million as at June 30, 2007 (Audited December 31, 2006: RMB93 million).

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 17. Fixed assets

| | (Audited) For the six months ended June 30, 2007 | | | | |
|---|---|---|---|---|---|
| | Buildings | Office equipments | Motor vehicles | Construction in progress | Total |
| **Cost** | | | | | |
| Beginning of period | 3,777 | 2,131 | 421 | 644 | 6,973 |
| Acquisition of subsidiaries | – | 1 | 2 | – | 3 |
| Additions | 20 | 159 | 27 | 2,396 | 2,602 |
| Transfer from investment properties | 24 | – | – | – | 24 |
| Disposals | (137) | (50) | (7) | (9) | (203) |
| **End of period** | 3,684 | 2,241 | 443 | 3,031 | 9,399 |
| **Accumulated depreciation** | | | | | |
| Beginning of period | 752 | 1,263 | 254 | – | 2,269 |
| Additions | 85 | 131 | 22 | – | 238 |
| Acquisition of subsidiaries | – | 1 | 2 | – | 3 |
| Transfer from investment properties | 3 | – | – | – | 3 |
| Disposals | (106) | (6) | (3) | – | (115) |
| **End of period** | 734 | 1,389 | 275 | – | 2,398 |
| **Impairment losses** | | | | | |
| Beginning of period | 141 | – | – | 11 | 152 |
| Additions | 41 | – | – | – | 41 |
| Disposals | (31) | – | – | – | (31) |
| **End of period** | 151 | – | – | 11 | 162 |
| **Net** | | | | | |
| **End of period** | 2,799 | 852 | 168 | 3,020 | 6,839 |
| **Beginning of period** | 2,884 | 868 | 167 | 633 | 4,552 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 17. Fixed assets *(Continued)*

| | (Audited) For the year ended December 31, 2006 | | | | |
|---|---|---|---|---|---|
| | Buildings | Office equipments | Motor vehicles | Construction in progress | Total |
| **Cost** | | | | | |
| Beginning of year | 2,719 | 1,573 | 400 | 646 | 5,338 |
| Acquisition of subsidiaries | 435 | 308 | 8 | 10 | 761 |
| Additions | 161 | 362 | 87 | 764 | 1,374 |
| Transfer from construction in progress | 776 | – | – | (776) | – |
| Transfer to investment properties | (41) | – | – | – | (41) |
| Disposals | (273) | (112) | (74) | – | (459) |
| **End of year** | 3,777 | 2,131 | 421 | 644 | 6,973 |
| **Accumulated depreciation** | | | | | |
| Beginning of year | 603 | 929 | 250 | – | 1,782 |
| Additions | 213 | 199 | 51 | – | 463 |
| Acquisition of subsidiaries | 77 | 213 | 7 | – | 297 |
| Transfer to investment properties | 1 | – | – | – | 1 |
| Disposals | (142) | (78) | (54) | – | (274) |
| **End of year** | 752 | 1,263 | 254 | – | 2,269 |
| **Impairment losses** | | | | | |
| Beginning of year | 120 | – | – | 26 | 146 |
| Additions | 30 | – | – | – | 30 |
| Disposals | (9) | – | – | (15) | (24) |
| **End of year** | 141 | – | – | 11 | 152 |
| **Net** | | | | | |
| **End of year** | 2,884 | 868 | 167 | 633 | 4,552 |
| **Beginning of year** | 1,996 | 644 | 150 | 620 | 3,410 |

The Group is in the process of applying for property certificates in respect of certain buildings with a net book value of RMB210 million as at June 30, 2007 (Audited December 31, 2006: RMB156 million).

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 18. Intangible assets

| | (Audited) For the six months ended June 30, 2007 | | | |
|---|---|---|---|---|
| | Land use rights | Computer software and others | Membership fees | Total |
| **Cost** | | | | |
| Beginning of period | 871 | 324 | 58 | 1,253 |
| Additions | 1 | 59 | 6 | 66 |
| Disposals | – | (11) | – | (11) |
| **End of period** | 872 | 372 | 64 | 1,308 |
| **Accumulated amortization** | | | | |
| Beginning of period | 85 | 187 | 38 | 310 |
| Additions | 16 | 58 | 3 | 77 |
| Disposals | – | (4) | – | (4) |
| **End of period** | 101 | 241 | 41 | 383 |
| **Impairment losses** | | | | |
| **End of period** | 3 | – | – | 3 |
| **Beginning of period** | 3 | – | – | 3 |
| **Net** | | | | |
| **End of period** | 768 | 131 | 23 | 922 |
| **Beginning of period** | 783 | 137 | 20 | 940 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 18. Intangible assets *(Continued)*

| | (Audited) For the year ended December 31, 2006 | | | |
|---|---|---|---|---|
| | Land use rights | Computer software and others | Membership fees | Total |
| **Cost** | | | | |
| Beginning of year | 869 | 251 | 59 | 1,179 |
| Additions | 2 | 87 | 1 | 90 |
| Disposals | – | (14) | (2) | (16) |
| **End of year** | 871 | 324 | 58 | 1,253 |
| **Accumulated amortization** | | | | |
| Beginning of year | 67 | 147 | 34 | 248 |
| Additions | 18 | 54 | 6 | 78 |
| Disposals | – | (14) | (2) | (16) |
| **End of year** | 85 | 187 | 38 | 310 |
| **Impairment losses** | | | | |
| **End of year** | 3 | – | – | 3 |
| **Beginning of year** | 3 | – | – | 3 |
| **Net** | | | | |
| **End of year** | 783 | 137 | 20 | 940 |
| **Beginning of year** | 799 | 104 | 25 | 928 |

The Group is in the process of applying for title certificates for land use rights with a net book value of RMB490 million as at June 30, 2007 (audited December 31, 2006: RMB498 million).

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 19. Deferred tax assets/liabilities

Details of deferred tax assets/liabilities of the Group are as follows:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Deferred tax assets | **592** | 888 |
| Deferred tax liabilities | **(3,555)** | (1,441) |
| Net | **(2,963)** | (553) |

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Provision for bad debts | **75** | 107 |
| Loan loss provision | **126** | 280 |
| Share appreciation rights | **413** | 105 |
| Change in fair values of financial assets | **(6,026)** | (2,537) |
| Insurance liability reserves | **2,300** | 1,381 |
| Provision for settled assets | **69** | 52 |
| Provision for unsettled lawsuits | **16** | 27 |
| Others | **64** | 32 |
| Total | **(2,963)** | (553) |

### 20. Other assets

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Prepayment for investment projects | **753** | 1,689 |
| External parties receivables | **645** | 406 |
| Interest rate swap guarantee receivables | **113** | 238 |
| Dividend receivable | **21** | 107 |
| Settled assets | **985** | 1,179 |
| Long-term deferred expense | **315** | 313 |
| Others | **1,662** | 917 |
| Total | **4,494** | 4,849 |
| Less: Provision for impairment losses | **(339)** | (529) |
| Net | **4,155** | 4,320 |

There are no other assets from shareholders who individually hold not less than 5% of the company's voting share capital.

The Group did not dispose of any salvage assets during the six months ended June 30, 2007 and the year 2006.

# VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

## 20. Other assets *(Continued)*

Details of settled assets held by the Group are as follows:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Buildings | **880** | 1,085 |
| Others | **105** | 94 |
| **Total** | **985** | 1,179 |
| Less: provision for impairment losses | **(274)** | (353) |
| **Net** | **711** | 826 |

Gains on disposal of settled assets during the period is RMB17 million (audited 2006: nil).

## 21. Provision for impairment losses

Movement of provision for impairment losses is as follows:

| | (Audited) For the six months ended June 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | | | Reversal during the period | | | |
| Item | Balance as at January 1, 2007 | Addition during the period | Write-back | Write-off | Total | Balance as at June 30, 2007 |
| Provision for bad debts | 586 | 51 | (10) | (278) | (288) | 349 |
| Provision for impairment on long-term investment | 154 | – | (18) | (12) | (30) | 124 |
| Loan loss provision | 2,431 | 5 | (131) | (1,800) | (1,931) | 505 |
| Provision for impairment on investment properties | 51 | 19 | (11) | (36) | (47) | 23 |
| Provision for impairment on fixed assets | 152 | 41 | (4) | (27) | (31) | 162 |
| Provision for impairment on intangible assets | 3 | – | – | – | – | 3 |
| Provision for impairment on other assets | 529 | 75 | – | (265) | (265) | 339 |
| Total | 3,906 | 191 | (174) | (2,418) | (2,592) | 1,505 |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 21. Provision for impairment losses *(Continued)*

| | (Audited) For the year ended December 31, 2006 | | | | | |
|---|---|---|---|---|---|---|
| Item | Beginning of year | Addition during the year | Reversal during the year: Write-back | Reversal during the year: Write-off | Reversal during the year: Total | End of year 2006 |
| Provision for bad debts | 168 | 428 | – | (10) | (10) | 586 |
| Provision for impairment on long-term investment | 80 | 86 | – | (12) | (12) | 154 |
| Loan loss provision | 94 | 2,531 | – | (194) | (194) | 2,431 |
| Provision for impairment on investment properties | 203 | – | (111) | (41) | (152) | 51 |
| Provision for impairment on fixed assets | 146 | 30 | (9) | (15) | (24) | 152 |
| Provision for impairment on intangible assets | 3 | – | – | – | – | 3 |
| Provision for impairment on other assets | 88 | 496 | (1) | (54) | (55) | 529 |
| Total | 782 | 3,571 | (121) | (326) | (447) | 3,906 |

### 22. Short-term borrowings

All short-term borrowings of the Group are guaranteed borrowings.

### 23. Due to banks and other financial institutions

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Amounts due to banks | **2,130** | 1,984 |
| Amounts due to other financial institutions | **3,188** | 1,481 |
| Total | **5,318** | 3,465 |

Due to banks and other financial institutions are all placed domestically.

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 24. Guarantee deposits

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Guaranteed deposits for acceptances | **3,905** | 3,712 |
| Guarantee deposits | **648** | 891 |
| Guaranteed deposits for letter of guarantee | **568** | 474 |
| Guaranteed deposits for letter of credit | **182** | 259 |
| Guaranteed deposits for futures contracts | **54** | 40 |
| Others | **508** | 109 |
| Total | **5,865** | 5,485 |

### 25. Placements from banks and other financial institutions

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Banks | **1,871** | 992 |

### 26. Financial assets sold under agreements to repurchase

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Securities | **21,997** | 12,478 |
| Loans | **886** | 2,095 |
| Total | **22,883** | 14,573 |

As at June 30, 2007, loans of book value amounting to RMB911 million (Audited December 31, 2006: RMB2,231 million) and bonds investments of book value amounting to RMB21,997 million (Audited December 31, 2006: RMB12,478 million) were used as collateral for the financial assets sold under agreements to repurchase. As at the date of approval of the financial statements, financial assets sold under agreements to repurchase above amounting to about RMB20,739 million have been redeemed.

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 27. Customer bank deposits

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Current deposits | | |
| Corporate client | **26,652** | 37,601 |
| Individual client | **5,450** | 5,672 |
| Term deposits (including call deposits) | | |
| Corporate client | **25,279** | 17,454 |
| Individual client | **4,457** | 5,749 |
| Outward remittance and drafts and telegraphic transfers payable | **381** | 249 |
| Total | **62,219** | 66,725 |

### 28. Customer brokerage deposits

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Individual client | **9,031** | 3,423 |
| Corporate client | **815** | 327 |
| Total | **9,846** | 3,750 |

### 29. Salary and welfare payable

Details of salary and welfare payable of the Group are as follows:

| | **(Audited) For the six months ended June 30, 2007** | | | |
|---|---|---|---|---|
| | **Beginning of period** | **Accruals** | **Payments** | **End of period** |
| Salary, bonus and allowance | **608** | **3,052** | **(2,583)** | **1,077** |
| Staff welfare | **295** | **–** | **(181)** | **114** |
| Social insurance | **3** | **280** | **(233)** | **50** |
| Housing fund | **1** | **25** | **(23)** | **3** |
| Labor union fund and employee education fund | **117** | **147** | **(32)** | **232** |
| Compensation on termination of contracts | **–** | **20** | **(1)** | **19** |
| Share based payment | **1,109** | **777** | **–** | **1,886** |
| Total | **2,133** | **4,301** | **(3,053)** | **3,381** |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 30. Taxes payable

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Corporate income tax | **673** | 691 |
| Business tax | **636** | 319 |
| City maintenance and construction tax | **20** | 14 |
| Others | **180** | 142 |
| Total | **1,509** | 1,166 |

### 31. Policyholder deposits and investments

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Less than 1 year (including 1 year) | **132** | 58 |
| 3-5 years (including 5 years) | **35** | 37 |
| More than 5 years | **4,778** | 3,954 |
| Total | **4,945** | 4,049 |

### 32. Insurance contract reserves

| | **(Audited) For the six months period ended June 30, 2007** | | | | | |
|---|---|---|---|---|---|---|
| | **Beginning of period** | **Additions** | **Payments** | **Decrease surrenders** | **Others** | **End of period** |
| Unearned premium reserves | | | | | | |
| Direct insurance contracts | **12,927** | **14,168** | **–** | **–** | **(11,465)** | **15,630** |
| Reinsurance contracts | **10** | **46** | **–** | **–** | **(33)** | **23** |
| Claim reserves | | | | | | |
| Direct insurance contracts | **6,465** | **7,156** | **(6,016)** | **–** | **(200)** | **7,405** |
| Reinsurance contracts | **15** | **18** | **(2)** | **–** | **–** | **31** |
| Policyholders' reserves for life insurance | | | | | | |
| Direct insurance contracts | **248,574** | **52,619** | **(5,427)** | **(5,934)** | **(481)** | **289,351** |
| Long-term reserves for health insurance | | | | | | |
| Direct insurance contracts | **30,694** | **5,747** | **(516)** | **(309)** | **(1,217)** | **34,399** |
| Total | **298,685** | **79,754** | **(11,961)** | **(6,243)** | **(13,396)** | **346,839** |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 32. Insurance contract reserve *(Continued)*

Due term of insurance contract reserve of the Group are as follows:

| | **(Audited) June 30, 2007** | | (Audited) December 31, 2006 | |
|---|---|---|---|---|
| | **Less than 1 year (including 1 year)** | **More than 1 year** | Less than 1 year (including 1 year) | More than 1 year |
| Unearned premium reserves | | | | |
| Direct insurance contracts | **11,642** | **3,988** | 9,660 | 3,267 |
| Reinsurance contracts | **5** | **18** | 7 | 3 |
| Claim reserves | | | | |
| Direct insurance contracts | **5,934** | **1,471** | 5,158 | 1,307 |
| Reinsurance contracts | **24** | **7** | 12 | 3 |
| Policyholders' reserves for life insurance | | | | |
| Direct insurance contracts | **15,204** | **274,147** | 11,495 | 237,079 |
| Long-term reserves for health insurance | | | | |
| Direct insurance contracts | **693** | **33,706** | 613 | 30,081 |
| Total | **33,502** | **313,337** | 26,945 | 271,740 |

Details of claim reserve of direct insurance contracts of the Group are as follows:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Incurred and reported claim reserves | **3,908** | 3,222 |
| Incurred but not reported claim reserves | **2,955** | 2,785 |
| Loss adjustment expense reserves | **542** | 458 |
| Total | **7,405** | 6,465 |

### 33. Long-term borrowings

All long-term borrowings of the Group are guaranteed borrowings in RMB.

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 34. Other payables

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Insurance guarantee fund | **106** | 82 |
| Dividend payable | **147** | 81 |
| Payables to external companies | **515** | 255 |
| Employees deposits for policy contracts | **190** | 179 |
| Withholding payables | **102** | 117 |
| Rental income received in advance | **67** | 60 |
| Payables to employees | **76** | 57 |
| Others | **1,970** | 1,140 |
| Total | **3,173** | 1,971 |

### 35. Share capital

The registered and paid-up share capital of the Company is RMB7,345 million with a par value of RMB1 per share. Details of share capital are as follows:

| | **(Audited) Beginning of the period** | | **Issue of new shares** | **(Audited) End of the period** | |
|---|---|---|---|---|---|
| **(In million)** | **Number** | **Percentage (%)** | **in the period** | **Number** | **Percentage (%)** |
| Shares subject to trading moratorium: | | | | | |
| State-owned shares | 589 | 9.51% | – | 589 | 8.02% |
| State-owned legal-person shares | 367 | 5.93% | – | 367 | 5.00% |
| Domestic non state-owned legal-person shares | 2,680 | 43.26% | 345 | 3,025 | 41.19% |
| Subtotal | 3,636 | 58.70% | 345 | 3,981 | 54.21% |
| Shares not subject to trading moratorium: | | | | | |
| A shares | – | – | 805 | 805 | 10.96% |
| H shares | 2,559 | 41.30% | – | 2,559 | 34.83% |
| Subtotal | 2,559 | 41.30% | 805 | 3,364 | 45.79% |
| Total | 6,195 | 100.00% | 1,150 | 7,345 | 100.00% |

The registered share capital has been verified by a China certified public accounting firm.

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 36. Capital reserves

| | | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|---|
| Share premium | *(1)* | **51,907** | 14,835 |
| Gains from changes in fair values of available-for-sale financial assets | | **11,615** | 8,100 |
| Other capital reserves | *(2)* | **311** | 311 |
| Total | | **63,833** | 23,246 |

(1) The share premium was due to the initial public offering of A shares and H shares.

(2) The Company arranged for a revaluation of its life insurance and property and casualty insurance business prior to its asset contributions into Ping An Life and Ping An Property & Casualty. In accordance with asset valuation reports Zhonghuapingbaozi [2002] No.039 and [2002] No.038 issued by Chinese Finance Appraisal Co., Ltd., the net valuation surplus amounted to RMB311 million.

### 37. General risk provision

In accordance with relevant regulations of the PRC, insurance companies, banking companies, trust companies, securities companies and futures companies need to set aside general risk provisions to provide for major catastrophes or losses. The Group's subsidiaries, have in accordance with the relevant regulations of the PRC, individually provided for general risk provisions in their annual financial statements based on their current year profit or risk based assets as profit appropriation. The above mentioned general risk provisions cannot be used for dividends or appropriation to capital.

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 38. Profit appropriation

Pursuant to the Articles of the Company and relevant regulations, the Company makes appropriations from net profit according to the following order:

(1) To offset accumulated losses brought forward from prior years;

(2) To allocate 10% of profit after tax, after offsetting accumulated losses, to statutory surplus reserve;

(3) To provide for discretionary surplus reserve in accordance with the resolutions of the shareholders' meeting. The usage of the discretionary surplus reserve is determined in accordance with the articles of the Company or the resolutions of the shareholders' meeting;

(4) To distribute dividends to shareholders.

No further provision for the statutory surplus reserve is required when its balance reaches 50% of the registered share capital. Subject to resolutions approved in the shareholders' meeting, the statutory surplus reserve can be converted to share capital and new shares can be issued to shareholders in proportion to their shareholding. The balance of the statutory surplus reserve fund after such conversion to share capital should not be less than 25% of the registered share capital.

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 39. Premium income

(1) Details of premium income by insurance contracts of the Group are as follows:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Direct insurance contracts | **53,838** | 45,993 |
| Reinsurance contracts | **47** | 7 |
| Total | **53,885** | 46,000 |

(2) Details of premium income by products of the Group are as follows:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Life insurance | | |
| Individual | | |
| Single premium income | **948** | 1,571 |
| First year regular premium income | **8,361** | 5,269 |
| Renewal premium income | **24,924** | 22,743 |
| Sub-total | **34,233** | 29,583 |
| Bancassurance | | |
| Single premium income | **3,713** | 3,451 |
| First year regular premium income | **45** | 12 |
| Renewal premium income | **126** | 128 |
| Sub-total | **3,884** | 3,591 |
| Group insurance | | |
| Single premium income | **3,919** | 3,713 |
| Renewal premium income | **212** | 242 |
| Sub-total | **4,131** | 3,955 |
| Life insurance total | **42,248** | 37,129 |

# VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

## 39. Premium income *(Continued)*

(2) Details of premium income by products of the Group are as follows: *(Continued)*

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Property and casualty insurance | | |
| Motor and third party liability insurance | **7,799** | 5,797 |
| Health and accident insurance | **582** | 441 |
| Others | **3,256** | 2,633 |
| Property and casualty insurance total | **11,637** | 8,871 |
| Total | **53,885** | 46,000 |

## 40. Unearned premium reserves

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Direct insurance contracts | **2,092** | 2,046 |
| Reinsurance contracts | **13** | 8 |
| Total | **2,105** | 2,054 |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 41. Net interest income from banking operations

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Interest income from banking operations | | |
| Due from banks and other financial institutions | **65** | 9 |
| Placements with central bank | **73** | – |
| Placements with banks and other financial institutions | **29** | 6 |
| Interest income from loans | | |
| Including: Individual loans | **456** | – |
| Corporate loans | **714** | 7 |
| Discounted bills | **159** | – |
| Financial assets purchased under agreements to resell | **114** | – |
| Others | **106** | – |
| Including: Interest income from impaired financial assets | **20** | – |
| Total | **1,716** | 22 |
| Interest expense of banking operations | | |
| Due to banks and other financial institutions | **99** | – |
| Placements with banks and other financial institutions | **7** | – |
| Due to customers | **532** | 1 |
| Financial assets sold under agreements to repurchase | **51** | – |
| Total | **689** | 1 |
| Net interest income from banking operations | **1,027** | 21 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 42. Net income from fees and commission

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Fees and commission income | | |
| Commission income from securities underwriting business | **224** | 43 |
| Commission income from securities trading | **790** | 150 |
| Management fee income from management of trust products | **246** | 22 |
| Handling fee income from clearing and settlement business | **6** | – |
| Commission income from custodian services | **19** | – |
| Others | **72** | 3 |
| Total | **1,357** | 218 |
| Fees and commission expenses | | |
| Commission expenses for securities trading | **71** | 12 |
| Other commission expenses | **142** | 18 |
| Total | **213** | 30 |
| Net income from fees and commission | **1,144** | 188 |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 43. Investment income

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Interest income | **5,918** | 4,879 |
| Bonds | **4,498** | 3,209 |
| Held-to-maturity | **2,669** | 2,457 |
| Available-for-sale | **1,272** | 681 |
| At fair value through profit or loss | **557** | 71 |
| Term deposits | **1,288** | 1,632 |
| Loans and receivables | **1,288** | 1,632 |
| Others | **132** | 38 |
| Loans and receivables | **132** | 38 |
| Dividend income | **6,702** | 1,365 |
| Funds | **6,566** | 1,160 |
| Available-for-sale | **2,975** | 449 |
| At fair value through profit or loss | **3,591** | 711 |
| Stocks | **136** | 205 |
| Available-for-sale | **96** | 114 |
| At fair value through profit or loss | **40** | 91 |
| Realized gains | **16,936** | 2,590 |
| Bonds | **278** | 224 |
| Available-for-sale | **98** | 99 |
| At fair value through profit or loss | **180** | 125 |
| Funds | **5,820** | 1,659 |
| Available-for-sale | **2,904** | 762 |
| At fair value through profit or loss | **2,916** | 897 |
| Stocks | **10,835** | 568 |
| Available-for-sale | **5,813** | 355 |
| At fair value through profit or loss | **5,022** | 213 |
| Derivative financial instruments | **3** | 139 |
| Share of profits and losses of an associate | **–** | – |
| Interest expenses on assets sold under agreements to repurchase | **(432)** | (32) |
| Total | **29,124** | 8,802 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 44. Gains from changes in fair values

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Held-for-trading financial instruments | | |
| Bonds | **(226)** | 43 |
| Funds | **2,361** | 2,789 |
| Stocks | **1,039** | 927 |
| Destined at fair value through profit or loss | **(190)** | 86 |
| Derivative financial instruments | **110** | 156 |
| Total | **3,094** | 4,001 |

### 45. Claims paid

(1) Details of claims paid by insurance contracts of the Group are as follows:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Direct insurance contracts | **11,789** | 7,813 |
| Reinsurance contracts | **2** | 1 |
| Total | **11,791** | 7,814 |

(2) Details of claims paid by types of payments of the Group are as follows:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Claims | **6,011** | 4,893 |
| Payments on maturities | **3,582** | 1,094 |
| Payments on annuities | **1,427** | 1,293 |
| Payments on death and medical claims | **771** | 534 |
| Total | **11,791** | 7,814 |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 46. Change in insurance contract reserves

(1) Details of changes in insurance contract reserves by insurance contracts of the Group are as follows:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Change in claim reserves | | |
| Direct insurance contracts | **1,140** | 306 |
| Reinsurance contracts | **16** | 34 |
| Change in policyholders' reserves for life insurance | | |
| Direct insurance contracts | **40,088** | 25,275 |
| Change in long-term reserves for health insurance | | |
| Direct insurance contracts | **3,705** | 4,406 |
| Total | **44,949** | 30,021 |

(2) Details of change in claim reserve of direct insurance contracts by type are as follows:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Incurred and reported claim reserves | **753** | (123) |
| Incurred but not reported claim reserves | **303** | 410 |
| Loss adjustment expense reserves | **84** | 19 |
| Total | **1,140** | 306 |

### 47. Reinsurers' share of insurance contract reserves

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Reinsurers' share of claim reserves | **334** | 9 |
| Reinsurers' share of policyholders' reserves for life insurance | **7** | – |
| Reinsurers' share of long term reserves for health insurance | **7** | – |
| Total | **348** | 9 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 48. Business tax and surcharges

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Business tax | **1,628** | 715 |
| City maintenance and construction tax | **61** | 38 |
| Education surcharges | **53** | 21 |
| Total | **1,742** | 774 |

### 49. Insurance related handling charges and commission

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Handling fee for insurance business | **1,258** | 795 |
| Commission expense for insurance business | **4,408** | 3,137 |
| Total | **5,666** | 3,932 |

### 50. General and administrative expenses

General and administrative expenses of the Group include following expenses:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Salaries and welfare | **3,052** | 1,825 |
| Social insurance | **280** | 180 |
| Housing fund | **25** | 48 |
| Depreciation of investment properties | **81** | 32 |
| Depreciation of fixed assets | **238** | 148 |
| Amortization of intangible assets | **77** | 28 |
| Auditors' remuneration | | |
| – Interim audit and other assurance service fee | **12** | 7 |

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 51. Impairment losses

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Bad debt for receivables | **41** | 11 |
| Impairment losses for long-term equity investment | **(18)** | – |
| Impairment losses for loans | **(126)** | 1 |
| Impairment losses for investment properties | **8** | – |
| Impairment losses for fixed assets | **37** | 33 |
| Impairment losses for other assets | **75** | – |
| Total | **17** | 45 |

### 52. Income taxes

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Current income tax | **666** | 319 |
| Deferred income tax | **(120)** | 101 |
| Total | **546** | 420 |

The relationship between income tax and accounting profit of the Group is as follows:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Profit before tax | **8,872** | 4,426 |
| Tax computed at the main applicable tax rate of 15% | **1,331** | 664 |
| Tax effect of change in tax rate | **(382)** | – |
| Tax effect of expenses not deductible in determining taxable income | **573** | 240 |
| Tax effect of income not taxable in determining taxable income | **(1,558)** | (562) |
| Tax effect of higher tax rate on branches and entities (in the PRC) that are located outside the Special Economic Zones | **582** | 78 |
| Total | **546** | 420 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 53. Earnings per share

Earnings per share is calculated by dividing a company's net profit for ordinary shareholders by the weighted average number of outstanding shares 6,961,720,001 (the weighted average number of outstanding shares for six months ended June 30, 2006 unaudited: 6,195,053,334).

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

### 54. Share appreciation rights scheme

On February 5, 2004, the Company's board of directors approved a scheme of share appreciation rights for the senior executives and certain key employees of the Group. The rights to the units are issued from 2004 to 2008. No shares will be issued under this scheme. The rights are granted in units with each unit representing one H share of the Company. Upon exercise of the said rights, the participants will receive a cash payment, subject to the restrictions that the annual amount of aggregate benefit to all participants shall not exceed a percentage of the estimated net profits in the year in which the rights are exercised, which is equal to the product of the number of units exercised and the difference between the exercise price and market price of an H share at the time of exercise.

The expense recognized for employee services received during the period is RMB777 million (for the six months ended June 30, 2006 unaudited: RMB249 million).

The amount of issued SARs units by the Group during the period is as follows:

| **(Unit: Million)** | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Beginning of period | **69** | 54 |
| Issued during period | **–** | – |
| Exercised during period | **–** | – |
| End of period | **69** | 54 |

The services received and corresponding liabilities to pay for those services are recognized over the expected vesting period. Until the liability is settled, it is re-measured at each balance date and settlement date, with changes in fair value recognized in the income statement. The carrying amount of the liability relating to the share appreciation rights as at audited June 30, 2007 is RMB1,886 million (Audited December 31, 2006: RMB1,109 million).

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 55. Investment-linked insurance

#### (1) Investment accounts for investment-linked insurance

Investment-linked insurance products of the Group include Ping An Century Wealth Builder Individual investment-linked Life Insurance and Ping An Group Investment-linked Pension. Ping An Century Wealth Builder Individual Investment-linked Life Insurance comprises four investment portfolios as follows: Developed Portfolio of Ping An Century Wealth Builder Individual Investment-linked Life Insurance (the "Development account"), Guaranteed Account of Ping An Century Wealth Builder Individual Investment-linked Life Insurance (the "Guaranteed account"), Fund Portfolio of Ping An Century Wealth Builder Individual Investment-linked life insurance (the "Fund portfolio") and Value Portfolio of Ping An Century Wealth Builder Individual investment-linked Life Insurance (the "Value portfolio"). Ping An Group Investment-linked Pension comprises three investment portfolios as follows: Conservative Portfolio of Ping An Group Investment-linked pension (the "Conservative portfolio"), Balanced Portfolio of Ping An Group Investment-linked Pension (the "Balanced portfolio"), and Growth Portfolio of Ping An Group Investment-linked Pension (the "Growth portfolio"). Ping An Century Wealth Builder Individual investment-linked Life Insurance and Ping An Group Investment-linked Pension accounts are set up in accordance with relevant regulations issued by CIRC and the terms in the policies, and after CIRC's approval. Except for guaranteed accounts with investments limited to bank deposits and placements, investments for other policies are bank deposits, security investment funds, bonds, shares and other financial instruments permitted by the CIRC.

#### (2) Number of units and net asset value for each investment unit of investment-linked insurance accounts

| | | **(Audited) June 30, 2007** | | (Audited) December 31, 2006 | |
|---|---|---|---|---|---|
| | **Setup date** | **Number of unit** | **Net asset value per each investment unit** | Number of unit | Net asset value per each investment unit |
| | | **(Million)** | **(RMB)** | (Million) | (RMB) |
| Development account | 10/23/2000 | **6,646** | **2.3998** | 6,420 | 1.8333 |
| Guaranteed account | 4/30/2001 | **222** | **1.2205** | 221 | 1.2007 |
| Fund account | 4/30/2001 | **2,822** | **2.8118** | 2,716 | 1.8591 |
| Value account | 9/4/2003 | **2,155** | **1.4337** | 2,042 | 1.2403 |
| Conservative account | 3/31/2001 | **2,236** | **1.5283** | 2,313 | 1.3099 |
| Balanced account | 3/31/2001 | **120** | **2.4139** | 114 | 1.7452 |
| Growth account | 3/31/2001 | **240** | **3.2241** | 232 | 2.1309 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 55. Investment-linked insurance *(Continued)*

#### (3) Separate account (investment-linked) assets and liabilities

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Separate account (investment-linked) assets: | | |
| Cash at bank | **2,512** | 1,002 |
| Financial assets held for trading | **20,923** | 17,180 |
| Financial assets purchased under agreements to resell | **1,706** | 300 |
| Interest receivables | **201** | 41 |
| Term deposit | **6,509** | 6,309 |
| Other assets | **39** | 100 |
| Total | **31,890** | 24,932 |
| Separate account (investment-linked) liabilities: | | |
| Assets sold under agreements to repurchase | **78** | 1,137 |
| Policyholders' reserves for life insurance | **31,462** | 23,587 |
| Other payables | **350** | 208 |
| Total | **31,890** | 24,932 |

#### (4) Management fees of investment-linked insurance

Investment-linked account management fees are the management fees collected by the Group from policyholders in accordance with the terms of the investment-linked insurance policies. For Ping An Century Wealth Builder Individual investment-linked Life Insurance, the Group collects management fees every valuation day capped at 0.2% of the highest value of the account's asset each month (i.e., annual rate of 2.4%). For Ping An Group Investment-linked Pension, the Group collects administrative fees and investment management fees every valuation day with both capped at 1.5%, using annual rate, of the account's assets.

#### (5) Main accounting policies of investment-linked insurance

Ping An Century Wealth Builder Individual investment-linked Life Insurance, which undertake both insurance risk and other risks, are regarded as direct insurance contracts with no separation between the insurance risk and other risks and are accounted for as direct insurance contracts. Ping An Group Investment-linked Pension do, which undertake no insurance risk, are regarded as investment contracts, and are accounted for as financial instruments.

*June 30, 2007*
*(in RMB million)*

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 55. Investment-linked insurance *(Continued)*

**(6) Valuation method of investment-linked insurance account**

Assets related to investment-linked contracts are carried at market value. Marketable securities other than open ended funds are valued using the closing price at the valuation date or the most recent closing price if there are no transactions of the securities on the valuation date. Open ended funds are valued using the published net asset value. Equity investment funds within the insurance period are valued at cost.

### 56. Notes to consolidated cash flow statement

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| (1) Reconciliation of the net profit to cash flows from operating activities | | |
| Net profit | **8,326** | 4,006 |
| Add: Provision for impairment losses | **17** | 45 |
| Depreciation of investment properties | **81** | 32 |
| Depreciation of fixed assets | **238** | 148 |
| Amortization of intangible assets | **77** | 28 |
| Amortization of long-term deferred expenses | **66** | 49 |
| Gains on disposal of fixed assets, intangible assets and other long-term assets | **(2)** | (2) |
| Gains from changes in fair values | **(3,094)** | (4,001) |
| Investment income | **(29,124)** | (8,802) |
| Foreign exchange losses | **335** | 130 |
| Change in insurance contract reserves | **46,706** | 32,066 |
| Decrease/(increase) in deferred tax assets | **296** | (37) |
| Increase/(decrease) in deferred tax liabilities | **(416)** | 138 |
| Decrease/(increase) in operating receivables | **(14,244)** | 3,151 |
| Increase/(decrease) in operating payables | **10,740** | (1,943) |
| Net cash flows from operation activities | **20,002** | 25,008 |

## VI. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 56. Notes to consolidated cash flow statement *(Continued)*

| | | (Audited) For the six months ended June 30, 2007 | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|
| (2) | Net increase in cash and cash equivalents | | |
| | Cash at end of period | **77,893** | 26,871 |
| | Less: Cash at beginning of period | **(37,683)** | (17,121) |
| | Add: Cash equivalents at end of period | **42,211** | 2,898 |
| | Less: Cash equivalents at beginning of period | **(9,644)** | (8,367) |
| | Net increase in cash and cash equivalents | **72,777** | 4,281 |

(3) For information on the acquisition of subsidiary by the Group, please refer to Note V(1).

(4) Cash and cash equivalents

| | (Audited) June 30, 2007 | (Audited) December 31, 2006 |
|---|---|---|
| Cash | | |
| Cash on hand | **405** | 347 |
| Cash at bank readily available for payments | **71,111** | 31,623 |
| Other monetary funds readily available for payments | **262** | 61 |
| Balances with central bank | **2,142** | 1,927 |
| Balances with clearing companies | **1,591** | 875 |
| Balances with other financial institutions | **2,199** | 2,531 |
| Placements with other financial institutions | **183** | 319 |
| Subtotal | **77,893** | 37,683 |
| Cash equivalents | | |
| Bonds within 3 months | **25,652** | 437 |
| Money market fund | **4,055** | 2,476 |
| Assets purchased under agreements to resell due within 3 months | **12,504** | 6,731 |
| Subtotal | **42,211** | 9,644 |
| Cash and cash equivalents at end of year/period | **120,104** | 47,327 |

*June 30, 2007*
*(in RMB million)*

## VII. SEGMENT REPORT

The Group's business segment is currently divided into life insurance business, property and casualty insurance business, banking business, security 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.

Segment assets and liabilities mainly comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's consolidated balance sheet. The Group's revenue and net profit for the year were mainly derived from the above activities in the PRC. Accordingly, no further segment analysis by geographical area is provided.

| | (Audited) For the six months ended June 30, 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life insurance | Property and casualty insurance | Banking | Securities | Corporate | Others | Elimination | Total |
| **Income statement** | | | | | | | | |
| Premium income | 42,248 | 11,637 | – | – | – | – | – | 53,885 |
| Less: Premiums ceded to reinsurers | (476) | (2,124) | – | – | – | – | – | (2,600) |
| Change in unearned premium reserves | (191) | (1,914) | – | – | – | – | – | (2,105) |
| Earned premiums | 41,581 | 7,599 | – | – | – | – | – | 49,180 |
| Net interest income from banking operations | – | – | 918 | – | – | – | 109 | 1,027 |
| Including: Inter-segmental interest income of banking operations | – | – | (109) | – | – | – | – | (109) |
| Net income from fees and commission | 52 | – | 52 | 975 | – | 132 | (67) | 1,144 |
| Including: Inter-segmental fees and commission income, net | 52 | – | – | 15 | – | – | – | 67 |
| Investment income | 25,618 | 918 | 583 | 384 | 1,414 | 216 | (9) | 29,124 |
| Gains from changes in fair value | 2,530 | 10 | 1 | 107 | 359 | 87 | – | 3,094 |
| Foreign exchange (losses)/gains | (316) | (11) | 22 | (2) | (25) | (3) | – | (335) |
| Other operating income | 526 | 38 | 9 | – | 130 | 364 | (250) | 817 |
| Including: Inter-segmental other operating income | 90 | 24 | – | – | 18 | 118 | – | 250 |
| Total operating income | 69,991 | 8,554 | 1,585 | 1,464 | 1,878 | 796 | (217) | 84,051 |

## VII. SEGMENT REPORT *(Continued)*

| | (Audited) For the six months ended June 30, 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life insurance | Property and casualty insurance | Banking | Securities | Corporate | Others | Elimination | Total |
| **Income statement** *(continued)* | | | | | | | | |
| Surrenders | (5,919) | – | – | – | – | – | – | (5,919) |
| Claims paid | (6,825) | (4,966) | – | – | – | – | – | (11,791) |
| Less: Reinsurers' share of claim paid | 258 | 909 | – | – | – | – | – | 1,167 |
| Change in insurance contract reserves | (43,862) | (1,087) | – | – | – | – | – | (44,949) |
| Less: Reinsurers' share of insurance contract reserves | 8 | 340 | – | – | – | – | – | 348 |
| Policyholder dividends | (897) | – | – | – | – | – | – | (897) |
| Expenses for reinsurance accepted | – | (7) | – | – | – | – | – | (7) |
| Business tax and surcharges | (841) | (661) | (77) | (72) | (54) | (37) | – | (1,742) |
| Insurance related handling charges and commission | (4,601) | (1,117) | – | – | – | – | 52 | (5,666) |
| General and administrative expenses | (2,900) | (1,805) | (733) | (531) | (504) | (213) | 115 | (6,571) |
| Including: Inter-segmental general and administrative expenses | (80) | (10) | – | – | (23) | (2) | – | (115) |
| Less: Reinsurers' share of expenses | 111 | 564 | – | – | – | – | – | 675 |
| Other operating expense | (87) | (5) | (4) | – | – | (149) | 50 | (195) |
| Including: Inter-segmental other operating expense | – | – | – | – | – | (50) | – | (50) |
| Impairment losses | – | (73) | 62 | (1) | – | (5) | – | (17) |
| Total operating expenses | (65,555) | (7,908) | (752) | (604) | (558) | (404) | 217 | (75,564) |
| Operating profit | 4,436 | 646 | 833 | 860 | 1,320 | 392 | – | 8,487 |
| Add: Non-operating income | 8 | 2 | 446 | – | – | 1 | (22) | 435 |
| Less: Non-operating expense | (5) | (6) | (37) | (1) | (1) | – | – | (50) |
| Profit before tax | 4,439 | 642 | 1,242 | 859 | 1,319 | 393 | (22) | 8,872 |
| Less: Income taxes | 374 | (320) | (156) | (183) | (179) | (82) | – | (546) |
| Net profit | 4,813 | 322 | 1,086 | 676 | 1,140 | 311 | (22) | 8,326 |

*June 30, 2007*
*(in RMB million)*

## VII. SEGMENT REPORT *(Continued)*

| | (Audited) June 30, 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life insurance | Property and casualty insurance | Banking | Securities | Corporate | Others | Elimination | Total |
| **Balance sheet** | | | | | | | | |
| Segment assets | 385,745 | 33,818 | 124,788 | 19,962 | 73,908 | 11,781 | (66,859) | 583,143 |
| Segment liabilities | 363,649 | 29,878 | 117,620 | 17,239 | 3,137 | 5,098 | (48,389) | 488,232 |

| | (Audited) For the six months ended June 30, 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life insurance | Property and casualty insurance | Banking | Securities | Corporate | Others | Elimination | Total |
| **Other segment information** | | | | | | | | |
| Depreciation and amortization expense | 311 | 64 | 38 | 9 | 7 | 33 | – | 462 |
| Capital expenditure | 2,636 | 63 | 66 | 19 | 13 | 296 | – | 3,093 |
| Total non-cash expenses other than depreciation and amortization | – | 73 | (62) | 1 | – | 5 | – | 17 |

## VII. SEGMENT REPORT *(Continued)*

| | (Unaudited) For the six months ended June 30, 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life insurance | Property and casualty insurance | Banking | Securities | Corporate | Others | Elimination | Total |
| **Income statement** | | | | | | | | |
| Premiums income | 37,129 | 8,871 | – | – | – | – | – | 46,000 |
| Less: Premiums ceded to reinsurers | (358) | (2,108) | – | – | – | – | – | (2,466) |
| Change in unearned premium reserves | (263) | (1,791) | – | – | – | – | – | (2,054) |
| Earned premiums | 36,508 | 4,972 | – | – | – | – | – | 41,480 |
| Net interest income of banking operations | – | – | 11 | – | – | – | 10 | 21 |
| Including: Inter-segmental Interest income of banking operations | – | – | (10) | – | – | – | – | (10) |
| Net income from fees and commission | 7 | – | – | 218 | – | (18) | (19) | 188 |
| Including: Inter-segmental fees and commission income, net | – | – | – | 1 | – | 18 | – | 19 |
| Investment income | 8,060 | 282 | – | 89 | 280 | 91 | – | 8,802 |
| Gain/(Losses) from changes in Fair values | 3,836 | 24 | – | 79 | 69 | (7) | – | 4,001 |
| Foreign exchange (losses)/gains | (114) | (8) | – | (1) | (5) | (2) | – | (130) |
| Other operating income | 172 | 25 | – | – | 30 | 100 | (62) | 265 |
| Including: Inter-segmental other operating income | 31 | 6 | – | – | 5 | 20 | – | 62 |
| Total operating income | 48,469 | 5,295 | 11 | 385 | 374 | 164 | (71) | 54,627 |

*June 30, 2007*
*(in RMB million)*

## VII. SEGMENT REPORT *(Continued)*

| | (Unaudited) For the six months ended June 30, 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life insurance | Property and casualty insurance | Banking | Securities | Corporate | Others | Elimination | Total |
| **Income statement** *(continued)* | | | | | | | | |
| Surrenders | (3,910) | – | – | – | – | – | – | (3,910) |
| Claims paid | (4,044) | (3,770) | – | – | – | – | – | (7,814) |
| Less: reinsurers' share of claim paid | 279 | 853 | – | – | – | – | – | 1,132 |
| Change in insurance contract reserves | (29,696) | (325) | – | – | – | – | – | (30,021) |
| Less: reinsurers' share of insurance contract reserves | (25) | 34 | – | – | – | – | – | 9 |
| Policyholder dividends | (1,714) | – | – | – | – | – | – | (1,714) |
| Expenses for reinsurance accepted | – | (1) | – | – | – | – | – | (1) |
| Business tax and subcharges | (263) | (486) | – | – | (3) | (22) | – | (774) |
| Insurance related handling charges and commission | (3,272) | (674) | – | – | – | – | 14 | (3,932) |
| General and administrative expenses | (2,217) | (1,308) | (9) | (190) | (265) | (35) | 38 | (3,986) |
| Including: Inter-segmental general and administrative expenses | (18) | (1) | – | (18) | (1) | – | – | (38) |
| Less: Reinsurers' share of expenses | 167 | 755 | – | – | – | – | – | 922 |
| Other operating expense | (58) | (5) | – | – | – | (22) | 19 | (66) |
| Including: Inter-segmental other operating expense | (19) | – | – | – | – | – | – | (19) |
| Impairment losses | (14) | (27) | – | – | – | (4) | – | (45) |
| Total operating expenses | (44,767) | (4,954) | (9) | (190) | (268) | (83) | 71 | (50,200) |
| Operating profit | 3,702 | 341 | 2 | 195 | 106 | 81 | – | 4,427 |
| Add: Non-operating income | 3 | 1 | – | – | – | 12 | – | 16 |
| Less: Non-operating expenses | (6) | (3) | – | – | – | (8) | – | (17) |
| Profit before tax | 3,699 | 339 | 2 | 195 | 106 | 85 | – | 4,426 |
| Less: income taxes | (171) | (176) | (1) | (21) | (38) | (13) | – | (420) |
| Net profit | 3,528 | 163 | 1 | 174 | 68 | 72 | – | 4,006 |

## VII. SEGMENT REPORT *(Continued)*

| | (Audited) December 31, 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life insurance | Property and casualty insurance | Banking | Securities | Corporate | Others | Elimination | Total |
| **Balance sheet** | | | | | | | | |
| Segment assets | 329,906 | 23,192 | 85,591 | 8,914 | 31,507 | 6,837 | (22,659) | 463,288 |
| Segment liabilities | 311,040 | 19,649 | 79,410 | 6,866 | 1,726 | 2,967 | (4,996) | 416,662 |

| | (Unaudited) For the six months ended June 30, 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life insurance | Property and casualty insurance | Banking | Securities | Corporate | Others | Elimination | Total |
| **Other segment information** | | | | | | | | |
| Depreciation and amortization expense | 192 | 46 | – | 10 | 4 | 5 | – | 257 |
| Capital expenditure | 290 | 102 | 48 | 12 | 20 | 49 | – | 521 |
| Total other non-cash expenses other than depreciation and amortization | 14 | 27 | – | – | – | 4 | – | 45 |

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT

### 1. Insurance risk

#### (1) Insurance risk types

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 a policyholder'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 long term life insurance contracts, property and casualty and short term life insurance contracts. For accident insurance contracts, 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 long-term life contracts, 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 currently do not 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.

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, pay reduced premiums, refuse to pay premiums or annuity conversion rights etc. Thus, the resultant insurance risk is subject to policyholders' behavior and decisions.

## VIII. RISK MANAGEMENT *(Continued)*

### 1. Insurance risk *(Continued)*

#### (2) Concentration of Insurance risk

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note VI, 39.

#### (3) Assumption and sensitivity test

***Long term life insurance contracts***

*Assumptions*

The policyholders' reserves for life insurance and long term reserves for health insurance are calculated in accordance with related actuarial regulations promulgated by the CIRC, for details please refer to Notes III 24 and Notes III 25. Strict quantitative regulations on the assumptions for calculation of statutory reserves (include valuation mortality, valuation morbidity and valuation interest rate) promulgated by the CIRC are as follows:

(1) The valuation interest rate should be capped at the lower of:
- The valuation interest rate which is published annually by the CIRC (presently 7.5%); or
- Pre-determined interest rate that is used in determining the premium of the insurance product.

(2) Mortality rates are based on the China life Insurance Mortality Table (2000-2003).

(3) Morbidity rates are based on pre-determined morbidity rates that are used in determining the premium of the insurance products.

*Sensitivity Test*

The Group normally is not allowed to change the above assumptions, so no sensitivity analysis is done here relating to changes in assumptions.

As stated in Note III 41, only for those high yield products whose valuation rates are higher than or equal to 7.5%, the Group can use a more prudent valuation rate in accordance with the actuarial regulations of CIRC, which states that the reserves provided should not be less than the statutory reserve at the end of the accounting year and that the valuation rate should not be higher than the pricing rate or 7.5%. As at June 30, 2007, the Group has decreased the valuation rate of all insurance products whose statutory valuation rates were 7.5% to 6.5% or below. In the current period, the Group decreased the valuation rate of some insurance products, whose valuation rates were previously higher than or equal to 6.5%, to 6.0%-6.5% or below. This change in accounting estimate reduces the profit before tax by approximately RMB6,260 million for the current period.

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 1. Insurance risk *(Continued)*

#### (3) Assumption and sensitivity analysis *(Continued)*

***Property and casualty and short term life insurance contracts***

*Assumptions*

The principal assumption underlying the estimates is the Group's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include delays in settlement etc.

*Sensitivity analysis*

The property and casualty and short term life insurance claims reserves are sensitive to the above key assumptions. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim reserves are not known with certainty at the balance sheet date.

The claim development of property and casualty business excluding reinsurance of the Groupis as follows:

| | (Audited) Property and Casualty Insurance (Accident year) | | | | | |
|---|---|---|---|---|---|---|
| **Item** | 2003 | 2004 | 2005 | 2006 | **Six months ended June 30, 2007** | Total |
| Estimated cumulative claims paid as at: | | | | | | |
| End of current year/period | 5,429 | 5,955 | 7,171 | 9,317 | **5,446** | |
| One year later | 5,403 | 5,948 | 7,172 | 9,864 | **–** | |
| Two years later | 5,403 | 5,397 | 7,046 | – | **–** | |
| Three years later | 5,277 | 5,320 | – | – | **–** | |
| Four years later | 5,255 | – | – | – | **–** | |
| Estimated cumulative claims paid | 5,255 | 5,320 | 7,046 | 9,864 | **5,446** | 32,931 |
| Cumulative claims paid | (5,132) | (5,091) | (6,437) | (7,503) | **(2,241)** | (26,404) |
| Prior period adjustments and unallocated loss adjusting expenses | | | | | | 210 |
| Unpaid claims expenses | | | | | | 6,737 |

# VIII. RISK MANAGEMENT *(Continued)*

## 1. Insurance risk *(Continued)*

### (3) Assumption and sensitivity analysis *(Continued)*

***Property and casualty and short term life insurance contracts*** *(Continued)*

*Sensitivity analysis (continued)*

The claim development of property and casualty business including reinsurance of the Groupis as follows:

| | (Audited) Property and Casualty Insurance (Accident year) | | | | | |
|---|---|---|---|---|---|---|
| **Item** | 2003 | 2004 | 2005 | 2006 | **Six months ended June 30, 2007** | Total |
| Estimated cumulative claims paid as at: | | | | | | |
| End of current year/period | 3,726 | 4,181 | 5,266 | 7,219 | **4,477** | |
| One year later | 3,687 | 4,228 | 5,280 | 7,375 | **–** | |
| Two years later | 3,705 | 3,833 | 5,204 | – | **–** | |
| Three years later | 3,611 | 3,776 | – | – | **–** | |
| Four years later | 3,596 | – | – | – | **–** | |
| Estimated cumulative claims paid | 3,596 | 3,776 | 5,204 | 7,375 | **4,477** | 24,428 |
| Cumulative claims paid | (3,522) | (3,597) | (4,756) | (5,960) | **(1,918)** | (19,753) |
| Prior period adjustments and unallocated loss adjusting expenses | | | | | | 192 |
| Unpaid claims expenses | | | | | | 4,867 |

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 1. Insurance risk *(Continued)*

**(3) Assumption and sensitivity analysis** *(Continued)*

***Property and casualty and short term life insurance contracts*** *(Continued)*

*Sensitivity analysis (continued)*

The claim development of short-term life insurance business excluding reinsurance of the Group is as follows:

| | (Audited) Short-term life insurance (Accident year) | | | | | |
|---|---|---|---|---|---|---|
| **Item** | 2003 | 2004 | 2005 | 2006 | **Six months ended June 30, 2007** | Total |
| Estimated cumulative claims paid as at: | | | | | | |
| End of current year/period | 1,376 | 1,571 | 1,767 | 2,039 | **994** | |
| One year later | 1,349 | 1,577 | 1,960 | 2,030 | **–** | |
| Two years later | 1,354 | 1,582 | 1,938 | – | **–** | |
| Three years later | 1,354 | 1,582 | – | – | **–** | |
| Four years later | 1,354 | – | – | – | **–** | |
| Estimated cumulative claims paid | 1,354 | 1,582 | 1,938 | 2,030 | **994** | 7,898 |
| Cumulative claims paid | (1,354) | (1,582) | (1,931) | (1,885) | **(465)** | (7,217) |
| Prior period adjustments and unallocated loss adjusting expenses | | | | | | 18 |
| Unpaid claims expenses | | | | | | 699 |

## VIII. RISK MANAGEMENT *(Continued)*

### 1. Insurance risk *(Continued)*

#### (3) Assumption and sensitivity analysis *(Continued)*

***Property and casualty and short term life insurance contracts*** *(Continued)*

*Sensitivity analysis (continued)*

The claim development of short-term life insurance business including reinsurance of the Group is as follows:

| | (Audited) Short-term life insurance (Accident year) | | | | | |
|---|---|---|---|---|---|---|
| **Item** | 2003 | 2004 | 2005 | 2006 | **Six months ended June 30, 2007** | Total |
| Estimated cumulative claims paid as at: | | | | | | |
| End of current year/period | 978 | 1,053 | 1,156 | 1,616 | **750** | |
| One year later | 959 | 1,057 | 1,482 | 1,540 | **–** | |
| Two years later | 916 | 1,086 | 1,499 | – | **–** | |
| Three years later | 916 | 1,086 | – | – | **–** | |
| Four years later | 916 | – | – | – | **–** | |
| Estimated cumulative claims paid | 916 | 1,086 | 1,499 | 1,540 | **750** | 5,791 |
| Cumulative claims paid | (916) | (1,086) | (1,493) | (1,438) | **(365)** | (5,298) |
| Prior period adjustments and unallocated loss adjusting expenses | | | | | | 18 |
| Unpaid claims expenses | | | | | | 511 |

A respective percentage change in average claim costs or the number of claims alone result in a similar percentage change in claim reserves. While other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short term life insurance as at June 30, 2007 by approximately RMB243 million and RMB25 million, respectively.

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 1. Insurance risk *(Continued)*

#### (3) Assumption and sensitivity analysis *(Continued)*

***Reinsurance***

The Group limits its exposure to losses within insurance operations mainly through participation in reinsurance arrangements. The majority of the business ceded is placed on quota share basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as receivables from reinsurers or claim reserves receivable from reinsurers.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

### 2. 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.

# VIII. RISK MANAGEMENT *(Continued)*

## 2. Market risk *(Continued)*

### (a) Foreign currency risk *(Continued)*

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on market risks, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

| | | **(Audited) June 30, 2007** | | (Audited) December 31, 2006 | |
|---|---|---|---|---|---|
| | **Change in variables** | **Impact on profit** | **Impact on equity** | Impact on profit | Impact on equity |
| All foreign currencies | -5% | **770** | **770** | 678 | 678 |

### (b) Price risk

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

Changes in market prices of investment instruments which produce price risk to investment can arise from factors affecting individual financial instruments or the issuers or factors affecting all the financial instruments in the market. The Group adopts risk based calculation method to estimate the underlying losses of fair value of listed stocks and security investment fund that are held for a period of ten days.

The Group uses ten days as holding period since it is assumed that not all the investments can be sold in one day. Moreover, the risk based calculation is made based on normal market condition and a 99% confidence interval.

Under normal market conditions, the impact of the ten days' underlying losses of fair value of listed stock and security investment fund estimated by using risk value model on shareholders' equity in as follows:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Listed stock and security investment funds | **9,746** | 4,241 |

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 2. Market risk *(Continued)*

#### (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.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Interest on floating rate instruments is repriced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, for bonds (except those bonds used to support participating insurance, universal insurance and investment-linked insurance), loans and advances to customers and customer deposits, showing the pre-tax impact on profit and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

| | | **(Audited) June 30, 2007** | | (Audited) December 31, 2006 | |
|---|---|---|---|---|---|
| | **Change in interest rate** | **Impact on profit** | **Impact on equity** | Impact on profit | Impact on equity |
| Held-for-trading and available-for-sale bonds | +50 basis points | **(197)** | **(3,082)** | (144) | (3,088) |

| | | Impact on interest income/expense | |
|---|---|---|---|
| | | **(Audited) January – June, 2007** | (Unaudited) January – June, 2006 |
| Floating rate bonds | +50 basis points | **17** | 16 |
| Loans and advances to customers | +50 basis points | **68** | 61 |
| Customer deposits | +50 basis points | **(161)** | (124) |

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk

#### (a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, loans and advances to customers, investments in bonds, equity investments, reinsurance arrangements with reinsurers, policy loans, etc. The Group mitigates credit risk by using a variety of controls including utilizing credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counter party exposure limits.

The Group's banking business carries out credit assessment before granting credit to individual customers and monitors on a regular basis the credit granted. Credit risk is also managed through obtaining collateral and guarantees. In the case of off-balance sheet credit related commitments, guarantee deposits are in general received by the Group to reduce credit risk.

***Credit quality***

Majority of the Group's financial assets are bond investments which include government bonds, finance bonds and corporate bonds. The finance bonds held by the Group have domestic credit rating of A or above and the corporate bonds held by the Group have credit rating of AA or above.

***Credit exposure***

The table below shows the maximum exposure to credit risk for the components of the balance sheet and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancements.

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk *(Continued)*

#### (a) Credit risk *(Continued)*

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Cash and cash equivalents | **81,277** | 41,583 |
| Balances with clearing companies | **1,591** | 875 |
| Placements with banks and other financial institutions | **1,101** | 1,727 |
| Held-for-trading financial assets | **34,141** | 11,720 |
| Derivative financial assets | **16** | 21 |
| Assets purchased under agreement to resell | **11,148** | 6,951 |
| Interest receivables | **4,515** | 3,208 |
| Premium receivables | **5,307** | 3,073 |
| Receivables from reinsurers | **2,205** | 795 |
| Unearned premium reserves receivable from reinsurers | **3,048** | 2,437 |
| Claim reserves receivable from reinsurers | **2,058** | 1,724 |
| Policyholders' reserves for life insurance receivable from reinsurers | **7** | – |
| Long-term reserves for health insurance receivables from reinsurers | **7** | – |
| Policy loans | **1,799** | 1,381 |
| Loans and advances to customers | **58,427** | 49,152 |
| Deposits with stock and futures exchanges | **1,139** | 334 |
| Term deposits | **43,994** | 59,107 |
| Available-for-sale financial assets | **84,307** | 63,768 |
| Held-to-maturity investments | **130,193** | 129,250 |
| Statutory deposits | **1,520** | 1,520 |
| Other assets | **2,816** | 2,728 |
| Sub-total | **470,616** | 381,354 |
| Commitment | **30,691** | 29,115 |
| **Total credit risk exposure** | **501,307** | 410,469 |

Above asset account balances are already deducted with investment -links account balance and equity investment balance.

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk *(Continued)*

#### (a) Credit risk *(Continued)*

Where financial instruments are recorded at fair value, the amounts shown above represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in fair values

***Collateral and other credit enhancements***

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters.

The main types of collateral obtained are as follows:

– for securities lending and reverse repurchase transactions, cash or securities;

– for commercial lending, charges over real estate properties, inventories and trade receivables, etc; and

– for retail lending, mortgages over residential properties, etc.

Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

It is the Group's policy to dispose of repossessed assets in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed assets for business use.

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk *(Continued)*

#### (a) Credit risk *(Continued)*

***Aging analysis of financial assets past-due***

| | (Audited) June 30, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Unimpaired financial assets past-due | | | | | |
| | In due assets | Less than 30 days | 31 to 90 days | More than 90 days | Total past-due but not impaired | Past-due and impaired | Total |
| Cash and cash equivalents | 81,277 | – | – | – | – | – | 81,277 |
| Balances with clearing companies | 1,591 | – | – | – | – | – | 1,591 |
| Placements with banks and other financial institutions | 1,100 | – | – | – | – | 64 | 1,164 |
| Premium receivables | 5,136 | 4 | 4 | 2 | 10 | 358 | 5,504 |
| Receivables from reinsurers | 2,205 | – | – | – | – | 88 | 2,293 |
| Loans and advances to customers | 57,208 | 784 | 247 | 93 | 1,124 | 600 | 58,932 |
| Deposits with stock and futures exchanges | 1,139 | – | – | – | – | – | 1,139 |
| Term deposits | 43,994 | – | – | – | – | – | 43,994 |
| Statutory deposits | 1,520 | – | – | – | – | – | 1,520 |
| Sub-total | 195,170 | 788 | 251 | 95 | 1,134 | 1,110 | 197,414 |
| Less: Impairment provision | – | – | – | – | – | (854) | (854) |
| Net | 195,170 | 788 | 251 | 95 | 1,134 | 256 | 196,560 |

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk *(Continued)*

#### (a) Credit risk *(Continued)*

***Aging analysis of financial assets past-due*** *(Continued)*

| | (Audited) December 31, 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Unimpaired financial assets past-due | | | | | |
| | In due assets | Less than 30 days | 31 to 90 days | More than 90 days | Total past-due but not impaired | Past-due and impaired | Total |
| Cash and cash equivalents | 41,583 | – | – | – | – | – | 41,583 |
| Balances with clearing companies | 875 | – | – | – | – | – | 875 |
| Placements with banks and other financial institutions | 1,727 | – | – | – | – | 376 | 2,103 |
| Premium receivables | 2,965 | 3 | 2 | 2 | 7 | 256 | 3,228 |
| Receivables from reinsurers | 795 | – | – | – | – | 55 | 850 |
| Loans and advances to customers | 47,914 | 434 | 240 | 215 | 889 | 2,780 | 51,583 |
| Deposits with stock and futures exchanges | 334 | – | – | – | – | – | 334 |
| Term deposits | 59,107 | – | – | – | – | – | 59,107 |
| Statutory deposits | 1,520 | – | – | – | – | – | 1,520 |
| Sub-total | 156,820 | 437 | 242 | 217 | 896 | 3,467 | 161,183 |
| Less: GImpairment provision | – | – | – | – | – | (3,017) | (3,017) |
| Net | 156,820 | 437 | 242 | 217 | 896 | 450 | 158,166 |

Of the aggregate amount of gross past-due but not impaired loans and advances to customers, the fair value of collateral that the Group held as at June 30, 2007 was RMB1,983 million (Audited December 31, 2006: RMB1,907 million).

Of the aggregate amount of gross past-due and impaired loans and advances to customers, the fair value of collateral that the Group held as at June 30, 2007 was RMB809 million (Audited December 31, 2006: RMB2,071 million).

***Financial assets whose terms have been renegotiated***

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Loans and advances to customers | **477** | 2,336 |

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk *(Continued)*

#### (b) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price 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 and to ensure that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis. The Group is exposed to potential liquidity risk on its banking operations. The Group seeks to manage its banking liquidity risk by optimizing the assets and liabilities structure, maintaining the stability of the deposit base, etc.

The table below summarises the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations.

# VIII. RISK MANAGEMENT *(Continued)*

## 3. Financial risk *(Continued)*

### (b) Liquidity risk *(Continued)*

| | (Audited) June 30, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Past due | Less than 3 months | 3 to 12 months | Over 1 year | Undated | Investment-linked | Total |
| Short-term borrowings | – | – | 557 | – | – | – | 557 |
| Due to banks and other financial institutions | – | 5,079 | 239 | – | – | – | 5,318 |
| Guarantee deposits | 54 | 3,862 | 1,936 | 52 | – | – | 5,904 |
| Placement from banks and other financial institutions | – | 1,871 | – | – | – | – | 1,871 |
| Derivative financial liabilities | – | 229 | 95 | 241 | – | – | 565 |
| Assets sold under agreements to repurchase | – | 21,705 | 1,100 | – | – | 78 | 22,883 |
| Customer bank deposits | – | 41,862 | 17,106 | 4,122 | – | – | 63,090 |
| Customer brokerage deposits | – | – | – | – | 9,846 | – | 9,846 |
| Premiums received in advance | – | 664 | 2 | – | – | – | 666 |
| Handling charges and commission payable | – | 1,427 | – | – | – | – | 1,427 |
| Due to reinsurers | – | 2,162 | 624 | – | – | – | 2,786 |
| Salary and welfare payable | – | 1,705 | 420 | 823 | 433 | – | 3,381 |
| Interest payable | – | 137 | 179 | 39 | – | – | 355 |
| Claim payable | – | 4,274 | – | – | – | – | 4,274 |
| Policyholder dividend payable | – | 4,771 | – | – | – | – | 4,771 |
| Policyholder deposits and investments | – | 132 | – | 368 | – | 4,445 | 4,945 |
| Long-term borrowings | – | – | – | 167 | 2,174 | – | 2,341 |
| Other liabilities | – | 1,723 | 604 | 70 | 426 | 350 | 3,173 |
| Total | 54 | 91,603 | 22,862 | 5,882 | 12,879 | 4,873 | 138,153 |

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk *(Continued)*

#### (b) Liquidity risk *(Continued)*

| | (Audited) December 31, 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Past due | Less than 3 months | 3 to 12 months | Over 1 year | Undated | Investment-linked | Total |
| Short-term borrowings | – | – | 527 | – | – | – | 527 |
| Due to banks and other financial institutions | – | 3,234 | 231 | – | – | – | 3,465 |
| Guarantee deposits | – | 3,991 | 1,519 | 52 | – | – | 5,562 |
| Placement from banks and other financial institutions | – | 992 | – | – | – | – | 992 |
| Derivative financial liabilities | – | 19 | 119 | 286 | – | – | 424 |
| Assets sold under agreements to repurchase | – | 11,770 | 1,172 | 494 | – | 1,137 | 14,573 |
| Customer bank deposits | – | 53,850 | 9,637 | 4,036 | – | – | 67,523 |
| Customer brokerage deposits | – | – | – | – | 3,750 | – | 3,750 |
| Premiums received in advance | – | 1,352 | – | – | – | – | 1,352 |
| Handling charges and commission payable | – | 894 | – | – | – | – | 894 |
| Due to reinsurers | – | 512 | 234 | – | – | – | 746 |
| Salary and welfare | – | 1,077 | 172 | 543 | 341 | – | 2,133 |
| Interest payable | – | 131 | 118 | 38 | – | – | 287 |
| Claim payable | – | 3,981 | – | – | – | – | 3,981 |
| Policyholder dividend payable | – | 4,107 | – | – | – | – | 4,107 |
| Policyholder deposits and investments | – | 58 | – | 242 | – | 3,749 | 4,049 |
| Long-term borrowings | – | – | – | 155 | – | – | 155 |
| Other liabilities | – | 549 | 181 | 118 | 915 | 208 | 1,971 |
| Total | – | 86,517 | 13,910 | 5,964 | 5,006 | 5,094 | 116,491 |

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk *(Continued)*

#### (b) Liquidity risk *(Continued)*

The table below summarises the maturity profile of the notional amount of derivative financial liabilities of the Group based on remaining contractual obligations (H-share).

| | Less than 3 months | 3 to 12 months | Over 1 year | Undated | Investment-linked | Total |
|---|---|---|---|---|---|---|
| **June 30, 2007 (Audited)** | **754** | **430** | **1,039** | **–** | **–** | **2,223** |
| December 31, 2006 (Audited) | 327 | 865 | 1,015 | – | – | 2,207 |

The table below summarises the expected recovery or settlement of assets.

| | (Audited) June 30, 2007 | | | |
|---|---|---|---|---|
| | **Current*** | **Non-current** | **Investment-linked** | **Total** |
| Cash on hand and at bank | **73,719** | **7,558** | **2,512** | **83,789** |
| Balances with clearing companies | **1,591** | **–** | **–** | **1,591** |
| Precious metal | **1** | **–** | **–** | **1** |
| Placement with banks and other financial institutions | **1,101** | **–** | **–** | **1,101** |
| Held-for-trading financial assets | **52,513** | **–** | **20,923** | **73,436** |
| Derivative financial assets | **9** | **7** | **–** | **16** |
| Assets purchased under agreements to repurchase | **11,148** | **–** | **1,706** | **12,854** |
| Interest receivables | **4,515** | **–** | **201** | **4,716** |
| Premium receivables | **5,209** | **98** | **–** | **5,307** |
| Due from reinsurers | **2,108** | **97** | **–** | **2,205** |
| Unearned premium reserves receivable from reinsurers | **1,893** | **1,155** | **–** | **3,048** |
| Claim reserves receivable from reinsurers | **1,401** | **657** | **–** | **2,058** |
| Policyholders' reserves for life insurance receivable from reinsurers | **7** | **–** | **–** | **7** |
| Long-term reserves for health insurance receivable from reinsurers | **7** | **–** | **–** | **7** |

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk *(Continued)*

#### (b) Liquidity risk *(Continued)*

| | (Audited) June 30, 2007 | | | |
|---|---|---|---|---|
| | Current* | Non-current | Investment-linked | Total |
| Policy loans | 1,799 | – | – | 1,799 |
| Loans and advances to customers | 35,326 | 23,101 | – | 58,427 |
| Deposits with stocks and future exchanges | 1,139 | – | – | 1,139 |
| Term deposits | 15,034 | 28,960 | 6,509 | 50,503 |
| Available-for-sale financial assets | 21,327 | 111,116 | – | 132,443 |
| Held-to-maturity investments | 3,046 | 127,147 | – | 130,193 |
| Long-term equity investments | – | 211 | – | 211 |
| Goodwill | – | 475 | – | 475 |
| Statutory deposits | – | 1,520 | – | 1,520 |
| Investments properties | – | 3,789 | – | 3,789 |
| Fixed assets | – | 6,839 | – | 6,839 |
| Intangible assets | – | 922 | – | 922 |
| Deferred tax assets | – | 592 | – | 592 |
| Other assets | 1,792 | 2,324 | 39 | 4,155 |
| Total assets | 234,685 | 316,568 | 31,890 | 583,143 |

* Expected recovery or settlement within 12 months from the balance sheet date.

## VIII. RISK MANAGEMENT *(Continued)*

### 3. Financial risk *(Continued)*

#### (b) Liquidity risk *(Continued)*

| | (Audited) December 31, 2006 | | | |
|---|---|---|---|---|
| | Current* | Non-current | Investment-linked | Total |
| Cash on hand and at bank | 35,796 | 5,787 | 1,002 | 42,585 |
| Balances with clearing companies | 875 | – | – | 875 |
| Precious metal | 111 | – | – | 111 |
| Placement with banks and other financial institutions | 1,727 | – | – | 1,727 |
| Held-for-trading financial assets | 26,823 | – | 17,180 | 44,003 |
| Derivative financial assets | 10 | 11 | – | 21 |
| Assets purchased under agreements to repurchase | 6,951 | – | 300 | 7,251 |
| Interest receivables | 3,208 | – | 41 | 3,249 |
| Premium receivables | 3,000 | 73 | – | 3,073 |
| Due from reinsurers | 746 | 49 | – | 795 |
| Unearned premium reserves receivable from reinsurers | 1,475 | 962 | – | 2,437 |
| Claim reserves receivable from reinsurers | 1,220 | 504 | – | 1,724 |
| Policy loans | 1,381 | – | – | 1,381 |
| Loans and advances to customers | 27,886 | 21,266 | – | 49,152 |
| Deposits with sticks and future exchanges | 334 | – | – | 334 |
| Term deposits | 26,609 | 32,498 | 6,309 | 65,416 |
| Available-for-sale financial assets | 744 | 94,456 | – | 95,200 |
| Held-to-maturity investments | 1,845 | 127,405 | – | 129,250 |
| Long-term equity investments | – | 415 | – | 415 |
| Goodwill | – | 409 | – | 409 |
| Statutory deposits | – | 1,520 | – | 1,520 |
| Investments properties | – | 1,660 | – | 1,660 |
| Fixed assets | – | 4,552 | – | 4,552 |
| Intangible assets | – | 940 | – | 940 |
| Deferred tax assets | – | 888 | – | 888 |
| Other assets | 2,579 | 1,641 | 100 | 4,320 |
| Total assets | 143,320 | 295,036 | 24,932 | 463,288 |

* Expected recovery or settlement within 12 months from the balance sheet date.

*June 30, 2007*
*(in RMB million)*

## VIII. RISK MANAGEMENT *(Continued)*

### 4. 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. In the current regulatory and market environment, however, 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. When the current regulatory and market environment permits, however, the Group will 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.

### 5. 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.

## IX. RELATED PARTY RELATIONSHIP AND TRANSACTION

### 1. Related party relationship

**(1) Related parties with control relationship**

The Company's related parties where control exists are mainly subsidiaries of the Company. For details, please refer to Note V.

**(2) Related parties without control relationship**

| Name of related parties | Relationship with the Company |
|---|---|
| HSBC Holdings Limited ("HSBC Holdings") | Parent of shareholder |
| HSBC Insurance Holdings Limited ("HSBC Insurance") | Shareholder |
| The Honkong and Shanghai Banking Corporation Limited ("HSBC") | Shareholder |

In late August 2005, HSBC Holdings through its wholly owned subsidiaries, HSBC Insurance and HSBC, held 19.90% of the Company's share. Since then, HSBC Holdings and its subsidiaries became the Company's related parties with significant influence over the Group. As at June 30, 2007, HSBC Holdings holds 16.79% share of the Company through its subsidiaries.

**(3) Shareholders who hold more than 5% shares of the Company as at June 30, 2007 are as follows:**

| Name of the shareholders | Number of Shares Held | Type of Shares | Percentage of Total Shares (%) |
|---|---|---|---|
| HSBC Insurance Holdings Limited | 618,886,334 | H-Share | 8.43% |
| The Hongkong and Shanghai Banking Company Limited | 613,929,279 | H-Share | 8.36% |
| Shenzhen Investment Holdings Co., Ltd. | 543,181,445 | Non-tradable A-Share | 7.40% |
| Shenzhen New Horse Investment Development Co., Ltd. | 389,592,366 | Non-tradable A-Share | 5.30% |
| Yuan Trust Investment Co., Ltd. | 380,000,000 | Non-tradable A-Share | 5.17% |

*June 30, 2007*
*(in RMB million)*

## IX. RELATED PARTY RELATIONSHIP AND TRANSACTION *(Continued)*

### 2. Related parties transactions

**(1) Significant transactions with related parties**

Interest income earned by the Group from HSBC:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| HSBC | **6** | 10 |

**(2) Balances with related parties**

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| HSBC | **235** | 710 |

**(3) Compensation for key management personnel is as below:**

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Salaries and other short-term employee benefits | **53** | 42 |

Key management personnel comprise the Company's directors, supervisors and senior officers as defined in the Company's articles of association. The compensation expenses for share appreciation rights granted to (Note VI, 54) key management personnel are not included in the above analysis. As at June 30, 2007, the cumulative number of units in share appreciation rights granted to key management personnel is 20 million (audited December 31, 2006: 20 million). The related expense in respect of share appreciation rights granted to key management personnel recognized in current income statement is RMB226 million (unaudited six months ended June 30, 2006: RMB79 million).

## X. FIDUCIARY BUSINESS

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Net assets under trust scheme | **28,676** | 16,677 |
| Net assets under corporate annuity scheme | **1,198** | 634 |
| Entrusted loans | **1,931** | 2,120 |
| Total | **31,805** | 19,431 |

## XI. CONTINGENCES

### 1. Guarantee

Ping An Real Estate provided guarantees for several loans under trust schemes managed by Ping An Trust. As at June 30, 2007, guarantees provided amount to RMB160 million (audited December 31, 2006: RMB426 million).

### 2. Litigation

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. The adverse effect of above mentioned events mostly involve claims on the Group's insurance policies and other claims. Provision has been made for the probable losses to the Group, where management can reasonably estimate the outcome of the lawsuits taking into account of any legal advice.

No provision has been made for pending lawsuits or possible violations of contracts when the outcome cannot be reasonably estimated or management believes the probability of losing the lawsuit 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.

*June 30, 2007*
*(in RMB million)*

## XII. COMMITMENTS

### 1. Capital commitments

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

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Contracted, but not provided for | **5,947** | 3,431 |
| Authorized, but not contracted for | **1,036** | 1,182 |
| Total | **6,983** | 4,613 |

### 2. Rental commitments

Future minimum rent payables under non-cancelable operating leases are as follows:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Within 1 year (1 year included) | **491** | 453 |
| 1-2 years (2 years included) | **337** | 306 |
| 2-3 years (3 years included) | **213** | 197 |
| More than 3 years | **216** | 211 |
| Total | **1,257** | 1,167 |

### 3. Credit commitments

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Loan commitment | | |
| Original maturities within 1 year | **2,977** | 5,565 |
| Original maturities more than one year and above | **9,974** | 7,258 |
| Letter of credit issued | **652** | 734 |
| Acceptance issued | **7,404** | 6,536 |
| Guarantee issued | **9,680** | 9,017 |
| Others | **4** | 5 |
| Total | **30,691** | 29,115 |

## XIII. POST BALANCE SHEET EVENTS

1. As of July 20, 2007, the Group has acquired 30% shares of Shanxi Taichang Highway Ltd., 60% shares of Shanxi Changjin Highway Ltd. and 60% shares of Shanxi Jiaojin Highway Ltd. through Ping An Trust. The cost for the above acquisitions amount to RMB2.3 billion.

2. On August 16, 2007, the board of directors of the Group proposed an interim dividend of RMB0.20 per share totaling RMB1,469 million to be paid for the half year ended June 30, 2007.

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY

### 1. Cash on hand and at bank

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Cash on hand | **1** | – |
| Cash at bank | **44,342** | 3,139 |
| Other monetary funds | **115** | – |
| Total | **44,458** | 3,139 |

### 2. Held-for-trading financial assets

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Bonds | | |
| Government Bonds | **24** | 24 |
| Financial Bonds | **1,291** | 498 |
| Corporate Bonds | **1,211** | 2,889 |
| Equity instruments | | |
| Funds | **301** | 417 |
| Stocks | **2,491** | 1,630 |
| Total | **5,318** | 5,458 |

### 3. Term deposits

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Less than 3 months (including 3 months) | **100** | 50 |
| 3 months - 1 year (including 1 year) | **300** | 501 |
| More than 5 years | **48** | 225 |
| Total | **448** | 776 |

*June 30, 2007*
*(in RMB million)*

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 4. Available-for-sale financial assets

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Bonds | | |
| Government Bonds | **2,002** | 1,159 |
| Financial Bonds | **782** | 786 |
| Corporate Bonds | **212** | 103 |
| Equity instruments | | |
| Funds | **656** | 22 |
| Stocks | **1,803** | 2,157 |
| Total | **5,455** | 4,227 |

Terms of bonds which were classified as available-for-sale financial assets are as follows:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Less than 3 months (including 3 months) | **–** | 61 |
| 3 months - 1 year (including 1 year) | **1,015** | 349 |
| 1-2 years (including 2 years) | **510** | 1,154 |
| 2-3 years (including 3 years) | **480** | 412 |
| 4-5 years (including 5 years) | **962** | 42 |
| More than 5 years | **29** | 30 |
| Total | **2,996** | 2,048 |

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 5. Long-term equity investments

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Ping An Life | **3,762** | 3,762 |
| Ping An Property & Casualty | **2,973** | 2,973 |
| Ping An Trust | **4,216** | 4,216 |
| Shenzhen Ping An Bank | **4,916** | 4,916 |
| Ping An Overseas Holdings | **561** | 561 |
| Ping An Annuity | **485** | 285 |
| Ping An Health | **475** | 475 |
| Ping An Assets Management | **180** | 180 |
| Total | **17,568** | 17,368 |

### 6. Deferred tax liabilities

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Changes in fair values of financial assets | **341** | 172 |
| Share appreciation rights | **(171)** | (79) |
| Total | **170** | 93 |

### 7. Placements from banks and other financial institutions

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Due from Bank | **1,416** | 820 |
| Due from other financial institutions | **335** | – |
| Total | **1,751** | 820 |

*June 30, 2007*
*(in RMB million)*

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 8. Salary and welfare payable

| | (Audited) For the six months ended June 30, 2007 | | | |
|---|---|---|---|---|
| | **Beginning of period** | **Accruals** | **Payments** | **End of period** |
| Salary, bonus, allowance | **44** | **115** | **(115)** | **44** |
| Staff welfare | **25** | **–** | **(5)** | **20** |
| Social insurance | **–** | **4** | **(1)** | **3** |
| Labor union fund and employee education fund | **9** | **37** | **(3)** | **43** |
| Shares paid by cash | **508** | **272** | **–** | **780** |
| Total | **586** | **428** | **(124)** | **890** |

### 9. Taxes payable

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Corporate income tax | **120** | 51 |
| Business tax | **23** | 20 |
| Others | **36** | 4 |
| Total | **179** | 75 |

### 10. Capital reserves

| | | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|---|
| Share premium | *(1)* | **51,907** | 14,835 |
| Fair value of financial assets | | **207** | 585 |
| Other capital reserves | *(2)* | **311** | 311 |
| Total | | **52,425** | 15,731 |

(1) The share premium was due to the initial public offering of A shares and H shares.

(2) The Company arranged for a revaluation of its life insurance and property and casualty insurance business prior to its asset contributions into Ping An Life and Ping An Property & Casualty. In accordance with asset valuation reports Zhonghuapingbaozi [2002] No.039 and [2002] No.038 issued by Chinese Finance Appraisal Co., Ltd., the net valuation surplus amounted to RMB311 million.

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 11. Investment income

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Interest income | **97** | 250 |
| Bonds | **84** | 26 |
| Available-for-sale | **38** | 23 |
| At fair value through profit or loss | **46** | 3 |
| Term deposits | **10** | 224 |
| Loans and receivables | **10** | 224 |
| Others | **3** | – |
| Loans and receivables | **3** | – |
| Dividend income | **3,760** | 4,940 |
| Funds | **297** | – |
| Available-for-sale | **73** | – |
| At fair value through profit or loss | **224** | – |
| Equity investments | **3,463** | 4,940 |
| Long-term equity investment | **3,386** | 4,934 |
| Available-for-sale financial assets | **68** | 6 |
| At fair value through profit or loss | **9** | – |
| Realized gains | **1,054** | 26 |
| Bonds | **23** | 3 |
| At fair value through profit or loss | **23** | 3 |
| Funds | **60** | 17 |
| Available-for-sale | **96** | 17 |
| At fair value through profit or loss | **(36)** | – |
| Stocks | **971** | 6 |
| Available-for-sale | **29** | – |
| At fair value through profit or loss | **942** | 6 |
| Interest expenses on assets sold under agreements to repurchase | **(33)** | (3) |
| Total | **4,878** | 5,213 |

*June 30, 2007*
*(in RMB million)*

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 12. Gains from changes in fair values

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Held-for-trading financial instruments | | |
| Bonds | **(111)** | 16 |
| Funds | **(21)** | – |
| Stocks | **491** | 53 |
| Total | **359** | 69 |

### 13. Business tax and surcharges

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Business tax | **52** | 3 |
| City maintenance and construction tax | **1** | – |
| Education surcharges | **1** | – |
| Total | **54** | 3 |

### 14. General and administrative expenses

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Salaries and welfare | **115** | 88 |
| Social insurance | **4** | 4 |
| Depreciation of fixed assets | **7** | 4 |
| Amortization of intangible assets | **3** | 2 |

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 15. Income taxes

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Current income tax | **141** | 27 |
| Deferred income tax | **38** | 11 |
| Total | **179** | 38 |

The relationship between the Company's income tax expenses and accounting profit is as follows:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| Profit before tax | **4,783** | 5,039 |
| Tax computed at the applicable tax rate of 15% | **717** | 756 |
| Tax effect of change in tax rate | **68** | – |
| Tax effect of expenses not deductible in determining taxable income | **41** | 18 |
| Tax effect of income not taxable in determining taxable income | **(647)** | (736) |
| Total | **179** | 38 |

*June 30, 2007*
*(in RMB million)*

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 16. Notes to Cash Flow Statements

| | | (Audited) For the six months ended June 30, 2007 | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|---|
| (1) | **Reconciliation of net profit to cash flows from operating activities:** | | |
| | Net profit | **4,604** | 5,001 |
| | Add: | | |
| | Depreciation of fixed assets | **7** | 4 |
| | Amortization of intangible assets | **3** | 2 |
| | Amortization of long-term deferred expenses | **1** | 1 |
| | Gains from changes in fair value | **(359)** | (69) |
| | Investment income | **(4,878)** | (5,213) |
| | Foreign exchange losses | **25** | 5 |
| | Increase in deferred income tax liabilities | **39** | 6 |
| | Decrease/(increase) in operating receivables | **96** | (64) |
| | Increase in operating payables | **227** | 167 |
| | Net cash flows from operating activities | **(235)** | (160) |
| (2) | **Net increase in cash and cash equivalents:** | | |
| | Cash at end of period | **44,458** | 334 |
| | Less: Cash at beginning of period | **(3,139)** | (120) |
| | Add: Cash equivalents at end of period | **1,305** | 28 |
| | Less: Cash equivalents at beginning of period | **(309)** | (2,517) |
| | Net increase in cash and cash equivalents | **42,315** | (2,275) |

# XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

## 16. Notes to Cash Flow Statements *(Continued)*

### (3) Cash and cash equivalents

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| **Cash** | | |
| Cash on hand | **1** | – |
| Cash at bank readily available for payments | **44,342** | 3,139 |
| Other monetary funds readily available for payments | **115** | – |
| Subtotal | **44,458** | 3,139 |
| **Cash equivalents** | | |
| Bonds within 3 months | **1,293** | 299 |
| Money market fund | **12** | 10 |
| Subtotal | **1,305** | 309 |
| Cash and cash equivalents at end of year/period | **45,763** | 3,448 |

*June 30, 2007*
*(in RMB million)*

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 17. Related party transactions

(1) Related party transactions between the Company and the subsidiaries of the Company for the current period are as follows:

| | **(Audited) For the six months ended June 30, 2007** | (Unaudited) For the six months ended June 30, 2006 |
|---|---|---|
| **Interest income from bank deposits** | | |
| Shenzhen Ping An Bank | **96** | – |
| Ping An Bank | **3** | 2 |
| Ping An Securities | **1** | – |
| Total | **100** | 2 |
| **Interest expense of placement** | | |
| Ping An Property and Casualty | **5** | – |
| Ping An Life | **4** | – |
| Total | **9** | – |
| **Asset management fees** | | |
| Ping An Asset Management | **2** | 1 |
| **Property management Fees** | | |
| Ping An Property | **7** | – |
| **Membership fees** | | |
| Ping An Securities | **1** | – |
| **Dividend income** | | |
| Ping An Property and Casualty | **–** | 570 |
| Ping An Life | **3,386** | 4,364 |

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 17. Related party transactions *(Continued)*

(2) Balances with the subsidiaries of the Company:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| **Bank deposits** | | |
| Shenzhen Ping An Bank | **38,362** | – |
| Ping An Bank | **802** | 801 |
| Total | **39,164** | 801 |
| **Placement** | | |
| Ping An Life | **152** | – |
| Ping An Property and Casualty | **183** | – |
| Total | **335** | – |
| **Margin deposits** | | |
| Ping An Securities | **115** | 2 |
| **Other receivables** | | |
| Ping An Annuity | **–** | 200 |
| Ping An Asset Managment | **300** | – |
| Shenzhen Ping An Bank | **10** | – |
| Total | **310** | 200 |
| **Other payables** | | |
| Ping An Life | **13** | 3 |
| Ping An Property and Casualty | **–** | 1 |
| Ping An Securities | **–** | 1 |
| Ping An Overseas Holdings | **2** | – |
| Total | **15** | 5 |

*June 30, 2007*
*(in RMB million)*

## XIV. NOTES TO FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

### 17. Related party transactions *(Continued)*

(3) Guarantees provided by the Company to its subsidiaries:

| | **(Audited) June 30, 2007** | (Audited) December 31, 2006 |
|---|---|---|
| Ping An Securities | **800** | 800 |
| Ping An Trust | **300** | 300 |
| Ping An Overseas Holdings | **487** | 500 |
| Total | **1,587** | 1,600 |

## XV. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to current period's presentation.

## XVI. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved by the Company's board of directors on August 16, 2007.

## 1. RECONCILIATION OF GAAP DIFFERENCES BETWEEN PRC ACCOUNTING STANDARDS AND IFRS

The material GAAP differences between PRC Accounting Standards and IFRS in preparing financial statements are as follows:

| **Consolidated net profit** | *Notes* | **(Audited) For the six months ended June 30, 2007 in RMB million** | (Unaudited) For the six months ended June 30, 2006 in RMB million |
|---|---|---|---|
| Financial statements prepared in accordance with PRC Accounting Standards | | **8,063** | 3,945 |
| Unearned premium reserves | *(i)* | **(86)** | (102) |
| Policyholders' reserves | *(ii)* | **(2,106)** | (2,249) |
| Deferred policy acquisition costs | *(iii)* | **4,136** | 2,611 |
| Deferred tax | *(iv)* | **(301)** | (136) |
| Minority interests and others | | **(16)** | 30 |
| Financial statements prepared in accordance with IFRS | | **9,690** | 4,099 |

| **Consolidated equity** | *Notes* | **(Audited) June 30, 2007 in RMB million** | (Audited) December 31, 2006 in RMB million |
|---|---|---|---|
| Financial statements prepared in accordance with PRC Accounting Standards | | **93,396** | 45,260 |
| Unearned premium reserves | *(i)* | **–** | 86 |
| Policyholders' reserves | *(ii)* | **(32,380)** | (30,023) |
| Deferred policy acquisition costs | *(iii)* | **36,069** | 31,866 |
| Deferred tax | *(iv)* | **(966)** | (687) |
| Minority Interests and others | | **(86)** | (127) |
| Financial statements prepared in accordance with IFRS | | **96,033** | 46,375 |

Minority interests have been deducted from the above amounts.

*Notes:*

(i) Under PRC Accounting Standards, unearned premium reserves of life insurance businesses should be no less than 50% of the net premium for the current period. Under IFRS, unearned premium reserves are provided using actuarial valuation results (1/365 method).

(ii) Under PRC Accounting Standards, policyholders' reserves are provided in accordance with related actuarial regulations released by CIRC. Under IFRS, policyholders' reserves are provided in accordance with IFRS 4 Insurance Contracts and by reference to US GAAP.

(iii) Under PRC Accounting Standards, handling costs and commission expenses of acquiring new policies are recognized in the income statement when incurred. Under IFRS, handling costs and commission expenses of acquiring new policies are deferred and amortized by category in proportion to expected premiums over the life of this insurance contracts or the present value of estimated gross profits expected to be realized over the life of the insurance contracts, in accordance with IFRS 4 Insurance Contracts and by reference to US GAAP.

(iv) The above differences between PRC Accounting Standards and IFRS are temporary differences in accordance with IAS 12 Income Taxes. The Group recognizes deferred tax assets on the basis of the above differences and the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

## 2 RECONCILIATION STATEMENTS FOR THE PROFIT AND LOSS DIFFERENCES BETWEEN NEW AND OLD PRC ACCOUNTING STANDARDS

The Company is listed in both the A and H share stock market and needs to prepare financial statements using PRC GAAP and International Financial Reporting Standards for investors of both markets. In accordance with the ASBE No. 38 – First-Time Adoption of ASBE and Experts' Opinions on Implementation of ASBE Issued by the Ministry of Finance on February 1, 2007, the Group has restated its comparative figures retrospectively as a result of the change in accounting policies and consistently applied the accounting policies for the accounting periods covered by this financial statements.

In accordance with Question and Answer No.7 Regarding the Rules on Information Disclosure for Companies that Public Offer Securities – Compilation and Disclosure of Comparative Financial and Accounting Information During the Transition Period between the New and Old Accounting Standards (Zheng Jian Kuai Ji Zi [2007] Num.10) issued by the China Securities Regulatory Commission (the "CSRC") on February 25, 2007, the Group prepared the reconciliation statements for the profit and loss differences between New and Old PRC accounting standards to show the impact of the restatements on the Group's profit and loss statement for the period ended June 30, 2006.

| Details (in RMB million) | (Unaudited) Amount |
|---|---|
| Net profit for the six months ended June 30, 2006( Old GAAP) | 2,670 |
| Goodwill | 20 |
| Financial assets | 1,730 |
| Claim reserves | (337) |
| Land use right | (7) |
| Deferred income tax | (119) |
| Changes in presentation of minority interests | (12) |
| Net profit for the six months ended June 30, 2006( New GAAP) | 3,945 |

Minority interests have been deducted from the above net profits.

## DISCLOSURE OF INTERESTS

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

As at June 30, 2007, the following persons (other than the Directors and Supervisors of the Company) had interests or short positions in the shares or underlying 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"):

1. 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/A shares | Capacity | Notes | No. of H/A shares | Nature of interest | Percentage of total number of H/A 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 | 16.79 |

2. Interests and short positions of other substantial shareholders

| Name of substantial shareholder | H/A shares | Capacity | Notes | No. of H/A shares | Nature of interest | Percentage of total number of H/A shares in issue (%) | Percentage of total shares in issue (%) |
|---|---|---|---|---|---|---|---|
| HSBC Insurance Holdings Limited | H | Beneficial owner | 1 | 618,886,334 | Long position | 24.19 | 8.43 |
| The Hongkong and Shanghai Banking Corporation Limited | H | Beneficial owner | 3 | 614,099,279 | Long position | 24.00 | 8.36 |
| Shenzhen Investment Holdings Co., Ltd. | A | Beneficial owner | | 543,181,445 | Long position | 11.35 | 7.40 |

| Name of substantial shareholder | H/A shares | Capacity | Notes | No. of H/A shares | Nature of interest | Percentage of total number of H/A shares in issue (%) | Percentage of total shares in issue (%) |
|---|---|---|---|---|---|---|---|
| Shenzhen Jingao Industrial Development Co., Ltd. | A | Beneficial owner | 4 | 331,117,788 | Long position | 6.92 | 4.51 |
| Ping An Securities Company, Ltd. Labor Union | A | Interest of controlled corporations | 4 | 331,117,788 | Long position | 6.92 | 4.51 |
| China Ping An Trust & Investment Co., Ltd. Labor Union | A | Interest of controlled corporations | 4 | 331,117,788 | Long position | 6.92 | 4.51 |
| Shenzhen New Horse Investment Development Co., Ltd | A | Beneficial owner | 5 | 389,592,366 | Long position | 8.14 | 5.30 |
| Ping An Insurance (Group) Company of China, Ltd. Labor Union | A | Interest of controlled corporations | 5 | 389,592,366 | Long position | 8.14 | 5.30 |
| Yuan Trust Investment Company Ltd. | A | Beneficial owner | | 380,000,000 | Long position | 7.94 | 5.17 |
| Shenzhen Shum Yip Investment Development Company Ltd. | A | Beneficial owner | | 301,585,684 | Long position | 6.30 | 4.11 |

*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. The interest in 884,775 shares of the Company was held through cash settled unlisted securities.

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 331,117,788 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.

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, 2007 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## Interest in other members of the Group

As at June 30, 2007, as far as the Company is aware, the following person, not being a Director or Supervisors of the Company, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group:

| Name of Group member | Name of shareholder | Percentage of shareholding |
|---|---|---|
| China Ping An Insurance (Hong Kong) Company Limited | Industrial and Commercial Bank of China (Asia) Limited | 25% |

### Interests and short positions of directors and supervisors

As at June 30, 2007, the interests and short positions of the Directors and Supervisors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and Supervisors of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules"), were as follows:

| Name | Position | H/A shares | Capacity | No. of H/A shares | Nature of interest | Percentage of total number of H/A shares in issue (%) | Percentage of total shares in issue (%) |
|---|---|---|---|---|---|---|---|
| Cheung Chi Yan Louis | Executive Director | H | Beneficial owner | 248,000 | Long position | 0.01 | 0.003 |
| Lin Li | Supervisor | A | Interest of controlled corporations* | 176,000,000 | Long position | 3.68 | 2.40 |

* 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, 2007, 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, 2007 to June 30, 2007.

## 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, which involves regular reviews of the internal controls of various corporate structures and business processes on a continuous basis, and takes into account their respective potential risk and urgency, 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 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 the work of these Board committees were set out under the paragraph headed "Board Committees" in the Corporate Governance Report on pages 39 to 41 of the Company's 2006 annual report issued on April 19, 2007.

## COMPLIANCE WITH THE CODE ON 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, 2007 to June 30, 2007 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.

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. However, the Board is of the opinion that Board decisions are not decisions of the Chairman of the Board alone but are nevertheless collective decisions of all Directors made by way of voting. 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, protect shareholders' rights. The Company therefore does not currently intend to separate the roles of the Chairman of the Board of Directors and the Chief Executive Officer of the Company.

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 36 to 37 of the Company's 2006 annual report issued on April 19, 2007.

## 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, 2007 to June 30, 2007.

## INTERIM DIVIDEND

The Board declared that an interim dividend of RMB0.20 (equivalent to HK$0.2065) per share for the six months ended June 30, 2007 be paid to shareholders whose names are on the Company's registers of members on September 4, 2007.

According to the Articles of Association of the Company, dividends will be denominated and declared in Renminbi. Dividends on A 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 (RMB0.9687 equivalent to HK$1.00).

In order to determine the list of holders of H shares who are entitled to receive the interim dividend for the period ended June 30, 2007, the Company's register of members of H shares will be closed from Thursday, August 30, 2007 to Tuesday, September 4, 2007, both days inclusive, during which period no transfer of H 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 4:30 p.m. on Wednesday, August 29, 2007. 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 registration date and arrangements in relation to the rights of holders of A shares to receive the interim dividend for the period ended June 30, 2007 will be separately announced in the PRC.

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 7, 2007 to holders of H Shares whose names appear on the registers of members of the Company on September 4, 2007 by ordinary post at their own risk.

## DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE AND THE COMPANY'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) and the website of the Company (http://www.pingan.com.cn) respectively in due course.

By Order of the Board of Directors

**Ma Mingzhe**
*Chairman and Chief Executive Officer*

Shenzhen, PRC
August 16, 2007

# 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 AND STOCK CODE

| | |
|---|---|
| H share | The Stock Exchange of Hong Kong Limited (stock code 2318) |
| A share | The Shanghai Stock Exchange (stock code 601318) |

## 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

www.pingan.com.cn

## E-MAIL

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