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Cautionary Statements Regarding Forward-Looking Statements

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

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

Section I Important Notes and Definitions

The Board of Directors, the Supervisory Committee and the directors, supervisors and senior management of the Company undertake that there are no misrepresentation, misleading statement, or material omission contained in the Report and accept joint and several responsibility for the authenticity, accuracy and completeness of the contents of the Report.

The Interim Report 2007 and its summary have been considered and passed at the fourteenth meeting of the seventh Board of Directors of the Company on August 16, 2007. The Board meeting should be attended by 19 directors. 15 directors attended in person and 4 directors attended by proxy. (Mr. HU Aimin and Mr. CHEN Hongbo appointed Mr. MA Mingzhe, as their proxies to attend the meeting and vote, Mr. WONG Tung Shun Peter appointed Mr. NG Sing Yip, as his proxy attend the meeting and vote, Mr. FAN Gang appointed Ms. LIN Lijun as his proxy to attend the meeting and vote).

Ernst & Young Hua Ming has audited the interim financial statements of the Company and has issued a standard unqualified auditor's opinion.

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

Mr. MA Mingzhe, Chairman and Chief Executive Officer, Mr. CHEUNG Chi Yan Louis, President and Chief Financial Officer, and Mr. MAK, Wai Lam William, Deputy Chief Financial Officer, confirm the authenticity and completeness of the financial statement in the Interim Report.

DEFINITION

In this report, unless the context otherwise indicated, the following expressions shall have the following meanings:

Company, the Company, Group, the Group	Ping An Insurance (Group) Company of China, Ltd.
Ping An Life	Ping An Life Insurance Company of China, Ltd., a subsidiary of the Company
Ping An Property & Casualty	Ping An Property & Casualty Insurance Company of China, Ltd., a subsidiary of the Company
Ping An Health	Ping An Health Insurance Company of China, Ltd., a subsidiary of the Company
Ping An Annuity	Ping An Annuity Insurance Company of China, Ltd., a subsidiary of the Company
Ping An Trust	China Ping An Trust & Investment Co., Ltd., a subsidiary of the Company
Ping An Securities	Ping An Securities Company, Ltd., a subsidiary of Ping An Trust
Ping An Asset Management	Ping An Asset Management Co., Ltd., a subsidiary of the Company
Shenzhen Ping An Bank	Shenzhen Ping An Bank Co., Ltd., a subsidiary of the Company
Shenzhen Commercial Bank, SZCB	Shenzhen Commercial Bank Co., Ltd., renamed as Shenzhen Ping An Bank after merger with Ping An Bank
Ping An Bank	Ping An Bank Limited
Ping An Overseas Holdings	China Ping An Insurance Overseas (Holdings) Limited, a subsidiary of the Company
Ping An Hong Kong	China Ping An Insurance (Hong Kong) Company Limited, a subsidiary of Ping An Overseas Holdings
Ping An Asset Management (Hong Kong)	Ping An of China Asset Management (Hong Kong) Company Limited, a subsidiary of Ping An Overseas Holdings
PRC Accounting Standards	the Accounting Standards for Business Enterprises and the other relevant regulations issued by the Ministry of Finance of the People's Republic of China
IFRS	International Financial Reporting Standards issued by International Accounting Standards Board
CSRC	China Securities Regulatory Commission
CIRC	China Insurance Regulatory Commission
CBRC	China Banking Regulatory Commission
Interim Report	half yearly report of the Company

Section II Basic Corporate Information

I. CORPORATE INFORMATION

1.	Registered Chinese name:	中国平安保险(集团)股份有限公司
	Chinese abbreviation:	中国平安
	Registered English name:	Ping An Insurance (Group) Company of China, Ltd.
	English abbreviation:	Ping An of China
2.	Legal representative:	Ma Mingzhe
3.	Secretary of the Board of Directors:	Sun Jianyi
	Securities Affairs Representative:	Zhou Qiang
	Telephone:	4008866338
	Fax:	0755-82431029
	E-mail:	ir@pingan.com.cn; pr@pingan.com.cn
	Contact address:	Ping An Building, Ba Gua No. 3 Road, Shenzhen, PRC
4.	Registered address:	Ping An Building, Ba Gua No. 3 Road, Shenzhen, PRC
	Office address:	Ping An Building, Ba Gua No. 3 Road, Shenzhen, PRC
	Postcode:	518029
	Website:	http://www.pingan.com.cn
	E-mail address:	ir@pingan.com.cn; pr@pingan.com.cn
5.	Name of designated newspapers for information disclosure:	China Securities Journal Shanghai Securities News Securities Times
	Website appointed by CSRC for publishing Interim Report of the Company:	http://www.sse.com.cn
	Place available for inspection of Interim Report:	the office of the Board of Directors of the Company
6.	Stock Exchange of listing (A Shares):	Shanghai Stock Exchange
	Stock abbreviation (A Shares):	中国平安(Ping An of China)
	Stock code (A Share):	601318
	Stock Exchange of listing (H Shares):	The Stock Exchange of Hong Kong Limited
	Stock abbreviation (H Shares):	中国平安(Ping An of China)
	Stock code (H Share):	2318

7. Other relevant information

First registration date:	March 21, 1988
Registration office:	State Administration for Industry & Commerce of the PRC
Business license registration number:	1000001001231
Taxation registration number:	Guo Shui Shen Zi No. 440301100012316; Shen Di Shui Zi No. 440300100012316
Accountant (domestic):	Ernst & Young Hua Ming
Address of accountant (domestic):	16th Floor, Ernst & Young Tower (E3), Oriental Plaza, No. 1 East Chang An Avenue, Dongcheng District, Beijing
Accountant (international):	Ernst & Young
Address of accountant (international):	18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong

8. This report is prepared in both Chinese and English. In case of inconsistency, the Chinese version shall prevail.

II. MAJOR FINANCIAL DATA AND INDICATORS

(I) Major accounting data and financial indicators

	As at June 30, 2007	As at December 31, 2006 After adjustment(2)	As at December 31, 2006 Before adjustment	Increase/ (decrease) (%)
Total assets (RMB million)	**583,143**	463,288	441,791	25.9
Shareholders' equity(1) (RMB million)	**93,396**	45,260	36,668	106.4
Net assets per share(1) (RMB)	**12.72**	7.31	5.92	74.0

For the six months ended June 30	**2007**	**2006**	**Increase/ (decrease) (%)**
Operating profit (RMB million)	**8,487**	4,427	91.7
Profit before tax (RMB million)	**8,872**	4,426	100.5
Net profit(1) (RMB million)	**8,063**	3,945	104.4
Net profit after deducting non-recurring items(1) (RMB million)	**7,771**	3,946	96.9
Basic earnings per share (RMB)	**1.16**	0.64	81.3
Diluted earnings per share (RMB)	**1.16**	0.64	81.3
Fully diluted return on net assets(3) (%)	**8.6**	10.7	drop by 2.1 percentage points
Net cash flows from operating activities (RMB million)	**20,002**	25,008	(20.0)
Net cash flows from operating activities per share (RMB)	**2.87**	4.04	(29.0)

(1) Based on the amount attributable to shareholders of the parent company.

(2) Disclosed in accordance with the "Question and Answer No. 7 Regarding the Rules on Information Disclosure for Companies that Publicly 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] No.10) promulgated by the CSRC.

(3) The decrease in fully diluted return on net assets is primarily due to the significant increase of the net assets of the Company resulting from the IPO of A shares by the Company in the first half of 2007.

(II) Non-recurring gains or losses and amounts

Non-recurring items (in RMB million)	For the six months ended June 30, 2007
Gains on disposal of non-current assets	286
Other non-operating net gains excluding the above items	99
Income tax effect	(58)
Attributable to minority shareholders	(35)
Total	**292**

(III) Reconciliation of GAAP difference between PRC Accounting Standards and IFRS

(in RMB million)	Notes	Net profit attributable to shareholders of the parent company: **For the six months ended June 30, 2007**	For the six months ended June 30, 2006	Equity attributable to shareholders of the parent company: **As at June 30, 2007**	As at December 31, 2006
Financial statements prepared in accordance with PRC Accounting Standards		**8,063**	3,945	**93,396**	45,260
Unearned premium reserves	(i)	**(86)**	(102)	**–**	86
Policyholders' reserves	(ii)	**(2,106)**	(2,249)	**(32,380)**	(30,023)
Deferred policy acquisition costs	(iii)	**4,136**	2,611	**36,069**	31,866
Deferred tax	(iv)	**(301)**	(136)	**(966)**	(687)
Minority interests and others		**(16)**	30	**(86)**	(127)
Financial statements prepared in accordance with IFRS		**9,690**	4,099	**96,033**	46,375

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 the 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.

Section III Changes in Share Capital and Shareholdings of Substantial Shareholders

I. CHANGE OF SHARE CAPITAL

(I) Table of change of share capital

Unit: Share

	Before Change		Increase and Decrease of the Change					After Change	
	Number	Percentage (%)	Issue of New Shares	Bonus Shares	Shares Converted From Reserves	Others	Sub-total	Number	Percentage (%)
I. Shares subject to Selling Restrictions									
1. Shares held by the State	588,859,239	9.51	–	–	–	–	–	588,859,239	8.02
2. Shares held by state-owned legal entity	367,542,525	5.93	–	–	–	–	–	367,542,525	5.00
3. Shares held by other domestic investments	2,680,007,872	43.26	345,000,000	–	–	–	345,000,000	3,025,007,872	41.19
Of which:									
Shares held by domestic legal entities	2,680,007,872	43.26	345,000,000	–	–	–	345,000,000	3,025,007,872	41.19
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign investments	–	–	–	–	–	–	–	–	–
Of which:									
Shares held by overseas legal entities	–	–	–	–	–	–	–	–	–
Shares held by overseas natural persons	–	–	–	–	–	–	–	–	–
Total	3,636,409,636	58.70	345,000,000	–	–	–	345,000,000	3,981,409,636	54.21
II. Shares without Selling Restrictions									
1. Renminbi ordinary shares	–	–	805,000,000	–	–	–	805,000,000	805,000,000	10.96
2. Domestic listed foreign invested shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign invested shares	2,558,643,698	41.30	–	–	–	–	–	2,558,643,698	34.83
4. Others	–	–	–	–	–	–	–	–	–
Total	2,558,643,698	41.30	805,000,000	–	–	–	805,000,000	3,363,643,698	45.79
III. Total number of shares	6,195,053,334	100.00	1,150,000,000	–	–	–	1,150,000,000	7,345,053,334	100.00

(II) The Status of the issuance and listing of shares

1. The public offering of the shares of the Company

Pursuant to the approval issued by China Securities Regulatory Commission (document number Zheng Jian Zi [2007] No.29), the Company completed the public offering of 1,150,000,000 ordinary shares denominated in RMB (A shares) at an offering price of RMB33.8 per share in Shanghai Stock Exchange, in which 345,000,000 shares placed to strategic investors would be subject to a moratorium period of 12 months commencing from the date of the listing of A shares of the Company, and 230,000,000 shares placed to institutional investors would be subject to a moratorium period of 3 months commencing from the date of the listing of A shares of the Company. Upon the completion of this offering of A shares, the total share capital of the Company amounts to 7,345,053,334 shares. With the approval issued by Shanghai Stock Exchange (document number Shang Zheng Shang Zi [2007] No.39) , the Company's A shares were listed in Shanghai Stock Exchange in the PRC on March 1, 2007.

During the reporting period, 230,000,000 shares of the Company placed to institutional investors during the initial public offering of A shares were allowed for trading upon the expiry of the 3-month moratorium period commencing from March 1, 2007 and such A shares were tradable commencing from June 1,2007.

Upon the IPO and the listing of H shares of the Company on June 24, 2004, HSBC Insurance Holdings Limited and Dai-ichi Mutual Life Insurance Co. undertook that they would not dispose H shares converted from their holdings of 493,333,334 and 49,333,334 foreign-invested unlisted shares respectively within three years of the listing of H shares of the Company. During the reporting period, the undertakings of lock-up period in relation to this portion of H shares was expired on June 24, 2007.

2. The expected timetable for the availability of trading of restricted shares in stock market

No.	Name of Shareholders/Class of shares	The number of restricted shares held (share)	The expected date for the commencement of trading in stock market
1	Shenzhen New Horse Investment Development Co., Ltd	389,592,366	March 1, 2010
2	Shenzhen Jingao Industrial Development Co., Ltd.	331,117,778	March 1, 2010
3	Shenzhen Jiangnan Industrial Development Co., Ltd	139,112,886	March 1, 2010
4	The shares held by 50 domestic shareholders other than Shenzhen New Horse Investment Development Co., Ltd, Shenzhen Jingao Industrial Development Co., Ltd. and Shenzhen Jiangnan Industrial Development Co., Ltd prior to the IPO of A shares of the Company	2,776,586,606	March 1, 2008
5	The shares placed to strategic investors upon the IPO of A shares of the Company	345,000,000	March 1, 2008

3. Changes in the aggregated number and the structure of the shares of the Company

During the reporting period, there was no change in the aggregated number and the structure of the shares of the Company due to issue of bonus shares or placement.

4. The status of the existing employee shares

As at the end of the reporting period, there was no employee share in the Company.

II. THE STATUS OF SHAREHOLDERS

(I) The number of shareholders and their shareholdings

Unit: share

The number of shareholders at the end of the reporting period	74,531 (including 68,254 domestic shareholders)

The shareholdings of the 10 largest shareholders

Name of shareholders	Nature of shareholders	Shareholdings (%)	The aggregated number of shares held	Increase or decrease during the year	The number of restricted shares held	The number of pledged or blocked shares
HSBC Insurance Holdings Limited	Overseas legal entity	8.43	618,886,334			
The Hongkong and Shanghai Banking Corporation Limited	Overseas legal entity	8.36	613,929,279			
Shenzhen Investment Holdings Co., Ltd.	State	7.40	543,181,445	–	543,181,445	
Shenzhen New Horse Investment Development Co., Ltd	Domestic non-state-owned legal entity	5.30	389,592,366	–	389,592,366	
Yuan Trust Investment Company Ltd.	Domestic non-state-owned legal entity	5.17	380,000,000	–	380,000,000	
Shenzhen Jingao Industrial Development Co., Ltd.	Domestic non-state-owned legal entity	4.51	331,117,788	–	331,117,788	
Shenzhen Shum Yip Investment Development Company Ltd.	State-owned legal entity	4.11	301,585,684	–	301,585,684	167,910,000 shares pledged
Guangzhou Hengde Trade Development Co., Ltd.	Domestic non-state-owned legal entity	2.72	200,000,000	–	200,000,000	–
Shenzhen Wuxin Yufu Industrial Co., Ltd.	Domestic non-state-owned legal entity	2.66	195,455,920	–	195,455,920	65,151,976 shares pledged
Shenzhen Liye Group Company Limited	Domestic non-state-owned legal entity	2.40	176,000,000	–	176,000,000	167,000,000 shares pledged

The shareholdings of the 10 largest holders of non-restricted shares

Name of shareholders	The number of non-restricted shares	Class of shares
HSBC Insurance Holdings Limited	618,886,334	H share
The Hongkong and Shanghai Banking Corporation Limited	613,929,279	H share
ICBC – Lion Stock Investment Fund	18,816,555	A share
ICBC – Bosera Third Industry Growth Stock Investment Fund	14,003,401	A share
China Life Insurance Company Limited – Traditional – Ordinary Insurance Product – 005L – CT001 Shanghai	13,077,800	A share
ICBC – Bosera Selected Stock Investment Fund	11,642,545	A share
ICBC – China Universal Growth Focus Stock Investment Fund	11,199,909	A share
China Life Insurance Company Limited – Participating – Individual Participating – 005L – FH002 Shanghai	8,936,500	A share
China Life Insurance Company Limited – Participating – Group Participating – 005L – FH001 Shanghai	8,936,500	A share
China Life Insurance (Group) Co. – Traditional – Ordinary Insurance Product	8,936,500	A share

Description of the connected relations or the relations of acing in concert among the above shareholders:

Shenzhen New Horse Investment Development Co., Ltd and Shenzhen Jingao Industrial Development Co., Ltd. are connected due to the overlapping among their effective capital contributors.

Save for disclosed above, the Company is not aware of any connected relations among other shareholders.

(II) Description of the controlling shareholder and effective controller

The Company's shareholding structure is fragmented and there is neither controlling shareholder nor effective controller. The first and second largest shareholders of the Company were two wholly-owned subsidiaries of HSBC Holdings plc., namely: HSBC Insurance Holdings Limited and The Hongkong and Shanghai Banking Corporation Limited . As at June 30, 2007, those two companies held an aggregate of 1,232,815,613 H shares of the Company.

(III) Other legal person shareholders with over 10% shareholdings

As at the end of the reporting period, the Company did not have any other legal person shareholders with over 10% shareholdings.

I. MOVEMENTS IN NUMBERS OF THE SHARES, STOCK OPTIONS AND RESTRICTED SHARES GRANTED OF OUR COMPANY HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(I) Direct shareholdings

Except for Mr. CHEUNG Chi Yan Louis , a director and Mr. KU Min-shen, senior vice president (during the reporting period, there is no changes in the shareholding of Mr. Cheung and Mr. Ku as detailed below), none of other directors and supervisors and senior management has any direct shareholding.

Name	Position	No. of shares held at the beginning of the period	No. of shares held at the end of the period	Increase or decrease of shares	Reason for Change
CHEUNG Chi Yan Louis	Executive director President and Chief Financial Officer	248,000 H Shares	248,000 H Shares	–	–
KU Min-shen	Senior vice president	177,500 H Shares	177,500 H Shares	–	–

(II) Indirect Shareholdings

1. Mr. Lin Li, a supervisor, indirectly held 176,000,000 restricted A Shares of our company, through Shenzhen Liye Group Co., Ltd (formerly known as Shenzhen Liye Investment Development Co., Ltd), a company under his control and no movement thereof has been recorded during the reporting period.

2. Certain directors, supervisors and senior management of the Company, indirectly held shares of the Company through employees' investment pool and Jiangnan Industrial. During the reporting period, there was no change in their shareholdings of the Company.

The participants of employee's investment pool collectively and beneficially own 9.81% of the existing aggregated share capital of the Company and Jiangnan Industrial holds 139,112,886 shares of the Company. The status of the indirect shareholdings of the directors, supervisors (other than Lin Li) and senior management is set out as follows:

(1) The equity interest held in employee's investment pool

Name	Position	Equity interest held in employee's investment pool at the beginning of the period	Equity interest held in employee's investment pool at the end of the period	Increase or decrease of equity interest held in employee' investment pool	Reason for Change
MA Mingzhe	Chairman and Chief Executive Officer	4,743,600	4,743,600	–	–
CHEUNG Chi Yan Louis	Executive director, President and Chief Financial Officer	500,000	500,000	–	–
SUN Jianyi	Executive Director, Secretary of the Board of Directors and Executive Vice President	4,168,300	4,168,300	–	–
FAN Gang	Director	502,080	502,080	–	–
LIN Lijun	Director	992,800	992,800	–	–
HE Shi	Resigned Supervisor	836,160	836,160	–	–
HU Jie	Supervisor	2,358,240	2,358,240	–	–
WANG Wenjun	Supervisor	64,602	64,602	–	–
LEUNG Ka Kui Dominic	Executive Vice President	300,000	300,000	–	–
Richard JACKSON	Chief Finance Business Officer	–	–	–	–
KU Min-shen	Senior Vice President	300,000	300,000	–	–
John PEARCE	Senior Vice President	–	–	–	–
CAO Shifan	Senior Vice President	1,307,680	1,307,680	–	–
GOH Yethun	Senior Vice President	300,000	300,000	–	–
WANG Liping	Senior Vice President	1,721,520	1,721,520	–	–
CHEN Kexiang	Senior Vice President	1,373,040	1,373,040	–	–
LO Sai Lai	Senior Vice President	300,000	300,000	–	–
Total		19,768,022	19,768,022		

(2) Pro rata shareholdings in Jiangnan Industrial (%)

Name	Position	Proportion of shares as at the beginning of the period (%)	Proportion of shares as at the end of the period (%)	Increase or decrease of shares	Reason for Change
MA Mingzhe	Chairman and Chief Executive Officer	5.86	5.86	–	–
CHEUNG Chi Yan Louis	Executive director, President and Chief Financial Officer	2.93	2.93	–	–
SUN Jianyi	Executive Director, Secretary of the Board of Directors and Executive Vice President	3.83	3.83	–	–
FAN Gang	Director	0.44	0.44	–	–
LIN Lijun	Director	0.12	0.12	–	–
HE Shi	Resigned Supervisor	0.35	0.35	–	–
DU Jiangyuan	New Supervisor	0.29	0.29	–	–
LEUNG Ka Kui Dominic	Executive Vice President	–	–	–	–
Richard JACKSON	Chief Finance Business Officer	0.59	0.59	–	–
KU Min-shen	Senior Vice President	1.76	1.76	–	–
John PEARCE	Senior Vice President	–	–	–	–
CAO Shifan	Senior Vice President	0.59	0.59	–	–
GOH Yethun	Senior Vice President	3.57	3.57	–	–
WANG Liping	Senior Vice President	1.17	1.17	–	–
CHEN Kexiang	Senior Vice President	3.81	3.81	–	–
LO Sai Lai	Senior Vice President	0.70	0.70	–	–
Total		26.01	26.01		

(III) Changes in stock options and the number of the restricted shares granted

During the reporting period, the directors, supervisors, senior management of the Company do not hold any stock options and have not been granted to any restricted shares.

II. NEWLY APPOINTED AND DISMISSED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

1. In order to meet the requirements that at least one third of the board of directors of a A share listed company should be independent directors, during the 2006 annual general meeting held on June 7, 2007, Mr. Xia Liping was appointed as an independent non-executive director of the Company.

2. Mr. HE Shi, supervisor representing the employees resigned as a supervisor due to a change in his duties. On July 10, 2007, the Company held the employees representative meeting and Du Jiangyuan was elected as supervisor representing the employees.

3. REN Huichuan, the former senior vice president of the Company was relocated to Ping An Property & Casualty in April, 2007 and is no longer the senior vice president; Mr. CAO Shifan, the former chairman and CEO of Ping An Property & Casualty was relocated to the Company in April, 2007 as senior vice president of the Company and do not hold any positions of Ping An Property & Casualty.

I. ANALYSIS OF THE OPERATIONS DURING THE REPORTING PERIOD

In the first half of 2007, China's economy remained robust and achieved rapid and steady growth. The overall performance of the financial sector went well while reform of the financial sector further deepened. During the first half of the year, the Company' net profit increased 107.8% to RMB8,326 million as compared to that in the same period last year. Total assets were RMB583,143 million, with shareholders' equity RMB94,911 million. Premium income was RMB53,885 million while premium income from direct insurance contract was RMB53,838 million, both of which increased 17.1% compared to that in the same period last year. All of our business segments maintained rapid and steady growth.

(I) Consolidated performance

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 operating income	**84,051**	54,627
Total operating expenses	**(75,564)**	(50,200)
Operating profit	**8,487**	4,427
Net profit	**8,326**	4,006

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	**4,813**	3,528
Property and casualty insurance	**322**	163
Banking business	**1,086**	1
Securities business	**676**	174
Other businesses	**1,429**	140
Net profit	**8,326**	4,006

Consolidated net profit increased 107.8% to RMB8,326 million in the six months ended June 30, 2007 from RMB4,006 million in the same period in 2006. This increase was primarily due to the better performance in all our business segments, and the strong investment returns.

Our life insurance business, property and casualty insurance business, banking business and securities business accounted for approximately 57.8%, 3.9%, 13.0% and 8.1%, respectively, of our consolidated net profit.

2. Consolidated investment income

For the six months ended June 30, (in RMB million, except percentages)	**2007**	2006
Investment income[(1)]	**25,016**	7,787
Gains from changes in fair values[(1)]	**607**	1,867
Total investment income	**25,623**	9,654
Total investment yield[(1)]	**9.9%**	5.8%

(1) Investment accounts of investment-linked insurance were not taken into account in investment income, gains from changes in fair values and total investment yield.

Our total investment income increased significantly to RMB25,623 million in the six months ended June 30, 2007 from RMB9,654 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 stock market in the first half of 2007. In order to lock in the profits, we realized part of the floating gains in 2007. Investment income significantly increased to RMB25,016 million in the six months ended June 30, 2007 from RMB7,787 million in the same period in 2006, and gains from changes in fair values decreased to RMB607 million in the six months ended June 30, 2007 from RMB1,867 million in the same period in 2006.

We continued to improve the asset allocation of our portfolio to capture the opportunities arising from the development of the capital market. As a result, our term deposits as a percentage of our total investment assets decreased to 13.3% as at June 30, 2007 from 19.1% as at December 31, 2006, and our equity investments as a percentage of our total investment assets increased to 18.9% as at June 30, 2007 from 14.5% as at December 31, 2006.

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

(in RMB million)	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**	**13.3%**	59,107	19.1%
Bond investments[1][3]	**222,992**	**67.2%**	204,282	65.9%
Other fixed maturity investments[3]	**2,149**	**0.6%**	1,600	0.5%
Equity investments[2][3]	**62,698**	**18.9%**	44,791	14.5%
Total investments[4]	**331,833**	**100.0%**	309,780	100.0%

(1) Bond investments include the carrying value of derivatives embedded with the host contracts.
(2) Equity investments include funds, stocks and long-term equity investments.
(3) The corresponding figures exclude items that are classified as cash and cash equivalents.
(4) Investment accounts of Investment-Linked insurance are not included.

3. Foreign currency gains/(losses)

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

(II) Performances of segments

1. 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 premiums[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 premium income accumulated over a period of six months.
Market share as at December 31, 2006 was computed based on premium income 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 premium income 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 premium income.

Through continued refinement of our sales agents training system, we enhanced the productivity and professionalism of our sales agents. At the same time, our sales agents for life insurance also increased, from approximately 205,000 at the beginning of the year to approximately 244,000, representing an increase of 19.0%.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
Premium income	**42,248**	37,129
Earned premiums	**41,581**	36,508
Investment income	**25,618**	8,060
Gains from changes in fair values	**2,530**	3,836
Foreign exchange losses	**(316)**	(114)
Other operating income	**578**	179
Total operating income	**69,991**	48,469
Surrenders	**(5,919)**	(3,910)
Claims paid	**(6,825)**	(4,044)
Less: Reinsurers' share of claims paid	**258**	279
Change in insurance contract reserves, net	**(43,854)**	(29,721)
Policyholders' dividends	**(897)**	(1,714)
Business tax and surcharges	**(841)**	(263)
Handling charges and commission expenses	**(4,601)**	(3,272)
General and administrative expenses	**(2,900)**	(2,217)
Less: Reinsurers' share of expenses	**111**	167
Other operating expenses	**(87)**	(72)
Total operating expenses	**(65,555)**	(44,767)
Operating profit	**4,436**	3,702
Non-operating income/(expenses), net	**3**	(3)
Profit before tax	**4,439**	3,699
Income taxes	**374**	(171)
Net profit	**4,813**	3,528

Premium income

For the six months ended June 30, (in RMB million)	2007	2006
Individual life		
New business		
First year regular premiums	**8,361**	5,269
First year single premiums	**13**	18
Short term accident and health premiums	**935**	1,553
Total new business	**9,309**	6,840
Renewal business	**24,924**	22,743
Total individual life	**34,233**	29,583
Bancassurance		
New business		
First year regular premiums	**45**	12
First year single premiums	**3,712**	3,450
Short term accident and health premiums	**1**	1
Total new business	**3,758**	3,463
Renewal business	**126**	128
Total bancassurance	**3,884**	3,591
Group insurance		
New business		
First year regular premiums	**2,278**	2,452
Short term accident and health premiums	**1,641**	1,261
Total new business	**3,919**	3,713
Renewal business	**212**	242
Total group insurance	**4,131**	3,955
Total life insurance	**42,248**	37,129

Individual Life Business. Premium income from our individual life business increased 15.7% to RMB34,233 million in the six months ended June 30, 2007 from RMB29,583 million in the same period in 2006. This increase was primarily due to the 36.1% increase in first year premiums to RMB9,309 million in the six months ended June 30, 2007 from RMB6,840 million in the same period in 2006. In addition, renewal premiums 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. Premium income from our bancassurance business increased 8.2% to RMB3,884 million in the six months ended June 30, 2007 from RMB3,591 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. Premium income from our group insurance business increased 4.5% to RMB4,131 million in the six months ended June 30, 2007 from RMB3,955 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, premium income from our short-term accident and health insurance business increased 30.1% to RMB1,641 million in the six months ended June 30, 2007 from RMB1,261 million in the same period in 2006.

Total investment income

Total investment income for our life insurance business increased significantly to RMB21,553 million in the six months ended June 30, 2007 from RMB8,748 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
Investment income(1)	**21,511**	7,045
Gains from changes in fair values(1)	**42**	1,703
Total investment income	**21,553**	8,748
Total investment yield(1)	**10.5%**	5.9%

(1) Investment accounts of investment-linked insurance were not taken into account in investment income, gains from changes in fair values and total investment yield.

Change in insurance contract reserves, net

The net change in insurance contract reserves was RMB43,854 million in the six months ended June 30, 2007, as compared to RMB29,721 million in the same period in 2006. The bigger net change in insurance contract reserves was primarily due to the growth in premium income.

Surrenders

Payments for surrenders increased 51.4% to RMB5,919 million in the six months ended June 30, 2007 from RMB3,910 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.

Claims paid

The following table summarizes the main components of the claims paid.

For the six months ended June 30, (in RMB million)	2007	2006
Claims	**1,045**	1,123
Annuities	**1,427**	1,293
Maturities and survival benefits	**3,582**	1,094
Payment for death and medical treatment	**771**	534
Total	**6,825**	4,044

Claims paid increased 68.8% to RMB6,825 million in the six months ended June 30, 2007 from RMB4,044 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, leading to the significant increase of payments for maturities and survival benefits to RMB3,582 million in the six months ended June 30, 2007 from RMB1,094 million in the same period in 2006.

Policyholders' dividends

Payments for policyholders' dividends 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 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 in the six months ended June 30, 2007 compared to the same period in 2006. In fact, the total policyholder's dividends, 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.

Handling charges and commission expenses

For the six months ended June 30	2007	2006
Handling charges and commission expenses as a percentage of premium income	**10.9%**	8.8%

Handling charges and commission expenses, which were mainly paid 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. Handling charges and commission expenses as a percentage of premium income increased from 8.8% in the six months ended June 30, 2006 to 10.9% in the same period in 2007. These increases were primarily due to the increase in first year premiums income from individual life products which have relatively higher level of commission.

General and administrative expenses

For the six months ended June 30	2007	2006
General and administrative expenses as a percentage of premium income	6.9%	6.0%

General and administrative expenses increased 30.8% to RMB2,900 million in the six months ended June 30, 2007 from RMB2,217 million in the same period in 2006. General and administrative expenses as a percentage of premium income increased to 6.9% in the six months ended June 30, 2007 from 6.0% in the same period in 2006. These increases were primarily due to the increase of first year premiums.

Income taxes

For the six months ended June 30	2007	2006
Effective tax rate	-8.4%	4.6%

Income taxes for our life insurance business in the six months ended June 30, 2006 was RMB171 million, while the income taxes in the same period in 2007 was RMB-374 million. The effective tax rate decreased from 4.6% in the six months ended June 30, 2006 to -8.4% in the same period in 2007. These decreases were primarily due to the increase in dividend income from equity investment funds subject to tax exemptions and decrease in deferred income tax liabilities in relation to the income tax reported in the income statement.

Net Profit

As a result of the foregoing, the net profit for our life insurance business increased 36.4% to RMB4,813 million in the six months ended June 30, 2007 from RMB3,528 million in the same period in 2006.

2. Property and casualty insurance business

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

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

	For the six months ended June 30, 2007	For the year ended December 31, 2006
Combined ratio:		
Expense ratio	**39.8%**	34.5%
Loss ratio	**63.2%**	64.5%
Combined ratio	**103.0%**	99.0%

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

For the six months ended June 30, 2007, our property and casualty insurance accounted for approximately 10.2% of the premium income received by PRC property and casualty insurance companies, based on our financial data and PRC insurance industry data calculated in accordance with PRC Accounting Standards and published by the National Bureau of Statistics of China. Ping An Property & Casualty is the third largest property insurance company in the PRC in terms of premium income.

The increase in the combined ratio for our property and casualty insurance business was primarily due to the increase of acquisition cost of insurance products resulting from increased competition in the property and casualty insurance industry.

Results of operation

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
Premium income	**11,637**	8,871
Earned premiums	**7,599**	4,972
Investment income	**918**	282
Gains from changes in fair values	**10**	24
Foreign exchange losses	**(11)**	(8)
Other operating income	**38**	25
Total operating income	**8,554**	5,295
Claims paid	**(4,966)**	(3,770)
Less: Reinsurers' share of claims paid	**909**	853
Change in insurance contract reserves, net	**(747)**	(291)
Expenses for reinsurance accepted	**(7)**	(1)
Business tax and surcharges	**(661)**	(486)
Handling charges	**(1,117)**	(674)
General and administrative expenses	**(1,805)**	(1,308)
Less: Reinsurers' share of expenses	**564**	755
Other operating expenses	**(78)**	(32)
Total operating expenses	**(7,908)**	(4,954)
Operating profit	**646**	341
Non-operating income/(expenses), net	**(4)**	(2)
Profit before tax	**642**	339
Income taxes	**(320)**	(176)
Net profit	**322**	163

Premium income

For the six months ended June 30, (in RMB million)	2007	2006
Automobile insurance	**7,799**	5,797
Non-automobile insurance	**3,256**	2,633
Accident and health insurance	**582**	441
Total premium income	**11,637**	8,871

Premium income increased 31.2% to RMB11,637 million in the six months ended June 30, 2007 from RMB8,871 million in the same period in 2006. This increase in premium income was primarily due to the significant growth in all three principal lines of our property and casualty insurance business.

Automobile Insurance Business. Premium income attributable to our automobile insurance business increased 34.5% to RMB7,799 million in the six months ended June 30, 2007 from RMB5,797 million in the same period in 2006. This increase was primarily due to the continued increase in demand for automobiles in the PRC and implementation of compulsory third party liability insurance.

Non-automobile Insurance Business. Premium income attributable to our non-automobile insurance business increased 23.7% to RMB3,256 million in the six months ended June 30, 2007 from RMB2,633 million in the same period in 2006. This increase was primarily due to the increase of sales in commercial property insurance, construction insurance, special risk insurance and cargo insurance. Premium income attributable to the commercial property insurance increased 23.0% to RMB1,570 million in the six months ended June 30, 2007 from RMB1,276 million in the same period in 2006.

Accident and Health Insurance Business. Premium income attributable to our accident and health insurance business increased 32.0% to RMB582 million in the six months ended June 30, 2007 from RMB441 million in the same period in 2006. This increase was primarily due to our continued focus on growing this line of business in the first half of 2007.

Total investment income

For the six months ended June 30 (in RMB million, except percentages)	2007	2006
Investment income	**918**	282
Gains from changes in fair values	**10**	24
Total investment income	**928**	306
Total investment yield	**9.6%**	5.2%

Total investment income for our property and casualty insurance business increased significantly to RMB928 million in the six months ended June 30, 2007 from RMB306 million in the same period in 2006. Total investment yield for our property and casualty insurance business increased to 9.6% in the first half of 2007 from 5.2% in the same period in 2006.

Claim 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 claim expenses[(1)]	**4,804**	3,208

(1) Claim expenses of our property and casualty insurance business include claims paid, reinsurers' share of claims paid, change in insurance contract reserves and reinsurers' share of insurance contract reserves included in our financial statement.

Total claim expenses 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 first half of 2007 from RMB2,527 million in the same period in 2006. This increase was primarily due to the increase in premiums of our automobile insurance business during the past twelve months.

Claims attributable to our non-automobile insurance business increased 12.5% to RMB594 million in the first half of 2007 from RMB528 million in the same period in 2006. This increase was primarily due to the increase in premiums of our non-automobile insurance business during the past twelve months.

Claims attributable to our accident and health insurance business increased 79.7% to RMB275 million in the first half of 2007 from RMB153 million in the same period in 2006, primarily due to the increase in premiums of our accident and health insurance business during the past twelve months.

Handling charges

For the six months ended June 30	2007	2006
Handling charges as a percentage of premium income	**9.6%**	7.6%

Handling charges increased 65.7% to RMB1,117 million in the six months ended June 30, 2007 from RMB674 million in the same period in 2006. Handling charges as a percentage of premium income increased to 9.6% in the six months ended June 30, 2007 from 7.6% in the same period in 2006. These increases were primarily due to the increase of premium income and the higher market commission rate resulting from the increased competition in the property and casualty insurance industry.

General and administrative expenses

For the six months ended June 30	2007	2006
General and administrative expenses as a percentage of premium income	**15.5%**	14.7%

General and administrate expenses increased 38.0% to RMB1,805 million in the six months ended June 30, 2007 from RMB1,308 million in the same period in 2006. This increase was primarily due to the increase in premiums and the increased competition in the property and casualty insurance industry.

Income taxes

For the six months ended June 30	2007	2006
Effective tax rate	**49.8%**	51.9%

Income taxes increased 81.8% to RMB320 million in the six months ended June 30, 2007 from RMB176 million in the same period in 2006. This increase was primarily due to the increase in our taxable profit. Effective tax rate decreased to 49.8% in the six months ended June 30, 2007 from 51.9% in the same period in 2006. This decrease was primarily due to the increase in dividend income from equity investment funds subject to tax exemptions.

Net profit

As a result of the foregoing, the net profit from our property and casualty insurance business increased 97.5% to RMB322 million in the six months ended June 30, 2007 from RMB163 million in the same period in 2006.

3. Banking business

Our banking business consists of two subsidiaries namely: Ping An Bank and Shenzhen Commercial Bank ("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 Group, through equity transfer and contribution of fund, 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 is 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 Shenzhen Commercial Bank renaming as 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 restructured; 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 Centre" 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

[1] General and administrative expenses include operating expenses, business tax and surcharges, other operating expenses, non-operating expenses and other asset impairment losses other than loans included in our financial statement.

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* amounting to RMB409 million, which mainly included gain from non-performing assets disposals and reversals of litigation provision.

* Non-recurring items refer to items that comply with the CSRC [2004] No. 4 Requirement on the Disclosure of Non-recurring Items.

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 annualized average yield on interest earning assets and the annualized 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 is 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 now is mainly sourced from customer deposits, which has a relatively low funding 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.

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.

(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 assets package ratio is mainly due to the disposal of over RMB2.8 billion non-performing loan 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%.

4. 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 PA18 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
Total investment income[1]	**491**	168
Net profit	**676**	174

(1) Total investment income includes investment income and gains from changes in fair values.

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.

Total investment income

Total investment income from our securities business increased significantly to RMB491 million in the six months ended June 30, 2007 from RMB168 million in the same period in 2006. This increase was primarily due to the increase in realized investment gains from our proprietary trading business.

5. Trust business

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

(1) Total operating income and net profit have not taken into account the data of the subsidiaries of Ping An Trust.

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. The increase in net profit was primarily due to the significant increase in assets held under the management of Ping An Trust as well as the better investment return.

6. Fiduciary business

(In RMB million)	As at June 30, 2007	As at December 31, 2006
Entrusted loans	**1,931**	2,120
Assets under corporate annuity scheme	**1,198**	634
Net assets under trust scheme	**28,676**	16,677

7. Asset management business

Our assets under the management of Ping An Asset Management continued to grow remarkably in the first half of 2007. Total investment income and total investment yield both recorded steady growth. In addition to the Group's funds, Ping An Asset Management also commenced developing third party assets management business. In terms of internal management, Ping An Asset Management has standardized and regulated its business flow, risk measures, assets allocation and performance measurement mechanism to sustain continuous improvement in investment capability.

Ping An Asset Management (Hong Kong) obtained the asset management license from SFC on March 1, 2007, and would be playing a main role in our overseas investment management business.

II. DISCUSSION AND ANALYSIS OF THE SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

During the reporting period, significant events in operations that could have an impact on the Company's operations were set out as follows:

(I) Insurance business

Ping An Life has experienced a rapid growth during the first half of the year. Some products have been terminated while others have been updated, caused a relatively impact on business development. Individual life insurance achieved first year premiums of RMB9,309 million for the first half of the year, representing an increase of 36.1% compared to the same period of 2006.

During the first half of the year, market competition had become intense, the policy on commission rates became less regulated and acquisition costs increased. All these factors had placed pressure on the earnings of property and casualty insurance business, resulting in a relative higher combined ratio for this business segment.

Benefiting from the significant improvement of the investment environment, insurance funds recorded excellent investment results.

The promulgation of the *Guidelines on Credit Rating for Bond Investments by Insurance Institutions (Trial)* by the CIRC, which require insurance companies to set up an internal credit rating system to assess the credit risk involved in bond investments, represents an important move of the insurance industry in its efforts to implement the *Opinions on Strengthening Risk Management of Insurance Funds* to a full extent, and this also marks the first step of credit risk management of bond investment by insurance funds. It also serves as a guiding instruction for the Company when it comes to establishing an internal credit rating system to ensure the safety of its insurance assets.

(II) Banking business

During the reporting period, the amount of the losses/gains arising from the non-recurring items of banking business were RMB409 million, which mainly included gain from non-performing assets disposals and reversals of litigation provision.

(III) Others

For the purpose of nurturing the healthy development of trust companies and encouraging the qualified trust companies to carry on prudent and innovative financial services, China Banking Regulatory Commission (CBRC) and the State Administration of Foreign Exchange have formulated *The Interim Measures for the Administration of Trusted Companies' Overseas Financial Management Business*. And in order to further diversify the investment varieties of overseas financial management services offered to clients, as well as to promote a stable development of such overseas financial management business, the CBRC has extended the investment scope of commercial banks' overseas financial management services offered to clients. In addition, the *Pilot Rules on the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors* was promulgated which is applicable to securities related institutions, such as domestic fund management companies and securities companies. All these measures will help to foster the development of financial management business of the operating units within the Group.

III. THE PROBLEMS AND DIFFICULTIES ENCOUNTERED IN THE OPERATION OF THE COMPANY

(I) Life insurance business

Ping An Life has formulated a two tier market development strategy, on one hand it will strengthen well established advantageous position in the coastal cities, and on the other hand accelerate the development of a new business model in inland provinces and small and medium cities on the other side. The Group will face the challenges of manpower and resources allocation in the rapid growth of its two-tier markets.

The continuation of the Central Bank's macro-control measures has exerted certain effects on the development of the insurance industry. For instance, the sale of insurance products could be adversely affected. After the raising of interest rate, the one-year standard deposit rate was adjusted upward to 3.33%. The effective yield, after deducting interest tax, is 3.16%, which exceeds the pricing interest rate cap of 2.5% set by the CIRC. This has brought a negative effect on the sale of traditional insurance savings type of products. Meanwhile, the control measures have a positive effect on the insurance fund investment returns. Since a substantial part of the assets of insurance companies have been placed in bank deposits and bond investment, the raising of interest rate would increase the net investment returns arising from re-investment and new investment in bank deposits and bond investment, which would help match the assets and liabilities of life insurance companies, as well as increasing its embedded value.

There is a growing trend of premium rates liberalization, and our life insurance business will undoubtedly face such challenge. We will closely monitor the development of regulatory policies and measures, as well as further enhance the existing analysis and stipulate corresponding measures.

(II) Property and casualty insurance business

During the first half of this year, intense competition in the property and casualty insurance market, the deregulation of policy on commission rates and increased business acquisition cost had placed pressure on our profitability and overall operating cost of our property and casualty business. Facing greater challenges to the operating management, Ping An Property & Casualty has to expand the scale of operations in the profitable markets and to properly manage business quality and cost. Meanwhile, the Group has to optimize and consolidate resources, conduct market segmentation, implement the transformation of sales mode and establish professional sales teams.

(III) Banking business

During the current stage of transforming from a regional bank to a national bank, Shenzhen Ping An Bank, after the merger, proactively launched various innovative financial products and services, issued credit cards, recruited operational and managerial talents and refined the organizational structure, resulting in an increase in the bank's operating cost, and cost-to-income ratio has maintained at a relatively high level.

(IV) Others

Ping An Annuity, Ping An Health and Ping An Asset Management (Hong Kong) are still in the start-up period, and are unable to make any significant contribution to the total profit of the Group.

IV. EMBEDDED VALUE

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.

V. INVESTMENTS DURING THE REPORTING PERIOD

(I) Use of subscription proceeds of H shares

The net proceeds from the Company's initial public offering of H shares in 2004 have been fully used for general corporate purposes and for the improvement of its operating activities. The proceeds formed part of the Company's working capital and were used in accordance with the applicable rules and regulations of relevant industry regulatory authority.

The Company's significant equity investments during the reporting period are as follows:

Capital injection into Ping An Annuity

With the approval of CIRC on March 9, 2007, the Company injected RMB200 million into Ping An Annuity. After that, the registered capital of Ping An Annuity amounted to RMB500 million.

(II) Use of subscription proceeds of A shares

The net proceeds from the Company's public offering of A shares in February 2007 amounted to RMB38,222 million. By June 30, 2007, the application for the change in registered capital of the Company had been submitted to regulators for approval, all proceeds raised from the offering of A shares were deposited in the designated account for such subscription proceeds opened with Shenzhen Ping An Bank.

VI. ACTUAL OPERATING RESULTS AS COMPARED TO THE LISTING DOCUMENTS/ EARNINGS FORECAST/PLAN, DESCRIPTION OF FORECAST OR STATUS OF PLAN IMPLEMENTATION

(I) Status of completion of earnings plan

During the first half of 2007, the Group recorded an aggregate net profit of RMB8,326 million, representing an increase of 107.8% as compared to the corresponding period of the previous year, and exceeded the anticipated target.

The three major business lines, including insurance, banking and asset management, all recorded substantial increases in net profit. In breakdown, net profit from banking and asset management businesses achieved rapid growth, resulting in a substantial increase of its percentages to total profit; net profit from insurance business recorded RMB5,135 million, representing an increase of 39.1% as compared to the corresponding period of the previous year, and accounting for 61.7% of total profit, representing a decrease of 30.4 percentage points as compared to the corresponding period of the previous year; net profit from banking business recorded RMB1,086 million, accounting for 13.0% of total profit, representing an increase in contribution of 13.0 percentage points; and net profit from securities business recorded RMB676 million, representing an increase of 288.5% as compared to the corresponding period of the previous year, and accounting for 8.1% of total profit, representing an increase of 3.8 percentage points as compared to the corresponding period of the previous year.

(II) Status of completion of operation plan

During the first half of 2007, under the circumstance of steady and rapid development, the Group carried out various activities in accordance with the formulated business plan, fully implemented its various development strategies and achieved various operational targets.

The Group continuously progressed towards the goal of becoming an international leading financial service conglomerate, and strived to become one of the market leaders. As the Company puts more effort in its business, organization and management, 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 its business targets. Meanwhile, on the basis of an ever-stronger insurance business, the Group smoothly completed the consolidation of its banking business, preliminarily built up the international platform for its asset management business, and basically formed a three-pillar core business system comprising insurance, banking and asset management.

Insurance business

The Company adhered to a two-pronged strategy which stressed both organic growth and outward expansion, it also focused on the retention of customer resources for its long-term development, maintained a steady expansion while proactively sought new business growth opportunities. The Group 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. Number of individual life sales agents increased to approximately 224,000 from approximately 205,000 as at the beginning of this year, maintaining a healthy growth momentum. The Group formulated a guideline of proactive development for property and casualty insurance business, expanded new channels, fully leveraged on the sales agents and solid customer base of other subsidiaries of the Group, accelerated the implementation of cross selling and strived to increase market share. The Group's annuity insurance business focused on the provision of professional services, grasped the opportunity of social insurance transformation and experienced rapid development and expansion. By June 2007, the Group applied to open 35 branches for its annuity insurance business, which all obtained *License for Operating Insurance Business*. The Group's annuity insurance business was carried out smoothly nationwide.

Banking business

The Group proactively explores various models to gradually form a nationwide network through mergers and acquisitions. With the approval of China Banking Regulatory Commission, Shenzhen Commercial Bank merged with and took in Ping An Bank and renamed as "Shenzhen Ping An Bank Co., Limited." ("Shenzhen Ping An Bank"). Shenzhen Ping An Bank has branches in Shenzhen, Shanghai and Fuzhou and provides a full range of financial services and products for corporate and individual customers. The merger of the two banks further consolidated the banking resources of the Group, helped strengthen the pillar of banking business, created a single banking brand name and gradually formed a nationwide platform for banking business. On May 21, 2007, after years of dedicate preparations, we successfully launched the Wanlitong Affinity Credit Card, a China UnionPay standard credit card. This is one of the best joint-name credit cards which offers comprehensive insurance protection in the PRC by leveraging the combined strength of our insurance and banking platform.

Asset management business

The Group, on one side, continued to strengthen the construction and operation of domestic investment platform, constantly expanding investment channels, enhanced ability to identify quality projects and pack products, and on the other side, it strived to form an efficient overseas investment platform in order to achieve global asset allocation, enhance investment return and reduce asset-liability mis-match risk.

During the first half of the year, benefiting from the booming domestic equity market and the surge of trading volume, the Group's securities business (including securities brokerage, investment banking and derivative products business) experienced a rapid growth. Insurance fund investment return increased substantially. The non capital market investment of the Group's trust business generated a promising result, and the development of third party asset management business achieved a breakthrough, resulting in rapid growth of the amount of entrusted assets under management. Ping An Asset Management (Hong Kong) Company Limited was being granted a license for asset management in Hong Kong, and a global investment platform was primarily formed. Four analysts from Ping An Securities were ranked among the "Top Analysts in 2006" in Asia by Star Mine, a world renowned professional evaluation agency of security analysts. Ping An Securities as a whole was ranked No.8 among a large number of prestigious research institutions.

VII. AMENDMENT TO THE OPERATION PLAN DISCLOSED IN THE ANNUAL REPORT OF THE PREVIOUS YEAR

The Group did not disclose any operation plan in the previous year. During the reporting period, the Group had no amendment to the operating plan as compared to the development target disclosed upon the listing of A shares.

I. CORPORATE GOVERNANCE

The Company has been in strict compliance with the "Company Law of the People's Republic of China" and the relevant laws and regulations, and has implemented the relevant provisions set out by the supervisory authorities in relation to corporate governance and constantly improved the corporate governance structure and performance with the Company's particular circumstances taken into account.

During the reporting period, the Company was successfully listed on the Shanghai Stock Exchange. Pursuant to the regulatory requirements in relation to corporate governance of the companies listed in PRC, the Company had revised the Articles of Association of Ping An Insurance (Group) Company of China, Ltd. (hereinafter referred to as the "Articles of Association"), which was considered and adopted by the shareholders at the general meeting; the Company also developed the Rules Governing Information Disclosure, which was considered and adopted by the Board. In addition, a number of other rules and regulations, namely *the Rules Governing Material Transactions, the Rules Governing Connected Transactions, the Model Code for Holding and Trading of Shares of the Company by Directors, Supervisors and Senior Management* as well as *the Rules Governing Exclusive Storage and Utilization of Raised Capital* have also been developed, issued and implemented as the internal policies of the Company.

During the reporting period, the Company convened the 2006 Annual General Meeting and one Extraordinary General Meeting; the Board held seven meetings and the Supervisory Committee held two meetings. The General Meeting, the Board, the Supervisory Committee and the Senior Management have been operating independently with reference to their duties in accordance with the Articles of Association, and exercising their rights and performing their obligations without breaching any laws or regulations.

The Company has been acting in strict compliance with the laws, regulations and the Articles of Association and disclosing all the material information punctually, accurately, truthfully and completely, ensuring equal chances for all the shareholder to access the related information. The Company is committed to constantly building a high-level corporate governance and believes that a well-maintained corporate governance system can further improve the efficiency and reliability of the management of the Company and is crucial for the Company to maximize shareholders' value. During the reporting period, the Company was awarded consecutively for the fourth time the *Customer Management Awards 2006* by Greater China CRM (Customer Relation Management); was also dubbed consecutively for the sixth time *the Most Respected Enterprises in China* by the Economics Observer Newspaper and Beijing University Management Research Center; was named *the Best Company in China in Corporate Governance* by the Asset Magazine, a distinguished Asian finance magazine, and was granted *the Corporate Governance Asia Annual Recognition Awards 2007* by Corporate Governance Asia, a renowned magazine in the Asia-Pacific Region.

II. IMPLEMENTATION OF PROFIT DISTRIBUTION SCHEME DURING THE REPORTING PERIOD

The 2006 Profit Distribution Scheme of the Company has been approved by the shareholders at the 2006 AGM held on June 7, 2007, which proposed that a final dividend of RMB0.22 per share be distributed in cash based on the 7,345,053,334 shares of the Company's total share capital (including the additional share capital issued upon the IPO of A shares), amounting to RMB1,615,911,733.48. The retained profits were carried forward to the year 2007. The announcement on AGM resolutions was published on *The China Securities Journal, The Shanghai Securities News* and *The Securities Times* dated June 8, 2007. The equity registration date for the dividend distribution was June 21, 2007, the ex-dividend date was June 22, 2007 and the bonus distribution date was June 27, 2007. The announcement on the implementation of the 2006 Profit Distribution Scheme was published on *The China Securities Journal, The Shanghai Securities News* and *The Securities Times* dated June 15, 2007. The Scheme has been implemented during the reporting period.

III. THE PROFIT DISTRIBUTION SCHEME PROPOSED FOR THE HALF YEAR

Pursuant to the Articles of Association and other relevant regulations the Company shall, when determining the profit available for distribution to shareholders, provide for the statutory surplus reserve fund based on the net profit stated in the PRC Accounting Standards financial statements. The net profit stated in the PRC Accounting Standards audited financial statements of the parent company for the six months ended June 30, 2007 was RMB4,604 million, and 10% of which was allocated to statutory surplus reserve, in interim profit appropriation.

After the above profit appropriation with the retained profits adjusted in accordance with the relevant regulations having been carried forward, the Company's distributable profits are RMB5,024 million according to the PRC Accounting Standards and IFRS financial statements.

Pursuant to the Articles of Association, the amount of interim dividend should not exceed 50% of the interim distributable profits.

Therefore, the Company proposed that an interim dividend of RMB0.20 per share be distributed in cash based on the 7,345,053,334 shares of the Company's total share capital, amounting to RMB1,469,010,666.80.

IV. MATERIAL LITIGATIONS & ARBITRATIONS

The Company had no material litigation or arbitration during the reporting period.

V. ASSET TRANSACTIONS

(I) Asset acquisition

On June 8, 2007, Ping An Life entered into the Subscription Agreement with Minsheng Bank, pursuant to which Ping An Life subscribed 714 million Minsheng Bank's non-public offer shares at RMB7.63 per share, with a lock up period of 12 months and total consideration of RMB5,448 million. The subscription can enhance the Group's efforts to expand investment channels and maximize the return from the use of insurance funds, and is in line with the Group's ordinary course of business of investment decision.

(II) Merger

On June 16, 2007, CBRC approved Shenzhen Commercial Bank in acquiring the entire equity interest of Ping An Bank, consolidating and renaming as Shenzhen Ping An Bank Co., Ltd. (hereinafter referred to as "Shenzhen Ping An Bank"), with its headquarters in Shenzhen. The former Ping An Bank was restructured as Shenzhen Ping An Bank Shanghai Branch, the former Ping An Bank Fuzhou Branch and Shanghai Zhangjiang Sub-branch were restructured as Shenzhen Ping An Bank Fuzhou Branch and Shanghai Zhangjiang Sub-branch. On June 27, 2007, the industrial & commercial registration procedures for Shenzhen Commercial Bank renaming as Shenzhen Ping An Bank were completed.

VI. MATERIAL CONNECTED TRANSACTIONS

The Company had no material connected transactions during the reporting period.

VII. CUSTODY

The Company had no discloseable custody business during the reporting period.

VIII. CONTRACT

The Company had no discloseable contract business during the reporting period.

IX. LEASE

The Company had no discloseable lease business during the reporting period.

X. GUARANTEES

Unit: RMB million

External guarantees provided by the Company (excluding guarantees provided to subsidiaries)

Guaranteed parties	Date of incurrence	Amount guaranteed	Type of guarantee	Terms of guarantee	Whether fully performed	Whether a guarantee provided to related parties
Total amount of guarantee provided during the reporting period	–	–	–	–	–	–
Total balance of guarantee provided at the end of the reporting period	–	–	–	–	–	–

Guarantees provided by the Company to subsidiaries

Total amount of guarantee provided to subsidiaries during the reporting period	–
Balance of guarantee provided to subsidiaries at the end of the reporting period	1,587

Total amount of guarantees of the Company (including guarantee provided to subsidiaries)

Total amount of guarantee	1,587
Total amount of guarantee as a percentage of the Company's net assets	1.7
Including:	
Amount of guarantee provided to shareholders, de facto controller and its related parties	–
Amount of debt guarantee directly or indirectly provided to parties with gearing ratio exceeding 70%	–
Amount of guarantee exceeding 50% of the net assets	–
Aggregated amount of above three guarantees	–

XI. ASSET MANAGEMENT ON TRUST

The Company had no asset management on trust during the reporting period.

XII. OTHER MATERIAL CONTRACTS

The Company had no other discloseable material contracts during the reporting period.

XIII. IMPLEMENTATION OF UNDERTAKINGS

When the Company issued its H shares in June 2004, as approved by the CIRC through its Reply on the Issue of the Conversion of the Shares Held by Ping An Insurance Group's Foreign Shareholders to the Overseas H shares (Baojianfagai No.[2004] 61) and the CSRC with its Reply Regarding the Approval of the Ping An Insurance (Group) Company of China, Ltd.'s Issuing Overseas Listed H Shares (Zhengjianguohe No.[2004] 18), the 1,170,751,698 non-listed foreign shares held by the foreign shareholders of the Company were converted to H shares. Each of HSBC Insurance Holdings Limited and Dai-Ichi Mutual Life Insurance Company, being the shareholders of the Company, agreed not to sell any of their converted H shares within three years since the listing of H shares. During the reporting period, the undertakings of lock-up period of HSBC Insurance Holdings Limited and Dai-Ichi Mutual Life Insurance Company was expired on June 24, 2007.

XIV. APPOINTMENT OR TERMINATION OF APPOINTMENT OF THE AUDITORS

Pursuant to the resolution of the Company's general meeting 2006, the Company re-appointed Ernst & Young Hua Ming and Ernst & Young (hereinafter collectively "Ernst & Young") respectively as auditing institutions of financial statements prepared in accordance with PRC Accounting Standards and IFRS. The interim financial statements of the Company have been audited by Ernst & Young which has issued a standard unqualified auditors' opinion. The interim audit and other assurance service fee for the reporting period is about RMB12 million.

XV. PUNISHMENT AND REFORMS ON THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS, AND DE FACTO CONTROLLERS

During the reporting period, none of the Company, its directors, supervisors, senior management, shareholders and de facto controllers was a subject of inspection, administrative punishment or criticism by CSRC or public censure by stock exchange.

XVI. EXPLANATION FOR ANALYSIS OF OTHER SIGNIFICANT EVENTS AND THEIR IMPACT AND SOLUTIONS

(I) As at the end of the reporting period, the Company together with its subsidiaries had the following interests in the securities investments of other listed companies (the top ten securities investments are listed in sequence based on initial investment cost):

Serial No.	Stock code	Abbreviation	Number of shares held *(million)*	Initial investment cost *(in RMB million)*	Percentage of the share capital of the company[1]	Accounting items
1	600016	Minsheng Bank	721	5,474	5.21%	Available-for-sale financial assets
			33	143		Held-for-trading financial assets
2	600000	Shanghai Pudong Development Bank	197	2,228	4.92%	Available-for-sale financial assets
			17	206		Held-for-trading financial assets
3	HK3988	Bank of China	453	1,315	0.21%	Available-for-sale financial assets
	601988		91	280		Available-for-sale financial assets
4	HK2628	China Life Insurance	4	96	0.25%	Available-for-sale financial assets
	601628		51	966		Available-for-sale financial assets
			14	444		Held-for-trading financial assets
5	HK1398	Industrial and Commercial Bank of China	30	121	0.37%	Available-for-sale financial assets
	601398		353	1,100		Available-for-sale financial assets
			3	10		Held-for-trading financial assets
6	601006	Daqin Railway	154	878	1.24%	Available-for-sale financial assets
			7	83		Held-for-trading financial assets
7	HK3328	Bank of Communications	9	21	0.29%	Available-for-sale financial assets
	601328		100	573		Available-for-sale financial assets
			33	259		Held-for-trading financial assets
8	000002	Vanke A	110	631	1.87%	Available-for-sale financial assets
			13	176		Held-for-trading financial assets
9	601919	China COSCO	51	436	0.75%	Available-for-sale financial assets
			15	129		Held-for-trading financial assets
10	600900	Yangtze Power	56	429	0.61%	Available-for-sale financial assets
			2	12		Held-for-trading financial assets
	Other securities investments			11,942		
	Total			27,952		

(1) The percentage of the share capital of the company was calculated based on the aggregate number of shares held in the company.

(II) As at the end of the reporting period, Ping An Trust, a subsidiary of the Company, had the following interest of unlisted financial company:

Company name	Initial investment cost *(in RMB million)*	Number of shares held *(million)*	Percentage of the share capital of the company	Net book value *(in RMB million)*
Xingye Securities Co., Ltd.	9	7	0.77%	4

XVII. INDEX OF INFORMATION DISCLOSED

Announcement	Newspaper and page for publication	Date of publication	Website for publication and index
Lin No.2007-001: Announcement on Convening the First Extraordinary General Meeting in 2007	China Securities Journal, Page A11; Shanghai Securities News, Page D8; Securities Times Page A4	March 2, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-002: Announcement on Estimated Increase in Results for 2006	China Securities Journal, Page A24; Shanghai Securities News Page D8; Securities Times Page A4	March 15, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-003: Announcement on Substantial Matters	China Securities Journal, Page D005; Shanghai Securities News, Page A6; Securities Times Page C12	March 19, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-004: Announcement on Resolution of the First Extraordinary General Meeting in 2007	China Securities Journal, Page D004; Shanghai Securities News, Page D24; Securities Times, Page B8	March 20, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-005: Announcement on Premiums Income	China Securities Journal, Page D004; Shanghai Securities News, Page D24 ; Securities Times, Page B8	March 20, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-006: Announcement	China Securities Journal, Page C61; Shanghai Securities News, Page D80; Securities Times, Page A4	March 30, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-007: Announcement on Changes of Securities Representative	China Securities Journal, Page B12; Shanghai Securities News, Page A14; Securities Times, Page C12	April 9, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-008: Announcement on Resolution of the Fourth Session of the Fifth Supervisory Committee	China Securities Journal, Page C007; Shanghai Securities News, Page D33; Securities Times, Page C13	April 12, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-009: Announcement on Resolution of the Ninth Session of the Seventh Board of Directors	China Securities Journal, Page C005; Shanghai Securities News, Page D33; Securities Times, Page C13	April 12, 2007	Shanghai Stock Exchange http://www.sse.com.cn/

Announcement	Newspaper and page for publication	Date of publication	Website for publication and index
Abstract from 2006 Annual Report	China Securities Journal, Page C005; Shanghai Securities News, Page D33; Securities Times, Page C13	April 12, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-010: Announcement on Guarantee Given to Ping An Insurance Overseas (Holdings) Co. Ltd.	China Securities Journal, Page C008; Shanghai Securities News, Page A9 ; Securities Times, Page C7	April 16, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-011: Announcement on Convening the Annual General Meeting of 2006	China Securities Journal, Page C068; Shanghai Securities News, Page D75; Securities Times, Page B8	April 19, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-012: Announcement on Premiums Income	China Securities Journal, Page C081; Shanghai Securities News, Page D96; Securities Times, Page C11	April 20, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-013: Announcement on Changes of Sponsor	China Securities Journal, Page C09; Shanghai Securities News, Page D64; Securities Times, Page A16	April 24, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-014: Announcement on Resolution of the Eleventh Session of the Seventh Board of Directors	China Securities Journal, Page C10; Shanghai Securities News, Page D73; Securities Times, Page C4	April 27, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
First Quarter Report of 2007	China Securities Journal, Page C10; Shanghai Securities News, Page D73; Securities Times, Page C4	April 27, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-015: Announcement on Premiums Income	China Securities Journal, Page C004; Shanghai Securities News, Page D16 ; Securities Times, Page A8	May 18, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-016: Indicative Announcement on Listing of A Shares Placed Offline (Lock-in Period: 3 Months)	China Securities Journal, Page C013; Shanghai Securities News, Page D6 ; Securities Times, Page A4	May 30, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-017: Announcement on Resolution of 2006 Annual General Meeting	China Securities Journal, Page C004; Shanghai Securities News, Page D9; Securities Times, Page C13	June 8, 2007	Shanghai Stock Exchange http://www.sse.com.cn/

Announcement	Newspaper and page for publication	Date of publication	Website for publication and index
Lin No.2007-018: Announcement on Substantial Matters	China Securities Journal, Page C005; Shanghai Securities News, Page A16; Securities Times, Page C8	June 11, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-019: Announcement on Dividend Distribution for 2006	China Securities Journal, Page C009; Shanghai Securities News, Page D22; Securities Times, Page C4	June 15, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-020: Self-inspection Report and Rectification Program in the Special Operation on Corporate Governance	China Securities Journal, Page C009; Shanghai Securities News, Page D22; Securities Times, Page C4	June 15, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-021: Announcement on Premiums Income	China Securities Journal, Page C005; Shanghai Securities News, Page D11; Securities Times, Page C8	June 20, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-022: Announcement on Ping An Bank Consolidated by Shenzhen Commercial Bank	China Securities Journal, Page 008; Shanghai Securities News, Page D9; Securities Times, Page C13	June 21, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-023: Announcement on Resolution of the Thirteenth Session of the Seventh Board of Directors	China Securities Journal, Page C013; Shanghai Securities News, Page D19 ; Securities Times, Page C16	June 26, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-024: Announcement	China Securities Journal, Page A20; Shanghai Securities News, Page D8; Securities Times, Page A12	June 29, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-025: Announcement on Holding Online Forum on Corporate Governance	China Securities Journal, Page C008; Shanghai Securities News, Page D19; Securities Times, Page C12	July 10, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-026: Announcement on Changes of Employee Representative Supervisor	China Securities Journal Page A16; Shanghai Securities News, Page A14; Securities Times, Page C4	July 16, 2007	Shanghai Stock Exchange http://www.sse.com.cn/

Announcement	Newspaper and page for publication	Date of publication	Website for publication and index
Lin No.2007-027: Announcement on Premiums Income	China Securities Journal, Page C004; Shanghai Securities News, Page D64; Securities Times, Page C8	July 20, 2007	Shanghai Stock Exchange http://www.sse.com.cn/
Lin No.2007-028: Announcement on 2007 Estimated Interim Results	China Securities Journal, Page B16; Shanghai Securities News, Page D14; Securities Times, Page C24	July 24, 2007	Shanghai Stock Exchange http://www.sse.com.cn/

Ernst & Young Hua Ming has audited the interim financial statements of the Company and issued a standard unqualified auditor's opinion. Please refer to audited financial statements in "Section IX Attachment".

Section VIII Documents Available for Inspection

1. The text of the Interim Report signed by the Chairman of Board of Directors of the Company.

2. Financial statements signed and sealed by the legal representative and financial officer.

3. The original copy of the audit report sealed by the accounting firm and signed and sealed by the certified public accountant.

4. The original copy of all the documents and announcements that were publicly disclosed by the Company in the China Securities Journal, Shanghai Securities News and Securities Times.

5. The articles of association of the Company.

The audited financial statements of Ping An Insurance (Group) Company of China, Ltd. as at June 30, 2007

Ma Mingzhe
Chairman and Chief Executive Officer

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

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 75 to 188 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 75 to 188 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 59 to 188 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 75 to 188 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 75 to 188 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 75 to 188 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 75 to 188 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 75 to 188 form an integral part of these financial statements.

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 75 to 188 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 75 to 188 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)

Item		*Notes III*	For the six months ended June 30, 2006							
			Equity attributable to shareholders of the parent							
			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 75 to 188 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 75 to 188 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 75 to 188 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 75 to 188 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 75 to 188 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 75 to 188 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			For the six months ended June 30, 2006					
			Share capital (Unaudited)	Capital reserves (Unaudited)	Surplus reserves (Unaudited)	General risk provision (Unaudited)	Retained profits (Unaudited)	Total (Unaudited)
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 75 to 188 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 these 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.

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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%.

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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.

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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.

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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.

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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

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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.

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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**

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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	**Fair value**		Nominal	Fair value	
	amount	**Asset**	**Liability**	amount	Asset	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					
Item	**Balance as at January 1, 2007**	**Addition during the period**	**Reversal 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	Write-off	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.

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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
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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 millions). 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. CONTINGENCIES

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 values	**(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:

	(Audited) For the six months ended June 30, 2007	(Unaudited) For the six months ended June 30, 2006
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 Management	**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 the 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.