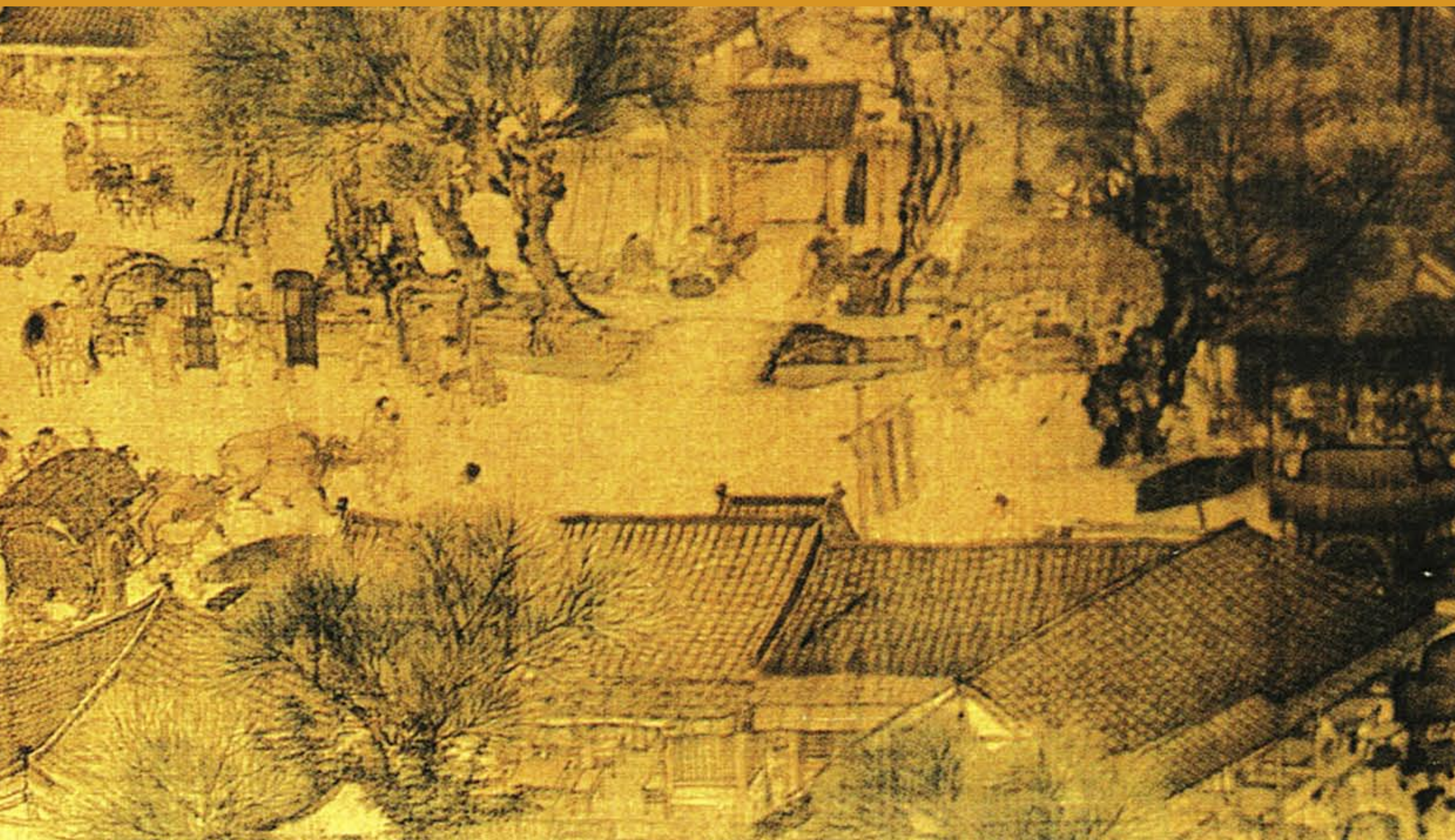
中国平安
专业·价值 PING AN OF CHINA

# 2005 Annual Report



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

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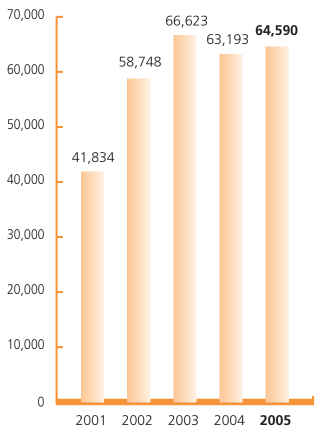
**Cautionary Statements Regarding Forward-Looking Statements**

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", "objectives", "intends", "plans", "believes", "will", "may", "should", and similar expressions or variations on such expressions may be considered forward-looking statements.

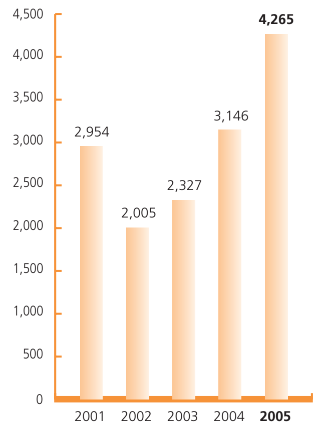
Readers should note that a variety of factors, many of which may be beyond the Company's control, affect the performance, operations and results of the Company, and could cause actual results to differ materially from the expectations expressed in any of the Company's forward-looking statements. These 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 assumes no obligation to publicly update or revise any forward-looking statement that is contained in this report as a result of new information, future events or otherwise. None of the Company, or any of its employees or affiliates is responsible for, or is making, any representations concerning the future performance of the Company.

# FINANCIAL HIGHLIGHTS

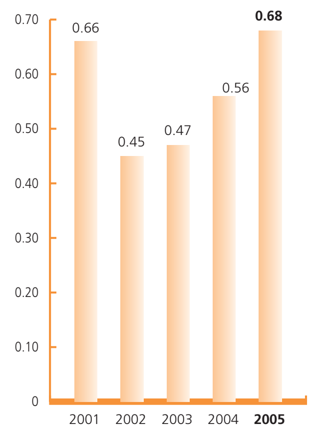
### Total Revenue




### Net Profit



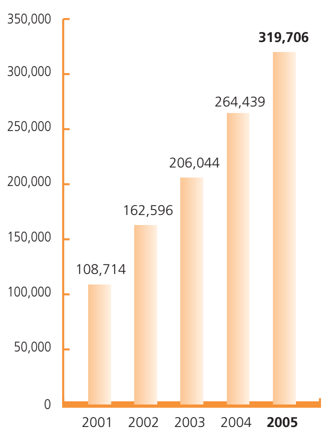

### Earnings Per Share



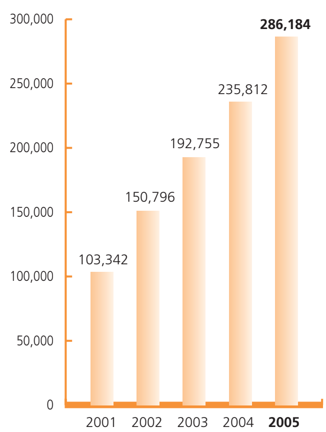

| **PROFIT AND LOSS**<br>**For the year ended December 31,**<br>**(in RMB million)** | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|
| Total Revenue | 41,834 | 58,748 | 66,623 | 63,193 | **64,590** |
| Net Profit | 2,954 | 2,005 | 2,327 | 3,146 | **4,265** |

| **PER ORDINARY SHARE**<br>**For the year ended December 31, (in RMB)** | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|
| Basic Earnings | 0.66 | 0.45 | 0.47 | 0.56 | **0.68** |

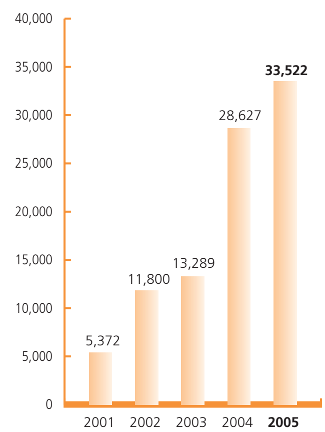
### Total Assets




### Total Liabilities




### Total Equity




| **BALANCE SHEET**<br>**As at December 31, (in RMB million)** | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|
| Total Assets | 108,714 | 162,596 | 206,044 | 264,439 | **319,706** |
| Total Liabilities | 103,342 | 150,796 | 192,755 | 235,812 | **286,184** |
| Total Equity | 5,372 | 11,800 | 13,289 | 28,627 | **33,522** |

* The comparative figures for 2001, 2002 and 2003 are not retrospectively adjusted for the changes in accounting policies made in 2005.

# CHAIRMAN'S STATEMENT

The PRC economy sustained steady and rapid growth in 2005. The reform in the finance industry achieved remarkable results and the insurance sector showed healthy and well-coordinated development. In 2005, Ping An continued to achieve its strategic objectives and deliver excellent results with a growth rate that was above the industry average. This was the result of our proactive reform and transformation which was at the forefront of the industry during the past 3 years. For the year ended December 31, 2005, Ping An recorded a net profit of RMB4,265 million, representing an increase of 35.6% from the previous year, while our total assets reached RMB319,706 million, and our total equity increased to RMB33,522 million. Sufficient capital and steady profit growth has provided Ping An with a favorable head-start position for accelerated development. In addition, the Group became one of Forbes Global top 2000's and was ranked 10th among the listed Chinese companies in 2005.

Inspired by the steady build-up of the Group's overall strength, together with the optimistic market outlook for the Chinese finance industry, Ping An's stock price performed well, and the market value of Ping An reached HKD100 billion for the first time at closing on January 9, 2006. This puts Ping An at an unprecedented height in terms of market value, ranking among the top 20 listed companies on Hong Kong Stock Exchange.

## BUSINESS REVIEW

In 2005, the Group recorded a total revenue of RMB64,590 million, among which gross written premiums and policy fees accounted for RMB59,021 million and total investment income accounted for RMB9,655 million. Our consolidated net investment yield and total investment yield both increased from last year. The embedded value of the Group reached RMB48,363 million. Our core insurance business has laid a solid profit-generating foundation, our business in transformation has achieved its periodic objectives and our new business has set up its infrastructure.

### Core business laid a solid profit-generating foundation and regained premium growth momentum

Our life insurance business recorded total gross written premiums, policy fees and premium deposits of RMB58,691 million, representing an increase of 7.2% from the previous year and taking up 16.1% of the PRC life insurance market. The value of one year's new business was RMB4,539 million, representing an increase of 16.0% from the previous year; net profit for 2005 totaled RMB3,551 million, representing an increase of 31.3% from the previous year. In particular, total premium income from our individual life insurance totaled RMB46,169 million, representing an increase of 15.0% from the previous year. Quality of our business was maintained and our 13-month and 25-month persistency ratios were 85.9% and 81.9%, respectively. The sales team was maintained at a stable scale with improved productivity.

Our property and casualty insurance business experienced strong growth together with improved profitability. Gross written premiums and net profit reached RMB12,076 million and RMB422 million, representing an increase of 19.0% and 94.5% respectively from the previous year, both were higher than the industry's average growth rate. We witnessed growth from business segments by product types, by distribution channels, by geographic regions and by customer types. Our market share was 9.9%, an increase of 0.4% from the previous year, while the combined ratio improved to 95.3%. Meanwhile, cross-selling from our life insurance agents continued to grow, and new sales channels such as direct telemarketing showed promising development. Our newly implemented sales and service support platform would substantially boost the business development into the next stage.

# CHAIRMAN'S STATEMENT

The key performance indicators of our core insurance business remained healthy. Although, the entire insurance industry went through restructuring, our life and property and casualty insurance business managed to reach new historic highs in net profit. This success was made possible as a result of our proactive reform and transformation over the past few years, laying a solid foundation for accelerated growth in the future.

## Transformed business ready to launch, and new business accomplished its infrastructure set up

In 2005, the Group carried out initiatives to transform our group life insurance, bancassurance, securities and trust businesses. Though the scale of these businesses did not increase, their operational models and business structures continued to optimize, and quality improvements were obvious.

After one year's strategic transformation, our group insurance business has gradually transformed into a group sales channel that offers comprehensive financial services, and has achieved positive results in product structuring, team quality and back-office support management. The productivity of the sales team has also improved steadily and the future growth potential of the corporate pension and welfare security market will bring new development opportunities to our group insurance business.

Throughout the transformation process of the industry, our bancassurance business has effectively maintained its business platform, team scale and core branch network. In addition, we continued to explore innovative business models of cooperation with other banks.

In 2005, the capital market was under continuous restructuring, the stock market experienced another bear market year, and the whole industry suffered big loss. Nevertheless, our security business achieved profits for 3 consecutive years, gained market share in brokerage business and secured a market-leading position in the investment bank business.

Our trust operation has been proactively recruiting professionals and talents from outside to build property and infrastructure investment teams with international experience. The total assets under its custody increased to RMB3,330 million by the end of 2005.

In our newly developed business sector, Ping An Bank accelerated its business deployment and steadily rolled out its structure building after moving its headquarter to Shanghai in mid 2005. The Group has also tapped into a new market with the launch of its small-amount consumer financing business. Ping An Asset Management Co., Ltd. and Ping An Health Insurance Company of China, Ltd. were established in mid 2005, and Ping An Annuity Insurance Company of China, Ltd., established in 2004, was later granted both trustee and investment management licenses. With the development of these new businesses, the Group's integrated financial service platform has gradually materialized.

### Upgraded nation-wide back-office center providing strong support to business development

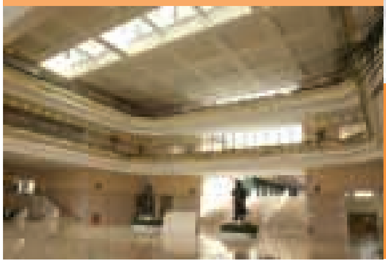
The Group has sped up the pace of our nation-wide back-office centralization process and proactively pushed on the construction of IT platform for integrated financial service. At the same time, the Group kicked off its "Olympic project", a project which aims to enhance the Group's operation through utilizing its strong individual and corporate customer bases, integrating its internal resources and channels, and maximizing intra-group's synergy so as to provide efficient, fast and well-oriented comprehensive financial services.

### Internationally recognized management platform

Under the leadership of the Group's experienced management team, both our corporate governance structure and risk management system have continued to improve, and internal compliance management has been enhanced. Supported by our highly centralized finance, risk and HR management systems, Ping An's operation remained solid, with the aim at maximizing shareholders' value through the best corporate governance. In 2005, Ping An was ranked third for "Best Corporate Governance in Global Emerging Markets' Insurance Industry 2005" by *Euromoney* Magazine, and third in the China region for "Asia's Best Managed Companies 2005" with both rankings being among the top of all insurance companies in PRC.

## PROSPECTS

In 2006, the PRC economy is expected to continue its growth at a fast and healthy pace, and with the improvement in purchasing power and living standard of the Chinese citizens, the demand for finance services will develop towards comprehensive wealth management. As per the provisions governing China's admission to the WTO, by the end of 2006, the finance industry in China will be completely open to the world, thus signaling the end of the transitional period. By that time, it is expected that more foreign financial institutions will enter into China. With the increase in market competitors, domestic financial institutions will have to speed up their reform and restructuring process in order to compete in the international financial services market.



# CHAIRMAN'S STATEMENT


Facing the huge market potential and increasingly fierce competition, we will rely on our solid foundation built in the past and follow the government's direction and policy of "Encouraging financial innovation, promoting trials of integrated financial services" closely. We will capitalize on our clear and mature strategic advantages to speed up the development of our integrated financial services platform.

Regarding business development, the Group will make strong efforts to improve the economy of scale and profitability of our core businesses, enhance the margin and profit contribution from the transformed business, and set up solid platform and high industry standards for our new business.

Regarding back-office construction, the businesses of the Group will coordinate and grow with each other through a robust resources sharing platform, together with the back-office center, which has been put into use, to provide the distribution channels with customer-oriented support.

Regarding investment, the Group will seek to broaden its investment channels, such as infrastructure investment projects to diversify investment risks, enhance investment return and improve our asset-liability management, so as to increase the competitiveness of our financial products.

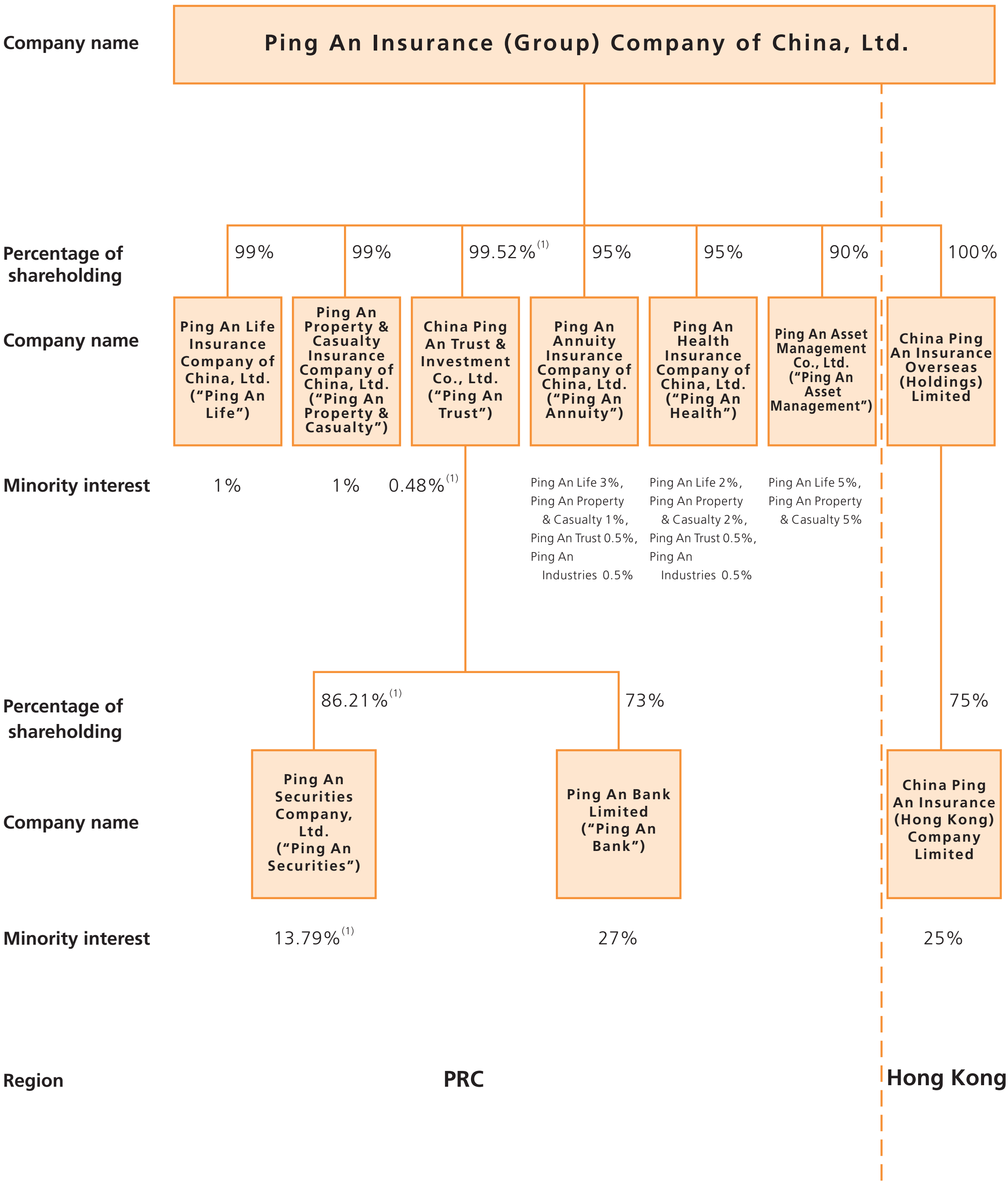
My colleagues and I have never been more confident of our future. We are well positioned to achieve profitable growth. Ping An will definitely adhere to its pioneering spirit, strive with perseverance, pool our wisdom and efforts, face the challenge with confidence and capture business opportunities, so as to repay the long-term support and trust of our shareholders.

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

Shenzhen, PRC
March 29, 2006

# ORGANIZATION STRUCTURE

As at December 31, 2005




(1) These percentages are rounded to the nearest two decimal place.

From left: Mr. YIP Lai Shing, Mr. SUN Jianyi, Mr. CHEUNG Chi Yan Louis, Mr. Richard JACKSON, Mr. MA Mingzhe, Mr. KU Min-shen, Mr. LEUNG Ka Kui Dominic

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**MA Mingzhe**, 50, has been the Chairman of the Board of Directors and Chief Executive Officer of our Company since April 1994 and April 2001, respectively. He is a member of the National Committee of the Chinese People's Political Consultative Conference. Since the establishment of Ping An Insurance Company in March 1988, he has held various positions, including President, Director and Chairman of the Board of Directors. Prior to that, Mr. Ma was the Deputy Manager of China Merchants Shekou Industrial Zone Social Insurance Company. Mr. Ma has a Doctorate degree in Money and Banking from Zhongnan University of Economics and Law.

**SUN Jianyi**, 53, has been the Executive Vice President and Vice Chief Executive Officer of our Company since October 1994 and February 2003, respectively. Mr. Sun has been serving as a Director since March 1995. Since joining our Company in July 1990, he has been the General Manager of the Management Department, Vice-President and Executive Vice-President. Prior to joining our Company, Mr. Sun was the Head of the Wuhan Branch of the People's Bank of China and the Deputy General Manager of the Wuhan Branch Office of the People's Insurance Company of China and the General Manager of Wuhan Securities Company. He has a Diploma in Finance from Zhongnan University of Economics and Law.

### Non-Executive Directors

**Henry CORNELL**, 50, has been a Non-executive Director of the Company since October 1998. Mr. CORNELL has assumed various responsibilities at Goldman, Sachs & Co. since joining the company in 1984. He is now also a Managing Director of Goldman, Sachs & Co., Head of Principal Investment Area, Americas and Co-head of Principal Investment Area, Asia. Mr. CORNELL earned a B.A. degree in Literature from Grinnell College and a J.D. degree from New York Law School.

**HUANG Jianping**, 46, has been a Non-executive Director of the Company since May 2002. He is also the Deputy Director of the planning and finance department of Shenzhen Investment Holdings Company Limited. Mr. Huang has a Diploma in Finance from Shenzhen University.

**LIU Haifeng David**, 36, has been a Non-executive Director of the Company since May 2002. Mr. Liu is a Managing Director of Kohlberg Kravis Roberts & Co. ("KKR") and Head of KKR China. Prior to joining KKR in 2006, Mr. Liu was the Co-head of Morgan Stanley Private Equity Asia and a Managing Director of Morgan Stanley. Mr. Liu joined Morgan Stanley in 1993 in private equity in New York and has spent 13 years at Morgan Stanley. Mr. Liu previously served as non-executive director of China Mengniu Dairy Company Limited, China Paradise Electronics Retail Limited, Belle International Holdings Limited, China Shanshui Cement Group Company Limited, Fujian Nanping Nanfu Battery Company Limited, CIMIC Holdings Limited and Shanghai CIMIC Tile Co., Ltd. Mr. Liu was also responsible for the investment in Hengan International Group Company Limited. Mr. Liu graduated as Class Salutatorian from Columbia University with a B.S. in Electrical Engineering.

**LIN Yu Fen**, 35, has been a Non-executive Director of the Company since October 2002. He is also an executive director of Capital China Group Company Limited. He graduated from City University of Hong Kong with an Honor degree in Finance. Mr. Lin is also a fellow member of the Association of Chartered Certified Accountants.

**CHEUNG Lee Wah**, 59, has been a Non-executive Director of the Company since October 2002. He has served as the General Manager of Wuhan Huachuang Enterprise Management Consulting Company Limited since 2001. Mr. Cheung was previously a Manager of Hilichamp Company Limited. He has a Bachelor's degree from McMaster University in Canada.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

**Anthony Philip HOPE**, 59, has been a Non-executive Director of the Company since November 2002. Mr. HOPE has also been serving as Vice-Chairman of the Board of Directors since August 25, 2005. Mr. HOPE was appointed Chairman of HSBC Insurance Holdings Limited in 1987 and Group General Manager of Insurance of HSBC Holdings plc in 1996.

**YIP Dicky Peter**, 59, (resigned with effect from May 1, 2005), was a Non-Executive Director of the Company from November 2002 to April 30, 2005. Mr. Yip resigned on his own accord with effect from May 1, 2005 due to a change of Job. Mr. Yip joined HSBC in Hong Kong in 1965 with working experience in a number of departments. His previous assignment had been in Personal Financial Services division of HSBC. Since January 2003, Mr. Yip has been appointed Chief Executive of China Business of HSBC. Mr. Yip graduated from University of Hong Kong with an MBA degree.

**DOU Wenwei**, 40, has been a Non-executive Director of the Company since May 2003. Mr. Dou is also a director of Shenzhen Jiangnan Industrial Development Co., Ltd. Mr. Dou has been the assistant general manager of the legal and compliance department of our Company since 2004. He has a Master's degree in PRC Civil Law from Jilin University.

**FAN Gang**, 51, has been a Non-executive Director of the Company since May 2003. Mr. Fan is also a director of Shenzhen Jiangnan Industrial Development Co., Ltd. Mr. Fan has been the General Manager of the Chairman's Office of our Company since 2002. Mr. Fan joined our Company in 1988 and served as the General Manager of the Shenzhen Branch (Property & Casualty) of our Company from 1998 to 2000. Mr. Fan was previously the Deputy Director of the Insurance Management Committee of our Company. Mr. Fan has a Diploma in History from Hubei University.

**LIN Lijun**, 43, has been a Non-executive Director of the Company since May 2003. Ms. Lin has served as the Chairman of the board of directors of Shenzhen New Horse Investment Development Co., Ltd. since 2000. Ms. Lin previously served as the Deputy General Manager of the Human Resources Department at the property & casualty insurance business of our Company from 1997 to 2000. She has a Bachelor's degree in Chinese Language and Literature from South China Normal University.

**SHI Yuxin**, 51, has been a Non-executive Director of the Company since October 2003. Mr. Shi has served as the Managing Director of Wuhan Wuxin Industrial Company Limited since December 1992. Mr. Shi is also the director of the board of directors of Wuhan Dapeng Industrial Company Limited. Mr. Shi has a LLM degree from Wuhan University.

**HU Aimin**, 57, has been a Non-Executive Director of the Company since March 2004. Mr. Hu has served as the Chairman of the board of directors of Shum Yip Holdings Company Limited and Shenzhen Investment Limited since April 2003 and June 2003, respectively. Mr. Hu has also served as the Chairman of the board of directors of Shenzhen Shum Yip Investment Development Company Limited since November 2003. Mr. Hu previously served as the Secretariat to the People's Government of Shenzhen and the director of the general office of the People's Government of Shenzhen concurrently. Mr. Hu has a Master's degree in Management from Hunan University.

**CHEN Hongbo**, 54, has been a Non-executive Director of the Company since June 23, 2005. Mr. Chen has also been serving as Vice-Chairman of the Board of Directors since August 25, 2005. Mr. Chen has been the Chairman and the Secretary of the Party Committee of Shenzhen Investment Holdings Company, Ltd. since September 2004 and was the Deputy Director of State-owned Assets Supervision and Administration Commission of Shenzhen Municipality from April 2004 to September 2004 and the Assistant Director and the Deputy General Director of Economic Restructuring Office of Shenzhen Municipality from December 1992 to April 2004. Mr. Chen graduated from Zhongnan University of Economics and Law with a Master degree in Economics.

### Independent Non-Executive Directors

**BAO Youde**, 74, has been an Independent Non-executive Director of the Company since September 1995. Prior to retiring in 1999, he was a Deputy Chairman of the board of directors and the General Manager of Shanghai International Trust Investment Company. In 1987, Mr. Bao was selected to serve as a representative in the Chinese Communist Party's 13th Congress. In both 1988 and 1993, he was selected to serve as a representative in the Shanghai People's Congress. He graduated from Shanghai University of Finance and Economics with a Diploma in Accounting.

**KWONG Che Keung Gordon**, 56, has been an Independent Non-executive Director of the Company since May 2003. Mr. Kwong is also independent non-executive director of a number of companies listed on the Stock Exchange, namely Cosco International Holdings Limited, Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, Concepta Investments Limited, China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Quam Limited, Tom Online Inc., China Power International Development Limited, New World Mobile Holdings Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. From 1984 to 1998, Mr. Kwong was a partner of Pricewaterhouse and was a council member of the Stock Exchange from 1992 to 1997. He has a Bachelor of Social Science degree from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales. Mr. Kwong previously served as a non-executive director of Cosco Pacific Limited until his resignation in January 2006 and was an independent non-executive director of Henderson China Holdings Limited which was privatized in July 2005.

**CHEUNG Wing Yui**, 56, has been an Independent Non-executive Director of the Company since May 2003. Mr. Cheung is also an independent director or non-executive director of a number of companies listed on the Stock Exchange, namely SmarTone Telecommunications Holdings Limited, SUNeVision Holdings Limited, Tai Fook Securities Group Limited, Tianjin Development Holdings Limited, Shanghai Real Estate Limited, Tai Sang Land Development Limited, Hop Hing Holdings Limited, Ching Hing (Holdings) Limited and Agile Property Holdings Limited. Mr. Cheung is also a practicing lawyer and a partner of Woo, Kwan, Lee & Lo. In addition, he was the Vice Chairman of the Mainland Legal Affairs Committee of the Law Society of Hong Kong until he retired on December 31, 2005 and Council Member of the Open University of Hong Kong for a period of 8 years until 2005 and a member of the Board of Review (Inland Revenue Ordinance). Mr. Cheung has a Bachelor's degree in Commerce major in Accounting from New South Wales University in Australia. Mr. Cheung is also a member of Australian Society of CPAs.

**CHOW Wing Kin Anthony**, 55, has been an Independent Non-executive Director of the Company since June 23, 2005. Mr. Chow has been practicing as a solicitor in Hong Kong for the past 26 years and is a partner of the law firm, Peter C. Wong, Chow & Chow. He is also a China-appointed attesting officer. He has been serving as an independent non-executive director of Fountain Set (Holdings) Limited since June 2004 and a non-executive director of Kingmaker Footwear Holdings Limited since May 1994. Mr. Chow is the Vice Chairman of Estate Agents Authority, a member of the Law Reform Commission of Hong Kong, the Hong Kong Housing Authority and a Council Member of The Hong Kong Institute of Education. He is also a member of National Committee of the Chinese People's Political Consultative Conference and a member of the board of Steward of the Hong Kong Jockey Club.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## SUPERVISORS

**XIAO Shaolian**, 72, has been an Independent Supervisor of our Company and the Chairman of our Supervisory Committee since August 1994 and May 2003, respectively. Mr. Xiao previously served as the Deputy Governor of the Shenzhen Branch of the People's Bank of China and Deputy Director of Shenzhen Foreign Exchange Administration Bureau concurrently.

**CHEN Shangwu**, 72, has been an Independent Supervisor of our Company since August 1994. Prior to 1997, Mr. Chen served as the Chief Engineer of Shenzhen China Merchants Petrochemical Company Limited. After his retirement, Mr. Chen served as the director of the office of the board of directors of Shenzhen Xietong Industrial Development Company.

**SUN Fuxin**, 67, has been an Independent Supervisor of our Company since May 2003. Mr. Sun is currently the Chairman of the board of directors of Tian Yi Investment Guarantee Company and a Deputy Director of Dalian Credit Ranking Commission. Prior to his retirement in April 2003, Mr. Sun served as a Deputy Governor of the Dalian Branch of Industrial and Commercial Bank of China Limited, a Deputy Secretariat of People's Government of Dalian in charge of budget, finance, real estate and tax. Mr. Sun also previously served as the director of the Management Committee of Bank of Communication's Dalian Branch, the Securities Regulatory Office of Dalian, the general office of financial management of Dalian, Head of Dalian Real Estate Development Administration Office and the Resource Allocation of Underdeveloped Areas of Dalian and the Chairman of the board of directors of Dalian Commercial Bank.

**DUAN Weihong**, 37, has been a Supervisor of our Company since May 2003. Ms. Duan is also the Chairperson of the board of Shenzhen Deng Feng Investment Group Company, Limited. She has an EMBA degree from School of Economics & Management, Tsinghua University.

**ZHOU Fulin**, 44, has been a Supervisor of our Company since May 2003. Mr. Zhou is also the Vice President and Financial Controller of Beijing Wo He Sai Teng Network Technology Company Limited. He was previously President of Beijing Wo He Science Development Company Limited.

**CHEN Bohai**, 29, has been a Supervisor of our Company since May 2003. Mr. Chen is also the Deputy General Manager of Shenzhen Delixing Investment & Development Company Limited. He attended Guangdong University of Foreign Studies.

**HE Peiquan**, 71, has been a Supervisor of our Company since April 1998. From our establishment in March 1988 until May 1998, he served as the Deputy General Manager and Chief Auditing Officer of our Company. From 1984 to 1992, Mr. He also served as Deputy General Manager and later General Manager of ICBC Shenzhen Trust & Investment Company.

**SONG Liankun**, 68, has been a Supervisor of our Company since May 2003. Mr. Song is also a Deputy General Manager, the Deputy Secretary of the Communist Party's Revolutionary Committee of our Company and the Chairman of the labor union of our Company. He was previously the Deputy General Manager at Qingdao Ocean Shipping Company. Mr. Song graduated from Dalian Maritime University with a Diploma in Marine Navigation.

**HE Shi**, 41, has been a Supervisor of our Company since May 2003. He has been the general manager of the Human Resources Department of our Company since 2002. He previously served as the deputy general manager of our Hainan Branch and as the general manager of the Human Resources Department at the property & casualty insurance business of our Company. Mr. He joined our Company in September 1991. He graduated from the graduate program of the Chinese Academy of Social Sciences with a Diploma in International Finance and Banking.

## STANDING MEMBERS OF THE EXECUTIVE COMMITTEE

**CHEUNG Chi Yan Louis**, 42, Chief Operating Officer and Chief Financial Officer of our Company since October 2003 and February 2003, respectively. Since joining our Company in February 2000, Mr. Cheung has been Senior Advisor to the Chairman, Chief Information Officer, Vice-President and Chief Financial Officer. From 1993 to 2000, Mr. Cheung was a management consultant and later became a global partner of McKinsey & Company, advising mainly financial services clients throughout Asia. Mr. Cheung has a Ph.D. degree in Business Information Systems from the University of Cambridge.

**KU Min-shen**, 49, Vice-President and Chief Human Resources Officer of our Company since February 2003. Mr. Ku joined our Company in May 2001 and served as the Head of Human Resources from June 2001 to February 2003. From 1995 to 2001, Mr. Ku served as Vice-Chairman and President of Shanghai Van Den Bergh Company, Ltd., a joint venture between Unilever and Shanghai Sugar Cigarette and Wine (Group) Company, Ltd. and the Human Resources Director of Unilever HPC China. Mr. Ku has a Bachelor's degree in Educational Psychology from Fu Jen Catholic University of Taiwan.

**LEUNG Ka Kui Dominic**, 58, Chief Insurance Business Officer of our Company and Chairman of Ping An Life Insurance Company of China, Ltd. since March 2006 and January 2004, respectively. From January 2004 to January 2006, Mr. Leung was the Chief Executive Officer of Ping An Life Insurance Company of China, Ltd. Mr. Leung joined our Company in January 2004. From 1996 to 2003, he worked in Prudential Corporation Asia Ltd. as the Managing Director, Greater China. From 1989 to 1996, he worked in Taiwan Nanshan Life Insurance Company, Ltd. and his last position was the General Manager of the company. From 1975 to 1989, he worked in American International Assurance Company and his last position was Vice-President. Mr. Leung has a Bachelor's degree in Science from the Chinese University of Hong Kong.

**Richard JACKSON**, 50, Chief Finance Business Officer of our Company since November 2005. From 1985 to 2005, Mr. JACKSON served as various positions in Citibank, including Head of International Business for Citigroup Insurance International, and Financial Institutions Head for Asia Pacific, Chairman and CEO of Citibank Hungary, Director of Bank Handlowy in Poland and Country Manager and Consumer Business Head of Citibank Korea. From 1974 to 1985, Mr. JACKSON served as Deputy Manager for Hong Kong and Regional Marketing Manager for Asia in Commercial Union Assurance Corporation. Mr. JACKSON is the Fellow of the Chartered Insurance Institute.

**YIP Lai Shing**, 61, director of the investment management committee of our Company since July 2005 and Chairman and Chief Executive Officer of Ping An Securities Company, Ltd. since October 2005 and September 2002. He was President of Ping An Securities Company, Ltd. from September 2002 to October 2005. From 1996 to 2002, Mr. Yip served as the Chief Executive Officer of DBS Vickers (Hong Kong) Ltd. He was an Executive Director of Sun Hung Kai & Company, Ltd. between 1971 and 1996. Mr. Yip joined our Company in September 2002.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## OTHER SENIOR MANAGEMENT

**CAO Shifan**, 50, Chairman and Chief Executive Officer of Ping An Property & Casualty Company of China, Ltd. since March 2004 and December 2002, respectively.

**WANG Liping**, 49, Vice-President of our Company since January 2004, and Chairman & President of Ping An Annuity Insurance Company of China, Ltd. since August 2005.

**YOUNG Wen Binn**, 49, Vice-President and Chief Investment Officer of our Company since August 2003, and Chairman of Ping An Asset Management Company Ltd. since July 2005.

**Stephen Thomas MELDRUM**, 63, Vice-President and Chief Actuarial Officer of our Company since February 2003.

**XU Guangzhong**, 59, Vice-President and Chief Internal Supervision Officer of our Company since February 2003 and June 2003, respectively and Chairman of Ping An Bank Limited since March 2004.

**YANG Xiuli**, 50, Vice-President of our Company since October 2005.

**CHEN Kexiang**, 48, Assistant President of our Company since February 2003 and Head of General Office and General Secretary of the Board of our Company since June 2002.

**REN Huichuan**, 36, Assistant President and Financial Director of our Company since February 2004 and February 2003, respectively.

**YAO Jun**, 40, Chief Legal Officer and Joint Company Secretary of our Company Since September 2003 and June 2004, respectively.

**GOH Yethun**, 36, Chief Marketing Officer of our Company since August 2005 and Assistant President and Head of Strategic Development of our Company since December 2004.

**TUNG Hoi**, 35, Chairman and Chief Executive Officer of China Ping An Trust & Investment Company, Ltd. since September 2004.

**LEE Yuan Siong**, 40, Chief Executive Officer and President of Ping An Life Insurance Company of China, Ltd. since January 2006 and January 2005, respectively.

**Chyen CHEN**, 56, President of Ping An Property & Casualty Company of China, Ltd. since May 2005.

**Kun-Te CHEN**, 50, President of Ping An Bank Limited since June 2005.

**LO Sai Lai**, 43, Assistant President and Chief Information Officer of our Company since February 2006.

**NG Koon Sun**, 41, Vice President and Chief Internal Auditor of our Company from August 2003, and resigned with effect from March 2006 due to personal reason.

**IP Solan**, 49, Assistant President and Chief Internal Auditor of our Company since March 2006.

**CHEUNG Chun Tong**, 44, Chairman of Ping An Health Insurance Company, Ltd. since March 2006. Vice-President of Ping An Life Insurance Company, Ltd. since April 2003.

**WU Ping**, 49, President of Ping An Asset Management Company, Ltd. since July 2005.

**SONG Chengli**, 45, President of China Ping An Trust & Investment Company, Ltd. since July 2003.

**CHAN Cheuk Yin**, 45, President of Ping An Securities Company, Ltd. since January 2006.

## JOINT COMPANY SECRETARIES

**YAO Jun**, 40, Chief Legal Officer and Joint Company Secretary of our Company since September 2003 and June 2004, respectively. He was previously a partner of Commerce & Finance Law Offices. Mr. Yao has an L.L.M. degree from Peking University.

**SENG Sze Ka Mee Natalia**, 49, a joint company secretary of our Company since June 2004. Ms. Seng has worked in the corporate secretarial department of an international accounting firm for over 20 years and she has served many listed clients over these years. Ms. Seng is a Fellow of the Hong Kong Institute of Company Secretaries, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Directors. Apart from Ping An, Ms. Seng acts as the named Company Secretary of another two listed companies and also the Company Secretary to the manager of a listed Real Estate Investment Trust on the Main Board of the Stock Exchange.

## QUALIFIED ACCOUNTANT

**NGO Tai Chuan Alan**, 33, Qualified Accountant and Deputy General Manager of the Finance Department of our Company since April 2005 and October 2005. He holds a Bachelor's degree in accountancy from Nanyang Technological University of Singapore and is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Certified Public Accountants of Singapore, the Institute of Chartered Accountants in Australia, the Chartered Financial Analyst Institute and a fellow member of the Global Association of Risk Professionals. Prior to joining our Company in December 2003, Mr. Ngo was an audit manager in the Global Financial Services Unit of Ernst & Young.


# BUSINESS REVIEW

# BUSINESS REVIEW

In 2005, we continued to focus on providing multiple financial products and services to our customers through our multi-channel distribution network. With our principal operating subsidiaries, namely Ping An Life, Ping An Property & Casualty, Ping An Trust, Ping An Securities, Ping An Bank, Ping An Annuity, Ping An Health and Ping An Asset Management, we offer our customers a wide range of financial products and services under a single brand name. We are growing profitability across our broad portfolio of businesses. In particular, our core life insurance and property and casualty insurance business reached new historic highs in net profit. Our life insurance and property and casualty insurance businesses accounted for approximately 84.5% and 13.9%, respectively, of our total revenue in 2005.

Being one of the largest insurance companies in the PRC in terms of gross written premiums and policy fees, we had gross written premiums and policy fees of RMB59,021 million in 2005, of which RMB46,945 million, or approximately 79.5%, was from our life insurance business and RMB12,076 million, or approximately 20.5%, was from our property and casualty insurance business.

## LIFE INSURANCE

The following tables set forth certain financial and operating data for our life insurance business:

| **For the year ended December 31, (in RMB million, except percentages)** | **2005** | 2004 |
|---|---|---|
| Gross written premiums and policy fees | **46,945** | 49,883 |
| Individual life insurance | **38,758** | 35,949 |
| Bancassurance | **1,133** | 5,836 |
| Group insurance | **7,054** | 8,098 |
| Premium deposits | **11,746** | 4,846 |
| Individual life insurance | **7,411** | 4,215 |
| Bancassurance | **4,091** | 81 |
| Group insurance | **244** | 550 |
| Gross written premiums, policy fees and premium deposits | **58,691** | 54,729 |
| Market share of gross written premiums, policy fees and premium deposits(1) | **16.1%** | 17.2% |

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

| **As at or for the year ended December 31,** | **2005** | 2004 |
|---|---|---|
| Number of customers: | | |
| Individual (in thousands) | **30,312** | 28,362 |
| Corporate (in thousands) | **267** | 177 |
| Total (in thousands) | **30,579** | 28,539 |
| Persistency ratio: | | |
| 13-month | **85.9%** | 87.5% |
| 25-month | **81.9%** | 80.3% |
| Agent productivity: | | |
| First year premiums, policy fees and premium deposits per agent per month | **4,446** | 3,245 |
| New life insurance policies per agent per month | **2.3** | 2.3 |

We are the second largest life insurance company in the PRC in terms of gross written premiums, policy fees and premium deposits. In 2005, our life insurance business accounted for approximately 16.1% of the gross written premiums, policy fees and premium deposits received by PRC life insurance companies, based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China. Through our extensive distribution network, we sell a full range of risk and savings products that address the needs of our customers at every stage of their lives.

We are one of the most profitable life insurance companies in the PRC. During 2005, we continued to focus on our core strategies emphasizing financial strength, agency development, product innovation and service enhancement. As a result, gross written premiums, policy fees and premium deposits from our individual life insurance products accounted for approximately 78.7% of the gross written premiums, policy fees and premium deposits for our life insurance business in 2005, compared to approximately 73.4% in 2004. In particular, most of individual life insurance first year premiums were from regular premium products in 2005. Our focus on regular premium individual life insurance products provides us with a stable revenue stream that enables us to generate sustainable longer term profits. In addition, the value of one year's new business was RMB4,539 million, representing an increase of 16.0% from the previous year.

In 2005, our group life insurance business focused on employer welfare benefit program. We continued to rationalize our group insurance business model and achieved positive results from our business transformation. We will also capitalize on the new opportunity of selling pension products to our corporate customers. These products will be offered through our newly established subsidiary, Ping An Annuity.

Regarding our bancassurance business, we continued to manage the sales of our bancassurance products with a view towards maintaining profitability. In addition, we are also exploring innovative partnership programs with other banks to sell more sophisticated insurance products to our customers.

### Quality Improvements

Through the continued refinement of our sales agents training system, we enhanced the productivity and professionalism of our sales agents. We have also continued our efforts in enhancing customer service. As a result, the 13-month and 25-month persistency ratios for our individual life insurance customers maintained at a satisfactory level of above 85% and 80%, respectively, as at December 31, 2005.

### Legacy High Guaranteed Return Products

Like other major PRC life insurance companies, we offered life insurance products with relatively high guaranteed rates of return equal to or in excess of 5% from 1995 to 1999, primarily as a result of the then prevailing high market interest rates in that period. In June 1999, the China Insurance Regulatory Commission ("CIRC") imposed a cap of 2.5% with respect to the guaranteed rate of return a life insurance company may offer on its products. As a result, we have offered guaranteed return products with rates of return equal to or less than 2.5% since June 1999. The policyholders' reserves for life insurance policies with high guaranteed rates of return as calculated based on our PRC GAAP financial data represented 40.0% of our total policyholders' reserves as at December 31, 2005 compared to 42.0% as at December 31, 2004. The average pricing rate for all of our guaranteed return life insurance products decreased to 4.7% in 2005 from 4.8% in 2004. We expect these high guaranteed return life insurance policies to decline as a percentage of our total in-force life insurance policies as our new policies with lower or no guaranteed rates of return continue to grow.

# BUSINESS REVIEW

### Distribution Network

Our life insurance products are primarily distributed through a distribution network that includes a sales force of approximately 200,000 individual life insurance sales agents, approximately 1,600 group insurance sales representatives and approximately 27,200 branch offices of China Post and commercial banks in the PRC that have bancassurance arrangements with us.

The following table sets forth certain information of our life insurance distribution channels as at the dates indicated:

| As at December 31, | 2005 | 2004 |
|---|---|---|
| Number of individual life sales agents | **200,193** | 199,997 |
| Number of group sales representatives | **1,644** | 1,605 |
| Bancassurance outlets | **27,222** | 20,023 |

### Customers

For the year ended December 31, 2005, approximately 47.9% of the gross written premiums, policy fees and premium deposits received by our life insurance business were attributable to customers located in or near Shanghai, Guangdong, Beijing, Jiangsu and Shandong, which are among the more economically developed areas in the PRC. We believe these and other more economically developed areas will continue to offer greater potential for further profitable growth. As at December 31, 2005, we had approximately 30 million individual customers and approximately 267,000 corporate customers.

## PROPERTY AND CASUALTY INSURANCE

The following tables set forth certain financial and operating data for our property and casualty insurance business:

| For the year ended December 31, (in RMB million, except percentages) | 2005 | 2004 |
|---|---|---|
| Gross written premiums | **12,076** | 10,150 |
| Automobile | **7,497** | 6,232 |
| Non-automobile | **4,044** | 3,545 |
| Accident and health | **535** | 373 |
| Market share of gross written premiums[1] | **9.9%** | 9.5% |

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

| As at or for the year ended December 31, | 2005 | 2004 |
|---|---|---|
| Combined Ratio: | | |
| Expense ratio | **23.3%** | 20.2% |
| Loss ratio | **72.0%** | 77.0% |
| Combined ratio | **95.3%** | 97.2% |
| Number of customers: | | |
| Individual (in thousands) | **6,006** | 5,519 |
| Corporate (in thousands) | **1,680** | 613 |
| Total (in thousands) | **7,686** | 6,132 |

We are the third largest property and casualty insurance company in the PRC in terms of gross written premiums. In 2005, our property and casualty insurance business accounted for approximately 9.9% of the gross written premiums received by PRC property and casualty insurance companies, based on our PRC GAAP financial data and PRC insurance industry data calculated in accordance with PRC GAAP and published by the National Bureau of Statistics of China.

In 2005, the property and casualty industry became more competitive with more new companies set up for business. While the new companies gained significant market share with aggressive strategies, our main competitors lost market share due to restructuring. Ping An Property & Casualty experienced strong premium growth together with improved underwriting results. This is the result of our financial strength, underwriting skills, outstanding services and operation efficiency. These capabilities will drive future growth and success.

Gross written premiums and net profit for our property and casualty business reached RMB12,076 million and RMB422 million in 2005, representing an increase of 19.0% and 94.5% respectively from the previous year, both were higher than the industry's average growth rate. The growth came from business segments by product types, by distribution channels, by geographic regions and by customer types. As a result, our market share improved to 9.9% in 2005 from 9.5% in 2004.

### Quality Improvements

We continued to focus on disciplined underwriting and service enhancement. This strategy has enabled us to improve our loss ratio very significantly. As a result, our combined ratio improved to 95.3% in 2005 from 97.2% in 2004.

### Distribution Network

The distribution network for our property and casualty insurance products includes 39 branch offices located in substantially all of the PRC's provinces, autonomous regions and municipalities, together with over 1,000 sub-branches located throughout the PRC. We distribute our property and casualty insurance products primarily through our in-house sales representatives and through various intermediaries, such as banks and automobile dealerships, and insurance brokers.

# BUSINESS REVIEW

The following table sets forth certain information of our property and casualty insurance distribution channels as at the dates indicated:

| As at December 31, | 2005 | 2004 |
|---|---|---|
| Number of direct sales representatives | **7,708** | 6,975 |
| Number of insurance agents | **6,176** | 6,168 |

### Customers

For the year ended December 31, 2005, approximately 49.4% of the gross written premiums received by our property and casualty insurance business were attributable to customers located in or near Guangdong, Shanghai, Beijing, Zhejiang and Jiangsu, which are among the more economically developed areas in the PRC. We believe these and other more economically developed areas will continue to offer greater potential for further profitable growth. As at December 31, 2005, we had approximately 6 million individual customers and approximately 1.68 million corporate customers.

## PING AN TRUST

We provide asset management services to our customers through Ping An Trust. In addition, Ping An Trust acts as an investment holding company for some of our long-term equity investments and provides real estate development, management and leasing services to our other subsidiaries. Assets held in trust increased to RMB3,330 million as at December 31, 2005 from RMB1,084 million as at December 31, 2004. In 2005, our trust business developed several new product lines, such as property trust funds and small-amount consumer finance. These new product lines will provide our trust operation with new opportunity of revenue growth.

## PING AN SECURITIES

We conduct our securities business through Ping An Securities, and provide securities services to customers through 22 branch offices nationwide and through our PA18 Internet financial portal. The principal services that we provide to our customers are brokerage services, investment banking services, asset management services and research and consulting services. Brokerage services consist of executing stock and bond trades on the Shanghai and Shenzhen stock exchanges for customers, holding physical securities on behalf of customers and facilitating the payment of dividends and interest repayment of outstanding principal amounts to customers. Investment banking services include securities underwriting, financial advice for mergers and acquisitions and restructurings, securities business training and the provision of market and trading information. Asset management services consist of managing securities portfolios of clients and providing asset management advice. Despite the poor market conditions, Ping An Securities achieved a net profit of RMB6 million in 2005.

## PING AN BANK

In February 2005, Ping An Bank received approval from the China Banking Regulatory Commission ("CBRC") to relocate its headquarter from Fujian to Shanghai. We are currently applying for the Renminbi business license and expect to receive it in the near future. Ping An Bank experienced significant growth in 2005. The balance of Ping An Bank's outstanding loans increased to RMB252 million as at December 31, 2005 from RMB71 million as at December 31, 2004. Ping An Bank's net profit increased to RMB7 million in 2005.

## PING AN ANNUITY

Ping An Annuity was set up on December 13, 2004. With the change in the PRC's retirement fund management system, the market potential for annuity business is very large and attractive. Ping An Annuity has obtained the trustee and investment management licenses to operate in the pension business. We expect to leverage our broad corporate customer base from our insurance operation to capture future growth.

## PING AN HEALTH

Ping An Health was set up on June 13, 2005. We are currently building up our health insurance business model. We see great potential in this line of business and have recruited a team with international expertize to create innovative products and services to explore growth opportunities.

## PING AN ASSET MANAGEMENT

Ping An Asset Management was set up on May 27, 2005. With the setting up of our asset management subsidiary, we are able to build a dedicated team of investment specialists to explore new investment opportunities. One important new investment channel that we are focusing is infrastructure investments. This form of investment will allow us to receive a steady and high return over a longer duration. This will enhance our capability in matching the duration of our life insurance liabilities.

## BACK-OFFICE CENTRALIZATION

We have made substantial progress in the back-office support centralization project and have completed a significant portion of the premises for the Integrated Operating Center (IOC) in Zhangjiang, Shanghai. The IOC consists of a document processing unit, an accounting unit, a customer service unit and business processing units based on different business lines. The IOC aims to centrally process all back-office business operations and remote customer service activities.

Specifically, we have made the following progress at the release of this report:

- Centralized nearly 70% underwriting and document processing of individual life insurance and bancassurance;
- Centralized approximately 70% and 20% claims processing of life insurance and property and casualty insurance respectively;
- Centralized close to 50% accounting activities of operating expenses;
- Built a national call center that serves all life insurance customers and 40% property and casualty customers.

Upon completion, the IOC will become one of the largest financial back-office support centers in Asia and will help us raise the quality and service efficiency of our Group to international standards. In particular, we believe that the new IOC will enhance our marketing capabilities, improve and centralize our management of underwriting and claims for both life insurance and property and casualty insurance, enhance our internal controls and risk management system, increase our management efficiency through proper division of responsibilities among different levels of management, and reduce operating costs and improve our overall profitability.

## REGULATORY DEVELOPMENTS

In 2005, the National People’s Congress, the CIRC and other relevant PRC regulatory authorities promulgated a series of new or amended laws and regulations, including the Company Law (amended in 2005) and the Securities Law (amended in 2005).

# BUSINESS REVIEW

### The Company Law of the PRC (amended in 2005)

On October 27, 2005, the 18th meeting of the Standing Committee of the 10th National People's Congress passed the amended Company Law of the PRC ("Company Law"). The new Company Law lowers the minimum registered capital requirement for establishing a company to a great extent; loosens the restriction on methods of shareholders' capital contribution; accepts shareholders' capital contribution by installments; lifts the restraints of amounts on shift in investment; allows a company to repurchase more of its own shares; grants to minority shareholders the right to call for, convene and preside over a general meeting; allows a company to practise an accumulated voting system; restricts the rights of connected shareholders and directors to vote; stipulates the right of shareholders who object to certain shareholders' resolutions to request the company to purchase the shares they own, and establishes the right of shareholders to initiate a litigation against the directors and supervisors who fail to perform their duties. The new Company Law became effective on January 1, 2006.

### The Securities Law of the PRC (amended in 2005)

On October 27, 2005, the amended Securities Law of the PRC ("Securities Law") was reviewed and approved by the 18th meeting of the Standing Committee of the 10th National People's Congress. The new Securities Law made some major adjustments and supplements to the basic regulations governing the capital market, and broadened the scope of application, which now includes the issuance and trading of securities derivatives. While holding on to the prerequisite of specific management of specific sectors, adequate room has been provided for the mixed operation of the securities, banking, trust and insurance businesses; the protection of the lawful rights of investors is emphasized; the governance and regulation of listed companies are improved, which has led securities companies into regulated and accelerated development; the regulations on issuance and listing of securities are also improved. Also, the new Securities Law has adjusted the securities registration and settlement systems, strengthened the enforcement power and measures of securities regulatory authorities, while further detailed the penalties on the violating conducts in the securities market. The new Securities Law became effective on January 1, 2006.

### Provisional Measures Governing Information Disclosure of Trust and Investment Companies

On January 18, 2005, the CBRC promulgated the Provisional Measures Governing Information Disclosure of Trust and Investment Companies ("Provisional Measures"). The Provisional Measures set out the principles and details of information disclosure and state that the principal disclosure methods include annual reports and provisional reports. According to the Provisional Measures, the information disclosure of trust companies shall be carried out in stages during a period of 3 years from January 1, 2005 to January 1, 2008.

### The Guidelines for Corporate Governance of Foreign-bank Legal Persons

On April 20, 2005, the CBRC promulgated the Guidelines for Corporate Governance of Foreign-bank Legal Persons, which set out regulatory details on the legal person governance structure of foreign-bank in seven aspects: shareholder structure, board composition, election and appointment of senior management, supervision and internal audit, connected transactions, incentive scheme and information disclosure.

### The Notice Regarding Issues on Stock Investment with Insurance Funds

On February 17, 2005, the CIRC promulgated the Notice Regarding Issues on Stock Investment with Insurance Funds, which expressly sets out the general ratio and individual ratio of stock investment by insurance companies, and requires the insurance companies to establish a practicable risk control system.

### The Provisional Measures on Management of Debenture Investment by Insurance Companies

On August 17, 2005, the CIRC promulgated the Provisional Measures on Management of Debenture Investment by Insurance Companies, which reclassifies the bond types with new investment products added, such as financial debentures issued by commercial banks, Renminbi denominated debentures issued by international development institutions and short-term financing debentures, and prescribes specific investment ratios according to investment products with different credit ratings.

### The Implementing Measures of the Provisional Regulations on Management of Overseas Use of Foreign Exchange Funds of Insurance Companies

On September 1, 2005, the CIRC promulgated the Implementing Measures of the Provisional Regulations on Management of Overseas Use of Foreign Exchange Funds of Insurance Companies, which further expand the channels for overseas use of insurance companies' foreign exchange funds, and set out stipulations in respect of investment products, investment ratio, currency and investment management. According to the regulations, the foreign exchange funds of insurance companies can be invested in certain investment products such as structural deposits, mortgage backed securities (MBS), currency market fund and stocks issued overseas by PRC enterprises.

### The Rules Governing Reinsurance Business

On October 14, 2005, the CIRC promulgated the Rules Governing Reinsurance Business, which firstly require that property and casualty reinsurance should be offered preemptively to at least two professional reinsurance companies within the PRC, and total share ceded by the offer should not be less than 50% of the ceded business. Secondly, the rules stipulate restrictive ratio in relation to the level of risk concentration, i.e., the business volume ceded to the same reinsurance company by each risk unit should not exceed 80% of the direct insurance business. The Rules Governing Reinsurance Business became effective on December 1, 2005.

# REPORT OF THE DIRECTORS

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended December 31, 2005.

## 1. Principal activities

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

## 2. Results and dividends

The Group's net profit in 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 79 to 158.

On March 29, 2006, the directors proposed 2006 special interim dividend distribution of RMB0.20 per share totaling RMB1,239 million, which will be paid by the Company subject to the Company's receipt of dividends amounting to RMB4,364 million from one of its subsidiaries in early May 2006. This proposal is subject to shareholders' approval on May 25, 2006.

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

The net proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in June 2004, after deduction of related issuance expenses, amounted to approximately RMB13,279 million. As at December 31, 2005, the net proceeds were used, as stated in the prospectus of the Company, for general corporate purposes and improvement of business operations. The proceeds form part of the Group's liquid capital and were invested in accordance with the relevant PRC regulations.

## 4. Summary financial information

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out as below:

| **Profit and loss**<br>**For the year ended December 31,**<br>**(in RMB million)** | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|
| Total Revenue | 41,834 | 58,748 | 66,623 | 63,193 | **64,590** |
| Net Profit | 2,954 | 2,005 | 2,327 | 3,146 | **4,265** |

| **Balance sheet**<br>**As at December 31, (in RMB million)** | 2001 | 2002 | 2003 | 2004 | **2005** |
|---|---|---|---|---|---|
| Total Assets | 108,714 | 162,596 | 206,044 | 264,439 | **319,706** |
| Total Liabilities | 103,342 | 150,796 | 192,755 | 235,812 | **286,184** |
| Total Equity | 5,372 | 11,800 | 13,289 | 28,627 | **33,522** |

* The comparative figures for 2001, 2002 and 2003 are not retrospectively adjusted for the changes in accounting policies made in 2005.

## 5. Reserves

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

## 6. Charitable donations

Charitable donations made by the Company during 2005 totaled RMB3 million.

## 7. Property, plant and equipment and investment properties

Details of movements in property, plant and equipment and investment properties of the Group during the year are set out in notes 26 and 20, respectively, to the consolidated financial statements.

## 8. Share capital

There were no movements in either the Company's authorized or issued share capital during the year.

## 9. Pre-emptive rights

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

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

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

## 11. Accumulated losses and distributable reserves

As at December 31, 2005, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, represent accumulated losses totaling RMB1,652 million. As at the same date, the Group had a consolidated retained profits of RMB5,308 million. On March 23, 2006, dividends were proposed by one of the Company's subsidiaries, in respect of which the Company will receive a sum of RMB4,364 million in early May 2006. The Company's receipt of such dividends will then result in retained profits in the Company's reserves available for distribution.

## 12. Major customers

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

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

## 13. Directors and supervisors

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

| Name | Date of Appointment as Director |
|---|---|
| **Executive Directors:** | |
| MA Mingzhe | March 21, 1988 |
| SUN Jianyi | March 29, 1995 |
| **Non-Executive Directors:** | |
| Henry CORNELL | October 26, 1998 |
| HUANG Jianping | May 30, 2002 |
| LIU Haifeng David | May 30, 2002 |
| LIN Yu Fen | October 8, 2002 |
| CHEUNG Lee Wah | October 8, 2002 |
| Anthony Philip HOPE | November 25, 2002 |
| YIP Dicky Peter (resigned with effect from May 1, 2005) | November 25, 2002 |
| DOU Wenwei | May 16, 2003 |
| FAN Gang | May 16, 2003 |
| LIN Lijun | May 16, 2003 |
| SHI Yuxin | October 10, 2003 |
| HU Aimin | March 9, 2004 |
| CHEN Hongbo | June 23, 2005 |
| **Independent Non-Executive Directors:** | |
| BAO Youde | September 27, 1995 |
| KWONG Che Keung Gordon | May 16, 2003 |
| CHEUNG Wing Yui | May 16, 2003 |
| CHOW Wing Kin Anthony | June 23, 2005 |

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

| Name | Position | Date of Appointment as Supervisor |
|---|---|---|
| XIAO Shaolian | Independent Supervisor | August 3, 1994 |
| CHEN Shangwu | Independent Supervisor | August 3, 1994 |
| SUN Fuxin | Independent Supervisor | May 16, 2003 |
| DUAN Weihong | Supervisor | May 16, 2003 |
| ZHOU Fulin | Supervisor | May 16, 2003 |
| CHEN Bohai | Supervisor | May 16, 2003 |
| HE Peiquan | Supervisor | April 30, 1998 |
| SONG Liankun | Supervisor | May 16, 2003 |
| HE Shi | Supervisor | May 16, 2003 |

There were no changes to the Directors and Supervisors from January 1, 2006 to the date of the annual report.

The Company has received annual confirmations of independence from Messrs. BAO Youde, KWONG Che Keung Gordon, CHEUNG Wing Yui and CHOW Wing Kin Anthony, and as at the date of the annual report continues to consider them to be independent as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## 14. Biographical details of directors, supervisors and members of the senior management

Biographical details of Directors, Supervisors and members of the senior management as at the date of the annual report are set out from page 11 to page 17 of this annual report.

## 15. Directors' and supervisors' service contracts and remuneration

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

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

Details of remuneration of the directors and supervisors for the year ended December 31, 2005 are set out in note 44 to the consolidated financial statements.

## 16. Directors' and supervisors' interests in material contracts

None of the Directors or the Supervisors had a material interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during 2005.

## 17. Directors' and supervisors' interests and short positions in shares

As at December 31, 2005, none of the Directors or Supervisors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the Hong Kong Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules (the "Model Code") .

## 18. Directors' and supervisors' rights to acquire shares

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

## 19. Directors' and supervisors' interests in a competing business

During 2005 and up to the date of this annual report, the following director is considered to have interests in a business which competes or is likely to compete, directly or indirectly, with the business of the Group, as defined in the Listing Rules, as set out below:

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

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

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

## 20. Disclosure of interests

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

As at December 31, 2005, the following persons (other than the Directors and Supervisors of the Company) had interests in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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

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

## 2. Interests and short positions of other substantial shareholders

| Name of Substantial Shareholder | H/Domestic ("D") shares | Capacity | *Notes* | No. of H/D Shares | Nature of interest | Percentage of total number of H/D Shares in issue (%) | Percentage of total shares in issue (%) |
|---|---|---|---|---|---|---|---|
| HSBC Insurance Holdings Limited | H | Beneficial owner | 1 | 618,886,334 | Long position | 24.19 | 9.99 |
| The Hongkong and Shanghai Banking Corporation Limited | H | Beneficial owner | 3 | 614,099,279 | Long position | 24.00 | 9.91 |
| Shenzhen Jingao Industrial Development Co., Ltd. | D | Interest of controlled corporations | 4 | 148,000,000 | Long position | 4.07 | 2.39 |
| | | Beneficial Owner | | 331,117,788 | Long position | 9.11 | 5.34 |
| | | | | 479,117,788 | | 13.18 | 7.73 |
| Ping An Securities Company, Ltd. Labor Union | D | Interest of controlled corporations | 4 | 479,117,788 | Long position | 13.18 | 7.73 |
| China Ping An Trust & Investment Co., Ltd. Labor Union | D | Interest of controlled corporations | 4 | 479,117,788 | Long position | 13.18 | 7.73 |
| Shenzhen New Horse Investment Development Co., Ltd. | D | Beneficial Owner | 5 | 389,592,366 | Long position | 10.71 | 6.29 |
| Ping An Insurance (Group) Company of China, Ltd. Labor Union | D | Interest of controlled corporations | 5 | 389,592,366 | Long position | 10.71 | 6.29 |
| Guangzhou Hengde Trade Development Co., Ltd. | D | Beneficial Owner | 6 | 200,000,000 | Long position | 5.50 | 3.23 |
| Li Siu Nam | D | Interest of controlled corporations | 6 | 200,000,000 | Long position | 5.50 | 3.23 |
| Shenzhen Investment Holdings Co., Ltd. | D | Beneficial Owner | | 543,181,445 | Long position | 14.94 | 8.77 |
| Shenzhen Shum Yip Investment Development Company Ltd. | D | Beneficial Owner | | 301,585,684 | Long position | 8.29 | 4.87 |
| Yuan Trust Investment Company Ltd. | D | Beneficial Owner | | 380,000,000 | Long position | 10.45 | 6.13 |
| Capital China Group Company Limited | D | Beneficial Owner | | 332,526,844 | Long position | 9.14 | 5.37 |
| Wuhan Wuxin Industrial Co., Ltd.* | D | Beneficial Owner | | 195,455,920 | Long position | 5.37 | 3.16 |

* *Name changed to Shenzhen Wuxin Yufu Industrial Co., Ltd. on June 10, 2005.*

# REPORT OF THE DIRECTORS

*Notes:*

(1) HSBC Insurance Holdings Limited was a wholly-owned subsidiary of HSBC Holdings plc and its interest in 618,886,334 shares of the Company was deemed to be the interest of HSBC Holdings plc.

(2) Besides (1) above, HSBC Holdings plc was also interested in the Company by virtue of its control over HSBC CCF Financial Products (France) SNC ("CCF SNC") which held a direct interest in 884,775 shares in the Company.

CCF SNC was 100% owned by CCF S.A. which was owned as to 99.99% by HSBC Bank plc. HSBC Holdings plc owned 100% interest in HSBC Bank plc.

(3) The Hongkong and Shanghai Banking Corporation Limited was owned as to 84.19% by HSBC Asia Holdings BV, a wholly-owned subsidiary of HSBC Asia Holdings (UK), which in turn was a wholly-owned subsidiary of HSBC Holdings BV. The remaining 15.81% of The Hongkong and Shanghai Banking Corporation Limited was owned by HSBC Finance (Netherlands), a wholly-owned subsidiary of HSBC Holdings plc. HSBC Finance (Netherlands) owned 100% interest in HSBC Holdings BV.

(4) Shenzhen Jiangnan Industrial Development Co., Ltd., holding 148,000,000 shares, was owned as to 69.11% by Shenzhen Jingao Industrial Development Co., Ltd., which in turn was owned as to 80% and 20% by Ping An Securities Company, Ltd. Labor Union and China Ping An Trust & Investment Co., Ltd. Labor Union respectively. The interest in 479,117,788 shares relates to the same block of shares in the Company.

(5) Shenzhen New Horse Investment Development Co., Ltd. was owned as to 95% by Ping An Insurance (Group) Company of China, Ltd. Labor Union. The interest in 389,592,366 shares relates to the same block of shares in the Company.

(6) Guangzhou Hengde Trade Development Co., Ltd. was 90% owned by Li Siu Nam. The interest in 200,000,000 shares relates to the same block of shares in the Company.

Save as disclosed above, the Company is not aware of any other person (other than the Directors and Supervisors of the Company) having any interests or short positions in the shares and underlying shares of the Company as at December 31, 2005 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### *Interests and short positions of directors and supervisors*

As at December 31, 2005, none of the Directors or Supervisors of the Company held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the Directors or Supervisors to the Company and the Hong Kong Stock Exchange pursuant to the Model Code nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

## 21. Continuing connected transactions

In 2005, the Company and the Group had the following continuing connected transactions:

### *1. Bank Deposits Arrangements with HSBC*

The Group maintains bank balances with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") on normal commercial terms in the ordinary course of business. Interest is accrued on such bank balances at normal commercial rates. HSBC is a connected person of the Company as it is a substantial shareholder of Ping An Bank Limited, a 72.65% owned subsidiary of the Company.

As at December 31, 2005, the aggregate bank balances maintained by the Group with HSBC was approximately US$29 million.

### *2. Bancassurance Arrangement with ICBC*

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

In 2005, the aggregate agency fees, which were determined at a fixed percentage of the net premiums, paid by the Group to ICBC in respect of the insurance agency services pursuant to the specific agreements entered into between the respective branches of the Group and ICBC was approximately RMB53 million.

### *3. Bank Deposits Arrangements with ICBC*

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

As at December 31, 2005, the aggregate bank deposits maintained by the Group with ICBC and ICBC (Asia) in all kinds of currencies amounted to approximately RMB10,141 million.

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

In the opinion of the Independent Non-executive Directors, after having reviewed the above continuing connected transactions, such transactions were entered into by the Group:

1. in the ordinary and usual course of its business;

2. on normal commercial terms or on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and

3. in accordance with the terms of agreements governing them on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole.

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

1. have received the approval of the board of directors of the Company (the "Board of Directors");

2. have been entered into in accordance with the relevant agreements governing such transactions; and

3. have not exceeded the upper limits set out below in 2005:

    i. bank deposits arrangements with HSBC: US$2,336 million on any given day;

    ii. bancassurance arrangements with ICBC: RMB150 million; and

    iii. bank deposits with ICBC and its associate: RMB24,900 million on any given day.

## 22. Connected transactions

In 2005, the Company and the Group had the following connected transactions:

### *1. The First Capital Increase Agreement*

On April 4, 2005, the Company announced that China Ping An Trust & Investment Co., Ltd. ("Ping An Trust"), then an approximately 99.26% owned subsidiary of the Company established in the PRC, had on the same date entered into a capital increase agreement (the "First Capital Increase Agreement") with Ping An Securities Company, Ltd. ("Ping An Securities"), then an approximately 74.44% owned subsidiary of the Company established in the PRC, pursuant to which the registered capital of Ping An Securities would be increased from RMB1 billion to RMB1.3 billion by RMB300 million contributed wholly by Ping An Trust, subject to approval of the relevant PRC authorities.

Approval of the China Securities Regulatory Commission (the "CSRC") was obtained on May 8, 2005 and the First Capital Increase Agreement was completed on July 22, 2005. The additional capital contribution of RMB300 million in Ping An Securities was paid in cash at completion of the First Capital Increase Agreement. The capital increase in Ping An Securities provided additional working capital to Ping An Securities and strengthened its operation.

At the time of entering into the First Capital Increase Agreement, as Shenzhen New Horse Investment Development Co., Ltd. ("New Horse Development"), which held approximately 6.29% of the issued share capital of the Company, is one of the promoters of the Company, New Horse Development is a connected person of the Company under Rule 14A.11(3).

Further, Ping An Trust and Ping An Securities were then approximately 99.26% and 74.44% owned subsidiaries of the Company respectively. Since New Horse Development held approximately 18% of the equity interests in Ping An Securities then, it was also a substantial shareholder of Ping An Securities. Ping An Securities was thus a connected person of the Company under Rule 14A.11(5).

The First Capital Increase Agreement therefore constituted a connected transaction of the Company.

Following completion of the First Capital Increase Agreement, Ping An Trust's interest in Ping An Securities increased from approximately 75% to approximately 80.77% and Ping An Securities became an approximately 80.38% owned subsidiary of the Company. New Horse Development's interest in Ping An Securities was reduced from approximately 18% to approximately 13.85%.

**2. *The Second Capital Increase Agreement***

On November 4, 2005, the Company announced that Ping An Trust had on the same date entered into the second capital increase agreement (the "Second Capital Increase Agreement") with Ping An Securities, pursuant to which the registered capital of Ping An Securities would be further increased from RMB1.3 billion to RMB1.8 billion by RMB500 million contributed wholly by Ping An Trust, subject to approval of the relevant PRC authorities. The second capital increase in Ping An Securities provided additional working capital to Ping An Securities and strengthened its operation.

Approval of the CSRC was obtained on December 14, 2005 and the change of business registration is in progress. The additional capital contribution of RMB500 million in Ping An Securities was paid in cash.

**3. *The Equity Interests Transfer Agreement***

On November 4, 2005, the Company also announced that Ping An Trust had on the same date entered into an equity interests transfer agreement (the "Equity Interests Transfer Agreement") with New Horse Development, pursuant to which New Horse Development agreed to transfer 0.1% of the equity interests in Ping An Securities (as enlarged by the Second Capital Increase Agreement) held by it to Ping An Trust, subject to approval of the relevant PRC authorities, at the consideration of RMB1.8 million. The consideration was determined after arm's length negotiation between the parties and based on the proportionate registered capital of Ping An Securities (as enlarged by the Second Capital Increase Agreement).

Approval of the CSRC was obtained on December 14, 2005 and the change of business registration is in progress. The consideration for the equity interests transfer was paid in cash.

Ping An Trust and Ping An Securities were then approximately 99.52% and 80.38% owned subsidiaries of the Company respectively. Since New Horse Development then held approximately 13.85% of the equity interests in Ping An Securities, it was also a substantial shareholder of Ping An Securities. Ping An Securities was thus a connected person of the Company under Rule 14A.11(5).

Each of the Second Capital Increase Agreement and the Equity Interests Transfer Agreement therefore constituted a connected transaction of the Company.

Following the second capital increase and transfer of equity interests, Ping An Trust's interest in Ping An Securities increased from approximately 80.77% to approximately 86.21% and Ping An Securities became an approximately 85.80% owned subsidiary of the Company. New Horse Development's interest in Ping An Securities was reduced from approximately 13.85% to approximately 9.90%.

### 23. Board committees

The Company has established an audit committee, a remuneration committee and a nomination committee. For details regarding these Board committees, please see the relevant sections in the Corporate Governance Report on pages 46 to 49 of this annual report.

### 24. Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 50 to the consolidated financial statements.

### 25. Compliance with the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable Code Provisions set out in the Code on Corporate Governance Practices (the "Code on Corporate Governance Practices") contained in Appendix 14 to the Listing Rules for any part of the period from January 1, 2005 to December 31, 2005 except that Mr. Ma Mingzhe has occupied the positions of both the Chairman of the Board of Directors and Chief Executive Officer of the Company. Further details of the Company's arrangements and considered reasons for the Company's intention not to separate the roles of the Chairman of the Board of Directors and the Chief Executive Officer of the Company are set out under the paragraph headed "Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules" in the Corporate Governance Report on pages 42 to 43 of this annual report.

### 26. Auditors

Ernst & Young and Ernst & Young Hua Ming were the international and PRC auditors, respectively, to the Company for the year ended December 31, 2005. A resolution for the re-appointment of Ernst & Young as the international auditors and Ernst & Young Hua Ming as the PRC auditors to the Company will be proposed at the forthcoming Annual General Meeting on May 25, 2006.

### 27. Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the latest practicable date prior to the issue of this annual report, being March 22, 2006, not less than 20% of the issued share capital of the Company (being the minimum public float applicable to the shares of the Company) was held in public hands.

### 28. Disclosure of information on the Stock Exchange's website

All information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange (http://www.hkex.com.hk) in due course.

By order of the Board of Directors

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

Shenzhen, PRC
March 29, 2006

# REPORT OF THE SUPERVISORY COMMITTEE

To all Shareholders,

During the reporting period, the Supervisory Committee has duly carried out its supervisory duties in a stringent manner and adhered to the principles of fairness and honesty to effectively protect the interests of the Company and its employees and shareholders in accordance with the relevant provisions of the Company Law and the Company's Articles of Association.

The Supervisory Committee currently consists of nine members. During the reporting period, the Supervisory Committee convened one Financial Review Meeting and two Supervisory Committee meetings, the details of attendance of the meetings by the members are set out as follows:

| Class of supervisors | Name | No. of Supervisory Committee meetings attended/held | Percentage of attendance |
|---|---|---|---|
| Independent Supervisors | XIAO Shaolian (Chairman) | 2/2 | 100% |
| | SUN Fuxin | 2/2 | 100% |
| | CHEN Shangwu | 2/2 | 100% |
| Supervisors as representatives of shareholders | DUAN Weihong | 2/2 | 100% |
| | ZHOU Fulin | 2/2 | 100% |
| | CHEN Bohai | 2/2 | 100% |
| Supervisors as representatives of employees | HE Peiquan | 2/2 | 100% |
| | SONG Liankun | 2/2 | 100% |
| | HE Shi | 2/2 | 100% |

In September 2005, certain members of the Supervisory Committee, together with the representative of Independent Non-executive Directors of the Company, conducted researches and investigations over the branches in Henan Province and Shanxi Province of Ping An Property & Casualty Insurance Company of China, Ltd. and Ping An Life Insurance Company of China, Ltd., and provided a special investigation report and recommendations for improvement. During the reporting period, members of the Supervisory Committee attended the 2005 annual general meeting and the first extraordinary general meeting of the Company in 2005 and four meetings of the Board of Directors. Through such efforts, the Supervisory Committee carried out supervision over the performance of the Company's directors and senior management. This has ensured the continuous, stable and healthy development of the Company.

The 2005 Supervisory Committee's Financial Review Meeting was held on March 28, 2006, during which the Supervisory Committee considered and reviewed the Company's 2005 Financial Review Report as well as the Feedbacks to the Questions and Recommendations in the Supervisory Committee Investigation Report, and reviewed and approved (i) the 2005 financial statements and a preliminary draft of the audit report which were prepared in accordance with the PRC Generally Accepted Accounting Principles and (ii) the 2005 financial statements and a preliminary draft of the audit report which were prepared in accordance with the International Financial Reporting Standards. The Supervisory Committee is of the view that the financial statements have been prepared in accordance with the relevant accounting standards; the accounting policies have been consistently applied and the financial statements truly and fairly reflect the financial condition and results of operations of the Group. The 7th meeting of the 4th Supervisory Committee was held on March 29, 2006, during which the Report of the Supervisory Committee, the Proposal concerning the Candidate of Non-employees' Representative of the 5th Supervisory Committee and the remuneration thereof, the Working Rules for the Supervisory Committee, Code of Conducts for Supervisors, the 2005 Assessment Report on Internal Control and the 2005 Report on the Anti-Corruption Campaign were reviewed and approved.

The Supervisory Committee concluded that, during the reporting period, all members of the Board of Directors, the Chief Executive Officer and other senior management had, under the principles of diligence, fairness and honesty, duly performed the responsibilities stipulated in the Company's Articles of Association, carefully implemented all resolutions of the general meetings and the Board of Directors, and faithfully acted on the principles of maximizing the Company's value and the shareholders' best interests. They had spared no efforts in furthering the development of the Company, and they had never breached any laws, regulations and the Articles of Association of the Company.

In the coming year, the Supervisory Committee of the Company shall continue to carry out its duties in accordance with the relevant provisions of the Company Law, the Articles of Association of the Company and the Listing Rules, and adhere to the principles of diligence, fairness and honesty, maximize its supervisory efforts with the aim of protecting the interests of the Company and its shareholders as a whole and commit to perform supervisory duties honestly and diligently, so as to achieve the best results in all respects.

By order of the Supervisory Committee

**Xiao Shaolian**
*Chairman of the Supervisory Committee*

Shenzhen, PRC
March 29, 2006

# CORPORATE GOVERNANCE REPORT

The Board of Directors is pleased to report to the shareholders on the corporate governance undertakings and performance of the Company for the year ended December 31, 2005. This report sets out information in respect of the Company's compliance with the Code on Corporate Governance Practices and the Code of Conduct for securities transactions by Directors and Supervisors of the Company as respectively contained in Appendix 14 and Appendix 10 to the Listing Rules, the specific undertakings and corporate governance structure of the Company, followed lastly by a summary of the Company's application of the principles in the Code on Corporate Governance Practices, which will allow shareholders to evaluate how those principles have been applied.

The Company is committed to continually achieving high standards of corporate governance and believes that sound corporate governance enhances the effective and reliable management of the Company and is essential for the Company to maximize shareholders' value.

In order to uphold a high standard of corporate governance, the Company has continued to maintain a dedicated, professional and accountable Board of Directors and an internationally recognized senior management team. Information on their backgrounds and experiences are set out on pages 11 to 17 of this annual report.

The Company's corporate governance is implemented via a structured hierarchy, which includes the Board of Directors, the supervisory committee and three committees established under the Board of Directors, namely the audit committee, the remuneration committee and the nomination committee. In addition, we have also established a number of management committees including, among others, an investment management committee, a budget committee and a risk management committee under the executive committee which is established under the Board of Directors.

The Board of Directors is collectively responsible for preparing the consolidated financial statements of the Group, which were prepared on a going concern basis, set out on pages 79 to 158 of this annual report.

## CODE ON CORPORATE GOVERNANCE PRACTICES CONTAINED IN APPENDIX 14 TO THE LISTING RULES

### General

Throughout the period under review and save that Mr. Ma Mingzhe has occupied the positions of both the Chairman of the Board of Directors and the Chief Executive Officer of the Company, none of the Directors is aware of any information that would reasonably indicate that the Company did not meet the applicable Code Provisions set out in the Code on Corporate Governance Practices. Further details of Mr. Ma's roles and reasons for non-separation of the roles are set out below.

### Chairman of the Board of Directors and the Chief Executive Officer of the Company

Code Provision A.2.1 of the Code on Corporate Governance Practices provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. However, as mentioned above, Mr. Ma Mingzhe has been serving as the Chairman of the Board of Directors and the Chief Executive Officer of the Company since the initial listing of the Company's H shares on the Stock Exchange on June 24, 2004.

Nevertheless, after considering the relevant principle of Code Provision A.2.1 of the Code on Corporate Governance Practices and examining the management structure of the Company, the Board is of the opinion that although the Chairman of the Board has a casting vote in the event of an equality of votes at Board meetings, Board decisions are nevertheless collective decisions of all Directors made by way of voting and not decisions of the Chairman of the Board alone. The Board comprises of 18 Directors. Throughout the year under review, each Board meeting was attended by not less than two-thirds of all the Directors. Further, as set out in more details in the sub-section headed "The Board of Directors and Board meetings held during the year" in the section headed "The Board of Directors" below, there is a clear division of the responsibilities between the management of the Board, which is a collective decision reached by way of majority voting, and the day-to-day management of the Company's business, which relies on the support of the Company's senior management. As such, the management power of the Company is not concentrated in any one individual. Further details as to the functions reserved to the Board and those delegated to management are set out in the sub-section headed "The Board of Directors and Board meetings held during the year" under the section headed "The Board of Directors" below.

In addition, as 16 members of the Board are Non-executive Directors, the role of the Chairman of the Board who is also the Chief Executive Officer of the Company is very important as he can:

1. maintain a close communication channel between the Board and the day-to-day management;

2. ensure the Board's direction and opinion can be fully and accurately carried out by the day-to-day management; and

3. maintain a balance of power and authority between the management of the Board and the day-to-day management.

As can be seen from the management history of the Company, such management structure has proved to be able to provide the Company with efficient management and at the same time with protection of all the shareholders' rights to the greatest extents. The Company therefore does not currently intend to separate the roles of the Chairman and the Chief Executive Officer.

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

On May 28, 2004, the Company adopted the Code of Conduct regarding securities transactions by Directors and Supervisors of the Company on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all Directors and Supervisors of the Company who have confirmed that they complied with the required standard set out in the Model Code and the Code of Conduct for the period from January 1, 2005 to December 31, 2005.

# CORPORATE GOVERNANCE REPORT

## THE BOARD OF DIRECTORS

### The Board of Directors and Board meetings held during the year

The Board of Directors is responsible for the management of the Company and accountable to the shareholders for their entrusted assets and resources. They represent and owe a duty to act in the interests of the shareholders as a whole. The principal responsibilities of the Board of Directors and the types of decisions to be taken by the Board of Directors include, among others:

- formulating the Company's overall direction, objectives and strategies, business plans and investment proposals as well as monitoring and supervising the management's performance;
- formulating the Company's annual budgets, financial statements and monitoring the Company's performance;
- formulating the Company's profit distribution and loss recovery proposals;
- formulating plans for mergers or disposals and deciding on major investments, pledging of assets and other giving of other forms of security (in accordance with shareholders' approval);
- formulating proposals for the increase or decrease in our registered capital and the issuance of debentures;
- engaging or dismissing the chief executive officer of the Company, engaging or dismissing the secretary to the board of directors, chief operating officer, chief financial officer and members of executive committee of the Company as nomineed by the chief executive officer of the Company, and determining their remuneration; and
- monitoring, evaluating and ensuring the effectiveness of the Company's internal control systems and compliance with relevant laws and regulations.

On the other hand, responsibilities and functions and types of decisions delegated to the management include, among others:

- implementation of the Company's overall direction, objectives and strategies, business plans and investment proposals as determined by the Board of Directors from time to time; and
- the day-to-day management of the Company's business.

There are currently two Executive Directors, sixteen Non-executive Directors, four of whom are Independent Non-executive Directors. The term of appointment of each of the Directors shall expire upon the conclusion of the 2006 annual general meeting of the Company. Biographies of each of them are set out on pages 11 to 13 of this annual report.

During 2005, the Board of Directors held 5 full board meetings. All such meetings were convened in accordance with the Articles of Association, attended by all of the Directors entitled to be present, and at which the Directors actively participated either in person or through electronic means of communication.

## DIRECTORS

| | Board meetings attended/held | Percentage of attendance |
|---|---|---|
| **Executive Directors** | | |
| MA Mingzhe (Chairman) | 5/5 | 100% |
| SUN Jianyi | 5/5 | 100% |
| **Non-executive Directors** | | |
| Henry CORNELL | 5/5 | 100% |
| HUANG Jianping | 5/5 | 100% |
| LIU Haifeng David | 5/5 | 100% |
| LIN Yu Fen | 5/5 | 100% |
| CHEUNG Lee Wah | 5/5 | 100% |
| Anthony Philip HOPE | 5/5 | 100% |
| YIP Dicky Peter (resigned with effect from May 1, 2005) | 2/2 | 100% |
| DOU Wenwei | 5/5 | 100% |
| FAN Gang | 5/5 | 100% |
| LIN Lijun | 5/5 | 100% |
| SHI Yuxin | 5/5 | 100% |
| HU Aimin | 5/5 | 100% |
| CHEN Hongbo (appointed on June 23, 2005) | 3/3 | 100% |
| **Independent Non-executive Directors** | | |
| BAO Youde | 5/5 | 100% |
| KWONG Che Keung Gordon | 5/5 | 100% |
| CHEUNG Wing Yui | 5/5 | 100% |
| CHOW Wing Kin Anthony (appointed on June 23, 2005) | 3/3 | 100% |

### Independent Non-executive Directors

Each of our Independent Non-executive Directors meets the independence guidelines set out in Rule 3.13 of the Listing Rules and has given to the Company his annual confirmation as to his independence. None of our Independent Non-executive Directors has any business or financial interests with the Company or its subsidiaries and they are continued to be considered by the Company to be independent. Furthermore, these individuals are precluded from assuming executive positions in the Company. Independent Non-executive Directors owe a fiduciary duty to the Company and its shareholders and, in particular, are entrusted with the responsibility of protecting the interests of minority shareholders. They serve as an important balancing factor in the policy making process of the Board of Directors and represent a crucial element of corporate governance. In addition, their broad experience in business and finance is vital to the successful development of the Company. During 2005, the Independent Non-executive Directors expressed their views and opinions at meetings of the Board of Directors in relation to a number of matters which were of concern to the shareholders and the Company as a whole.

Further, in order to further strengthen the independence of the Board of Directors, an additional Independent Non-executive Director was appointed during 2005, increasing the number of Independent Non-executive Directors from three to four, exceeding the minimum number of Independent Non-executive Directors required by the Listing Rules.

## BOARD COMMITTEES

The Company has established an audit committee, a remuneration committee and a nomination committee. Further details of the roles, functions and the composition of each of these committees are set out below.

### Audit Committee

The primary duties of the audit committee are to review and supervise the Company's financial reporting process, internal audit and control procedures. The audit committee is also responsible for reviewing the external auditor's appointment, the external auditor's remuneration and any matters relating to the termination of the appointment or resignation of the external auditors. In addition, the audit committee also examines the effectiveness of the Company's internal controls, which involves regular reviews of the internal controls of various corporate structures and business processes on a continuous basis, and takes into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies. The scope of such examinations and reviews includes finance, operations, regulatory compliance and risk management. The audit committee also reviews the Company's internal audit plan, and submits relevant reports and recommendations to the Board of Directors on a regular basis.

The audit committee comprises four Independent Non-executive Directors and one Non-executive Director, all of whom are not involved in the day-to-day management of the Company. The audit committee is chaired by an Independent Non-executive Director who also possesses the appropriate professional qualifications or accounting or related financial management expertize.

During 2005, the audit committee held four meetings. All these meetings were convened in accordance with the Articles of Association. In particular, the audit committee reviewed the Company's yearly financial statements for the year ended December 31, 2004 and the half-yearly financial results for the six months ended June 30, 2005 and was satisfied with their basis of preparation, including the appropriateness of assumptions and accounting policies and standards adopted, and made recommendations to the Board of Directors for their consideration.

Further, in order to enable the members of the committee to better evaluate the financial reporting systems and internal control procedures of the Company, they also met with the Company's qualified accountant and external auditors during the year.

The audit committee also considered and was satisfied with the performance, independence and objectivity of the Company's auditors and recommended their reappointment at the Company's 2005 annual general meeting.

During the year under review, the remuneration paid to the Company's auditors, Messrs. Ernst & Young, is set out as follows:

| **Services rendered** | **Fees paid/payable** RMB'000 |
|---|---:|
| Audit services | 10,402 |
| Non-audit service – financial due diligence review | 11,002 |
| Non-audit service – translation and filing services | 731 |
| Non-audit service – tax advisory services | 100 |
| | 22,235 |

### Remuneration Committee

The primary duty of the remuneration committee is to determine the specific remuneration packages of the Company's Directors and senior management, including benefits in kind, pension rights and compensation payments and advise the Board of Directors in relation to establishing a formal and transparent procedure for developing remuneration policy in respect of these individuals, and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time. In particular, the remuneration committee is delegated with the specific task of ensuring that no Director or any of his associates is involved in deciding his own remuneration. Where the remuneration of a member of the remuneration committee is to be considered, that member's remuneration should be determined by the other members of the committee. Meetings of the remuneration committee are to be held at least twice a year.

The remuneration committee comprises three Independent Non-executive Directors and two Non-executive Directors, all of whom are not involved in the day-to-day management of the Company. The nomination committee is chaired by an Independent Non-executive Director.

During 2005, the remuneration committee held three meetings. As general matters, performance and remuneration packages of all Directors and senior management were reviewed and performance-based remuneration by reference to corporate goals and objectives as determined by the Board of Directors were considered. Moreover, information regarding the execution of the long term incentive plan in the year 2004 was reported to the remuneration committee. As specific matters, remuneration packages for the new incoming Directors were considered and recommendations made to the Board of Directors. The remuneration committee's terms of reference amendment proposal has been approved during the meeting of the remuneration committee in 2005.

### Nomination Committee

The primary duty of the nomination committee is to review, advise and make recommendations to the full Board of Directors regarding candidates to fill vacancies on our Board and to senior executives of deputy general manager or above. Meetings of the nomination committee are held when necessary but at least once a year.

Nominations of Directors are considered with reference to, among other things, an individual's business acumen and undertakings, academic and professional achievements and qualifications, experience, independence (where applicable), and other job engagement, having regard to the Company's activities, assets and management portfolio. The nomination committee is delegated with the task of actively considering the needs of the Company at the Directors' and senior executives' (deputy general manager or above) level, studying the criteria and procedure for selecting directors and senior executives, first considering and identifying appropriate candidates, then making recommendations to the full Board and implementing any decisions and recommendations of the Board in the execution of appointments. The aim and principal objective of the nomination committee is to ensure that there be maintained a dedicated, professional and accountable Board of Directors to serve the Company and its shareholders.

The nomination committee comprises three Independent Non-executive Directors, who are not involved in the day-to-day management of the Company and two Executive Directors. The nomination committee is chaired by an Independent Non-executive Director.

During 2005, the nomination committee held three meetings. Changes in the Board of Directors during the year were the resignation of Mr. Dicky Peter Yip as Non-executive Director and the appointment of Mr. Chen Hongbo as Non-executive Director and Mr. Chow Wing Kin Anthony as Independent Non-executive Director. Mr. Chen Hongbo and Mr. Anthony Philip HOPE were nominated as Vice-Chairman of the Board and Ms. Yang Xiuli was nominated as Vice President. Apart from the nominations of new incoming directors, the nomination committee also met to review the structure, size and composition of the Board of Directors having regard to the Company's activities, assets and management portfolio.

Written terms of reference of each of the Company's audit committee, remuneration committee and nomination committee are available on request and are also available on the Company's website at http://www.pingan.com.cn.

### Composition of the committees of the Board of Directors and attendance of meetings

*Audit Committee*

| Members | Meetings attended/ held | Percentage of attendance |
|---|---|---|
| **Non-executive Director** | | |
| Anthony Philip HOPE | 4/4 | 100% |
| **Independent Non-executive Directors** | | |
| BAO Youde | 4/4 | 100% |
| KWONG Che Keung Gordon (Chairman) | 4/4 | 100% |
| CHEUNG Wing Yui (appointed as a member of the committee on November 4, 2005) | 0/0 | |
| CHOW Wing Kin Anthony (appointed as a member of the committee on November 4, 2005) | 0/0 | |

*Remuneration Committee*

| Members | Meetings attended/ held | Percentage of attendance |
|---|---|---|
| **Non-executive Directors** | | |
| Henry CORNELL (resigned as a member of the committee on November 4, 2005) | 3/3 | 100% |
| LIU Haifeng David (resigned as a member of the committee on November 4, 2005) | 3/3 | 100% |
| CHEUNG Lee Wah | 3/3 | 100% |
| Anthony Philip HOPE (appointed as a member of the committee on November 4, 2005) | 0/0 | |
| **Independent Non-executive Directors** | | |
| BAO Youde | 3/3 | 100% |
| KWONG Che Keung Gordon | 3/3 | 100% |
| CHEUNG Wing Yui (Chairman) | 3/3 | 100% |

*Nomination Committee*

| Members | Meetings attended/ held | Percentage of attendance |
|---|---|---|
| **Executive Directors** | | |
| MA Mingzhe | 3/3 | 100% |
| SUN Jianyi | 3/3 | 100% |
| **Independent Non-executive Directors** | | |
| BAO Youde (Chairman) | 3/3 | 100% |
| KWONG Che Keung Gordon (resigned as a member of the committee with effect from August 20, 2005) | 2/2 | 100% |
| CHEUNG Wing Yui | 3/3 | 100% |
| CHOW Wing Kin Anthony (appointed as a member of the committee on August 20, 2005) | 1/1 | 100% |

## MANAGEMENT COMMITTEES

### The Executive Committee

In addition to the three Board committees, we have also established an executive committee which is the highest execution authority under the Board of Directors. The primary duty of the executive committee is to review the Company's internal business reports, the Company's policies in relation to investment and profit distribution and the Company's management policies, development plans and resources allocation plans. The executive committee is also responsible for making management decisions in relation to matters such as material development strategies, business plans, financial systems and major promotions. In addition, the executive committee is also responsible for reviewing the business plans of the subsidiaries of the Company and to evaluate the financial performance of the subsidiaries. We have also established three special management committees under the executive committee, namely, an investment management committee, a budget committee and a risk management committee.

### The Investment Management Committee

The investment management committee oversees the investment-related operations of our Company and monitors the investment risk and prepares the relevant internal policies. The investment management committee is also responsible for preparing the Group's investment management policy and investment strategies. The investment management committee also formulates the Group's investment risk management policy and reviews the pricing policy of new products. The investment management committee is currently composed of 13 members with the chairman being the member of the executive committee of the Company.

### The Budget Committee

The budget committee conducts reviews of our strategic planning and the operating budgets prepared by each of our business units, formulates the development strategy, annual operating budget and business plan for the Company as well as each of our business units. In addition, the budget committee also monitors the implementation of our development strategy, annual budget and business plan. The budget committee is currently composed of 12 members with the chairman being the Chief Financial Officer of the Company.

### The Risk Management Committee

The risk management committee is responsible for identifying and reviewing the major area of risk across the Group and all of our operating principals, and for approving, and ensuring compliance with key financial, insurance, investment and operational risk management policies. The risk management committee is currently composed of 7 members with the chairman being the Chief Operating Officer of the Company.

# CORPORATE GOVERNANCE REPORT

## THE SUPERVISORY COMMITTEE

The primary functions and powers of the supervisory committee include, among others,

- verifying financial reports and other financial information which have been prepared by the Board of Directors and which are proposed to be presented at the shareholders' meetings;
- examining the Company's financial affairs; and
- monitoring compliance of directors, the Chief Executive Officer and other members of senior management of the Company with applicable laws, administrative regulations and the Articles of Association.

There are currently nine supervisors, three of whom are independent supervisors.

## EMOLUMENT POLICY OF THE GROUP

The emolument policy of the Group is aimed at attracting, retaining and motivating talented individuals and achieving the Group's operational targets. The principle is to have clearly set incentive and performance-based remuneration which reflects market standards and is cost effective. The salary element of our employee's remuneration packages is generally determined based on their job nature and position with reference to market standards; and any bonus element is generally determined based on performance so as to highlight achievements. Apart from salary and bonuses, employees also receive certain welfare benefits. However, given the different operational models, stages of development and market standards applicable to the sectors in which our several subsidiaries and units operate, the remuneration packages may be structured differently.

In addition, the Company also has in place a long term incentive plan providing for the grant of share appreciation rights to eligible participants.

The Group's emolument policy and objectives are aimed at the long run and being consistent, but will be adjusted depending on a number of factors, including changes to the market practice and stages of the Group's business development, so as to achieve the Group's operational targets.

As regards Directors, Executive Directors will receive remuneration determined according to the Group's emolument policy for rendering executive services to the Group; Independent Non-executive Directors will receive a Director's fee determined with reference to market standards in mainland and Hong Kong respectively; Non-executive Directors nominated by shareholders of the Company do not receive a Director's fee. Directors' fees are considered and recommended by the Remuneration Committee of the Board, and approved by shareholders in general meeting. Further details of Directors' remuneration are set out in note 44 to the consolidated financial statements.

## SUMMARY OF THE COMPANY's APPLICATION OF THE PRINCIPLES IN THE CODE ON CORPORATE GOVERNANCE PRACTICES

Having already set out above the specific undertakings, corporate governance structure and endeavours of the Company for the year ended December 31, 2005, but in order to better enable shareholders to evaluate how the Company has applied the principles in the Code on Corporate Governance Practices, below is a summary table setting forth side-by-side comparison of the Code principles and the Company's application of them.

| CODE PRINCIPLE | COMPANY'S APPLICATION OF CODE PRINCIPLE |
|---|---|
| **A.1 The Board** | |
| An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer. | The Company is headed by a dedicated, professional and accountable Board of Directors comprising of 18 outstanding individuals. Information on their backgrounds and experiences has been set out on pages 11 to 13 of this annual report. The Board is responsible for the overall management of the Company and the Directors are under a duty to act in the interest of the Company and the shareholders. Details of the principal responsibilities of the Board have been set out on page 44 of this annual report. |
| **A.2 Chairman and Chief Executive Officer** | |
| There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual. | Mr. Ma Mingzhe has occupied the positions of the Chairman of the Board and the Chief Executive Officer of the Company throughout the year ended December 31, 2005. Details of Mr. Ma's roles and reasons for non-separation of the roles have been set out on pages 42 to 43 of this annual report. |

# CORPORATE GOVERNANCE REPORT

| CODE PRINCIPLE | COMPANY'S APPLICATION OF CODE PRINCIPLE |
|---|---|
| **A.3 Board composition** | |
| The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgment. Non-executive directors should be of sufficient caliber and number for their views to carry weight.<br><br>Under rule 3.10, every board of directors of a listed issuer must include at least three independent non-executive directors. Guidelines on independence of independent non-executive directors are set out in rule 3.13. | Each of the Directors, apart from being outstanding individuals with a wealth of experience in their respective fields, meets the qualifications required of a member of the senior management set by the China Insurance Regulatory Commission, the regulatory body responsible for the supervision and regulation of the PRC insurance industry.<br><br>There was one resignation from and two new appointments to the Board of Directors during the year, which transition was carried out smoothly.<br><br>Throughout the year ended December 31, 2005, the Board of Directors satisfied the requirements under the Listing Rules regarding the appointment of at least three Independent Non-executive Directors and complied with the requirement that at least one of these Directors should possess the appropriate professional qualifications or accounting or related financial management expertize. Each of our Independent Non-executive Directors meets the independence guidelines set out in Rule 3.13 of the Listing Rules. |
| **A.4 Appointments, re-election and removal** | |
| There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director. | The Company has established a nomination committee and a remuneration committee with written terms of reference. Details of the approach and procedure for appointment of new Directors have been set out on pages 47 to 48 of this annual report.<br><br>According to the Article 112 of the Company's Articles of Association, each Director shall be appointed with a term of 3 years and subject to retirement and re-election thereafter.<br><br>During the year, there was one resignation from the Board, which was announced in accordance with the requirements of the Listing Rules, including stating the reason for such resignation. |

| CODE PRINCIPLE | COMPANY'S APPLICATION OF CODE PRINCIPLE |
|---|---|
| **A.5 Responsibilities of directors** | |
| Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors. | The Board of Directors meets regularly and each Director is avail of the assistance of the Company Secretaries.<br><br>The same standard of care, skill and fiduciary duties are required of and expected from all Directors, Executive or Non-executive. The duties of the Directors as set out in the Company's Articles of Association are not differentiated between Executive and Non-executive Directors. Each Director fully understands and appreciates the same. |
| **A.6 Supply of and access to information** | |
| Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer. | The Articles of Association prescribes that all Directors must be given at least 14 days notice of a Board meeting, which shall include, among other things, the businesses to be considered and the agenda.<br><br>Further, at the Board meetings, each item on the agenda was discussed and considered following a briefing in detail on the relevant matter by an appropriate individual closely supervising or handling that matter. Minutes of each Board meeting were kept as a matter of proper record. |
| **B.1 The level and make-up of remuneration and disclosure** | |
| An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration. | The Company has established a remuneration committee with written terms of reference. Further information regarding the remuneration committee is set out on page 47 of this annual report. In particular, the remuneration committee is delegated with the specific task of ensuring that no Director or any of his associates is involved in deciding his own remuneration. It is also a specific term of reference that where the remuneration of a member of the remuneration committee is to be considered, that member's remuneration should be determined by the other members of the committee.<br><br>A description of the emolument policy and long-term incentive schemes of the Company as well as the basis of determining the emolument payable to the Directors as required by paragraph 24B of Appendix 16 to the Listing Rules have been set out on pages 50 and 153 of this annual report. In addition, annual Directors' fees and any other reimbursement or emolument payable as required by paragraph 24 of Appendix 16 to the Listing Rules have been disclosed in full on an individual and named basis on pages 151 to 153 of this annual report. The remuneration packages of all directors were considered and recommended by the remuneration committee and reviewed and approved by the general meeting. |

# CORPORATE GOVERNANCE REPORT

| CODE PRINCIPLE | COMPANY'S APPLICATION OF CODE PRINCIPLE |
|---|---|
| **C.1 Financial reporting** | |
| The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects. | The annual and interim results of the Company and other financial information were published in accordance with the requirements of the Listing Rules and other applicable regulations and industry best standards. When preparing the Company's financial reports, the Board of Directors had in mind the shareholders of the Company as the recipient and end-user and endeavoured to present such information in a comprehensible, informative and user-friendly manner. |
| **C.2 Internal controls** | |
| The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets. | Throughout this corporate governance report, the Board of Directors seeks to set out the Company's corporate governance structure and policies, advice shareholders of the corporate governance undertakings and internal control safeguards of the Company and to demonstrate to shareholders the effectiveness and value of such practices. |
| **C.3 Audit Committee** | |
| The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference. | The Company has established an audit committee with written terms of reference. Further information regarding the audit committee is set out on page 46 of this annual report. |
| **D.1 Management functions** | |
| An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer. | Certain responsibilities and types of decisions are reserved for the Board of Directors as set out in the Company's Articles of Association. A summary of these matters has been included on page 44 of this annual report. The Company's management is informed and educated of this separation of powers and authority and actively implements and preserves this corporate governance structure. In particular, Mr. Ma Mingzhe, being the Chairman of the Board of Directors and the Chief Executive Officer of the Company, is in a position to maintain a close communication channel between the Board and the management and to ensure that the separation of power and authority is maintained. |

| CODE PRINCIPLE | COMPANY'S APPLICATION OF CODE PRINCIPLE |
|---|---|
| **D.2 Board Committees** | |
| Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties. | The Company has established an audit committee, a nomination committee and a remuneration committee with written terms of reference. Details of the roles and functions and the composition of these committees have been set out on pages 46 to 49 of this annual report. |
| **E.1 Effective communication** | |
| The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation. | Apart from the information published and the announcements and circulars issued by the Company, the Company also maintains an "Investor Relations" section on its website at www.pingan.com.cn where materials relating to the Company's corporate governance structure, the Company's announcements, information regarding share performance and other financial information are available to shareholders. The Company has an investor relations team which reports ultimately to the Board of Directors. The Board welcomes and values shareholders' input.<br><br>The two general meetings of the Company held during the year ended December 31, 2005 were attended by Directors at which shareholders were invited and encouraged to participate in discussions with the Directors. |
| **E.2 Voting by Poll** | |
| The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Exchange Listing Rules and the constitutional documents of the issuer. | The procedure for demanding a poll at the Company's general meetings was set out in both circulars relating to general meetings issued by the Company during the year ended December 31, 2005.<br><br>Voting by poll, though not required by either the Listing Rules or the Company's Articles of Association, was demanded by the Chairman of the general meeting on both occasions as a matter of fairness and the results of such polling were announced in accordance with the Listing Rules. |

By order of the Board of Directors

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

Shenzhen, PRC
March 29, 2006

# MANAGEMENT DISCUSSION AND ANALYSIS

# MANAGEMENT DISCUSSION AND ANALYSIS

## GROUP'S CONSOLIDATED PERFORMANCE

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

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Total revenue | **64,590** | 63,193 |
| Total claims, policyholders' benefits and expenses | **(59,778)** | (59,446) |
| Operating profit | **4,812** | 3,747 |
| Net profit | **4,265** | 3,146 |

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

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Life insurance | **3,551** | 2,704 |
| Property and casualty insurance | **422** | 217 |
| Other businesses | **292** | 225 |
| Net profit | **4,265** | 3,146 |

Consolidated net profit increased 35.6% to RMB4,265 million in 2005 from RMB3,146 million in 2004. This increase was primarily due to the better performance in our core life insurance and property and casualty insurance businesses, which accounted for approximately 83.3% and 9.9%, respectively, of our net profit.

Factors attributing to our improved performance include improved product mix of our life insurance business, better results from our property and casualty insurance business, and better total investment returns.

### Consolidated Investment Income

| For the year ended December 31, (in RMB million, except percentages) | 2005 | 2004 |
|---|---|---|
| Net investment income | **9,338** | 7,219 |
| Net realized and unrealized gains/(losses) | **317** | (773) |
| Total investment income | **9,655** | 6,446 |
| Net investment yield(1) | **4.2%** | 4.1% |
| Total investment yield(1) | **4.3%** | 3.6% |

(1) Net investment yield and total investment yield are computed without considering exchange gains/(losses) associated with foreign currency denominated investment assets.

Our net investment income increased 29.4% to RMB9,338 million in 2005 from RMB7,219 million in 2004. This increase was primarily due to the increase in our investment assets to RMB246,748 million as at December 31, 2005 from RMB201,125 million as at December 31, 2004. Net investment yield increased to 4.2% in 2005 from 4.1% in 2004.

Our total investment income increased 49.8% to RMB9,655 million in 2005 from RMB6,446 million in 2004. Total investment yield increased to 4.3% in 2005 from 3.6% in 2004. These increases were primarily due to improved performance in the PRC equity markets resulting in an investment gain in 2005 as compared to the investment loss suffered in 2004. In addition, the decrease in bond yield rates has resulted in a higher valuation of our bond investments that were "carried at fair value through profit or loss". As a result, the net realized and unrealized gains in 2005 were RMB317 million as compared to net realized and unrealized losses of RMB773 million in 2004.

We continued to improve the asset allocation of our portfolio in response to the changes in the capital markets. As a result, our bond investment as a percentage of our total investment assets increased to 64.8% as at December 31, 2005 from 56.1% as at December 31, 2004, and our equity investments increased to 6.2% as at December 31, 2005 from 2.9% as at December 31, 2004. In addition, we were able to achieve an average yield of 4.2% from our new money investment in bonds during the year of 2005.

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

| As at December 31, | 2005 | | 2004 | |
|---|---|---|---|---|
| (in RMB million, except percentages) | Carrying Value | % of Total | Carrying Value | % of Total |
| Fixed maturity investments | | | | |
| Term deposits | **68,959** | **27.9%** | 80,320 | 39.9% |
| Bond investments(1) | **159,776** | **64.8%** | 112,860 | 56.1% |
| Other fixed maturity investments | **1,526** | **0.6%** | 675 | 0.3% |
| Equity investments(2) | **15,244** | **6.2%** | 5,766 | 2.9% |
| Investment properties | **1,243** | **0.5%** | 1,504 | 0.8% |
| Total investments | **246,748** | **100.0%** | 201,125 | 100.0% |

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

### Foreign currency gains/(losses)

In 2005, the PRC currency, Renminbi, appreciated against other major currencies. As a result, we experienced a net exchange loss of RMB405 million.

## LIFE INSURANCE BUSINESS

### Results of Operations

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

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Gross written premiums, policy fees and premium deposits | **58,691** | 54,729 |
| Less: Premium deposits | **(11,746)** | (4,846) |
| Gross written premiums and policy fees | **46,945** | 49,883 |
| Net earned premiums | **45,804** | 48,956 |
| Investment income | **8,536** | 5,746 |
| Other income | **258** | 510 |
| Total revenue | **54,598** | 55,212 |
| Change in deferred policy acquisition costs | **3,645** | 2,071 |
| Increase in policyholders' reserves | **(29,557)** | (33,872) |
| Claims and policyholders' benefits | **(15,559)** | (12,032) |
| Commission expenses | **(5,168)** | (4,577) |
| Changes in fair value of derivative financial liabilities | **(6)** | (80) |
| General, administrative and other expenses | **(4,278)** | (3,685) |
| Total expenses | **(50,923)** | (52,175) |
| Income taxes | **(124)** | (333) |
| Net profit | **3,551** | 2,704 |

### Gross Written Premiums, Policy Fees and Premium Deposits

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| **Individual life** | | |
| First year premiums and policy fees | **8,125** | 7,628 |
| First year premium deposits | **3,447** | 1,333 |
| Total first year premiums, policy fees and premium deposits | **11,572** | 8,961 |
| Renewal premiums and policy fees | **30,633** | 28,321 |
| Renewal premium deposits | **3,964** | 2,882 |
| Total renewal premiums, policy fees and premium deposits | **34,597** | 31,203 |
| Total individual life | **46,169** | 40,164 |
| **Bancassurance** | | |
| Gross written premiums and policy fees | **1,133** | 5,836 |
| Premium deposits | **4,091** | 81 |
| Total bancassurance | **5,224** | 5,917 |
| **Group insurance** | | |
| Long term life gross written premiums and policy fees | **5,064** | 6,648 |
| Short term life gross written premiums | **1,990** | 1,450 |
| Premium deposits | **244** | 550 |
| Total group insurance | **7,298** | 8,648 |
| **Total life insurance** | | |
| Gross written premiums and policy fees | **46,945** | 49,883 |
| Premium deposits | **11,746** | 4,846 |
| Total gross written premiums, policy fees and premium deposits | **58,691** | 54,729 |

*Individual Life Business*. Gross written premiums, policy fees and premium deposits for our individual life business increased 15.0% to RMB46,169 million in 2005 from RMB40,164 million in 2004. This increase was primarily due to the 10.9% increase in renewal premiums, policy fees and premium deposits to RMB34,597 million in 2005 from RMB31,203 million in 2004. In addition, first year premiums, policy fees and premium deposits for our individual life business increased 29.1% to RMB11,572 million in 2005 from RMB8,961 million in 2004. These increases were primarily due to the continued improvement in the quality and productivity of our agency force. In addition, our universal life products provided growth momentum in 2005.

*Bancassurance Business*. Gross written premiums, policy fees and premium deposits for our bancassurance business decreased 11.7% to RMB5,224 million in 2005 from RMB5,917 million in 2004. This decrease was primarily due to our continued efforts to manage the growth of this business line to preserve profit margin.

*Group Insurance Business*. Gross written premiums, policy fees and premium deposits for our group insurance business decreased 15.6% to RMB7,298 million in 2005 from RMB8,648 million in 2004. This decrease was primarily due to our continued efforts to manage the growth of this business line to improve profit margin. We continued to focus on selling employer welfare benefit plans. As a result, gross written premiums and policy fees for our short-term accident and health insurance business increased 37.2% to RMB1,990 million in 2005 from RMB1,450 million in 2004.

### Investment Income

Net investment income for our life insurance business increased 27.6% to RMB8,293 million in 2005 from RMB6,501 million in 2004. This increase was primarily due to the increase in investment assets to RMB222,073 million as at December 31, 2005 from RMB180,928 million as at December 31, 2004. Net investment yield for our life insurance business increased to 4.2% in 2005 from 4.1% in 2004.

Total investment income for our life insurance business increased 48.6% to RMB8,536 million in 2005 from RMB5,746 million in 2004. Total investment yield for our life insurance business increased to 4.3% in 2005 from 3.7% in 2004.

| **For the year ended December 31, (in RMB million, except percentages)** | **2005** | 2004 |
|---|---|---|
| Net investment income | **8,293** | 6,501 |
| Net investment yield(1) | **4.2%** | 4.1% |
| Total investment income | **8,536** | 5,746 |
| Total investment yield(1) | **4.3%** | 3.7% |

(1) Net investment yield and total investment yield are computed without considering exchange gains/(losses) associated with foreign currency denominated investment assets.

### Change in Deferred Policy Acquisition Costs

The change in deferred policy acquisition costs was RMB3,645 million in 2005 as compared to RMB2,071 million in 2004. The bigger change in deferred policy acquisition costs was primarily due to the significant increase in first year premiums, policy fees and premium deposits from individual life business.

### Increase in Policyholders' Reserves

The increase in policyholders' reserves was RMB29,557 million in 2005 as compared to RMB33,872 million in 2004. The smaller increase in policyholders' reserves was primarily due to the increase in payment for claims and policyholders' benefits, and the increase in sales of universal life products. A portion of the policyholders' liabilities for universal life products was recorded as policyholder contract deposits instead of policyholders' reserves.

### Claims and Policyholders' Benefits

Claims and policyholders' benefits increased 29.3% to RMB15,559 million in 2005 from RMB12,032 million in 2004. Claims and policyholders' benefits as a percentage of gross written premiums, policy fees and premium deposits increased to 26.5% in 2005 from 22.0% in 2004. These increases were primarily due to the increase in payments for maturities and survival benefits, and surrenders of insurance policies. Payments for maturities and survival benefits increased 52.6% to RMB3,824 million in 2005 from RMB2,506 million in 2004. Payments for surrenders of insurance policies increased 45.3% to RMB5,618 million in 2005 from RMB3,866 million in 2004.

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

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Claims | **3,066** | 2,545 |
| Surrenders | **5,618** | 3,866 |
| Annuities | **1,815** | 2,286 |
| Maturities and survival benefits | **3,824** | 2,506 |
| Policyholders' dividends and provisions | **1,064** | 822 |
| Interest credited to policyholder contract deposits | **172** | 7 |
| Total claims and policyholders' benefits | **15,559** | 12,032 |

## Commission Expenses

| For the year ended December 31, | 2005 | 2004 |
|---|---|---|
| Commission expenses as a percentage of gross written premiums, policy fees and premium deposits | **8.8%** | 8.4% |

Commission expenses, which we paid primarily to our sales agents, increased 12.9% to RMB5,168 million in 2005 from RMB4,577 million in 2004. Commission expenses as a percentage of gross written premiums, policy fees, and premium deposits increased to 8.8% in 2005 from 8.4% in 2004. These increases were primarily due to the increase in first year premiums, policy fees and premium deposits from individual life products.

## General, Administrative and Other Expenses

| For the year ended December 31, | 2005 | 2004 |
|---|---|---|
| General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits | **7.3%** | 6.7% |

General, administrative and other expenses increased 16.1% to RMB4,278 million in 2005 from RMB3,685 million in 2004. General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits increased to 7.3% in 2005 from 6.7% in 2004. These increases were primarily due to the increase in sales of first year premiums, policy fees and premium deposits.

## Income Taxes

| For the year ended December 31, | 2005 | 2004 |
|---|---|---|
| Effective tax rate | **3.4%** | 11.0% |

Income taxes decreased 62.8% to RMB124 million in 2005 from RMB333 million in 2004. The effective tax rate decreased to 3.4% in 2005 from 11.0% in 2004. These decreases were primarily due to the increase in interest income from government bonds, which was entitled to certain tax exemptions.

## Net Profit

As a result of the foregoing, net profit for our life insurance business increased 31.3% to RMB3,551 million in 2005 from RMB2,704 million in 2004.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROPERTY AND CASUALTY INSURANCE BUSINESS

### Results of Operations

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

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Gross written premiums | **12,076** | 10,150 |
| Net earned premiums | **7,395** | 5,764 |
| Investment income | **398** | 240 |
| Other income | **1,188** | 1,172 |
| Total revenue | **8,981** | 7,176 |
| Change in deferred policy acquisition costs | **185** | 190 |
| Claims expenses | **(5,259)** | (4,440) |
| Commission expenses | **(820)** | (678) |
| General, administrative and other expenses | **(2,294)** | (1,816) |
| Total expenses | **(8,188)** | (6,744) |
| Income taxes | **(371)** | (215) |
| Net profit | **422** | 217 |

### Combined Ratio

| For the year ended December 31, | 2005 | 2004 |
|---|---|---|
| Expense ratio | **23.3%** | 20.2% |
| Loss ratio | **72.0%** | 77.0% |
| Combined ratio | **95.3%** | 97.2% |

### Gross Written Premiums

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Automobile insurance | **7,497** | 6,232 |
| Non-automobile insurance | **4,044** | 3,545 |
| Accident and health insurance | **535** | 373 |
| Total gross written premiums | **12,076** | 10,150 |

Gross written premiums increased 19.0% to RMB12,076 million in 2005 from RMB10,150 million in 2004. This increase in gross written premiums was primarily due to the significant growth in all three principal lines of our property and casualty insurance businesses.

*Automobile Insurance Business.* Gross written premiums attributable to our automobile insurance business increased 20.3% to RMB7,497 million in 2005 from RMB6,232 million in 2004. This increase was primarily due to the continued increase in demand for automobiles in the PRC and our improved distribution capability to sell these products.

*Non-automobile Insurance Business.* Gross written premiums attributable to our non-automobile insurance business increased 14.1% to RMB4,044 million in 2005 from RMB3,545 million in 2004. This increase was primarily due to the increase in sales of commercial property insurance and cargo insurance. Gross written premiums attributable to our commercial property insurance increased 15.1% to RMB1,682 million in 2005 from RMB1,461 million in 2004. Gross written premiums attributable to our cargo insurance increased 19.5% to RMB514 million in 2005 from RMB430 million in 2004.

*Accident and Health Insurance Business.* Gross written premiums attributable to our accident and health insurance business increased 43.4% to RMB535 million in 2005 from RMB373 million in 2004. This increase was primarily due to our continued focus on growing this line of business in 2005.

### Investment Income

Net investment income for our property and casualty insurance business increased 34.0% to RMB390 million in 2005 from RMB291 million in 2004. This increase was primarily due to the increase in investment assets to RMB10,003 million as at December 31, 2005 from RMB7,577 million as at December 31, 2004. Net investment yield for our property and casualty insurance business remained at 4.3% in 2005.

Total investment income for our property and casualty insurance business increased 65.8% to RMB398 million in 2005 from RMB240 million in 2004. Our total investment yield for our property and casualty insurance business increased to 4.3% in 2005 from 3.6% in 2004.

| **For the year ended December 31, (in RMB million, except percentages)** | **2005** | 2004 |
|---|---|---|
| Net investment income | **390** | 291 |
| Net investment yield(1) | **4.3%** | 4.3% |
| Total investment income | **398** | 240 |
| Total investment yield(1) | **4.3%** | 3.6% |

(1) Net investment yield and total investment yield are computed without considering exchange gains/(losses) associated with foreign currency denominated investment assets.

### Change in Deferred Policy Acquisition Costs

The change in deferred policy acquisition costs was RMB185 million in 2005 as compared to RMB190 million in 2004. The smaller change in deferred policy acquisition costs was primarily due to the decrease in the percentage of acquisition cost that can be deferred in 2005 as compared to 2004.

### Claims

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Automobile insurance | **3,972** | 3,199 |
| Non-automobile insurance | **1,057** | 1,095 |
| Accident and health insurance | **230** | 146 |
| Total claims | **5,259** | 4,440 |

Total claims increased 18.4% to RMB5,259 million in 2005 from RMB4,440 million in 2004.

Claims attributable to our automobile insurance business increased 24.2% to RMB3,972 million in 2005 from RMB3,199 million in 2004. This increase was primarily due to the increase in premium growth, and the additional claim reserves being provided for compulsory third party motor insurance coverage.

Claims attributable to our non-automobile insurance business decreased 3.5% to RMB1,057 million in 2005 from RMB1,095 million in 2004. This decrease was primarily due to the lower claims from our cargo and motor loan guarantees insurance business.

Claims attributable to our accident and health insurance business increased 57.5% to RMB230 million in 2005 from RMB146 million in 2004. This increase was primarily due to the increase in premium income.

### Commission Expenses

| For the year ended December 31, | 2005 | 2004 |
|---|---|---|
| Commission expenses as a percentage of gross written premiums | **6.8%** | 6.7% |

Commission expenses increased 20.9% to RMB820 million in 2005 from RMB678 million in 2004. As a percentage of gross written premiums, commission expenses increased to 6.8% in 2005 from 6.7% in 2004. These increases were primarily due to the higher market commission rates resulting from increased competition in the property and casualty insurance industry.

### General, Administrative and Other Expenses

General, administrative and other expenses increased 26.3% to RMB2,294 million in 2005 from RMB1,816 million in 2004. This increase was primarily due to the increase in provisions for doubtful debts from some of the longer outstanding reinsurance recoverables.

### Income Taxes

| For the year ended December 31, | 2005 | 2004 |
|---|---|---|
| Effective tax rate | **46.8%** | 49.8% |

Income taxes increased 72.6% to RMB371 million in 2005 from RMB215 million in 2004. The effective tax rate decreased to 46.8% in 2005 from 49.8% in 2004. This decrease was primarily due to the increase in interest income from government bonds, which was entitled to certain tax exemptions.

### Net Profit

As a result of the foregoing, net profit from our property and casualty insurance business increased significantly to RMB422 million in 2005 from RMB217 million in 2004.

## TRUST BUSINESS

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Total revenue | **198** | 102 |
| Net profit | **71** | 3 |

Total revenue from our trust business increased 94.1% to RMB198 million in 2005 from RMB102 million in 2004. Net profit from our trust business increased to RMB71 million in 2005 from RMB3 million in 2004. These increases were primarily due to the healthy growth of the asset under its custody.

## SECURITIES BUSINESS

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Total revenue | **235** | 288 |
| Net profit | **6** | 6 |

Total revenue from our securities business decreased 18.4% to RMB235 million in 2005 from RMB288 million in 2004. This decrease was primarily due to the decrease in revenue from our investment banking business as there were no new initial public offering issued in 2005. Net profit from our securities business remained at RMB6 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BANK BUSINESS

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Total revenue | **25** | 10 |
| Net profit | **7** | 3 |

Total revenue from our bank business increased to RMB25 million in 2005 from RMB10 million in 2004. Net profit from our bank business increased to RMB7 million in 2005 from RMB3 million in 2004.

## OTHER BUSINESS

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

## LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Cash and cash equivalents | **17,636** | 15,945 |
| Held-for-trading investments | **9,410** | 4,478 |
| Total liquid assets | **27,046** | 20,423 |

Short-term borrowings, represented by securities sold under agreements to repurchase, increased to RMB7,095 million in 2005 from RMB601 million in 2004. Short-term borrowings were used as part of the liquidity management for our daily operations. The Group has no other significant loan arrangements besides these short-term borrowings.

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Short-term borrowings | **7,095** | 601 |

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

## CAPITAL STRUCTURE

Total equity increased to RMB33,522 million as at December 31, 2005 from RMB28,627 million as at December 31, 2004. This increase was primarily due to our operating profit in 2005.

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

The Group had no material charges on its group assets.

### Gearing Ratio

| As at December 31, | 2005 | 2004 |
|---|---|---|
| Gearing ratio | **89.7%** | 89.3% |

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

### Solvency Margin

The solvency margin ratio is a measure of capital adequacy for insurance companies. It is calculated by dividing the actual solvency margin by the statutory minimum solvency margin requirement. Under the applicable CIRC regulations, PRC insurance companies are required to maintain specified solvency margin ratios. As a general matter, the CIRC considers an insurance company with a solvency margin ratio of 100% or higher to be financially sound.

The following table sets forth the solvency margin ratios for Ping An Life and Ping An Property & Casualty:

| As at December 31, (in RMB million, except percentages ) | Ping An Life 2005 | Ping An Life 2004 | Ping An Property & Casualty 2005 | Ping An Property & Casualty 2004 |
|---|---|---|---|---|
| Actual solvency margin | **15,177** | 11,335 | **2,113** | 1,754 |
| Minimum solvency margin | **10,787** | 9,206 | **1,377** | 1,105 |
| Solvency margin ratio | **140.7%** | 123.1% | **153.4%** | 158.7% |

### Contractual obligations and Other Commercial Commitments

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

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Contractual commitments | **472** | 150 |
| Operating lease commitments | **850** | 799 |

## RISK MANAGEMENT

### Approach to Risk Management

Ping An regards risk management as a core discipline in our business practice. We are dedicated to develop and maintain a risk management framework that governs the overall infrastructure of the group's operations.

Members of the Risk Management Committee include the Chief Operating Officer, the Chief Actuarial Officer, the Chief Investment Officer, the Chief Internal Auditor, the Finance Director, the Chief Legal Officer and the Chief Information Officer.

The committee meets on a quarterly basis to review the risk management progression. In these meetings, the risk management structure and major risk management issues are discussed on a macro level. Potential new corporate strategic objectives are evaluated for their risk exposures, major risk events for the past quarter are evaluated and development of new risk measurement techniques and risk control measures are presented and approved for implementation. Major operation risk weaknesses noted from our internal audit reviews and from external factors such as regulatory changes and accounting standards changes are also reviewed. Appropriate responses are formulated for the risk topics discussed. Lastly, the committee will review the appropriateness of measures implemented to address risk topics raised in prior meetings.

### Insurance Product Risk

Insurance product risk is the risk of loss due to actual experience emerging differently than what was assumed when the product was designed and priced, as a result of investment returns, expenses, taxes, mortality and morbidity claims, and policyholder behavior.

The Group has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Group manages insurance risk through the following mechanism:

- The use and maintenance of management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time.
- Actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims pattern.
- Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.
- Reinsurance is used to limit the Group's exposure to large claims and catastrophes by placing risk with reinsurers providing high security.
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.
- The mix of insurance assets is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

### Asset and Liability Mismatching Risk

Asset and liability mismatching risk is the risk of loss due to the Group's inability to match its assets with its liabilities on the basis of both duration and investment return.

The Group's asset and liability management includes processes and models built to measure the sensitivity of net income and shareholders' equity under various deterministic interest rate scenarios. The scenarios and assumptions used are reviewed and updated periodically. Insights gained through the analysis are used to measure the risk exposures and capital position of the Group.

Under the current regulatory and market environment, the Group is unable to invest in assets with a duration of sufficient length to match the duration of its life insurance liabilities. When the regulatory and market environment permits, the Group intends to gradually lengthen the duration of its assets.

### Market Risk

Market risk is the risk of potential loss that may result from changes in the value of a financial instrument as a result of changes in interest rates, market prices, foreign currency exchange rates and other market price-related factors. Under the current PRC regulatory and market environment, there is a lack of financial instruments available for the Group to hedge its market risk exposures efficiently. The Group controls its market risk exposures by setting a maximum risk exposure for each class of assets. When setting these limits, significant consideration is placed on the Group's risk appetite and impact on the Group's financial condition. These limits also take into account the Group's asset-liability management strategy.

The Group utilizes various techniques to quantify the market risk exposure, including sensitivity analysis and Value-at-Risk ("VaR") computation. VaR is a summary statistical measure that uses historical market prices and estimates the maximum loss over a target horizon such that there is a low, pre-specified probability that the actual loss will be larger. However, the utilization of the VaR technique under the current PRC market and regulatory environment has its limitations due to the lack of reliable historical financial data.

### Market Risk – Interest Rate Risk

Fixed maturity securities held by the Group are exposed to interest rate risks. These investments are substantially represented by bond investments that are recorded at fair value in the balance sheet.

The Group uses sensitivity analysis to estimate its risk exposure. Interest rate sensitivity is estimated by assuming a 50 basis points parallel shift in the bond yield curve.

| **As at December 31, 2005 (in RMB million)** | **Interest rate risk** |
|---|---|
| Bond investments held-for-trading and available-for-sale | 1,266 |

### Market Risk – Market Price Risk

Listed equity investments held by the Group are exposed to market price risks. These investments are substantially represented by equity investment funds.

The Group uses the 10-day market price VaR technique to estimate its risk exposure. Market price VaR is computed as (equity investment funds valued at market price x 10-day worst market fluctuation at 99% level).

# MANAGEMENT DISCUSSION AND ANALYSIS

| As at December 31, 2005 (in RMB million) | Market price risk |
|---|---|
| Equity investments and equity investment funds held-for-trading and available-for-sale | 956 |

### Market Risk – Foreign Currency Risk

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

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

| As at December 31, 2005 (in RMB million) | Foreign currency risk |
|---|---|
| Net exposure to fluctuations in exchange rates assuming a simultaneous and uniform 5% depreciation of all foreign currency denominated monetary assets and monetary liabilities against the Renminbi | 771 |

### Credit Risk

Credit risk is the risk of economic loss resulting from the failure of one of the Group's obligors to make any payment of principal or interest when due.

The Group is exposed to credit risks primarily associated with its term deposits arrangements with commercial banks and loans to third parties from its banking operations.

To evaluate credit risk property, the Group has established an internal credit rating system. The counterparties' ratings are reviewed at least annually through the system or whenever a credit event occurs.

The Group quantifies its credit risk exposure by assigning expected default rates and expected recovery rates of relevant credit grades for commercial banks and bond issuing companies. Credit risk is computed as (principal amount + outstanding interests) x default rate x (1 – recovery rate).

| As at December 31, 2005 (in RMB million) | Credit risk |
|---|---|
| Term deposits placed with commercial banks and loans to external third parties | 48 |

### Operational Risk

Operational risk is the risk of loss resulting from internal operation failures or uncontrollable external events. Internal operation failures occur due to inadequate or failed internal processes (process risks), system failure (system risks), and human performance failure (people risks). Uncontrollable external events that contribute to operation risks are mainly due to legal matters or changes in the regulatory requirements, accounting standards and tax laws.

For internal operational risks, a proactive approach has been taken to implement appropriate and sufficient preventive controls, detective controls and damage limitation controls. These controls are embedded into the business processes, system operations and human performance. Rigorous checks on the reliability of the controls are performed by our internal and external audit functions. Our risk management committee and audit committee reviews the reports from our internal and external auditors to ensure that appropriate measures are taken to address control weaknesses detected. For the uncontrollable external events, our Legal Department, Finance Department and Planning and Actuarial Department monitor changes in regulatory requirements, accounting standards and tax laws closely.

# EMBEDDED VALUE

## Introduction

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

The Group has received advice from and consulted with Watson Wyatt Insurance Consulting Limited in the selection of basis and the calculation of the value of in-force life insurance business and the value of one year's new business. The Group remains wholly responsible for the results and presentation of the embedded value which comprises the adjusted net asset and the value of in-force life insurance business.

The calculation of embedded value necessarily makes a number of assumptions with respect to future experience. As a result, future experience may vary from that assumed in the calculation, and these variations may be material. The market value of the Group is measured by the value of the Group's shares on any particular day. In valuing the Group's shares, investors take into account a variety of information available to them and their own investment criteria, therefore these calculated values should not be constructed as a direct reflection of the actual market value.

## Components of Economic Value

| **As at December 31, (in RMB million)** | **2005** | 2004 |
|---|---|---|
| Adjusted net asset value | **33,072** | 25,161 |
| Value of in-force insurance business written prior to June 1999 | **(18,089)** | (16,743) |
| Value of in-force insurance business written since June 1999 | **38,537** | 33,127 |
| Cost of holding the required solvency margin | **(5,157)** | (4,297) |
| **Embedded Value** | **48,363** | 37,248 |
| Value of one year's new business | **5,148** | 4,331 |
| Cost of holding the required solvency margin | **(609)** | (418) |
| **Value of one year's new business after cost of solvency** | **4,539** | 3,913 |

The adjusted net asset value is based on the audited shareholders net assets of the Group as measured on a 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 the other business units.

# EMBEDDED VALUE

## Key Assumptions

The assumptions used in the embedded value calculation in 2005 have been made on a "going concern" basis, assuming continuation of the economic and legal environment currently prevailing in the PRC. The statutory reserving basis and solvency margin requirement were assumed in the calculation. Certain portfolio assumptions were based on the Group's own recent experience as well as considering the more general PRC market and other life insurance markets' experience. The principal bases and assumptions used in the calculation are described below:

### *Risk Discount Rate*

The non investment-linked fund's earned rate or 12% has been assumed in each future year as the risk discount rate for the in-force life insurance business. The earned rate is the investment return adjusted for tax paid. This specific discount rate approach for the in-force business is to avoid understating the effect of losses arising from those high interest rate guaranteed products we sold prior to June 1999. A level 12% has been assumed in each future year for the calculation of one-year's new business value.

The central risk discount rate has been reduced from 12.5% in 2004 valuation to 12% this year. The rationale for the change is due to the fact that the government bond yield has decreased in PRC during the past 12 months and a proper risk premium over the risk free return would be maintained.

### *Investment Returns*

Future investment returns have been assumed to be 4.20% in 2006 and increased 0.1% every year to 4.70% in 2011 and thereafter for the non investment-linked fund. For the investment-linked fund, future investment returns have been assumed to be 4.70% in 2006 and increased 0.1% every year to 5.20% in 2011 and thereafter. These returns have been derived by consideration of the current capital market condition, the Group's current and expected future asset allocations and associated investment returns for a range of major asset classes.

### *Taxation*

A 18.5% average income tax rate has been assumed. In addition, a 5.5% business tax rate has been applied to the gross written premiums of the short-term accident insurance business.

### *Mortality*

The experience mortality rates have been based on 75% and 70% of China Life (90-93) table for male and female respectively for non annuitants, with a five-year selection period. For annuitants, 75% of the China Life Annuity (90-93) table has been assumed. The newly published China Life and annuity (00-03) table have been used in calculating statutory reserves.

### *Morbidity*

Morbidity assumptions have been based on the Group's own pricing table. The loss ratios have been assumed to be in the range of 15% and 75% for short term accident and health insurance business.

### *Discontinuances*

Policy discontinuance rates have been based on the Group's recent experience studies. The discontinuance rates are dependent on the pricing rate and the product type.

### *Expenses*

Expense assumptions have been based on the Group's most recent expense investigation. For calendar year 2005, the assumed expenses and commissions equated to around 70% of the expense allowance priced into the products. The unit maintenance expenses were assumed to increase at 2% per annum.

### *Policyholder Dividends*

Policyholder dividends have been based on 80% of the interest and mortality surplus for individual life and bancassurance participating business. For group life participating business, dividends have been based on 80% of interest surplus only.

## New Business Volumes and Business Mix

The volume of new business sold and modeled during 2005 to calculate the value of one year's new business was RMB21,360 million in terms of first year premium. The mix of the new business measured by first year premium was:

| | **Percentage** |
|---|---|
| **Individual life** | **44.4%** |
| Long-term business | 42.2% |
| Short-term business | 2.2% |
| **Group life** | **32.0%** |
| Long-term business | 22.8% |
| Short-term business | 9.2% |
| **Bancassurance** | **23.6%** |
| Long-term business | 23.6% |
| **Total** | **100.00%** |

# EMBEDDED VALUE

## Embedded Value Movement

The table below shows how our embedded value grew to more than RMB48,363 million as at December 31, 2005.

| (in RMB million) | 2005 | |
|---|---|---|
| **Embedded value as at December 31, 2004** | **37,248** | |
| Expected return on year-start embedded value | **2,403** | Expected growth of embedded value occurred in 2005. |
| Value of one-year new business | **5,984** | The contribution came from new business sold during 2005 and discounted at earned rate/12%. |
| Risk discount rate change | **306** | The impact of risk discount rate change. |
| Assumption and modeling changes | **(1,824)** | Investment return and other portfolio assumptions changes decreased embedded value. |
| Market value adjustment impact | **5,424** | Certain assets are marked to market. The market value of the bonds increased due to the decrease in bond yield. |
| Investment return variance | **(632)** | Actual investment return in 2005 was lower than the assumed return. |
| Other experience variances | **321** | Other variances between actual experience and assumptions. |
| **Embedded value before capital changes** | **49,230** | Embedded value before impact of capital change increased 32.2%. |
| Shareholder dividends | **(867)** | Amounts paid to shareholders in the form of final dividends. |
| **Embedded value as at December 31, 2005** | **48,363** | |

| | RMB |
|---|---|
| **Embedded value per share as at December 31, 2005** | **7.81** |

### 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 assumed in 2004 valuation
- Investment return increased by 25 basis points every year
- Investment return decreased by 25 basis points every year
- A 10% reduction in mortality and morbidity for assured lives and loss ratios for the short-term business
- A 10% reduction in policy discontinuance rates
- A 10% reduction in maintenance expense

| **(in RMB million)** | **Risk Discount Rate** | | | |
|---|---|---|---|---|
| | **Earned Rate/11.5%** | **Earned Rate/12.0%** | **Earned Rate/12.5%** | **12.0%** |
| **Value of in-force business** | 15,891 | 15,291 | 14,714 | 16,560 |
| | **11.5%** | **12.0%** | **12.5%** | **Earned Rate/12.0%** |
| **Value of one year's new business** | 4,769 | 4,539 | 4,326 | 5,984 |

| **Assumptions (in RMB million)** | **Value of in-force business** | **Value of one year's new business** |
|---|---|---|
| Central case | 15,291 | 4,539 |
| Investment return assumed in 2004 valuation | 16,897 | 4,584 |
| Investment return increased by 25bp every year | 18,966 | 4,644 |
| Investment return decreased by 25bp every year | 11,244 | 4,436 |
| 10% reduction in mortality and morbidity rates | 15,481 | 4,624 |
| 10% reduction in policy discontinuance rates | 15,502 | 4,756 |
| 10% reduction in maintenance expense | 15,951 | 4,642 |

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

# INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements on pages 79 to 158 which have been prepared in accordance with International Financial Reporting Standards.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
March 29, 2006

# CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2005

| For the year ended December 31, (in RMB million) | Notes | 2005 | 2004 |
|---|---|---|---|
| | | | (Restated) |
| Gross written premiums and policy fees | 6 | **59,021** | 60,033 |
| Less: Premiums ceded to reinsurers | | **(4,241)** | (4,122) |
| Net written premiums and policy fees | | **54,780** | 55,911 |
| Increase in unearned premium reserves, net | 37 | **(1,581)** | (1,191) |
| Net earned premiums | | **53,199** | 54,720 |
| Reinsurance commission income | | **1,371** | 1,376 |
| Net investment income | 7 (1) | **9,338** | 7,219 |
| Realized gains/(losses) | 7 (2) | **(505)** | (56) |
| Unrealized gains/(losses) | 7 (3) | **822** | (717) |
| Foreign currency gains/(losses) | | **(405)** | 3 |
| Other income | 8 | **770** | 648 |
| **Total revenue** | | **64,590** | 63,193 |
| Change in deferred policy acquisition costs | 25 | **3,830** | 2,261 |
| Claims and policyholders' benefits | 9 | **(20,818)** | (16,472) |
| Increase in policyholders' reserves | 37 | **(29,557)** | (33,872) |
| Changes in fair value of derivative financial liabilities | | **(6)** | (80) |
| Commission expenses | | **(5,928)** | (5,255) |
| General and administrative expenses | | **(7,090)** | (5,922) |
| Provision for insurance guarantee fund | | **(209)** | (106) |
| **Total expenses** | | **(59,778)** | (59,446) |
| Operating profit | 10 | **4,812** | 3,747 |
| Income taxes | 11 | **(547)** | (601) |
| **Net profit** | | **4,265** | 3,146 |
| **Attributable to:** | | | |
| – Equity holders of the parent | | **4,226** | 3,116 |
| – Minority interests | | **39** | 30 |
| | | **4,265** | 3,146 |
| | | ***RMB*** | *RMB* |
| **Earnings per share for net profit attributable to equity holders of the parent – basic** | 13 | **0.68** | 0.56 |

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

# CONSOLIDATED BALANCE SHEET

As at December 31, 2005

| As at December 31, (in RMB million) | Notes | 2005 | 2004 |
|---|---|---|---|
| | | | (Restated) |
| **ASSETS** | | | |
| **Investments** | | | |
| Fixed maturity investments | | | |
| Bonds | *14, 42* | **159,749** | 112,798 |
| Term deposits | *15, 42* | **68,959** | 80,320 |
| Policy loans | *42* | **864** | 545 |
| Loans and advances to customers | *42* | **662** | 130 |
| Equity investments | | | |
| Equity investment funds | *16, 42* | **10,058** | 5,497 |
| Equity securities | *17, 42* | **5,183** | 266 |
| Derivative financial assets | *18, 42* | **27** | 62 |
| Investment in an associate | | **3** | 3 |
| Investment properties | *20* | **1,243** | 1,504 |
| **Total investments** | | **246,748** | 201,125 |
| Cash and cash equivalents | *15, 21, 42* | **17,636** | 15,945 |
| Premium receivables | *22, 42* | **749** | 617 |
| Interest receivables | *23, 42* | **438** | 382 |
| Policyholder account assets in respect of insurance contracts | | **12,820** | 9,758 |
| Policyholder account assets in respect of investment contracts | | **3,078** | 3,145 |
| Reinsurance assets | *24* | **4,889** | 4,356 |
| Deferred policy acquisition costs | *25* | **26,428** | 22,622 |
| Property, plant and equipment | *26* | **2,918** | 2,735 |
| Construction-in-progress | *27* | **620** | 204 |
| Land use rights | *28* | **955** | 928 |
| Goodwill | *29* | **327** | 322 |
| Deferred income tax assets | *30* | **–** | 362 |
| Statutory deposits | *31* | **1,240** | 1,200 |
| Other assets | | **860** | 738 |
| **Total assets** | | **319,706** | 264,439 |

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

| As at December 31, (in RMB million) | *Notes* | **2005** | 2004 |
|---|---|---|---|
| | | | (Restated) |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | *32* | **6,195** | 6,195 |
| Reserves | *33* | **21,493** | 19,517 |
| Retained profits | *33* | **5,308** | 2,485 |
| | | **32,996** | 28,197 |
| **Minority interests** | | **526** | 430 |
| **Total equity** | | **33,522** | 28,627 |
| **Liabilities** | | | |
| Customers' deposits | *34, 42* | **1,862** | 1,849 |
| Securities sold under agreements to repurchase | *35, 42* | **7,095** | 601 |
| Premiums received in advance | | **1,880** | 1,627 |
| Commission payable | *42* | **633** | 556 |
| Due to reinsurers | *42* | **533** | 209 |
| Dividends payable to shareholders | *42* | **76** | 74 |
| Income tax payable | | **445** | 490 |
| Insurance guarantee fund | *36* | **60** | 827 |
| Policyholder dividend payable and provisions | | **2,864** | 1,977 |
| Insurance contract liabilities | | | |
| Policyholders' reserves | *37* | **223,538** | 193,770 |
| Policyholder contract deposits | *37* | **9,795** | 1,411 |
| Policyholder account liabilities in respect of insurance contracts | *37* | **12,820** | 9,758 |
| Unearned premium reserves | *37* | **11,048** | 9,472 |
| Claim reserves | *37* | **7,933** | 6,642 |
| Investment contract liabilities | | | |
| Policyholder account liabilities in respect of investment contracts | *38* | **3,078** | 3,145 |
| Investment contract reserves | *38* | **14** | 15 |
| Derivative financial liabilities | *18, 42* | **133** | 127 |
| Deferred income tax liabilities | *30* | **49** | – |
| Other liabilities | | **2,328** | 3,262 |
| **Total liabilities** | | **286,184** | 235,812 |
| **Total equity and liabilities** | | **319,706** | 264,439 |

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

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2005

| (Restated) (in RMB million) | Notes | Equity attributable to equity holders of the parent: Share capital | Reserves: Capital reserve | Reserves: Revenue reserve fund | Reserves: Common welfare fund | Reserves: General reserve | Reserves: Net unrealized gains/ (losses) | Retained profits | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| As at January 1, 2004 | | | | | | | | | | |
| As previously reported | | 4,933 | 2,818 | 4,148 | 486 | 395 | (180) | 352 | 337 | 13,289 |
| Effect of implementation of new/revised accounting standards | 3 | – | – | – | – | – | (61) | – | (1) | (62) |
| As restated | | 4,933 | 2,818 | 4,148 | 486 | 395 | (241) | 352 | 336 | 13,227 |
| Net profit for 2004 | | – | – | – | – | – | – | 3,116 | 30 | 3,146 |
| Net losses on available-for-sale investments | | – | – | – | – | – | (653) | – | (6) | (659) |
| Net losses on available-for-sale investments removed from equity and reported in net profit | | – | – | – | – | – | 69 | – | 1 | 70 |
| Deferred tax recognized, net | 11 | – | – | – | – | – | 87 | – | 1 | 88 |
| Issue of shares through initial public offering | | 1,262 | 12,564 | – | – | – | – | – | – | 13,826 |
| Share issue expenses | | – | (547) | – | – | – | – | – | – | (547) |
| Changes in equity interests in subsidiaries | | – | – | – | – | – | – | – | (68) | (68) |
| Acquisition of a subsidiary | | – | – | – | – | – | – | – | 136 | 136 |
| 2003 dividends declared | 12 | – | – | – | – | – | – | (592) | – | (592) |
| Appropriations to statutory reserves | 33 | – | – | 261 | 130 | – | – | (391) | – | – |
| As at December 31, 2004 | | 6,195 | 14,835 | 4,409 | 616 | 395 | (738) | 2,485 | 430 | 28,627 |

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

| (in RMB million) | Notes | Share capital | Capital reserve | Revenue reserve fund | Common welfare fund | General reserve | Net unrealized gains/(losses) | Foreign currency translation differences | Retained profits | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **Equity attributable to equity holders of the parent** | | | | | | | | | |
| | | | **Reserves** | | | | | | | | |
| As at January 1, 2005 | | | | | | | | | | | |
| As previously reported | | **6,195** | **14,835** | **4,409** | **616** | **395** | **(682)** | **–** | **2,485** | **431** | **28,684** |
| Effect of implementation of new/revised accounting standards | *3* | – | – | – | – | – | (56) | – | – | (1) | (57) |
| As restated | | **6,195** | **14,835** | **4,409** | **616** | **395** | **(738)** | **–** | **2,485** | **430** | **28,627** |
| Net profit for 2005 | | – | – | – | – | – | – | – | 4,226 | 39 | 4,265 |
| Net gains on available-for-sale investments | | – | – | – | – | – | 1,718 | – | – | 18 | 1,736 |
| Net gains on available-for-sale investments removed from equity and reported in net profit | | – | – | – | – | – | (9) | – | – | – | (9) |
| Deferred tax recognized, net | *11* | – | – | – | – | – | (256) | – | – | (3) | (259) |
| Increase in equity interests in subsidiaries | | – | – | – | – | – | – | – | – | 46 | 46 |
| Increase in general reserve | | – | – | – | – | 35 | – | – | (35) | – | – |
| 2004 dividends declared | *12* | – | – | – | – | – | – | – | (867) | – | (867) |
| Currency translation adjustments | | – | – | – | – | – | – | (13) | – | (4) | (17) |
| Appropriations to statutory reserves | *33* | – | – | 334 | 167 | – | – | – | (501) | – | – |
| **As at December 31, 2005** | | **6,195** | **14,835** | **4,743** | **783** | **430** | **715** | **(13)** | **5,308** | **526** | **33,522** |

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

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2005

| For the year ended December 31, (in RMB million) | Notes | 2005 | 2004 |
|---|---|---|---|
| **Net cash from operating activities** | *43* | **31,810** | 34,347 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of investment properties, property, plant and equipment, construction-in-progress, and land use rights | | **(1,079)** | (470) |
| Proceeds from disposal of property, plant and equipment | | **111** | 22 |
| Proceeds from sales in securities sold under agreements to repurchase | | **6,494** | 401 |
| Purchases of investments, net | | **(54,152)** | (43,882) |
| Term deposits placed, net | | **11,361** | (2,087) |
| Acquisition of a subsidiary | | **–** | 295 |
| Increase in equity interests in a subsidiary | | **–** | (158) |
| Interest expenses paid on securities sold under agreements to repurchase | | **(81)** | (42) |
| Interest received | | **8,123** | 6,215 |
| Dividends received | | **267** | 393 |
| Rentals received | | **107** | 130 |
| **Net cash used in investing activities** | | **(28,849)** | (39,183) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from shares issued | | **–** | 13,279 |
| Dividends paid | *12* | **(865)** | (518) |
| **Net cash from/(used in) financing activities** | | **(865)** | 12,761 |
| Net increase in cash and cash equivalents | | **2,096** | 7,925 |
| Net foreign exchange differences | | **(405)** | 3 |
| Cash and cash equivalents at beginning of year | | **15,945** | 8,017 |
| **Cash and cash equivalents at end of year** | *21* | **17,636** | 15,945 |

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

# BALANCE SHEET

As at December 31, 2005

| As at December 31, (in RMB million) | Notes | 2005 | 2004 |
|---|---|---|---|
| | | | (Restated) |
| **ASSETS** | | | |
| **Investments** | | | |
| Fixed maturity investments | | | |
| Bonds | | **1,935** | 49 |
| Term deposits | | **11,051** | 10,626 |
| Equity investments | | | |
| Equity securities | | **120** | – |
| Investments in subsidiaries | *19* | **10,524** | 8,844 |
| **Total investments** | | **23,630** | 19,519 |
| Cash and cash equivalents | *21* | **2,669** | 7,680 |
| Interest receivables | | **22** | 126 |
| Property, plant and equipment | | **37** | 9 |
| Other assets | | **47** | 81 |
| **Total assets** | | **26,405** | 27,415 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | *32* | **6,195** | 6,195 |
| Reserves | *33* | **20,780** | 20,255 |
| Accumulated losses | *33* | **(1,652)** | (512) |
| **Total equity** | | **25,323** | 25,938 |
| **Liabilities** | | | |
| Securities sold under agreements to repurchase | | **645** | – |
| Dividends payable to shareholders | | **76** | 74 |
| Borrowing from a subsidiary | | **274** | – |
| Income tax payable | | **–** | 23 |
| Other liabilities | | **87** | 1,380 |
| **Total liabilities** | | **1,082** | 1,477 |
| **Total equity and liabilities** | | **26,405** | 27,415 |

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

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 1. Corporate information

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

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

The principal structure of the Group changed during 2005 as follows:

(1) On March 8, 2005, China Ping An Trust & Investment Co., Ltd. ("Ping An Trust") established Shenzhen Ping An Real Estate Investment Co., Ltd. ("Ping An Real Estate") in Shenzhen together with Shenzhen Ping An Industries Co., Ltd. ("Ping An Industries"). The paid-up capital of Ping An Real Estate is RMB300 million and the Group's equity interest amounts to 99.52%.

(2) On May 27, 2005, the Company established Ping An Asset Management Co., Ltd. ("Ping An Asset Management") in Shanghai together with Ping An Life Insurance Company of China, Ltd. ("Ping An Life") and Ping An Property & Casualty Insurance Company of China, Ltd. ("Ping An Property & Casualty"). The paid-up capital of Ping An Asset Management is RMB200 million and the Group's equity interest amounts to 99.90%.

(3) On June 13, 2005, the Company established Ping An Health Insurance Company of China, Ltd. ("Ping An Health") in Shanghai together with Ping An Life, Ping An Property & Casualty, Ping An Trust and Ping An Industries. The paid-up capital of Ping An Health is RMB500 million and the Group's equity interest amounts to 99.96%.

(4) With approvals from the China Securities Regulatory Commission ("CSRC") on May 8, 2005 and December 14, 2005, Ping An Trust injected additional capital of RMB300 million and RMB500 million into Ping An Securities Company, Ltd. ("Ping An Securities"). After such capital injections, Ping An Trust's equity interest in Ping An Securities increased from 75.00% to 86.21%.

(5) With an approval from the China Banking Regulatory Commission Shenzhen Office on September 2, 2005, the Company injected additional capital of RMB1,500 million into Ping An Trust. After such capital injection, the Company's equity interest in Ping An Trust increased from 99.26% to 99.52%.

(6) With an approval from CSRC on December 7, 2005, Ping An Securities injected additional capital of RMB20 million into Shenzhen Ping An Futures Brokerage Co., Ltd. ("Ping An Futures"). After such capital injection, the Group's equity interest in Ping An Futures changed to 92.80%.

## 2. Impact of recently issued or amended International Financial Reporting Standards ("IFRSs")

The International Accounting Standards Board ("IASB") has issued and amended certain IFRSs (the "New IFRSs") which are effective for annual periods beginning on or after January 1, 2006. The Group has not early adopted such New IFRSs in the financial statements for the year ended December 31, 2005 and plans to adopt them when they become effective. The Group is in the process of making an assessment of the impact of the New IFRSs as follows:

- ***IAS 39, Financial Instruments: Recognition and Measurement***

  *Fair Value Option*

  The standard allows an entity to have an option to designate a financial asset or financial liability at fair value through profit or loss if the asset or the liability meets either of the following conditions:

  - it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis; or

  - a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about such group is provided internally on that basis to an entity's key management personnel.

  This amendment is effective for annual periods beginning on or after January 1, 2006.

- ***IAS 39, Financial Instruments: Recognition and Measurement***

  ***IFRS 4, Insurance Contracts***

  *Financial Guarantee Contracts*

  IFRS 4 shall not apply to financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either IAS 39 and IAS 32 or IFRS 4 to such financial guarantee contracts.

  This amendment is effective for annual periods beginning on or after January 1, 2006.

- ***IFRS 7, Financial Instruments: Disclosure***

  The standard will supersede IAS 30, Disclosures in the Financial Statements of Banks and Financial Institutions, and the disclosure requirements of IAS 32. It requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for an entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

  The standard is effective for annual periods beginning on or after January 1, 2007.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 3. Summary of significant accounting policies

### *(1) Basis of preparation*

These consolidated financial statements have been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. The financial statements have been prepared under the historical cost convention, except for the measurement at fair values of available-for-sale investments, financial assets carried at fair value through profit or loss and derivative financial assets and liabilities. The above basis of preparing financial statements differs from that used in the statutory accounts of the Group and the Company, which are prepared in accordance with PRC accounting standards ("PRC GAAP"). The major adjustments made include measuring certain financial assets at estimated fair values, restating insurance contract liabilities and deferred policy acquisition costs, related deferred tax, etc.

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

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

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

## 3. Summary of significant accounting policies *(Continued)*

### *(2) Changes in accounting policies*

In the current year, the Group has adopted new and revised standards issued by the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised standards has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current and prior years:

- *IFRS 4, Insurance Contracts*

  Effective January 1, 2005, the Group adopted IFRS 4. IFRS 4 represents the completion of phase 1 of the first IFRS to deal with insurance contracts. The main features of IFRS 4 include but are not limited to the definition of an insurance contract, the use of liability adequacy tests and impairment tests for reinsurance assets, and prohibition of catastrophe and equalization provisions. Based on this standard, the Group continues to account for investment contracts containing discretionary participation features as if they are insurance contracts. In addition, premium income from certain contracts, which are regarded as investment contracts by IFRS 4, is accounted for as financial liabilities, and related policyholders' benefits to the extent covered by the said contracts are accounted for as a direct debit to the financial liabilities. Further, certain investment-linked contracts meet the definition of an insurance contract under IFRS 4 and the Group separately presents assets and liabilities related to such investment-linked contracts, which were originally grouped in "separate account (investment-linked) assets and liabilities". The assets and liabilities related to the remaining investment-linked contracts, which are regarded as investment contracts, are presented as policyholder account assets and liabilities in respect of investment contracts.

  As a result of the adoption of IFRS 4, certain contracts were reclassified as investment contracts.

  The Group recorded the following effects in the consolidated income statement to reflect the reclassification of contracts:

| **For the year ended December 31, (in RMB million)** | **2005** | **2004** |
|---|---|---|
| (Debit)/Credit | | |
| Gross written premiums and policy fees | **–** | (16) |
| Claims and policyholders' benefits | **1** | 1 |
| Increase in policyholders' reserves | **(1)** | 15 |
| Net impact on net profit | **–** | – |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**3. Summary of significant accounting policies** *(Continued)*

***(2) Changes in accounting policies*** *(Continued)*

- *IFRS 4, Insurance Contracts (Continued)*

Further, the Group recorded the following effects in the consolidated balance sheet:

| **As at December 31, (in RMB million)** | **2005** | 2004 |
|---|---|---|
| Debit/(Credit) | | |
| Policyholders' reserves | **14** | 15 |
| Investment contract reserves | **(14)** | (15) |
| Policyholder account assets in respect of insurance contracts | **12,820** | 9,758 |
| Policyholder account assets in respect of investment contracts | **3,078** | 3,145 |
| Separate account (investment-linked) assets | **(15,898)** | (12,903) |
| Policyholder account liabilities in respect of insurance contracts | **(12,820)** | (9,758) |
| Policyholder account liabilities in respect of investment contracts | **(3,078)** | (3,145) |
| Separate account (investment-linked) liabilities | **15,898** | 12,903 |

- *IAS 39 (revised 2004), Financial Instruments: Recognition and Measurement*

Effective January 1, 2005, the Group has adopted IAS 39 (revised 2004). Among the changes, IAS 39 (revised 2004) has eliminated "loans and receivables originated by the enterprise" and defined a "loans and receivables" category. By such definition, loans and receivables exclude investments quoted in an active market. As a result, the Group has reclassified quoted bonds as held-to-maturity or available-for-sale investments in accordance with the related requirements and investment strategy. The Group recorded the following effects in the consolidated balance sheet:

| **As at December 31, (in RMB million)** | **2005** | 2004 |
|---|---|---|
| Debit/(Credit) | | |
| Fixed maturity investments – bonds | **233** | (67) |
| Deferred income tax assets | **(35)** | 10 |
| Reserves – net unrealized losses | **(196)** | 56 |
| Minority interests | **(2)** | 1 |

## 3. Summary of significant accounting policies *(Continued)*

### *(2) Changes in accounting policies* *(Continued)*

- *IFRS 2, Share-based Payment*

  Effective January 1, 2005, the Group has adopted IFRS 2. It requires the Group to recognize share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets or equity instruments of the Company. This standard has given more guidance on recognition, measurement and disclosure of the Group's share appreciation rights scheme. There was no significant impact on the Group's financial statements upon the adoption of IFRS 2. The charge to income statement is as follows:

| **For the year ended December 31, (in RMB million)** | **2005** | **2004** |
|---|---|---|
| Charge for the year | **61** | 29 |

- *IFRS 3, Business Combinations*

  IFRS 3, Business Combinations, was already effective since March 31, 2004. Among its requirements, the Group has, since 2005, ceased amortization of the Group's goodwill.

- *IAS 27 (revised 2004), Consolidated and Separate Financial Statements*

  IAS 27 (revised 2004) requires that the investments in subsidiaries be accounted for at cost or in accordance with IAS 39 in the parent's separate financial statements. In prior years, the Company's investments in subsidiaries were accounted for using the equity method. Upon the implementation of IAS 27 (revised 2004), the Company's investments in subsidiaries are accounted for at cost in its unconsolidated, separate financial statements. The Company recorded the following effects on its separate balance sheet as at December 31, 2005 and 2004:

| **As at December 31, (in RMB million)** | **2005** | 2004 |
|---|---|---|
| Debit/(Credit) | | |
| Investments in subsidiaries | **(7,673)** | (2,315) |
| Reserves | **713** | (1,064) |
| Retained profits | **6,960** | 3,379 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**3. Summary of significant accounting policies** *(Continued)*

***(2) Changes in accounting policies*** *(Continued)*

In addition to the standards referred to above, the key revised standards that the Group has also adopted during the year which mainly affect the presentation and disclosures of the financial statements are as follows:

- *IAS 1 (revised 2004), Presentation of Financial Statements*

  IAS 1 (revised 2004) affects the presentation of minority interests in the income statement (separate allocation at the bottom of the income statement) and in the statement of changes in equity (separate column for minority interests) and other disclosures.

- *IAS 8 (revised 2004), Accounting Policies, Changes in Accounting Estimates and Errors*

  IAS 8 (revised 2004) requires disclosure of an impending change in accounting policy when the Group has yet to implement a new IFRS or interpretation that has been issued but not yet come into effect. In addition, it has required disclosure of known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS or interpretation will have on the Group's financial statements in the period of initial application.

- *IAS 32 (revised 2004), Financial Instruments: Disclosure and Presentation*

  IAS 32 (revised 2004) requires additional disclosures of information in respect of financial assets and financial liabilities, including information about the use of valuation techniques, and the carrying amounts of financial assets and financial liabilities that are classified as held-for-trading and those designated by the entity upon initial recognition as financial assets and financial liabilities at fair value through profit or loss.

***(3) Foreign currency translation***

The main functional and presentation currency of the Company and its domestic subsidiaries is Renminbi ("RMB").

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

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

## 3. Summary of significant accounting policies *(Continued)*

### *(4) Principles of consolidation*

The Group's consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after elimination of intercompany transactions, including any unrealized profits arising from intra-group transactions.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line dissimilar significant accounting policies that may exist.

The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated results.

### *(5) Subsidiaries*

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

The Company's investments in subsidiaries are stated at cost in the separate financial statements of the Company.

### *(6) Associates*

Investments in associates (generally investments of between 20% to 50% in a company's equity) where significant influence is exercised by the Group are accounted for using the equity method. An assessment of the carrying value of the investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

Unrealized gains arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the associate. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

The Company's investments in associates, if any, are stated at cost in the separate financial statements of the Company.

**3. Summary of significant accounting policies** *(Continued)*

***(7) Investments***

*Classification*

The Group classifies its investments into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification mainly depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified at inception if it is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if it is so designated by management. Derivatives are also classified as held-for-trading unless they are designated as hedges.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or those designated as at fair value through profit or loss or available-for-sale.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, other than those that meet the definition of loans and receivables, that the Group's management has the positive intention and ability to hold to maturity.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Listed investments are those quoted and traded on securities exchanges. Unlisted investments are those traded on inter-bank or other markets other than the securities exchanges.

*Initial measurement*

Regular way purchases and sales of investments are recognized on trade date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Investments are derecognized when the rights to receive cash flows from the investments have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

### 3. Summary of significant accounting policies *(Continued)*

#### *(7) Investments (Continued)*

*Subsequent measurement*

Available-for-sale financial assets and financial assets carried at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity financial assets are measured at amortized cost using the effective interest method.

Realized and unrealized gains and losses arising from changes in the fair value of financial assets carried at fair value through profit or loss are included in the income statement in the period in which they arise.

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realized gains/ losses.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transaction prices, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants. For equity investments categorized as available-for-sale investments that do not have a quoted market price in an active market, where a reliable valuation technique is not available, their fair values are estimated at cost less any provision for impairment losses.

#### *(8) Derivative financial instruments*

Derivatives financial instruments mainly represent options embedded in convertible bonds purchased by the Group and those derivatives embedded in certain insurance contracts.

If the convertible bond is categorized as available-for-sale, the embedded options are separated and categorized as carried at fair value through profit or loss. If the convertible bond is categorized as carried at fair value through profit or loss, embedded derivatives are not separated from the host bond.

Derivative financial instruments are initially recognized at fair value on the date when a related contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

#### *(9) Securities purchased under agreements to resell – reverse repos*

The Group enters into purchases of securities under agreements to resell substantially identical securities. These agreements are classified as loans and receivables. Securities purchased under agreements to resell are recorded at the cost of the amounts advanced. The amounts advanced under these agreements are reflected as assets in the balance sheet. The Group does not take physical possession of securities purchased under agreements to resell. Sales or transfers of the securities are not permitted by the respective stock exchanges on which they are listed while the loan is outstanding. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities held by the stock exchanges which are the custodians.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**3. Summary of significant accounting policies** *(Continued)*

***(10) Investment properties***

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

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

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

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

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

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

***(11) Cash and cash equivalents***

Cash includes cash on hand and cash with banks. Cash equivalents are short term, highly liquid deposits or investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

***(12) Securities sold under repurchase agreements – repos***

Securities sold under repurchase agreements, which are classified as short term borrowings, generally mature within 183 days from the transaction date. The Group may be required to provide additional collateral based on the fair value of the underlying securities. Securities sold under repurchase agreements are recorded at the cost of the borrowings. It is the Group's policy to maintain effective control over securities sold under repurchase agreements; accordingly, such securities continue to be carried on the balance sheet.

**3. Summary of significant accounting policies** *(Continued)*

***(13) Deferred policy acquisition costs***

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

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

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

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

The effect on the deferred policy acquisition costs to reflect the change in amortization that would have been necessary if unrealized gains on investments had actually been realized, is recognized through an offset to unrealized gains in equity.

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

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

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 3. Summary of significant accounting policies *(Continued)*

### *(14) Property, plant and equipment*

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the financial statements and any gain or loss resulting from their disposal is included in the income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the income statement in the period in which the costs are incurred. In situations where it can be clearly demonstrated that expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, such expenditures are capitalized as an additional cost of the item of property, plant and equipment.

Depreciation is computed on a straight-line basis, after taking into account the estimated residual value of each asset, over its estimated useful life. The estimated residual values and useful lives of property, plant and equipment by category are as follows:

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

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

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

### *(15) Construction-in-progress*

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

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

## 3. Summary of significant accounting policies *(Continued)*

### *(16) Land use rights*

Land use rights are stated at cost less accumulated amortization and any impairment losses. Land use rights are amortized on a straight-line basis over the unexpired period of the rights.

### *(17) Goodwill*

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

### *(18) Product classification*

*(a) Insurance contracts*

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

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

*(b) Investment contracts*

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

### *(19) Insurance contract liabilities*

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

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

Policyholders' reserves represent the estimated future benefit liability payable to policyholders for long term life insurance policies, other than policyholders' account balances in respect of investment-linked and universal life insurance contracts.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

3. **Summary of significant accounting policies** *(Continued)*

***(19) Insurance contract liabilities*** *(Continued)*

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

Liabilities for contractual benefits that are expected to be incurred in the future are recorded when the related premiums are recognized. Such liabilities for life insurance policies are calculated using a net level premium valuation method based on actuarial assumptions as to mortality, persistency, expenses, policyholder dividends and investment return, including a margin for adverse deviation. The assumptions are established at the time of the issue of the policy and remain unchanged except where premium deficiency occurs. For participating life insurance policies, under current PRC insurance regulations, a minimum of 70% of the distributable surplus (as determined based on the contracts, prevailing insurance regulations and on the Group's distribution basis) must be allocated for the benefit of policyholders, and this obligation is provided for within total liabilities.

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

The policyholders' share of unrealized gains, which may be paid to participating policyholders in the future, is included in policyholders' reserves for these contracts.

*(b) Claim reserves*

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

*(c) Unearned premium reserves*

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

## 3. Summary of significant accounting policies *(Continued)*

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

*(d) Liability adequacy test*

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

### *(20) Investment contract liabilities*

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

### *(21) Investment-linked business*

The assets and liabilities related to investment-linked contracts, which are regarded as insurance contracts, are presented as policyholder account assets and liabilities in respect of insurance contracts. For assets and liabilities related to investment-linked contracts regarded as investment contracts, they are presented as policyholder account assets and liabilities in respect of investment contracts.

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

Policyholder account assets and liabilities represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. The net investment income on policyholder account assets accrues directly to the policyholders. The assets and liabilities of each investment-linked fund are carried at estimated market value and are segregated from each other and from the rest of the Group's invested assets.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**3. Summary of significant accounting policies** *(Continued)*

***(22) Universal life business***

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

***(23) Dividends***

Dividends are proposed by the directors, and are approved by the shareholders before they are recognized as a liability.

***(24) Revenue recognition***

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

*(a) Premiums income*

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

*(b) Investment-linked business*

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

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

*(c) Universal life business*

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

**3. Summary of significant accounting policies** *(Continued)*

***(24) Revenue recognition*** *(Continued)*

*(d) Net investment income*

Net investment income includes interest from term deposits, fixed maturity securities, securities purchased under agreements to resell, policy loans and other loans, dividends from equity investment funds and securities, operating lease income from investment properties, etc. Dividends are recognized when the right to receive payment is established. Operating lease income from investment properties (after deduction of the aggregate cost of incentives granted to lessees) is recognized as income on a straight-line basis over the lease terms. Other net investment income is mainly accrued on a time proportion basis, taking into account the principal amount outstanding and the interest rate applicable.

***(25) Reinsurance***

Reinsurance contracts are contracts under which the Group has assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the ceding company to the reinsurers.

Reinsurance assets include the balances due under reinsurance contracts from both insurance and reinsurance companies for paid and unpaid claims and claim adjustment expenses, ceded unearned premiums, ceded policyholders' reserves held under reinsurance treaties, etc. Amounts recoverable from reinsurers are estimated in a manner consistent with the liability associated with the reinsured policy.

Reinsurance is recorded gross in the balance sheet unless a right to offset exists. The Group evaluates the financial strength of potential reinsurers and continually monitors the financial conditions of reinsurers.

According to PRC insurance regulations, during 2005, the Group is required to cede 5% of gross premium income from property and casualty and short term life insurance to state-owned reinsurers.

***(26) Operating leases***

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

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

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

**3. Summary of significant accounting policies** *(Continued)*

***(27) Employee benefits***

*(a) Pension obligations*

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

*(b) Housing benefits*

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

*(c) Medical benefits*

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

***(28) Share-based payment transactions***

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

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

***(29) Tax***

The income tax charges (and business tax payable) are estimated based on existing tax legislations, practices and interpretations thereof. The income tax charges are provided based on estimated taxable profit and include consideration for deferred taxes. Deferred taxes are calculated using the balance sheet liability method.

Deferred taxes reflect the net tax effects of temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, based on tax rates enacted or substantially enacted at the balance sheet date.

**3. Summary of significant accounting policies** *(Continued)*

***(29) Tax*** *(Continued)*

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Tax refunds are accounted for on a cash basis.

***(30) Impairment of assets***

*(a) Investment assets*

Investment assets are reviewed for impairment at each balance sheet date.

For investment assets carried at historical cost or amortized cost, whenever it is probable that the Group will not collect all the amounts due according to the contractual terms of the loans, receivables or deposits, an impairment loss is recognized in the consolidated results.

The amount of the loss recognized is the difference between the carrying amount of an investment and its expected recoverable amount. A reversal of impairment losses previously recognized is recorded when a decrease in impairment loss can be objectively related to an event occurring after the initial write-down. Such reversals are recorded in the consolidated results. The increased carrying amount is only recognized to the extent it does not exceed what the historic cost or amortized cost would have been had the impairment not been initially recognized.

*(b) Goodwill*

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**3. Summary of significant accounting policies** *(Continued)*

***(30) Impairment of assets*** *(Continued)*

*(b) Goodwill (Continued)*

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

(i) represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

*(c) Other assets*

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the consolidated results. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss recognized in prior years shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is recorded in the consolidated results. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been initially recognized for that asset in the prior years.

***(31) Related parties***

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## 4. Critical accounting estimates and judgments in applying accounting policies

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

### *(1) Estimate of future benefit payments arising from insurance contracts and investment contracts with discretionary participation features*

The estimation of the ultimate liability arising from claims made under contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Group will ultimately pay for those claims. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables that reflects historical mortality experience, adjusted where appropriate to reflect the Group's unique risk exposure. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by policyholders' reserves, which in return is monitored against current and future premiums. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure. This results in even more uncertainty in estimating the ultimate liability.

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.

Estimates for future deaths, voluntary terminations, investment returns and administration expenses are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and where necessary changes will be reflected in adjustments to the liability.

Estimates and management judgments are also critical in determining the property and casualty insurance contract liabilities, but to a lesser extent than life insurance, due to the shorter term of the liabilities and the specific event or transaction cover, of which terms and conditions are directly stipulated in the contracts. Previous experience and trends are fundamental in determining the liabilities.

### *(2) Fair value of financial assets carried at fair value through profit or loss and available for sale financial assets*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transaction prices, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants. For equity investments categorized as available-for-sale investments that do not have a quoted market price in an active market, where a reliable valuation technique is not available, their fair values are estimated at cost less any provision for impairment losses.

**4. Critical accounting estimates and judgments in applying accounting policies** *(Continued)*

***(3) Fair value of investment contracts***

The Group issues certain investment contracts and the financial liabilities associated with these contacts are designated at fair value through profit or loss. These financial instruments are not quoted in active markets, and their fair values are determined with reference to contract terms, estimated fair values of any assets backing such contracts, internally generated valuation techniques, etc.

**5. Segment reporting**

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

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.

## 5. Segment reporting *(Continued)*

The segment analysis as at and for the year ended December 31, 2005 is as follows:

| (in RMB million) | Life insurance | Property and casualty insurance | Corporate | Others | Elimination | Total |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Gross written premiums and policy fees | 46,945 | 12,076 | – | – | – | 59,021 |
| Less: Premiums ceded to reinsurers | (810) | (3,431) | – | – | – | (4,241) |
| Increase in unearned premium reserves, net | (331) | (1,250) | – | – | – | (1,581) |
| Net earned premiums | 45,804 | 7,395 | – | – | – | 53,199 |
| Reinsurance commission income | 227 | 1,144 | – | – | – | 1,371 |
| Net investment income | 8,293 | 390 | 590 | 82 | (17) | 9,338 |
| Realized gains/(losses) | (577) | (5) | 34 | 43 | – | (505) |
| Unrealized gains/(losses) | 820 | 13 | – | (11) | – | 822 |
| Foreign currency losses, net | (379) | (8) | (3) | (15) | – | (405) |
| Other income | 410 | 52 | 74 | 402 | (168) | 770 |
| Total revenue | 54,598 | 8,981 | 695 | 501 | (185) | 64,590 |
| Change in deferred policy acquisition costs | 3,645 | 185 | – | – | – | 3,830 |
| Claims and policyholders' benefits | (15,559) | (5,259) | – | – | – | (20,818) |
| Increase in policyholders' reserves | (29,557) | – | – | – | – | (29,557) |
| Changes in fair value of derivative financial liabilities | (6) | – | – | – | – | (6) |
| Commission expenses | (5,168) | (820) | – | – | 60 | (5,928) |
| General and administrative expenses | (4,162) | (2,201) | (416) | (419) | 108 | (7,090) |
| Provision for insurance guarantee fund | (116) | (93) | – | – | – | (209) |
| Total expenses | (50,923) | (8,188) | (416) | (419) | 168 | (59,778) |
| Operating profit | 3,675 | 793 | 279 | 82 | (17) | 4,812 |
| Income taxes | (124) | (371) | (40) | (12) | – | (547) |
| Net profit | 3,551 | 422 | 239 | 70 | (17) | 4,265 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 5. Segment reporting *(Continued)*

| (in RMB million) | Life insurance | Property and casualty insurance | Corporate | Others | Elimination | Total |
|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | |
| Investment assets | 222,073 | 10,003 | 23,647 | 2,150 | (11,125) | 246,748 |
| Other assets | 56,159 | 8,788 | 2,758 | 6,042 | (789) | 72,958 |
| Total assets | 278,232 | 18,791 | 26,405 | 8,192 | (11,914) | 319,706 |
| Insurance and investment contract liabilities | 254,312 | 13,914 | – | – | – | 268,226 |
| Other liabilities | 12,645 | 2,514 | 1,096 | 2,932 | (1,229) | 17,958 |
| Total liabilities | 266,957 | 16,428 | 1,096 | 2,932 | (1,229) | 286,184 |
| **Other segment information** | | | | | | |
| Capital expenditure | 872 | 149 | 31 | 27 | – | 1,079 |
| Depreciation | 389 | 107 | 3 | 37 | – | 536 |
| Amortization of land use rights | 20 | – | – | – | – | 20 |
| Impairment losses recognized | 52 | – | – | 23 | – | 75 |
| Total other non-cash expenses charged to consolidated results | (60) | 110 | – | (1) | – | 49 |

**5. Segment reporting** *(Continued)*

The segment analysis as at and for the year ended December 31, 2004 is as follows:

| (Restated)<br>(in RMB million) | Life insurance | Property and casualty insurance | Corporate | Others | Elimination | Total |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Gross written premiums and policy fees | 49,883 | 10,150 | – | – | – | 60,033 |
| Less: Premiums ceded to reinsurers | (813) | (3,309) | – | – | – | (4,122) |
| Increase in unearned premium reserves, net | (114) | (1,077) | – | – | – | (1,191) |
| Net earned premiums | 48,956 | 5,764 | – | – | – | 54,720 |
| Reinsurance commission income | 234 | 1,142 | – | – | – | 1,376 |
| Net investment income | 6,501 | 291 | 439 | 57 | (69) | 7,219 |
| Realized gains/(losses) | (127) | (3) | 1 | 73 | – | (56) |
| Unrealized gains/(losses) | (628) | (48) | 1 | (42) | – | (717) |
| Foreign currency gains, net | – | – | 3 | – | – | 3 |
| Other income | 276 | 30 | 45 | 328 | (31) | 648 |
| Total revenue | 55,212 | 7,176 | 489 | 416 | (100) | 63,193 |
| Change in deferred policy acquisition costs | 2,071 | 190 | – | – | – | 2,261 |
| Claims and policyholders' benefits | (12,032) | (4,440) | – | – | – | (16,472) |
| Increase in policyholders' reserves | (33,872) | – | – | – | – | (33,872) |
| Changes in fair value of derivative financial liabilities | (80) | – | – | – | – | (80) |
| Commission expenses | (4,577) | (678) | – | – | – | (5,255) |
| General and administrative expenses | (3,653) | (1,742) | (171) | (387) | 31 | (5,922) |
| Provision for insurance guarantee fund | (32) | (74) | – | – | – | (106) |
| Total expenses | (52,175) | (6,744) | (171) | (387) | 31 | (59,446) |
| Operating profit | 3,037 | 432 | 318 | 29 | (69) | 3,747 |
| Income taxes | (333) | (215) | (46) | (7) | – | (601) |
| Net profit | 2,704 | 217 | 272 | 22 | (69) | 3,146 |

**5. Segment reporting** *(Continued)*

| (Restated)<br>(in RMB million) | Life insurance | Property and casualty insurance | Corporate | Others | Elimination | Total |
|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | |
| Investment assets | 180,928 | 7,577 | 19,519 | 2,065 | (8,964) | 201,125 |
| Other assets | 42,849 | 8,066 | 7,870 | 4,883 | (354) | 63,314 |
| Total assets | 223,777 | 15,643 | 27,389 | 6,948 | (9,318) | 264,439 |
| Insurance and investment contract liabilities | 212,218 | 11,995 | – | – | – | 224,213 |
| Other liabilities | 5,491 | 1,989 | 1,477 | 2,992 | (350) | 11,599 |
| Total liabilities | 217,709 | 13,984 | 1,477 | 2,992 | (350) | 235,812 |
| **Other segment information** | | | | | | |
| Capital expenditure | 361 | 87 | 8 | 14 | – | 470 |
| Depreciation | 331 | 117 | 1 | 77 | – | 526 |
| Amortization of land use rights | 19 | – | – | – | – | 19 |
| Impairment losses recognized | 35 | 15 | – | 23 | – | 73 |
| Total other non-cash expenses charged to consolidated results | (26) | (26) | – | 1 | – | (51) |

## 5. Segment reporting *(Continued)*

Analysis of written premiums and policy fees is as follows:

| **For the year ended December 31, (in RMB million)** | **2005** | 2004 |
|---|---|---|
| | | (Restated) |
| **Gross** | | |
| Life | | |
| Individual life | | |
| Single premiums and policy fees | **2,628** | 2,565 |
| First year regular premiums and policy fees | **5,497** | 5,063 |
| Renewal premiums and policy fees | **30,633** | 28,321 |
| | **38,758** | 35,949 |
| Bancassurance | | |
| Single premiums and policy fees | **872** | 5,541 |
| First year regular premiums and policy fees | **35** | 98 |
| Renewal premiums and policy fees | **226** | 197 |
| | **1,133** | 5,836 |
| Group insurance | **7,054** | 8,098 |
| Life business gross written premiums and policy fees | **46,945** | 49,883 |
| Property and casualty | | |
| Automobile insurance | **7,497** | 6,232 |
| Non-automobile insurance | **4,044** | 3,545 |
| Accident and health insurance | **535** | 373 |
| Property and casualty business gross written premiums | **12,076** | 10,150 |
| Gross written premiums and policy fees | **59,021** | 60,033 |
| **Net of reinsurance premiums ceded** | | |
| Life | | |
| Individual life | **38,600** | 35,668 |
| Bancassurance | **1,133** | 5,836 |
| Group insurance | **6,402** | 7,566 |
| | **46,135** | 49,070 |
| Property and casualty | | |
| Automobile insurance | **6,304** | 4,902 |
| Non-automobile insurance | **1,851** | 1,654 |
| Accident and health insurance | **490** | 285 |
| | **8,645** | 6,841 |
| Net written premiums and policy fees | **54,780** | 55,911 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 6. Gross written premiums and policy fees

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Gross written premiums, policy fees and premium deposits, as reported in accordance with PRC GAAP | **71,624** | 65,618 |
| Less: Business tax and surcharges | **(857)** | (739) |
| Gross written premiums, policy fees and premium deposits (net of business tax and surcharges) | **70,767** | 64,879 |
| Less: Premium deposits allocated to policyholder accounts | **(3,214)** | (3,416) |
| Premium deposits allocated to investment contracts | **–** | (16) |
| Premium deposits allocated to policyholder contract deposits | **(8,532)** | (1,414) |
| Gross written premiums and policy fees | **59,021** | 60,033 |

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Long term life business gross written premiums and policy fees | **42,420** | 46,018 |
| Short term life business gross written premiums | **4,525** | 3,865 |
| Property and casualty business gross written premiums | **12,076** | 10,150 |
| Gross written premiums and policy fees | **59,021** | 60,033 |

## 7. Investment income

### *(1) Net investment income*

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Interest income on fixed maturity investments | | |
| Bonds | | |
| – Held-to-maturity | **4,568** | 2,393 |
| – Available-for-sale | **901** | 614 |
| – Carried at fair value through profit or loss | **50** | 67 |
| Term deposits | | |
| – Loans and receivables | **3,463** | 3,592 |
| Others | | |
| – Loans and receivables | **63** | 72 |
| Dividend income on equity investments | | |
| Equity investment funds | | |
| – Available-for-sale | **82** | 88 |
| – Carried at fair value through profit or loss | **90** | 294 |
| Equity securities | | |
| – Available-for-sale | **84** | 9 |
| – Carried at fair value through profit or loss | **11** | 2 |
| Operating lease income from investment properties | **107** | 130 |
| Interest expenses on securities sold under agreements to repurchase | **(81)** | (42) |
| Total | **9,338** | 7,219 |
| Yield of net investment income (% per annum) | **4.2** | 4.1 |

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

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

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Fixed maturity investments | | |
| – Available-for-sale | **253** | 15 |
| – Carried at fair value through profit or loss | **43** | 42 |
| Equity investments | | |
| – Available-for-sale | **(258)** | (84) |
| – Carried at fair value through profit or loss | **(543)** | (29) |
| Total | **(505)** | (56) |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 7. Investment income *(Continued)*

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

| For the year ended December 31, (in RMB million) | 2005 | 2004 (Restated) |
|---|---|---|
| Fixed maturity investments | | |
| – Carried at fair value through profit or loss | **10** | (35) |
| Equity investments | | |
| – Carried at fair value through profit or loss | **808** | (676) |
| Derivative financial assets | | |
| – Carried at fair value through profit or loss | **4** | (6) |
| Total | **822** | (717) |

### *(4) Total investment income*

| For the year ended December 31, (in RMB million) | 2005 | 2004 (Restated) |
|---|---|---|
| Net investment income | **9,338** | 7,219 |
| Realized gains/(losses) | **(505)** | (56) |
| Unrealized gains/(losses) | **822** | (717) |
| Total | **9,655** | 6,446 |
| Yield of total investment income (% per annum) | **4.3** | 3.6 |

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

## 8. Other income

| For the year ended December 31, (in RMB million) | 2005 | 2004 (Restated) |
|---|---|---|
| Securities brokerage commission | **117** | 145 |
| Investment-linked business administration fees | **177** | 146 |
| Securities underwriting commission | **79** | 102 |
| Interest income on due from banks | **8** | 9 |
| Interest income on cash equivalents | **205** | 105 |
| Others | **184** | 141 |
| Total | **770** | 648 |

## 9. Claims and policyholders' benefits

*(1)*

| For the year ended December 31, (in RMB million) | 2005 Gross | 2005 Recovered from reinsurers | 2005 Net |
|---|---|---|---|
| Claims and claim adjustment expenses | **10,799** | **(2,474)** | **8,325** |
| Surrenders | **5,618** | **–** | **5,618** |
| Annuities | **1,815** | **–** | **1,815** |
| Maturities and survival benefits | **3,824** | **–** | **3,824** |
| Policyholder dividends and provisions | **1,064** | **–** | **1,064** |
| Interest credited to policyholder contract deposits | **172** | **–** | **172** |
| Total | **23,292** | **(2,474)** | **20,818** |

| (Restated) For the year ended December 31, (in RMB million) | 2004 Gross | 2004 Recovered from reinsurers | 2004 Net |
|---|---|---|---|
| Claims and claim adjustment expenses | 9,292 | (2,307) | 6,985 |
| Surrenders | 3,866 | – | 3,866 |
| Annuities | 2,286 | – | 2,286 |
| Maturities and survival benefits | 2,506 | – | 2,506 |
| Policyholder dividends and provisions | 822 | – | 822 |
| Interest credited to policyholder contract deposits | 7 | – | 7 |
| Total | 18,779 | (2,307) | 16,472 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**9. Claims and policyholders' benefits** *(Continued)*

***(2)***

| **For the year ended December 31, (in RMB million)** | **2005 Gross** | **2005 Recovered from reinsurers** | **2005 Net** |
|---|---|---|---|
| Long term life insurance contracts benefits | **14,058** | **(5)** | **14,053** |
| Short term life insurance claims and benefits | **2,082** | **(576)** | **1,506** |
| Property and casualty insurance claims and benefits | **7,152** | **(1,893)** | **5,259** |
| Total | **23,292** | **(2,474)** | **20,818** |

| (Restated) For the year ended December 31, (in RMB million) | 2004 Gross | 2004 Recovered from reinsurers | 2004 Net |
|---|---|---|---|
| Long term life insurance contracts benefits | 10,779 | (46) | 10,733 |
| Short term life insurance claims and benefits | 1,795 | (496) | 1,299 |
| Property and casualty insurance claims and benefits | 6,205 | (1,765) | 4,440 |
| Total | 18,779 | (2,307) | 16,472 |

**10. Operating profit**

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

| **For the year ended December 31, (in RMB million)** | **2005** | 2004 (Restated) |
|---|---|---|
| Employee costs, excluding directors' emoluments *(Note 10(2))* | **3,095** | 2,720 |
| Depreciation of investment properties | **50** | 66 |
| Depreciation of property, plant and equipment | **486** | 460 |
| Amortization of land use rights | **20** | 19 |
| Loss on disposal of property, plant and equipment and investment properties | **19** | 10 |
| Impairment losses for investment properties, property, plant and equipment, construction-in-progress, and land use rights | **75** | 73 |
| Amortization of goodwill | **–** | 24 |
| Provision/(write-back) of provision for doubtful debts, net | **122** | (39) |
| Write-back of provision for loans and advances to customers | **(73)** | (12) |
| Auditors' remuneration | **10** | 10 |
| Operating lease payments in respect of land and buildings | **506** | 521 |

## 10. Operating profit *(Continued)*

### *(2) Employee costs, excluding directors' emoluments*

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Wages, salaries and bonuses | **2,626** | 2,225 |
| Retirement benefits, social security contributions and welfare benefits | **469** | 495 |
| Total | **3,095** | 2,720 |

## 11. Income taxes

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

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

| For the year ended December 31, (in RMB million) | 2005 | 2004 (Restated) |
|---|---|---|
| **Consolidated income statement** | | |
| Current income tax | **392** | 572 |
| Deferred income tax | | |
| relating to the origination and reversal of temporary differences: | | |
| Policyholders' reserves | **(450)** | (246) |
| Claim reserves | **(64)** | (81) |
| Unearned premium reserves | **46** | 41 |
| Deferred policy acquisition costs | **575** | 339 |
| Fair value adjustment on financial assets and liabilities carried at fair value through profit or loss | **46** | 7 |
| Others | **2** | (31) |
| Total deferred income tax | **155** | 29 |
| Income taxes reported in consolidated income statement | **547** | 601 |
| **Consolidated statement of changes in equity** | | |
| Deferred income tax related to items credited/(charged) directly to equity: | | |
| Unrealized gains and losses | **(256)** | 87 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 11. Income taxes *(Continued)*

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

| **For the year ended December 31, (in RMB million)** | **2005** | 2004 (Restated) |
|---|---|---|
| Accounting profit before income taxes | **4,812** | 3,747 |
| Tax computed at the main applicable tax rate of 15% (2004: 15%) | **722** | 562 |
| Tax effect of income not taxable in determining taxable income | **(580)** | (423) |
| Tax effect of expenses not deductible in determining taxable income | **228** | 393 |
| Tax effect of higher tax rate on branches and entities (in the PRC) that are located outside the Special Economic Zones | **177** | 69 |
| Income taxes reported in consolidated income statement | **547** | 601 |

## 12. Dividends

During the year, the Company paid dividends of RMB865 million (2004: RMB518 million) to its shareholders, relating to dividends previously proposed of RMB867 million or RMB0.14 per share (2004: RMB592 million or RMB0.12 per share).

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

## 13. Earnings per share

The basic earnings per share for the year is computed by dividing the net profit for the year by the weighted average number of 6,195,053,334 shares in issue during 2005 (2004: weighted average number of 5,588,324,591 shares in issue during the year).

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

## 14. Bonds

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Held-to-maturity, at amortized cost | **117,924** | 83,612 |
| Available-for-sale, at fair value | **36,038** | 26,522 |
| Carried at fair value through profit or loss | | |
| Held-for-trading | **5,787** | 2,664 |
| Total | **159,749** | 112,798 |
| Government bonds | **93,033** | 70,419 |
| Finance bonds | **42,495** | 27,332 |
| Corporate bonds | **24,221** | 15,047 |
| Total | **159,749** | 112,798 |
| Listed | **49,053** | 40,479 |
| Unlisted | **110,696** | 72,319 |
| Total | **159,749** | 112,798 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 15. Term deposits and cash and cash equivalents

The following tables set forth term deposits and cash and cash equivalents placed with major commercial banks in the PRC in terms of aggregates held by the Group.

| | 2005 | | |
|---|---|---|---|
| **As at December 31, (in RMB million)** | **Term deposits** | **Cash and cash equivalents** | **Total** |
| Top five banks | | | |
| Bank of China Limited | **9,055** | **2,925** | **11,980** |
| China Construction Bank Corporation | **8,000** | **2,390** | **10,390** |
| Industrial and Commercial Bank of China Limited | **8,366** | **1,775** | **10,141** |
| China Minsheng Banking Corp., Ltd. | **8,760** | **301** | **9,061** |
| Industrial Bank Co., Ltd. | **4,705** | **733** | **5,438** |
| Other banks | | | |
| Agricultural Bank of China | **2,093** | **968** | **3,061** |
| The Hongkong and Shanghai Banking Corporation Limited ("HSBC") | **153** | **79** | **232** |
| Others | **27,827** | **8,465** | **36,292** |
| Total | **68,959** | **17,636** | **86,595** |

| | 2004 | | |
|---|---|---|---|
| As at December 31, (in RMB million) | Term deposits | Cash and cash equivalents | Total |
| Top five banks | | | |
| Bank of China Limited | 9,463 | 5,092 | 14,555 |
| Industrial and Commercial Bank of China Limited | 8,518 | 1,539 | 10,057 |
| China Construction Bank Corporation | 8,000 | 1,149 | 9,149 |
| China Minsheng Banking Corp., Ltd. | 8,790 | 99 | 8,889 |
| Guangdong Development Bank | 8,237 | 412 | 8,649 |
| Other banks | | | |
| Agricultural Bank of China | 2,405 | 1,407 | 3,812 |
| HSBC | 157 | 2,830 | 2,987 |
| Others | 34,750 | 3,417 | 38,167 |
| Total | 80,320 | 15,945 | 96,265 |

## 16. Equity investment funds

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Available-for-sale, at fair value | **6,852** | 2,336 |
| Carried at fair value through profit or loss | | |
| Held-for-trading | **2,947** | 1,759 |
| Designated at fair value | **259** | 1,402 |
| Total | **10,058** | 5,497 |
| Listed | **1,851** | 1,402 |
| Unlisted | **8,207** | 4,095 |
| Total | **10,058** | 5,497 |

## 17. Equity securities

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Available-for-sale, at fair value | **4,507** | 211 |
| Carried at fair value through profit or loss | | |
| Held-for-trading | **676** | 55 |
| Total | **5,183** | 266 |
| Listed | **4,973** | – |
| Unlisted | **210** | 266 |
| Total | **5,183** | 266 |

## 18. Derivative financial instruments

| | 2005 | | 2004 (Restated) | |
|---|---|---|---|---|
| As at December 31, (in RMB million) | Fair value assets | Fair value liabilities | Fair value assets | Fair value liabilities |
| Options embedded in convertible bonds | **27** | **–** | 62 | – |
| Derivatives embedded in insurance policies | **–** | **133** | – | 127 |
| Total | **27** | **133** | 62 | 127 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 19. Investments in subsidiaries

Particulars of the Company's principal subsidiaries as at December 31, 2005 are set out below:

| Name | Date/place of incorporation | Attributable equity interest Direct | Attributable equity interest Indirect | Registered and paid-up capital (RMB unless otherwise stated) | Principal activities |
|---|---|---|---|---|---|
| Ping An Life Insurance Company of China, Ltd. | December 17, 2002 The PRC | 99.00% | – | 3,800,000,000 | Life insurance |
| Ping An Property & Casualty Insurance Company of China, Ltd. | December 24, 2002 The PRC | 99.00% | – | 1,600,000,000 | Property and casualty insurance |
| China Ping An Trust & Investment Co., Ltd. | November 19, 1984 The PRC | 99.52% | – | 4,200,000,000 | Investment and financing |
| Ping An Securities Company, Ltd. | July 18, 1996 The PRC | – | 85.80% | 1,800,000,000 | Security investment and brokerage |
| Ping An Bank Limited | January 8, 1993 The PRC | – | 72.65% | US$50,000,000 | Banking |
| Ping An Annuity Insurance Company of China, Ltd. ("Ping An Annuity") | December 13, 2004 The PRC | 95.00% | 4.96% | 300,000,000 | 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$55,000,000 | Investment holding |
| China Ping An Insurance (Hong Kong) Company Limited | August 17, 1976 Hong Kong | – | 75.00% | HK$80,000,000 | Property and casualty insurance |
| Shenzhen Ping An Futures Brokerage Co., Ltd. | April 10, 1996 The PRC | – | 92.80% | 50,000,000 | Futures brokerage |
| Shenzhen Ping An Industries Co., Ltd. | November 24, 1992 The PRC | – | 99.52% | 20,000,000 | Investment |

## 19. Investments in 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 Property Investment and Management Co., Ltd. | January 6, 1995 The PRC | – | 99.52% | 20,000,000 | Property management |
| Beijing Ping An Real Estate Development Co., Ltd. | January 18, 1994 The PRC | – | 99.00% | US$12,000,000 | Development of property in Beijing (completed) |
| 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 | – | 99.52% | 300,000,000 | Investment in real estates |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 20. Investment properties

| (in RMB million) | 2005 | 2004 |
|---|---|---|
| Cost | | |
| Beginning of year | **1,969** | 1,670 |
| Additions | **1** | – |
| Transfer from/(to) property, plant and equipment, net | **(131)** | 299 |
| Disposal | **(77)** | – |
| End of year | **1,762** | 1,969 |
| Accumulated depreciation and impairment losses | | |
| Beginning of year | **465** | 337 |
| Charge for the year | **50** | 66 |
| Transfer to property, plant and equipment, net | **(22)** | (13) |
| Disposal | **(56)** | – |
| Impairment losses | **82** | 75 |
| End of year | **519** | 465 |
| Net book value | | |
| End of year | **1,243** | 1,504 |
| Beginning of year | **1,504** | 1,333 |
| Fair value | **1,666** | 1,891 |

The fair value of the investment properties as at December 31, 2005 was estimated by the directors of the Company having regard to a valuation as at March 31, 2004 performed by a firm of independent valuers.

The rental income arising from investment properties during the year amounted to RMB107 million (2004: RMB130 million), which is included in net investment income.

The Group is still in the process of applying for title certificates for investment properties with a net book value of RMB225 million as at December 31, 2005 (2004: RMB384 million).

***Change in accounting estimates***

In previous years, management estimated property, plant and equipment and investment properties to have residual values of 0-4%. During the year, the residual values have been reassessed to be 5%.

| | Before the change | After the change |
|---|---|---|
| Residual value ratio | 0-4% | 5% |
| Depreciation charge for the year | RMB562 million | RMB536 million |

The above change in accounting estimate has the effect of increasing current year profit before tax by RMB26 million.

## 21. Cash and cash equivalents

***Group***

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Cash at banks and in hand | **11,146** | 11,991 |
| Due from banks | **426** | 439 |
| Money-market placements | **5,624** | 252 |
| Short-term bank deposits | **440** | 3,263 |
| Total | **17,636** | 15,945 |

The above money-market placements are non-interest bearing. Short-term bank deposits are entitled to interest rates of 0.72%-4.34% (2004: 0.03%-2.56%) and have original maturities of 7-90 days (2004: 14-90 days).

The carrying amounts disclosed above approximate fair values at year end.

***Company***

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Cash at banks and in hand | **644** | 4,317 |
| Money-market placements | **1,967** | 100 |
| Short-term bank deposits | **58** | 3,263 |
| Total | **2,669** | 7,680 |

The above money-market placements, are non-interest bearing. Short-term bank deposits are entitled to interest rates of 4.34% (2004: 0.03%-2.56%) and have original maturities of 90 days (2004: 14-90 days).

The carrying amounts disclosed above approximate fair values at year end.

## 22. Premium receivables

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Premium receivables | **841** | 681 |
| Less: Provision for doubtful receivables | **(92)** | (64) |
| Premium receivables, net | **749** | 617 |

All premium receivables are current and expected to be recovered within one year. Provision is made on a periodic basis for the amounts that are considered uncollectible. The credit terms available to property and casualty insurance customers is generally for a period of one month, extending up to five months for major customers. Overdue balances are reviewed regularly by senior management.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**22. Premium receivables** *(Continued)*

An aging analysis of premiums receivables is as follows:

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Within 3 months | **676** | 543 |
| Over 3 and within 6 months | **58** | 62 |
| Over 6 and within 12 months | **15** | 12 |
| Total | **749** | 617 |

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

**23. Interest receivables**

All interest receivables are current and expected to be recovered within one year. No provision is made considering the collectibility of receivables.

**24. Reinsurance assets**

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Ceded unearned premiums reserves | **2,495** | 2,500 |
| Anticipated claims recoverable from reinsurers in respect of outstanding claims | **1,690** | 1,742 |
| Policyholders' reserves | **–** | – |
| Due from reinsurance companies in respect of claims paid and other balances | **704** | 114 |
| Total | **4,889** | 4,356 |

**25. Deferred policy acquisition costs**

| (in RMB million) | 2005 Life | 2005 Property and Casualty | 2005 Total | 2004 Life | 2004 Property and Casualty | 2004 Total |
|---|---|---|---|---|---|---|
| As at January 1 | **21,674** | **948** | **22,622** | 19,603 | 758 | 20,361 |
| Deferred | **6,443** | **1,646** | **8,089** | 5,578 | 1,296 | 6,874 |
| Amortized | **(2,798)** | **(1,461)** | **(4,259)** | (3,507) | (1,106) | (4,613) |
| Effect of net unrealized gains on investments | **(24)** | **–** | **(24)** | – | – | – |
| As at December 31 | **25,295** | **1,133** | **26,428** | 21,674 | 948 | 22,622 |

## 26. Property, plant and equipment

| (in RMB million) | Leasehold improvements | Buildings | Office equipment, furniture and fixtures | Motor vehicles | Total |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| As at January 1, 2004 | 667 | 2,530 | 1,339 | 433 | 4,969 |
| Additions | 25 | 119 | 161 | 69 | 374 |
| Acquisition of Ping An Bank | – | – | 2 | 1 | 3 |
| Transfer to investment properties, net | – | (299) | – | – | (299) |
| Disposals | – | (14) | (76) | (55) | (145) |
| As at December 31, 2004 | 692 | 2,336 | 1,426 | 448 | 4,902 |
| Additions | 163 | 126 | 297 | 76 | 662 |
| Transfer from investment properties, net | – | 131 | – | – | 131 |
| Disposals | (383) | (82) | (144) | (124) | (733) |
| As at December 31, 2005 | 472 | 2,511 | 1,579 | 400 | 4,962 |
| *Accumulated depreciation and impairment losses* | | | | | |
| As at January 1, 2004 | 399 | 326 | 767 | 330 | 1,822 |
| Depreciation charge | 124 | 100 | 201 | 35 | 460 |
| Transfer from investment properties, net | – | 13 | – | – | 13 |
| Acquisition of Ping An Bank | – | – | 1 | 1 | 2 |
| Disposals | – | (3) | (60) | (50) | (113) |
| Impairment losses | – | 22 | (39) | – | (17) |
| As at December 31, 2004 | 523 | 458 | 870 | 316 | 2,167 |
| Depreciation charge | 136 | 132 | 185 | 33 | 486 |
| Transfer from investment properties, net | – | 22 | – | – | 22 |
| Disposals | (374) | (28) | (123) | (99) | (624) |
| Impairment losses | – | (7) | – | – | (7) |
| As at December 31, 2005 | 285 | 577 | 932 | 250 | 2,044 |
| *Net book value* | | | | | |
| As at December 31, 2005 | 187 | 1,934 | 647 | 150 | 2,918 |
| As at December 31, 2004 | 169 | 1,878 | 556 | 132 | 2,735 |

The Group is still in the process of applying for the title certificates for its buildings with a net book value of RMB140 million as at December 31, 2005 (2004: RMB282 million).

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 27. Construction-in-progress

| (in RMB million) | 2005 | 2004 |
|---|---|---|
| *Cost* | | |
| Beginning of year | **230** | 157 |
| Additions | **464** | 122 |
| Transfer to property, plant and equipment | **(48)** | (49) |
| End of year | **646** | 230 |
| *Accumulated impairment losses* | | |
| Beginning of year | **26** | 11 |
| Additions | **–** | 15 |
| End of year | **26** | 26 |
| *Net book value* | | |
| End of year | **620** | 204 |
| Beginning of year | **204** | 146 |

Construction-in-progress mainly represents construction costs on properties.

## 28. Land use rights

Land use rights are acquired under PRC laws for fixed periods, and the related costs are amortized on a straight-line basis. All of the Group's land use rights are related to lands located in the PRC. The net book value of the land use rights as at December 31, 2005 is expected to be amortized over the lease terms ranging from 50 to 70 years (2004: 50 to 70 years).

The Group is still in the process of applying for the title certificates for land use rights with a net book value of RMB506 million as at December 31, 2005 (2004: RMB644 million). This amount as at December 31, 2005 represents costs incurred to acquire lands in Shanghai for the construction of new properties. In the opinion of the Company's management, adequate provision for impairment losses has been made for land use rights without title certificates as at December 31, 2005.

## 29. Goodwill

The recoverable amount of goodwill has been determined based on value in use calculation using cash flow projections and financial plans approved by management and a pretax, company specific risk adjusted discount rates of 5.58-5.85%. Projected cash flows beyond five years have been extrapolated using a steady growth rate. The projected cash flows are determined by future estimated profits based on management expectations for market development.

## 30. Deferred income tax assets/liabilities

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Net deferred income tax assets, beginning of year | **362** | 304 |
| Recognized as income or expenses | **(155)** | (29) |
| Recognized in equity | **(256)** | 87 |
| Net deferred income tax assets/(liabilities), end of year | **(49)** | 362 |

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

| | | |
|---|---|---|
| Policyholders' reserves | **3,872** | 3,390 |
| Deferred policy acquisition costs | **(3,965)** | (3,393) |
| Claim reserves | **231** | 167 |
| Unearned premium reserves | **(15)** | 31 |
| Fair value adjustment on available-for-sale investments and financial assets and liabilities carried at fair value through profit or loss | **(240)** | 132 |
| Other unrealized gains and losses | **35** | – |
| Others | **33** | 35 |
| Total | **(49)** | 362 |

## 31. Statutory deposits

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Ping An Life | **760** | 760 |
| Ping An Property & Casualty | **320** | 440 |
| Ping An Health | **100** | – |
| Ping An Annuity | **60** | – |
| Total | **1,240** | 1,200 |

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

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Maturing: | | |
| Within 1 year | **340** | 300 |
| 1-5 years | **900** | 900 |
| Total | **1,240** | 1,200 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 32. Share capital

| As at December 31, (in million) | 2005 | 2004 |
|---|---|---|
| Number of shares registered, issued and fully paid at RMB1 each | **6,195** | 6,195 |

## 33. Reserves

### *Group*

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity of the financial statements.

### *Company*

| (Restated)<br>(in RMB million) | *Note* | Reserves<br>Capital reserve | Revenue reserve fund | Common welfare fund | General reserve | Net unrealized gains/ (losses)* | Retained profits/ (accumulated losses)* | Total |
|---|---|---|---|---|---|---|---|---|
| As at January 1, 2004 | | | | | | | | |
| As previously reported | | 2,818 | 4,148 | 486 | 395 | (562) | 734 | 8,019 |
| Effect of implementation of new/revised accounting standards | 3 | – | – | – | – | 562 | (535) | 27 |
| As restated | | 2,818 | 4,148 | 486 | 395 | – | 199 | 8,046 |
| Net profit for 2004 | | – | – | – | – | – | 272 | 272 |
| Issue of shares through initial public offering | | 12,564 | – | – | – | – | – | 12,564 |
| Share issue expenses | | (547) | – | – | – | – | – | (547) |
| 2003 dividends declared | | – | – | – | – | – | (592) | (592) |
| Appropriations to statutory reserves | | – | 261 | 130 | – | – | (391) | – |
| As at December 31, 2004 | | 14,835 | 4,409 | 616 | 395 | – | (512) | 19,743 |

## 33. Reserves *(Continued)*

***Company*** *(Continued)*

| (in RMB million) | *Notes* | Reserves: Capital reserve | Revenue reserve fund | Common welfare fund | General reserve | Net unrealized gains/ (losses)* | Retained profits/ (accumulated losses)* | Total |
|---|---|---|---|---|---|---|---|---|
| As at January 1, 2005 As previously reported | | 14,835 | 4,409 | 616 | 395 | (1,064) | 2,867 | 22,058 |
| Effect of implementation of new/revised accounting standards | *3* | – | – | – | – | 1,064 | (3,379) | (2,315) |
| As restated | | 14,835 | 4,409 | 616 | 395 | – | (512) | 19,743 |
| Net profit for 2005 | | | | | | | 228 | 228 |
| Net gains on available-for-sale investments | | – | – | – | – | 28 | – | 28 |
| Deferred tax recognized, net | | | | | | (4) | – | (4) |
| 2004 dividends declared | *12* | – | – | – | – | – | (867) | (867) |
| Appropriations to statutory reserves | | – | 334 | 167 | – | – | (501) | – |
| As at December 31, 2005 | | 14,835 | 4,743 | 783 | 395 | 24 | (1,652) | 19,128 |

Subsequent to the balance sheet date, on March 23, 2006, one of the Company's subsidiaries proposed dividend distribution such that RMB4,364 million would be distributed to the Company in early May 2006.

* *As further detailed in note 3(2) to the financial statements, the Company's net unrealized gains/(losses) reserve and retained profits/(accumulated losses) in prior years are restated on implementation of IAS 27 (revised 2004).*

According to the Company's Articles of Association, the Company shall set aside 10% of its net profit determined in its statutory financial statements, prepared in accordance with PRC GAAP, to a statutory revenue reserve fund until the fund has reached 50% of the Company's registered share capital. Similarly, not less than 5% of the said net profit shall be set aside to the statutory common welfare fund. The Company may also make appropriations from its net profit to the discretionary revenue reserve fund and general reserve provided the appropriations are approved by a resolution of the shareholders. These reserves cannot be used for purposes other than those for which they are created.

Profits are used against prior year losses before allocations to the statutory revenue reserve fund or the statutory common welfare fund. The statutory common welfare fund is used for the collective welfare of the staff of the Group.

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**33. Reserves** *(Continued)*

General reserve can be set aside to cover unexpected significant losses incurred by subsidiaries involved in insurance, trust, securities investment and brokerage, and banking business, respectively.

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

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

In accordance with the relevant regulations, the net profit after tax of the Company for the purpose of profit distribution is deemed to be the lower of (i) the retained profits determined in accordance with PRC GAAP and (ii) the retained profits determined in accordance with IFRSs.

The profit appropriation for the year ended December 31, 2004 was approved in the shareholders' meeting during 2005.

According to the Company's Articles of Association, the Company has to make appropriations to the statutory revenue reserve and statutory common welfare fund as at each financial year end. Accordingly, the appropriations to the statutory revenue reserve and statutory common welfare fund were incorporated in the consolidated financial statements for the years ended December 31, 2004 and 2005, respectively.

**34. Customers' deposits**

The customers' deposits as at December 31, 2005 mainly represented customers' funds placed with Ping An Securities and Ping An Bank.

**35. Securities sold under agreements to repurchase**

The carrying value of the fixed maturity securities, which are pledged as collateral for the collateralized borrowings of the Group, exceeds the amount of borrowings by approximately 10%. Such bonds cannot be sold or repledged by the lender in the absence of default.

**36. Insurance guarantee fund**

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

The balance of the insurance guarantee fund as at December 31, 2005 should be paid to the China Insurance Regulatory Commission in 2006.

## 37. Insurance contract liabilities

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Policyholders' reserves | **223,538** | 193,770 |
| Policyholder contract deposits | **9,795** | 1,411 |
| Policyholder account liabilities in respect of insurance contracts | **12,820** | 9,758 |
| Unearned premium reserves | **11,048** | 9,472 |
| Claim reserves | **7,933** | 6,642 |
| Total | **265,134** | 221,053 |

| | 2005 | | | 2004 (Restated) | | |
|---|---|---|---|---|---|---|
| **As at December 31, (in RMB million)** | **Insurance contract liability** | **Reinsurers' share** | **Net** | Insurance contract liability | Reinsurers' share | Net |
| Long term life insurance contracts and investment contracts with discretionary participation features | **248,435** | **–** | **248,435** | 206,623 | – | 206,623 |
| Short term life insurance contracts | **2,785** | **(549)** | **2,236** | 2,435 | (537) | 1,898 |
| Property and casualty insurance contracts | **13,914** | **(3,636)** | **10,278** | 11,995 | (3,705) | 8,290 |
| Total | **265,134** | **(4,185)** | **260,949** | 221,053 | (4,242) | 216,811 |

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| | | (Restated) |
| Current gross insurance contract liabilities | | |
| Long term life | **7,118** | 6,652 |
| Short term life | **2,757** | 2,399 |
| Property and casualty | **9,264** | 7,817 |
| Non-current gross insurance contract liabilities | | |
| Long term life | **241,317** | 199,971 |
| Short term life | **28** | 36 |
| Property and casualty | **4,650** | 4,178 |
| Total | **265,134** | 221,053 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**37. Insurance contract liabilities** *(Continued)*

***(1) Long term life insurance contracts and investment contracts with discretionary participation features***

| As at December 31, (in RMB million) | 2005 | 2004 (Restated) |
|---|---|---|
| Policyholders' reserves | **223,538** | 193,770 |
| Policyholder contract deposits | **9,795** | 1,411 |
| Policyholder account liabilities in respect of insurance contracts | **12,820** | 9,758 |
| Claim reserves | **2,282** | 1,684 |
| Total | **248,435** | 206,623 |

The policyholders' reserves are analyzed as follows:

| (in RMB million) | 2005 | 2004 (Restated) |
|---|---|---|
| As at January 1 | **193,770** | 159,898 |
| New business | **8,280** | 11,151 |
| Inforce change | **21,277** | 22,721 |
| Effect of net unrealized gains on investments | **211** | – |
| As at December 31 | **223,538** | 193,770 |

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

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

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Unearned premium reserves | **2,227** | 1,901 |
| Claim reserves | **558** | 534 |
| Total | **2,785** | 2,435 |

## 37. Insurance contract liabilities *(Continued)*

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

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

| | **2005** | | | 2004 | | |
|---|---|---|---|---|---|---|
| **(in RMB million)** | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| As at January 1 | **1,901** | **(354)** | **1,547** | 1,949 | (516) | 1,433 |
| Premiums written in the year | **4,683** | **(793)** | **3,890** | 4,013 | (793) | 3,220 |
| Premiums earned during the year | **(4,357)** | **798** | **(3,559)** | (4,061) | 955 | (3,106) |
| As at December 31 | **2,227** | **(349)** | **1,878** | 1,901 | (354) | 1,547 |

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

| | **2005** | | | 2004 | | |
|---|---|---|---|---|---|---|
| **(in RMB million)** | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| As at January 1 | **534** | **(183)** | **351** | 465 | (160) | 305 |
| Claims incurred during the year | **2,082** | **(576)** | **1,506** | 1,795 | (496) | 1,299 |
| Claims paid during the year | **(2,058)** | **559** | **(1,499)** | (1,726) | 473 | (1,253) |
| As at December 31 | **558** | **(200)** | **358** | 534 | (183) | 351 |

### (3) ***Property and casualty insurance contracts***

| **As at December 31, (in RMB million)** | **2005** | 2004 |
|---|---|---|
| Unearned premium reserves | **8,821** | 7,571 |
| Claim reserves | **5,093** | 4,424 |
| Total | **13,914** | 11,995 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 37. Insurance contract liabilities *(Continued)*

### *(3)* ***Property and casualty insurance contracts*** *(Continued)*

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

| | **2005** | | | 2004 | | |
|---|---|---|---|---|---|---|
| **(in RMB million)** | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| As at January 1 | **7,571** | **(2,146)** | **5,425** | 6,353 | (2,005) | 4,348 |
| Premiums written in the year | **12,076** | **(3,431)** | **8,645** | 10,150 | (3,309) | 6,841 |
| Premiums earned during the year | **(10,826)** | **3,431** | **(7,395)** | (8,932) | 3,168 | (5,764) |
| As at December 31 | **8,821** | **(2,146)** | **6,675** | 7,571 | (2,146) | 5,425 |

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

| | **2005** | | | 2004 | | |
|---|---|---|---|---|---|---|
| **(in RMB million)** | **Gross** | **Reinsurers' share** | **Net** | Gross | Reinsurers' share | Net |
| As at January 1 | **4,424** | **(1,559)** | **2,865** | 3,155 | (1,178) | 1,977 |
| Claims incurred during the year | **7,152** | **(1,893)** | **5,259** | 6,205 | (1,765) | 4,440 |
| Claims paid during the year | **(6,483)** | **1,962** | **(4,521)** | (4,936) | 1,384 | (3,552) |
| As at December 31 | **5,093** | **(1,490)** | **3,603** | 4,424 | (1,559) | 2,865 |

## 38. Investment contract liabilities *(Continued)*

| **As at December 31, (in RMB million)** | **2005** | 2004 |
|---|---|---|
| | | (Restated) |
| Policyholder account liabilities in respect of investment contracts | **3,078** | 3,145 |
| Investment contract reserves | **14** | 15 |
| Total | **3,092** | 3,160 |
| Current portion | **22** | 5 |
| Non-current portion | **3,070** | 3,155 |
| Total | **3,092** | 3,160 |

The investment contract liabilities are analyzed as follows:

| **(in RMB million)** | **2005** | 2004 |
|---|---|---|
| | | (Restated) |
| As at January 1 | **3,160** | 2,904 |
| Premiums received | **291** | 582 |
| Interest credited to policyholders | **133** | 28 |
| Liabilities released for benefits paid | **(462)** | (285) |
| Policy administration fees and surrender charges deducted | **(54)** | (50) |
| Others | **24** | (19) |
| As at December 31 | **3,092** | 3,160 |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**39. Insurance contract liabilities and reinsurance assets – assumptions and sensitivities**

***(1) Long term life insurance contracts and investment contracts with discretionary participation features***

*Assumptions*

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

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

Mortality, morbidity and lapse rates

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

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

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

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

Investment return

Future investment return has been assumed to be 4.2% in 2006 and to increase by 0.1% every year to 4.7% in 2011 and thereafter. These rates have been derived by consideration of the current market condition and the Group's current and expected future asset allocation. They are the best estimate rates used in gross premium reserve valuation and liability adequacy test on a portfolio basis.

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

## 39. Insurance contract liabilities and reinsurance assets – assumptions and sensitivities *(Continued)*

### *(1) Long term life insurance contracts and investment contracts with discretionary participation features* (Continued)

*Assumptions (Continued)*

Expenses

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

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

Others

Other assumptions include taxation, future bonus rates, etc.

*Change in assumptions*

The assumptions used to estimate the liabilities of the Group's long term life insurance contracts and investment contracts with discretionary participation features require judgment and are subject to uncertainty. In 2005, the long term life insurance policyholders' reserves increased by RMB1,196 million due to the recognition of changes in investment return and lapse rate assumptions.

*Sensitivities*

The Group has investigated the impact on long term life insurance contract liabilities, of varying independently certain assumptions regarding future experience. For most insurance contracts, the assumptions are established at the inception of the policies and remain unchanged. The impact of assumption changes to liabilities would only realize if the liabilities fail the liability adequacy test. The following changes in assumptions have been considered:

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

| **Assumptions (In RMB million)** | **Impact on gross policyholders' reserves*** | **Impact of assumption change as a percentage of gross policyholders' reserves** |
|---|---|---|
| Investment return increased by 25 basis points | (894) | (0.40%) |
| Investment return decreased by 25 basis points | 952 | 0.43% |
| 10% increase in maintenance expense rates | 26 | 0.01% |
| 10% decrease in morbidity/mortality rates | 313 | 0.14% |
| 10% decrease in policy lapse rates | 361 | 0.16% |

* Including investment contracts with discretionary participation features

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**39. Insurance contract liabilities and reinsurance assets – assumptions and sensitivities** *(Continued)*

**(1) *Long term life insurance contracts and investment contracts with discretionary participation features*** *(Continued)*

*Sensitivities (Continued)*

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

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

***(2) 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 variation in interest, delays in settlement, etc.

*Sensitivities*

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.

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

**Property and casualty insurance**

| **As at December 31, (in RMB million)** | 2003 | 2004 | **2005** |
|---|---|---|---|
| Reserves for net losses and allocated loss adjustment expenses | 1,824 | 2,652 | **3,452** |
| Paid (cumulative) as of: | | | |
| One year later | 1,035 | 1,336 | **–** |
| Two years later | 1,318 | – | **–** |
| Net liability re-estimated as of: | | | |
| End of year | 1,824 | 2,652 | **3,452** |
| One year later | 1,963 | 2,626 | **–** |
| Two years later | 1,892 | – | **–** |
| Redundancy/(deficiency) | (68) | 26 | **–** |
| Reserves for loss and allocated loss adjustment expenses | 1,824 | 2,652 | **3,452** |
| Unallocated loss adjustment expenses | 153 | 213 | **151** |
| **Total reserves included in the balance sheet** | 1,977 | 2,865 | **3,603** |

**39. Insurance contract liabilities and reinsurance assets – assumptions and sensitivities** *(Continued)*

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

*Sensitivities (Continued)*

**Short term life insurance**

| **As at December 31, (in RMB million)** | 2003 | 2004 | **2005** |
|---|---|---|---|
| Reserves for net losses and allocated loss adjustment expenses | 305 | 351 | **358** |
| Paid (cumulative) as of: | | | |
| One year later | 258 | 338 | **–** |
| Two years later | 271 | – | **–** |
| Net liability re-estimated as of: | | | |
| End of year | 305 | 351 | **358** |
| One year later | 272 | 356 | **–** |
| Two years later | 271 | – | **–** |
| Redundancy/(deficiency) | 34 | (5) | **–** |

To illustrate the sensitivities of ultimate claims costs, for example, a respective percentage change in average claim costs or the number of claims alone result in a similar percentage change in claim reserves. On the other hand, 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 December 31, 2005 by approximately RMB180 million and RMB18 million, respectively.

***(3) 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 reinsurance assets.

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

## 40. Assets managed under trust

Ping An Trust and Ping An Annuity collect and manage cash investments on behalf of external third parties. The total assets held in trust at the year end are as follows:

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Ping An Trust | **3,330** | 1,084 |
| Ping An Annuity | **128** | – |
| | **3,458** | 1,084 |

## 41. Risk management

### *Insurance risk*

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

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

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

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

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

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

These risks 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.

**41. Risk management** *(Continued)*

***Insurance risk*** *(Continued)*

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

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note 5.

***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.

As at December 31, 2005, the Group's monetary assets net of monetary liabilities dominated in foreign currencies amounted to approximately RMB15,709 million.

*(b) Price risk*

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

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

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**41. Risk management** *(Continued)*

***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.

The following table sets out the Group's financial instruments exposed to interest rate risk by maturity and effective interest rate:

Bonds

| | **2005** | | | |
|---|---|---|---|---|
| **As at December 31, (in RMB million)** | **Held-to-maturity** | **Available-for-sale** | **Carried at fair value though profit or loss** | **Total** |
| Within 1 year | **126** | **706** | **3,863** | **4,695** |
| 1-2 years | **1,349** | **1,390** | **76** | **2,815** |
| 2-3 years | **3,868** | **2,203** | **561** | **6,632** |
| 3-4 years | **2,438** | **2,646** | **133** | **5,217** |
| 4-5 years | **898** | **1,684** | **–** | **2,582** |
| More than 5 years | **106,495** | **23,703** | **381** | **130,579** |
| Floating rate | **2,750** | **3,706** | **773** | **7,229** |
| Total | **117,924** | **36,038** | **5,787** | **159,749** |
| Effective interest rate (% per annum) | **1.95-7.02** | **1.95-6.27** | **1.42-6.15** | **1.42-7.02** |

| | 2004 (Restated) | | | |
|---|---|---|---|---|
| As at December 31, (in RMB million) | Held-to-maturity | Available-for-sale | Carried at fair value though profit or loss | Total |
| Within 1 year | 76 | 1,622 | 984 | 2,682 |
| 1-2 years | 132 | 315 | 120 | 567 |
| 2-3 years | 1,388 | 1,180 | 43 | 2,611 |
| 3-4 years | 3,823 | 1,645 | 576 | 6,044 |
| 4-5 years | 2,367 | 5,331 | 201 | 7,899 |
| More than 5 years | 73,240 | 12,185 | 367 | 85,792 |
| Floating rate | 2,586 | 4,244 | 373 | 7,203 |
| Total | 83,612 | 26,522 | 2,664 | 112,798 |
| Effective interest rate (% per annum) | 1.95-7.02 | 1.90-6.27 | 2.53-6.15 | 1.90-7.02 |

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

**41. Risk management** *(Continued)*

***Market risk*** *(Continued)*

*(c) Interest rate risk (Continued)*

Other financial assets

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

| | 2004 | | |
|---|---|---|---|
| As at December 31, (in RMB million) | Term deposits | Policy loans | Loans and advances to customers |
| Within 1 year | 8,549 | 545 | 63 |
| 1-2 years | 16,079 | – | – |
| 2-3 years | 26,962 | – | 39 |
| 3-4 years | 10,550 | – | – |
| 4-5 years | 857 | – | – |
| More than 5 years | 17,323 | – | 28 |
| Total | 80,320 | 545 | 130 |
| Effective interest rate (% per annum) | 1.45-8.80 | 5.50-7.50 | 2.77-5.85 |

**41. Risk management** *(Continued)*

***Market risk*** *(Continued)*

*(c) Interest rate risk (Continued)*

Financial liabilities

| As at December 31, (in RMB million) | 2005 Customers' deposits | 2005 Securities sold under agreements to repurchase | 2004 Customers' deposits | 2004 Securities sold under agreements to repurchase |
|---|---|---|---|---|
| Within 1 year | **1,862** | **7,095** | 1,849 | 601 |
| Effective interest rate (% per annum) | **0.00-1.62** | **1.52-1.78** | 0.00-3.60 | 1.90-2.40 |

***Financial risk***

*(a) Credit risk*

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

*(b) Liquidity risk*

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

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

The objective of the Group's asset and liability management is to match assets with liabilities on the basis of both duration and interest rate. 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. With the current regulatory and market environment permits, however, the Group is trying to lengthen the duration of its assets by matching the new liabilities of lower guarantee rates, while narrowing the gap of existing liabilities of higher guarantee rates.

***Operational risk***

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

## 42. Fair value of financial instruments

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

| As at December 31, | Carrying amounts | | Estimated fair values | |
|---|---|---|---|---|
| (in RMB million) | **2005** | 2004 | **2005** | 2004 |
| | | (Restated) | | (Restated) |
| **Financial assets** | | | | |
| Fixed maturity investments | | | | |
| Bonds | **159,749** | 112,798 | **166,564** | 108,715 |
| Term deposits | **68,959** | 80,320 | **68,959** | 80,320 |
| Policy loans | **864** | 545 | **864** | 545 |
| Loans and advances to customers | **662** | 130 | **662** | 130 |
| Equity investments | | | | |
| Equity investment funds | **10,058** | 5,497 | **10,058** | 5,497 |
| Equity securities | **5,183** | 266 | **5,183** | 266 |
| Derivative financial assets | **27** | 62 | **27** | 62 |
| Cash and cash equivalents | **17,636** | 15,945 | **17,636** | 15,945 |
| Premium receivables | **749** | 617 | **749** | 617 |
| Interest receivables | **438** | 382 | **438** | 382 |
| **Financial liabilities** | | | | |
| Customers' deposits | **1,862** | 1,849 | **1,862** | 1,849 |
| Securities sold under agreements to repurchase | **7,095** | 601 | **7,095** | 601 |
| Commission payable | **633** | 556 | **633** | 556 |
| Due to reinsurers | **533** | 209 | **533** | 209 |
| Dividends payable to shareholders | **76** | 74 | **76** | 74 |
| Derivative financial liabilities | **133** | 127 | **133** | 127 |

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 43. Notes to consolidated cash flow statement

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

| For the year ended December 31, (in RMB million) | Notes | 2005 | 2004 (Restated) |
|---|---|---|---|
| Profit before tax | | **4,812** | 3,747 |
| Adjustments for: | | | |
| Impairment losses for investment properties, property, plant and equipment, construction-in-progress, and land use rights | *10 (1)* | **75** | 73 |
| Depreciation | *10 (1)* | **536** | 526 |
| Amortization of land use rights | *10 (1)* | **20** | 19 |
| Amortization of goodwill | *10 (1)* | **–** | 24 |
| Loss on disposal of property, plant and equipment and investment properties | *10 (1)* | **19** | 10 |
| Net investment income | *7 (1)* | **(9,338)** | (7,219) |
| Realized losses | *7 (2)* | **505** | 56 |
| Unrealized losses/(gains) | *7 (3)* | **(822)** | 717 |
| Foreign currency losses/(gains), net | | **405** | (3) |
| Provision/(write-back) of provision for doubtful debts, net | *10 (1)* | **122** | (39) |
| Write-back of provision for loans and advances to customers | *10 (1)* | **(73)** | (12) |
| Operating loss before working capital changes | | **(3,739)** | (2,101) |
| Changes in operational assets and liabilities: | | | |
| Increase in premium receivables | | **(160)** | (152) |
| Increase in reinsurance assets | | **(533)** | (453) |
| Increase in deferred policy acquisition costs | | **(3,830)** | (2,261) |
| Increase in statutory deposits | | **(40)** | – |
| Decrease/(increase) in other assets | | **(122)** | 341 |
| Increase/(decrease) in customers' deposits | | **13** | (457) |
| Increase/(decrease) in premiums received in advance | | **253** | (502) |
| Increase in commission payable | | **77** | 59 |
| Increase/(decrease) in due to reinsurers | | **324** | (105) |
| Increase/(decrease) in insurance guarantee fund | | **(767)** | 117 |
| Increase in policyholder dividend payable and provisions | | **887** | 788 |
| Increase in policyholders' reserves | | **29,557** | 33,872 |
| Increase in policyholder contract deposits | | **8,384** | 1,411 |
| Increase in unearned premium reserves | | **1,581** | 1,170 |
| Increase in claim reserves | | **1,291** | 1,825 |
| Increase/(decrease)in investment contract reserves | | **(1)** | 80 |
| Increase in derivative financial liabilities | | **6** | 15 |
| Increase/(decrease) in other liabilities | | **(934)** | 1,108 |
| Cash generated from operations | | **32,247** | 34,755 |
| Income taxes paid | | **(437)** | (408) |
| Net cash from operating activities | | **31,810** | 34,347 |

## 44. Directors' and supervisors' remuneration

| For the year ended December 31, (in RMB thousand) | 2005 Fees | Salaries, allowances and other benefits | Contributions to pension schemes | Total |
|---|---|---|---|---|
| **Current directors** | | | | |
| MA Mingzhe | – | **14,114** | **21** | **14,135** |
| SUN Jianyi | – | **2,036** | **20** | **2,056** |
| FAN Gang | – | **438** | **20** | **458** |
| DOU Wenwei | – | **234** | **20** | **254** |
| BAO Youde | **150** | – | – | **150** |
| KWONG Che Keung Gordon | **300** | – | – | **300** |
| CHEUNG Wing Yui | **300** | – | – | **300** |
| CHOW Wing Kin Anthony | **156** | – | – | **156** |
| Henry CORNELL | – | – | – | – |
| HUANG Jianping | – | – | – | – |
| LIU Haifeng David | – | – | – | – |
| LIN Yu Fen | – | – | – | – |
| CHEUNG Lee Wah | – | – | – | – |
| Anthony Philip HOPE | – | – | – | – |
| LIN Lijun | – | – | – | – |
| SHI Yuxin | – | – | – | – |
| HU Aimin | – | – | – | – |
| CHEN Hongbo | – | – | – | – |
| Sub-total | **906** | **16,822** | **81** | **17,809** |
| **Past directors** | | | | |
| PAN Guangqian | – | **411** | – | **411** |
| YIP Dicky Peter | – | – | – | – |
| **Current supervisors** | | | | |
| XIAO Shaolian | **250** | – | – | **250** |
| SUN Fuxin | **60** | – | – | **60** |
| CHEN Shangwu | **60** | – | – | **60** |
| SONG Liankun | – | **263** | – | **263** |
| HE Peiquan | – | **297** | – | **297** |
| HE Shi | – | **482** | **20** | **502** |
| DUAN Weihong | – | – | – | – |
| ZHOU Fulin | – | – | – | – |
| CHEN Bohai | – | – | – | – |
| Sub-total | **370** | **1,042** | **20** | **1,432** |

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

**44. Directors' and supervisors' remuneration** *(Continued)*

| For the year ended December 31, (in RMB thousand) | 2005 Fees | Salaries, allowances and other benefits | Contributions to pension schemes | Total |
|---|---|---|---|---|
| **Past supervisors** | | | | |
| YANG Xiuli | **–** | **778** | **18** | **796** |
| CHEN Kexiang | **–** | **972** | **19** | **991** |
| XIAO Wei | **–** | **385** | **19** | **404** |
| LEI Hui | **–** | **474** | **20** | **494** |
| Sub-total | **–** | **2,609** | **76** | **2,685** |
| Total | **1,276** | **20,884** | **177** | **22,337** |

| For the year ended December 31, (in RMB thousand) | 2004 Fees | Salaries, allowances and other benefits | Contributions to pension schemes | Total |
|---|---|---|---|---|
| **Current directors** | | | | |
| MA Mingzhe | – | 11,688 | 16 | 11,704 |
| SUN Jianyi | – | 1,714 | 19 | 1,733 |
| LIN Lijun | – | 348 | 19 | 367 |
| FAN Gang | – | 424 | 19 | 443 |
| DOU Wenwei | – | 218 | 18 | 236 |
| BAO Youde | 60 | – | – | 60 |
| KWONG Che Keung Gordon | 200 | – | – | 200 |
| CHEUNG Wing Yui | 200 | – | – | 200 |
| LI Heihu | – | – | – | – |
| GAO Lei | – | – | – | – |
| HUANG Jianping | – | – | – | – |
| LIU Haifeng David | – | – | – | – |
| Henry CORNELL | – | – | – | – |
| LIN Yu Fen | – | – | – | – |
| CHEUNG Lee Wah | – | – | – | – |
| Anthony Philip HOPE | – | – | – | – |
| YIP Dicky Peter | – | – | – | – |
| SHI Yuxin | – | – | – | – |
| HU Aimin | – | – | – | – |
| Sub-total | 460 | 14,392 | 91 | 14,943 |
| **Past director** | | | | |
| PAN Guangqian | – | 399 | 1 | 400 |

## 44. Directors' and supervisors' remuneration *(Continued)*

| For the year ended December 31, (in RMB thousand) | 2004 Fees | Salaries, allowances and other benefits | Contributions to pension schemes | Total |
|---|---|---|---|---|
| **Current supervisors** | | | | |
| XIAO Shaolian | 200 | – | – | 200 |
| SUN Fuxin | 40 | – | – | 40 |
| CHEN Shangwu | 40 | – | – | 40 |
| SONG Liankun | – | 263 | 1 | 264 |
| HE Peiquan | – | 296 | 1 | 297 |
| HE Shi | – | 441 | 19 | 460 |
| DUAN Weihong | – | – | – | – |
| ZHOU Fulin | – | – | – | – |
| CHEN Bohai | – | – | – | – |
| Sub-total | 280 | 1,000 | 21 | 1,301 |
| **Past supervisors** | | | | |
| YANG Xiuli | – | 736 | 18 | 754 |
| CHEN Kexiang | – | 734 | 19 | 753 |
| LIU Yigong | – | 638 | 18 | 656 |
| XIAO Wei | – | 374 | 19 | 393 |
| LEI Hui | – | 475 | 20 | 495 |
| Sub-total | – | 2,957 | 94 | 3,051 |
| Total | 740 | 18,748 | 207 | 19,695 |

The compensation expenses for share appreciation rights granted to the directors and supervisors are not included in the above analysis.

During the year, no emoluments were paid by the Group to the directors and the supervisors as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office.

## 45. Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one (2004: one) director whose emolument is reflected in the analysis presented in note 44.

Details of emoluments of the remaining four (2004: four) highest paid individuals are as follows:

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Salaries, allowances and other benefits | **41** | 37 |

The number of non-director, highest paid individuals whose emoluments fell within the following bands is as follows:

| | 2005 | 2004 |
|---|---|---|
| RMB6,000,001 – RMB6,500,000 | **1** | 1 |
| RMB7,000,001 – RMB7,500,000 | **–** | 1 |
| RMB8,000,001 – RMB8,500,000 | **1** | – |
| RMB8,500,001 – RMB9,000,000 | **–** | 1 |
| RMB11,500,001 – RMB12,000,000 | **1** | – |
| RMB13,500,001 – RMB14,000,000 | **–** | 1 |
| RMB15,000,001 – RMB15,500,000 | **1** | – |

The Company has no contributions to pension schemes for the above highest paid non-director individuals.

Under the PRC tax regulations, individual income tax is calculated at progressive rates with a cap of 45%.

The effective income tax rate of the five highest paid individuals in the Group range from 35.7% to 43.5% (2004: 35.6% to 43.3%), and their average effective tax rate is 41.9% (2004: 41.4%).

The compensation expenses for share appreciation rights granted to the above highest paid individuals are not included in the above analysis.

During the year, no emoluments were paid by the Group to the above highest paid, non-director individuals as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office.

## 46. Significant related party transactions

(1) The consolidated financial statements included the financial statements of Ping An Insurance (Group) Company of China, Ltd. and the subsidiaries listed in note 19.

(2) Compensation of key management personnel

The summary of compensation of our five (2004: four) key management personnel other than directors and supervisors for the year is as follows:

| For the year ended December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Salaries and other short term employee benefits | **43** | 35 |

The compensation expenses for share appreciation rights granted to key management personnel are not included in the above analysis.

Further details of directors' and supervisors' remuneration are included in note 44 to the financial statements.

The number of units in share appreciation rights granted to key management personnel including directors and supervisors during the year is 3.4 million (2004: 10.4 million). The related expense recognized in the income statement during the year is RMB15 million (2004: RMB7 million).

(3) In late August 2005, HSBC and its associates increased their equity interests in the Company to 19.9%. As at December 31, 2005, the Group's aggregate bank balances with HSBC were approximately RMB232 million. Interest income earned by the Group on such bank balances from September to December 2005 was approximately RMB3 million.

## 47. Commitments

### *(1) Capital commitments*

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

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Contracted, but not provided for | **472** | 150 |
| Authorized, but not contracted for | **3,030** | 3,312 |

## 47. Commitments *(Continued)*

### *(2) Operating lease commitments*

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

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Within 1 year | **372** | 344 |
| 1-5 years | **473** | 434 |
| More than 5 years | **5** | 21 |
| | **850** | 799 |

### *(3) Operating lease rental receivables*

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

| As at December 31, (in RMB million) | 2005 | 2004 |
|---|---|---|
| Within 1 year | **64** | 68 |
| 1-5 years | **33** | 41 |
| | **97** | 109 |

## 48. Employee benefits

### *(1) Pension*

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

### *(2) Housing benefits*

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

### *(3) Medical benefits*

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

**48. Employee benefits** *(Continued)*

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

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

The expense recognized for employee services received during the year is RMB61 million (2004: RMB29 million).

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

| **(in million)** | **2005 Number of units** | 2004 Number of units |
|---|---|---|
| As at January 1 | **42** | – |
| Granted during the year | **16** | 42 |
| As at December 31, | **58** | 42 |

The weighted average remaining contractual life for the share appreciation rights outstanding as at December 31, 2005 is 2.5 years (2004: 3.5 years).

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

| | **2005** | 2004 |
|---|---|---|
| Risk-free interest rate (%) | **1.5%** | 0.01% |
| Expected dividend yield (%) | **1%** | – |
| Expected volatility (%) | **29%** | 38% |
| Expected life (in years) | **3-5** | 3-5 |

The services received and a liability to pay for those services are recognized over the expected vesting period. Until the liability is settled, it is remeasured at each reporting date with changes in fair value recognized in the income statement. The carrying amount of the liability relating to the share appreciation rights as at December 31, 2005 is RMB90 million (2004: RMB29 million).

# NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

## 49. Contingent liabilities

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

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

## 50. Post balance sheet events

Refer to note 12 and note 33 for the profit appropriations.

## 51. Comparative figures

As further explained in note 3(2) to the financial statements, due to the adoption of new or revised IFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

## 52. Approval of the financial statements

These financial statements have been approved and authorized for issue by the Company's directors on March 29, 2006.

# NOTICE OF THE ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Ping An Insurance (Group) Company of China, Ltd. ("the Company") will be held at 10:00 a.m. on Thursday, May 25, 2006 at 6th Floor, Ping An Building, Ba Gua No. 3 Road, Shenzhen, PRC for the purposes of considering and, if thought fit, passing the following resolutions:

**As Ordinary Resolutions**

1. To consider and approve the report of the board of directors of the Company (the "Board of Directors") for the year ended December 31, 2005.

2. To consider and approve the report of the Supervisory Committee of the Company for the year ended December 31, 2005.

3. To consider and approve the report of the auditors and audited financial statements of the Company for the year ended December 31, 2005.

4. To consider and approve the profit distribution plan for the year ended December 31, 2005 and the recommendation for 2006 special interim dividend.

5. To consider and approve the re-appointment of Ernst & Young Hua Ming as the PRC auditors and Ernst & Young as the international auditors of the Company to hold office until the conclusion of the next annual general meeting and to authorize the Board of Directors to fix their remuneration.

6. To consider and approve the re-appointment of Mr. Ma Mingzhe as an Executive Director of the Company to hold office for a term of three years with immediate effect.

7. To consider and approve the re-appointment of Mr. Sun Jianyi as an Executive Director of the Company to hold office for a term of three years with immediate effect.

8. To consider and approve the appointment of Mr. Cheung Chi Yan Louis as an Executive Director of the Company to hold office for a term of three years with immediate effect.

9. To consider and approve the re-appointment of Mr. Huang Jianping as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

10. To consider and approve the re-appointment of Mr. Lin Yu Fen as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

11. To consider and approve the re-appointment of Mr. Cheung Lee Wah as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

12. To consider and approve the re-appointment of Mr. Anthony Philip HOPE as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

13. To consider and approve the re-appointment of Mr. Dou Wenwei as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

# NOTICE OF THE ANNUAL GENERAL MEETING

14. To consider and approve the re-appointment of Mr. Fan Gang as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

15. To consider and approve the re-appointment of Ms. Lin Lijun as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

16. To consider and approve the re-appointment of Mr. Shi Yuxin as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

17. To consider and approve the re-appointment of Mr. Hu Aimin as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

18. To consider and approve the re-appointment of Mr. Chen Hongbo as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

19. To consider and approve the appointment of Mr. Wong Tung Shun Peter as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

20. To consider and approve the appointment of Mr. Ng Sing Yip as a Non-executive Director of the Company to hold office for a term of three years with immediate effect.

21. To consider and approve the re-appointment of Mr. Bao Youde as an Independent Non-executive Director of the Company to hold office for a term of three years with immediate effect.

22. To consider and approve the re-appointment of Mr. Kwong Che Keung Gordon as an Independent Non-executive Director of the Company to hold office for a term of three years with immediate effect.

23. To consider and approve the re-appointment of Mr. Cheung Wing Yui as an Independent Non-executive Director of the Company to hold office for a term of three years with immediate effect.

24. To consider and approve the re-appointment of Mr. Chow Wing Kin Anthony as an Independent Non-executive Director of the Company to hold office for a term of three years with immediate effect.

25. To consider and approve the re-appointment of Mr. Xiao Shaolian as an independent supervisor of the Company to hold office for a term of three years with immediate effect.

26. To consider and approve the re-appointment of Mr. Sun Fuxin as an independent supervisor of the Company to hold office for a term of three years with immediate effect.

27. To consider and approve the appointment of Mr. Dong Likun as an independent supervisor of the Company to hold office for a term of three years with immediate effect.

28. To consider and approve the re-appointment of Ms. Duan Weihong as a supervisor of the Company representing the shareholders of the Company to hold office for a term of three years with immediate effect.

29. To consider and approve the appointment of Mr. Lin Li as a supervisor of the Company representing the shareholders of the Company to hold office for a term of three years with immediate effect.

30. To consider and approve the appointment of Mr. Che Feng as a supervisor of the Company representing the shareholders of the Company to hold office for a term of three years with immediate effect.

31. To consider and approve the emolument plan for the 7th Board of Directors of the Company.

32. To consider and approve the emolument plan for the 5th Supervisory Committee of the Company.

**As Special Resolutions**

33. To give a general mandate to the Board of Directors to issue, allot and deal with additional domestic shares not exceeding 20% of the domestic shares of the Company in issue and additional H shares not exceeding 20% of the H shares of the Company in issue and authorize the Board of Directors to make corresponding amendments to the Articles of Association as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares:

"**THAT**

(A) (a) subject to paragraph (c) and in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Articles of Association of the Company and the applicable laws and regulations of the People's Republic of China, the exercise by the Board of Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with, either separately or concurrently, additional domestic shares and H shares of the Company and to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers be hereby generally and unconditionally approved;

(b) the approval in paragraph (a) shall authorize the Board of Directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;

(c) each of the aggregate nominal amounts of domestic shares and H shares allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the Board of Directors pursuant to the approval granted in paragraph (a) shall not exceed 20% of each of the aggregate nominal amounts of domestic shares and H shares of the Company in issue at the date of passing this resolution, otherwise than pursuant to (i) a Rights Issue or (ii) any scrip dividend or similar arrangement providing for allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association; and

(d) for the purposes of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or other applicable laws to be held; or (iii) the revocation or variation of the authority given under this resolution by a special resolution of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the directors to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong) and an offer, allotment or issue of shares by way of rights shall be construed accordingly.

(B) The Board of Directors be authorized to make corresponding amendments to the Articles of Association of the Company as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares as provided in sub-paragraph (a) of paragraph (A) of this resolution."

34. To consider and approve the amendments to the Articles of Association of the Company:

"That the existing Articles of Association of the Company be amended as follows:

(1) Article 7 be replaced by:

"7 The Company has independent legal person properties and enjoys legal person property rights. The Company shall be liable for its debts to the extent of all its assets. The shareholders shall be liable towards the Company to the extent of subscription of their respective shareholdings."

(2) Article 12 be replaced by:

"12 The Company can invest in other limited companies and companies limited by shares, and bear the responsibility within such investment volume."

(3) Article 19 be amended as follows with the proposed amendments underlined for reference:

"19 Following approval by the approving department authorized by the State Council, the total amount of issued ordinary shares of the Company is 6,195,053,334. The number of shares issued to the promoters at the time of reorganization of the Company into a joint-stock company on January 16, 1997 is 2,191,610,986, representing 35.38% of the total number of ordinary shares issued by the Company. On June 24, 2004 during the Company's first overseas offer of H shares and listing, as a result of the disposal of state owned shares, 72,955,249 shares of the promoters shares were converted to H Shares. Details of the Company's promoter shares are listed out in the appendix.

If as a result of any shareholder holding promoter shares transferring such shares in accordance with the Company Law and other relevant state laws and regulation and provisions under the Articles of Association, the Company needs to make corresponding changes to the record of shareholders stated in the appendix of the Articles of Association and the register of shareholders, the amendments to the appendix of the Articles of Association shall be approved by legal representative of the Company as authorized by the shareholders in the general meeting, without any voting therein."

(4) The second paragraph of Article 49 be amended as follows with the proposed amendments underlined for reference:

"Applications for the replacement of share certificates from holders of domestic shares who have lost their certificates shall be dealt with in accordance with Article 144 of the Company Law."

(5) Article 61 (3) and (13) be amended as follows with the proposed amendments underlined for reference:

"61 The general meeting shall exercise the following functions and powers:

(3) Elect and replace the supervisors other than those representing employees of the Company and decide on matters concerning the remuneration thereof;

(13) Consider proposals raised by shareholders representing 3 percent or more of the Company's voting shares;"

(6) Article 65 be amended as follows with the proposed amendments underlined for reference:

"65 When the Company is to hold a general meeting, shareholders holding 3 percent or more of the total number of the Company's voting shares shall be entitled to propose new proposals in writing to the Company. Proposal matters raised in the proposals which are within the scope of the duties of the general meeting shall be listed in the meeting agenda."

(7) Article 88 be amended as follows with the proposed amendments underlined for reference:

"88 The following matters shall be resolved by way of an ordinary resolution of the general meeting:

(1) Work reports of the board of directors and the supervisory committee;

(2) Plans for the distribution of profits and making up of losses drafted by the board of directors;

# NOTICE OF THE ANNUAL GENERAL MEETING

(3) Appointment and removal of members of the board of directors and the supervisory committee and their remuneration and mode of payment;

(4) The Company's annual budget, final accounts, annual reports, balance sheet, profit statement and other financial statements;

(5) Provision of guarantees to shareholders or effective controller of the Company;

(6) Matters other than those that law, administrative regulations or the Company's Articles of Association require to be passed by way of a special resolution."

(8) Article 91 be replaced by:

"91 In the event that the supervisory committee or shareholders request to convene an extraordinary shareholders' meeting or a class shareholders' meeting, the following procedures shall be followed:

(1) The supervisory committee or shareholder(s), alone or jointly, holding 10 percent or more of the shares carrying voting rights at the meeting to be convened may, by signing one or more counterpart written requisition(s) stating the object of the meeting, require the board of directors to convene an extraordinary general meeting or a class shareholders' meeting. The board of directors shall as soon as possible after receipt of such written requisition(s) proceed to so convene the extraordinary general meeting or class shareholders' meeting, as the case may be. The shareholdings referred to above shall be calculated as at the date of the delivery of the written requisition(s).

(2) Where the board of directors fails to issue convene notice of meeting within thirty (30) days upon receipt of the above written request, the supervisory committee shall convene and host the meeting. Where the supervisory committee fails to issue convene notice of meeting within thirty (30) days thereafter, shareholders individually or collectively holding ten percent or more shares carrying voting rights on such proposed meeting for over ninety (90) consecutive days may convene meeting on their own accord within four (4) months upon the board of directors having received such request. The convening procedures shall as much as possible be equivalent to which the board of directors convenes the general meeting.

All reasonable expenses incurred by the supervisory committee or the shareholder(s) who tendered the requisition in convening and holding the meeting as a result of the failure of the board of directors to duly convene the meeting shall be borne by the Company, and shall be set off against any sums owed to the directors and the supervisors in default by the Company."

(9) Article 95 be replaced by:

"95 The general meeting shall be convened by the board of directors, and presided over by the chairman of the board. Where the chairman fails to attend the meeting by any reasons, the meeting shall be presided over by the vice-chairman designated by the chairman. Where the vice-chairman fails to attend the meeting, the meeting shall be presided over by a director who jointly elected by over half of the number of the directors.

Where the board of directors is unable or fails to perform its duties of convening the general meeting, the meeting shall be convened by the supervisory committee, and presided over by the chairman of supervisory committee. Where the chairman of supervisory committee fails to attend the meeting, the meeting shall be presided over by a supervisor who jointly elected by over half of the number of the supervisors.

Where the supervisory committee fails to convene and preside over the general meeting, the meeting shall be convened by shareholders who individually or jointly representing ten (10) percent or more of the Company's voting rights for over ninety (90) days. The meeting shall be presided over by a person elected by shareholders presenting the meeting.

Where the chairman of the general meeting is unable to be elected through above means, the meeting shall be presided over by shareholder (including shareholder's proxy) who representing the largest majority of voting rights.

Extraordinary general meeting may be conducted by voting via communications."

(10) Article 111 be amended as follows with the proposed amendments underlined for reference:

"111 The Company shall establish a board of directors. The board of directors shall be composed of <u>19</u> directors, which shall have one chairman of the board and one or two vice-chairman of the board, not less than two executive directors and not less than three independent non-executive directors."

(11) The fifth paragraph of the Article 112 be deleted in its entirety.

(12) Article 119 be amended as follows with the proposed amendments underlined for reference:

"119 The board of directors shall convene regular board meeting at least four times each year. The meeting shall be convened by the chairman and all the directors <u>and supervisors</u> shall be notified in writing prior to fourteen (14) days of the meeting.

# NOTICE OF THE ANNUAL GENERAL MEETING

The chairman shall convene and host the extraordinary board meeting within ten (10) days upon having received any proposals under each of the following conditions:

(1) when it is considered by the chairman to be necessary;

(2) when it is jointly proposed by over one-third of directors;

(3) when it is proposed by the supervisory committee;

(4) when it is proposed by the chief-executive-officer;

(5) when it is proposed by shareholders representing ten percent or more (10%) of voting rights."

(13) Article 120 be replaced by:

"120 The board of directors may convene extraordinary board meeting by voting via communications. The fourteen (14) days prior notice requirement need not apply provided that notice of such meeting shall be delivered to the directors and supervisors in a timely and effectively manner.

Where the chairman is unable to perform his duties in those circumstances specified in paragraphs (2), (3), (4) and (5) under paragraph 2 of Article 119, he should designate a vice-chairman to convene the extraordinary board meeting on his behalf. Where the chairman fails to perform his duties for no reasons and fails to designate specific person to perform his duties on his behalf, the meeting shall be convened by the vice-chairman. Where the vice-chairman is unable or fails to perform his duties, a director being jointly elected by over half of the number of the directors shall convene the meeting."

(14) The second paragraph of Article 128 be amended as follows with the proposed amendments underlined for reference:

"Members of the audit committee shall be appointed by the board of directors from the directors of the Company, which composes of three to seven directors."

(15) The third paragraph of Article 133 be amended as follows with the proposed amendments underlined for reference:

"Where the chairman of the supervisory committee fails to perform his duties, a supervisor elected by over half of the number of the supervisors shall perform his duties on his behalf."

(16) Article 134 be amended as follows with the proposed amendments underlined for reference:

"134 The supervisory committee is made up of supervisors representing the shareholders, supervisors representing employees of the Company and independent supervisors. Supervisors representing the shareholders and independent supervisors shall be elected and replaced by shareholders in general meeting; supervisors representing employees of the Company shall be elected and replaced by employees of the Company in democratic ways. Supervisors representing employees of the Company shall not be less than one third of the total number of supervisors. Independent supervisors shall not exceed one third of the total number of supervisors."

(17) Article 136 be amended as follows with the proposed amendments underlined for reference:

"136 Where a supervisor fails to attend meetings of the supervisory committee personally or to entrust other supervisors to attend for two consecutive times, it shall be deemed a failure to perform his duties. The general meeting or the employees' representatives meeting shall replace such supervisors."

(18) Article 186 be replaced by:

"186 Profit after tax shall be distributed in the following sequence:

(1) cover losses in the previous year;

(2) allocate 10% to statutory revenue reserve;

(3) allocate to discretionary revenue reserve;

(4) pay dividends to shareholders.

When the accumulated statutory revenue reserve exceeds 50 percent of the registered capital of the Company, the Company may cease to make such allocation. After making allocation to the statutory revenue reserve, whether to allocate to the discretionary revenue reserve is subject to the resolution at general meetings. No distribution of profits to shareholders shall be made before the loss of the Company has been made up and allocation to the statutory revenue reserve."

(19) Article 187 be replaced by:

"187 The revenue reserve of the Company shall be used to cover the Company's losses, expand its production and operation, or be converted to increase the Company's capital. However, the capital revenue reserve shall not be used to cover losses of the Company."

# NOTICE OF THE ANNUAL GENERAL MEETING

(20) Article 188 be replaced by:

"188 Where a resolution of the general meeting of the Company resolves to convert any revenue reserve into share capital, the Company shall issue new shares to the existing shareholders in proportion to their respective shareholdings. When capitalizing the statutory revenue reserve, the balance of such revenue reserve shall not be less than 25 percent of the registered capital before the conversion."

(21) As required by the Company Law and Regulations on the Administration of Company Registration, the Articles of Association has to state the shareholding status of shareholders holding promoters shares. As a result, an appendix shall be added to the Articles of Association which contains the shareholding status of shareholders holding the Company's promoter shares."

35. To consider and approve the authorization of the legal representative of the Company to amend the provisions relating to the promoter shares under the Appendix of the Articles of Association of the Company.

By order of the Board of Directors

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

Shenzhen, PRC
April 7, 2006

*As at the date of this notice, the Executive Directors of the Company are Ma Mingzhe and Sun Jianyi, the Non-executive Directors of the Company are Henry CORNELL, Huang Jianping, Liu Haifeng David, Lin Yu Fen, Cheung Lee Wah, Anthony Philip HOPE, Dou Wenwei, Fan Gang, Lin Lijun, Shi Yuxin, Hu Aimin and Chen Hongbo and the Independent Non-executive Directors are Bao Youde, Kwong Che Keung Gordon, Cheung Wing Yui and Chow Wing Kin Anthony.*

*Notes:*

1. According to the Articles of Association of the Company, the resolutions will be determined on a show of hands unless a poll is demanded before or after any vote on a show of hands. A poll may be demanded by (i) the chairman of the meeting; or (ii) at least two shareholders entitled to vote, present in person or by proxy; or (iii) one or more shareholders present in person or by proxy representing more than 10% of all shares carrying the voting rights at the meeting.

2. In order to determine the list of shareholders who are entitled to attend the annual general meeting of the Company and to receive 2006 special interim dividend, the registers of members will be closed from Tuesday, April 25, 2006 to Thursday, May 25, 2006, both days inclusive, during which period no transfer of shares will be effected. Holders of the Company's H shares and domestic shares whose names appear on the registers of members on Thursday, May 25, 2006 are entitled to attend the meeting. In order to qualify for 2006 special interim dividend and to attend and vote at the meeting, holders of H shares of the Company whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited at or before 4:00 p.m. on Monday, April 24, 2006. The address of the transfer office of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. 2006 special interim dividend is expected to be paid on or before June 2, 2006 to the shareholders whose names appear on the registers of members of the Company on Thursday, May 25, 2006.

3. A shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote in his stead. A proxy need not be a shareholder of the Company.

4. The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorized in writing. If the shareholder is a corporation, that instrument must be either under its common seal or under the hand of its director(s) or duly authorized attorney(s). If that instrument is signed by an attorney of the shareholder, the power of attorney authorizing that attorney to sign or other authorization document must be notarized.

5. In order to be valid, the form of proxy together with the power of attorney or other authorization document (if any) must be deposited at the Secretariat of the Board of Directors of the Company for holders of domestic shares and at the H share registrar of the Company for holders of H shares not less than 24 hours before the time fixed for holding the meeting or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a shareholder from attending and voting in person at the meeting if he so wishes. The H share registrar of the Company is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

6. Shareholders who intend to attend the meeting in person or by proxy should return the reply slip to the Company's principal place of business in the PRC or Hong Kong on or before Friday, May 5, 2006 by hand, by post or by fax. The Company's principal place of business in the PRC is at Ping An Building, Ba Gua No.3 Road, Shenzhen, PRC (Tel: (86 755) 8226 2888, Fax: (86 755) 8243 1029). The contact persons are LIU Cheng (劉程) (Tel: (86 755) 8226 2888 ext. 2101) and WANG Xiaoli (王小利) (Tel: (86 755) 8226 2888 ext. 2828). The Company's principal place of business in Hong Kong is at 11th Floor, Dah Sing Financial Center, 108 Gloucester Road, Wan Chai, Hong Kong (Tel: (852) 2827 1883, Fax: (852) 2802 0018).

7. The meeting is expected to be concluded within half a day. Shareholders (in person or by proxy) attending the meeting are responsible for their own transportation and accommodation expenses. Shareholders or their proxies attending the meeting shall produce identity documents.

8. A circular containing, inter alia, details of the proposed amendments to the Articles of Association and notice of the annual general meeting will be dispatched to the shareholders on Friday, April 7, 2006. The information of each of Mr. Ma Mingzhe, Mr. Sun Jianyi, Mr. Cheung Chi Yan Louis, Mr. Huang Jianping, Mr. Lin Yu Fen, Mr. Cheung Lee Wah, Mr. Anthony Philip HOPE, Mr. Dou Wenwei, Mr. Fan Gang, Ms. Lin Lijun, Mr. Shi Yuxin, Mr. Hu Aimin, Mr. Chen Hongbo, Mr. Wong Tung Shun Peter, Mr. Ng Sing Yip, Mr. Bao Youde, Mr. Kwong Che Keung Gordon, Mr. Cheung Wing Yui, Mr. Chow Wing Kin Anthony, Mr. Xiao Shaolian, Mr. Sun Fuxin, Mr. Donglikun, Ms. Duan Weihong, Mr. Lin Li and Mr. Che Feng regarding proposed resolutions 6 to 30 is also included in the circular. Concerning the proposed resolution 33, the purpose of seeking approval of such mandate is to give directors flexibility and discretion to issue new shares in the event that it comes desirable for the Company and the directors have no present plan to issue new shares pursuant to such mandate.

# CORPORATE INFORMATION

## REGISTERED NAMES

**Chinese name**

中國平安保險(集團)股份有限公司

**English name**

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

## REGISTERED ADDRESS

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

## PLACE OF BUSINESS

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

## LEGAL REPRESENTATIVE

MA Mingzhe

## AUTHORIZED REPRESENTATIVES

SUN Jianyi
YAO Jun

## JOINT COMPANY SECRETARIES

SENG Sze Ka Mee Natalia
YAO Jun

## AUDITORS

Ernst & Young

## CONSULTING ACTUARIES

Watson Wyatt Insurance
Consulting Limited

## LEGAL ADVISORS

Dibb Lupton Alsop

## PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

## TYPE OF STOCK

H share

## STOCK CODE

2318

## H SHARE REGISTRAR AND TRANSFER OFFICE

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

## AMERICAN DEPOSITARY SHARES

The Bank of New York

## COMPANY WEBSITE

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