

中国平安保险(集团)股份有限公司

PING AN INSURANCE (GROUP) COMPANY OF CHINA, LTD.

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2318)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2006

CHAIRMAN'S STATEMENT

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

Review of the first half year

New record in operating results

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

Steady growth in core business

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

Strong investment performance

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

Strong momentum in other business development

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

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

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

Prospect for the second half of 2006

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

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

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

KEY FINANCIAL AND OPERATION INFORMATION

Group's consolidated performance

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

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

Consolidated investment income

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

⁽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 yields.

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

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

Life insurance business

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

For the six months ended June 30, (in RMB million)	2006	2005
Gross written premiums and policy fees	29,097	24,259
Individual life insurance	24,686	19,621
Bancassurance	479	721
Group insurance	3,932	3,917
Premium deposits	8,085	5,488
Individual life insurance	4,824	3,820
Bancassurance	3,070	1,471
Group insurance	191	197
Gross written premiums, policy fees and premium deposits	<u>37,182</u>	<u>29,747</u>
	As at	As at
	June 30, 2006	December 31, 2005
Market share of gross written premiums, policy fees and premium deposits ⁽¹⁾	16.6%	16.1%
Number of customers:		
Individual (in thousands)	31,043	30,312
Corporate (in thousands)	284	267
	<u>31,327</u>	<u>30,579</u>
Total (in thousands)	<u>31,327</u>	<u>30,579</u>
Persistency ratio:		
13-month	88.6%	85.9%
25-month	80.0%	81.9%

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

Property and casualty insurance business

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

For the six months ended June 30, (in RMB million)	2006	2005
Automobile insurance	5,482	3,720
Non-automobile insurance	2,490	2,321
Accident and health insurance	417	249
	<hr/>	<hr/>
Total gross written premiums	8,389	6,290
	<hr/> <hr/>	<hr/> <hr/>
	As at	As at
	June 30, 2006	December 31, 2005
Market share of gross written premiums ⁽¹⁾	10.7%	9.9%
Number of customers:		
Individual (in thousands)	6,851	6,006
Corporate (in thousands)	1,748	1,680
	<hr/>	<hr/>
Total (in thousands)	8,599	7,686
	<hr/> <hr/>	<hr/> <hr/>
	For the	For the
	six months ended	year ended
	June 30, 2006	December 31, 2005
Combined ratio:		
Expense ratio	23.4%	23.3%
Loss ratio	71.4%	72.0%
	<hr/>	<hr/>
Combined ratio	94.8%	95.3%
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⁽¹⁾ Based on our PRC GAAP financial data and the PRC insurance industry data calculated in accordance with the PRC GAAP and published by the National Bureau of Statistics of China. Market share as at June 30, 2006 was computed based on gross written premiums accumulated over a period of six months. Market share as at December 31, 2005 was computed based on gross written premiums accumulated over a period of one year.

CONDENSED CONSOLIDATED INCOME STATEMENT

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

CONDENSED CONSOLIDATED BALANCE SHEET

(in RMB million)	(Unaudited) As at June 30, 2006	(Audited) As at December 31, 2005
ASSETS		
Investments		
Fixed maturity investments		
Bonds	170,366	159,749
Term deposits	67,962	68,959
Policy loans	1,077	864
Securities purchased under agreements to resell	260	–
Loans and advances to customers	1,629	662
Equity investments		
Equity investment funds	11,868	10,058
Equity securities	15,211	5,183
Derivative financial assets	76	27
Investment in an associate	–	3
Investment properties	1,147	1,243
	<hr/>	<hr/>
Total investments	269,596	246,748
	<hr/>	<hr/>
Cash and cash equivalents	22,359	17,636
Premium receivables	3,680	749
Interest receivables	1,503	438
Policyholder account assets in respect of insurance contracts	16,483	12,820
Policyholder account assets in respect of investment contracts	3,397	3,078
Reinsurance assets	5,267	4,889
Deferred policy acquisition costs	29,084	26,428
Property, plant and equipment	2,849	2,918
Construction-in-progress	1,090	620
Land use rights	946	955
Goodwill	327	327
Statutory deposits	1,240	1,240
Other assets	897	860
	<hr/>	<hr/>
Total assets	358,718	319,706
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(in RMB million)	(Unaudited) As at June 30, 2006	(Audited) As at December 31, 2005
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	6,195	6,195
Reserves	23,188	21,493
Retained profits	8,168	5,308
	<u>37,551</u>	<u>32,996</u>
Minority interests	553	526
	<u>38,104</u>	<u>33,522</u>
Liabilities		
Customer deposits	3,062	1,862
Securities sold under agreements to repurchase	1,056	7,095
Short term borrowing	1,015	–
Premiums received in advance	640	1,880
Commission payable	831	633
Due to reinsurers	1,017	533
Dividends payable to shareholders	82	76
Income tax payable	713	445
Insurance guarantee fund	83	60
Policyholder dividend payable and provisions	4,478	2,864
Insurance contract liabilities		
Policyholder reserves	246,241	223,538
Policyholder contract deposits	15,570	9,795
Policyholder account liabilities in respect of insurance contracts	16,483	12,820
Unearned premium reserves	13,687	11,048
Claim reserves	6,217	5,824
Annuity and other insurance balances payable	2,424	2,234
Investment contract liabilities		
Policyholder account liabilities in respect of investment contracts	3,397	3,078
Investment contract reserves	13	14
Derivative financial liabilities	171	133
Deferred income tax liabilities	589	49
Other liabilities	2,845	2,203
	<u>320,614</u>	<u>286,184</u>
Total liabilities	320,614	286,184
Total equity and liabilities	<u>358,718</u>	<u>319,706</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2005

		Equity attributable to equity holders of the parent									
		Reserves									
(in RMB million)	Note	Share capital	Capital reserve	Revenue reserve fund	Common welfare fund	General reserve	Net unrealized gains/ (losses)	Foreign currency translation differences	Retained profits	Minority interests	Total
(Unaudited)											
As at January 1, 2005		6,195	14,835	4,409	616	395	(738)	-	2,485	430	28,627
Net profit for the six months ended June 30, 2005		-	-	-	-	-	-	-	2,235	15	2,250
Net gains on available-for-sale investments		-	-	-	-	-	755	-	-	7	762
Net gains on available-for-sale investments removed from equity and reported in net profit		-	-	-	-	-	(109)	-	-	(1)	(110)
Increase in capital of a subsidiary		-	-	-	-	-	-	-	-	22	22
Deferred tax recognized, net		-	-	-	-	-	(97)	-	-	(1)	(98)
Dividends declared	8(3)	-	-	-	-	-	-	-	(867)	-	(867)
As at June 30, 2005		<u>6,195</u>	<u>14,835</u>	<u>4,409</u>	<u>616</u>	<u>395</u>	<u>(189)</u>	<u>-</u>	<u>3,853</u>	<u>472</u>	<u>30,586</u>
Net profit for the six months ended December 31, 2005		-	-	-	-	-	-	-	1,991	24	2,015
Net gains on available-for-sale investments		-	-	-	-	-	963	-	-	11	974
Net losses on available-for-sale investments removed from equity and reported in net profit		-	-	-	-	-	100	-	-	1	101
Increase in capital of a subsidiary		-	-	-	-	-	-	-	-	24	24
Increase in general reserve		-	-	-	-	35	-	-	(35)	-	-
Deferred tax recognized, net		-	-	-	-	-	(159)	-	-	(2)	(161)
Currency translation adjustments		-	-	-	-	-	-	(13)	-	(4)	(17)
Appropriations to statutory reserves		-	-	334	167	-	-	-	(501)	-	-
As at December 31, 2005		<u>6,195</u>	<u>14,835</u>	<u>4,743</u>	<u>783</u>	<u>430</u>	<u>715</u>	<u>(13)</u>	<u>5,308</u>	<u>526</u>	<u>33,522</u>

For the six months ended June 30, 2006

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

SUPPLEMENTARY INFORMATION

1. Corporate information

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

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

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

2. Changes in significant accounting policies

The Group has revised certain significant accounting policies following adoption of the following revised International Financial Reporting Standards (“IFRSs”) which management considers to be most relevant to its current operations:

(1) *International Accounting Standard (“IAS”) 39 Financial Instruments: Recognition and Measurement*

Fair Value Option

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

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

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

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

Financial Guarantee Contracts

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

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

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

3. 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.

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

The segment analysis for the Period is as follows:

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

4. Gross written premiums and policy fees

(1) For the six months ended June 30, (in RMB million)	(Unaudited) 2006	(Unaudited) 2005
Gross written premiums, policy fees and premium deposits, as reported in accordance with PRC accounting standards	46,191	36,453
Less: Business tax and surcharges	(620)	(416)
Gross written premiums, policy fees and premium deposits (net of business tax and surcharges)	45,571	36,037
Less: Premium deposits allocated to policyholder accounts	(2,048)	(1,923)
Premium deposits allocated to policyholder contract deposits	(6,037)	(3,565)
Gross written premiums and policy fees	<u>37,486</u>	<u>30,549</u>

(2) For the six months ended June 30, (in RMB million)	(Unaudited) 2006	(Unaudited) 2005
Long term life business gross written premiums and policy fees	26,338	21,876
Short term life business gross written premiums	2,759	2,383
Property and casualty business gross written premiums	<u>8,389</u>	<u>6,290</u>
Gross written premiums and policy fees	<u><u>37,486</u></u>	<u><u>30,549</u></u>

5. Investment income

(1) Net investment income

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

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

(3) Unrealized gains

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

(4) **Total investment income**

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

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.

6. **Operating profit**

Operating profit is arrived at after charging the following items:

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

7. **Income taxes**

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

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

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

8. Dividends

(1) *Special interim dividend approved and paid*

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

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

(2) *Interim dividend declared*

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

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

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

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

9. Earnings per share

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

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

10. Embedded value

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

Components of economic value

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

11. Contingent liabilities

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

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

12. Event after the balance sheet date

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

REVIEW OF INTERIM RESULTS

Ernst & Young, the international auditors of the Company, and the audit committee of the Company have reviewed the Company's interim financial statements for the six months ended 30 June, 2006.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

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

As at June 30, 2006 (in RMB million)	Foreign currency risk
Net exposure to fluctuations in exchange rates assuming a simultaneous and uniform 5% depreciation of all foreign currency denominated monetary assets and monetary liabilities against the Renminbi	<u>685</u>

OTHER INFORMATION

Purchase, sale, or redemption of listed shares

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

Audit committee

The Company has established an audit committee in compliance with the Code on Corporate Governance Practices (the "**Code on Corporate Governance Practices**") contained in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the Company's financial reporting process, internal audit and control procedures. The audit committee, comprising four Independent Non-executive Directors, namely Mr. Bao Youde, Mr. Kwong Che Keung Gordon, Mr. Cheung Wing Yui and Mr. Chow Wing Kin Anthony and one Non-executive Director, namely Mr. Anthony Philip HOPE, has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls and financial reporting matters including a review of the condensed interim accounts of the Company.

Compliance with the Code of Corporate Governance Practices of the Listing Rules

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

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

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

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

Interim dividend and closure of register

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

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

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

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

Disclosure of information of the Stock Exchange's website

The interim results announcement and the interim report of the Company containing all information required by paragraphs 46(1) to 46(9) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange (<http://www.hkex.com.hk>) in due course.

By order of the Board of Directors
Ma Mingzhe
Chairman and Chief Executive Officer

Shenzhen, PRC, August 15, 2006

As at the date of this announcement, the Executive Directors of the Company are Ma Mingzhe, Sun Jianyi and Cheung Chi Yan Louis, the Non-executive Directors are Huang Jianping, Lin Yu Fen, Cheung Lee Wah, Anthony Philip HOPE, Dou Wenwei, Fan Gang, Lin Lijun, Shi Yuxin, Hu Aimin, Chen Hongbo, Wong Tung Shun Peter and Ng Sing Yip, the Independent Non-executive Directors are Bao Youde, Kwong Che Keung Gordon, Cheung Wing Yui and Chow Wing Kin Anthony.