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 financial services.

As of December 31, 2004, the Group had approximately 36,000 employees and 215,000 sales agents and sales representatives (2003: 36,000 employees and 204,000 sales agents and sales representatives). The registered address of the Company is Ping An Building, Ba Gua No.3 Road, Shenzhen, the PRC.

On June 24, 2004, 1,261,720,000 ordinary shares were issued through an initial public offering in Hong Kong.

2. IMPACT OF RECENTLY ISSUED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The following IFRSs are effective for the first time for the current year's financial statements:

- **IFRS 3, Business Combinations**

  IFRS 3 requires goodwill arising from a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, goodwill is not amortized and instead tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. This IFRS is applicable to goodwill arising from a business combination for which the agreement date is on or after March 31, 2004. Previous recognized goodwill can still be amortized.

- **IAS 36 (revised 2004), Impairment of Assets**

  IAS 36 was amended mainly to reflect those changes relating to business combinations.

2. IMPACT OF RECENTLY ISSUED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

The International Accounting Standards Board ("IASB") has issued other IFRSs and has revised a number of International Accounting Standards, collectively referred to as "the New IFRSs", which are generally effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted the New IFRSs in the financial statements for the year ended December 31, 2004. The Group is in the process of making an assessment of the impact of the New IFRSs as follows:

- **IFRS 4, Insurance Contracts**

  IFRS 4 is the first IFRS to deal with insurance contracts. Its main features 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. Under IFRS 4, investment contracts containing discretionary participation features continue to be accounted for as if they are insurance contracts. Premium income from certain contracts, which are regarded as investment contracts by IFRS 4, will be accounted for as a direct credit to the policyholders' account balance, and related claims to the extent covered by the said account balance are accounted for as a direct debit to the policyholders' account balance.

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

  IAS 39 has eliminated the definition of "originated loans and receivables", defined "loans and receivables" and clarified the criteria for derecognition of a financial asset. This standard may affect the categorization of the Group's financial assets and subsequent measurement thereof.

- **IFRS 2, Share-based Payment**

  IFRS 2 requires an entity 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 entity. This standard will give more guidance on recognition, measurement and disclosure of the Group's share appreciation rights scheme.

The Group will continue with its assessment of the impact of the above and other New IFRSs which may result in changes in the financial statements as to how the Group's performance and financial position will be presented. At present, it is early to conclude whether the New IFRSs will have a material impact in future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparing the consolidated financial statements of the Group are as follows:

(1) Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair values of held-for-trading investments and available-for-sale investments. The above basis of accounting 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 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.

In the Group's preparation of its IFRS financial statements for 2004, IFRS does not have an effective standard governing the accounting treatment of insurance contracts and, at the time when a specific topic is not addressed by IFRS, the IFRS framework permits reference to another comprehensive body of accounting principles. As a result,

- 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 Nos. 60 and 97.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Foreign currency

Based on the economic substance of the underlying events and circumstances relevant to the Group, the measurement currency of the Group has been determined to be RMB. To consolidate the financial statements of the Company (measured in RMB) and each of its subsidiaries (each measured in its own measurement currency), the financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, at historical exchange rates for equity items and at the average exchange rate for the year with respect to the consolidated results. The resulting translation differences, if material, are included in a translation reserve in equity.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated results.

(3) Principles of consolidation

The Group's consolidated financial statements incorporate the financial statements of the Company and its subsidiaries after elimination of intercompany 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 equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated results.

(4) 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 interests in subsidiaries are stated in the balance sheet at the Company's share of net assets under the equity method of accounting.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) 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.

(6) Investments

Investments in financial instruments are categorized as held-for-trading investments, loans originated, held-to-maturity investments and available-for-sale investments. Investments acquired principally for the purpose of generating a profit from short term price fluctuations are categorized as held-for-trading investments. Loans originated by providing money, goods, or services directly to a debtor, other than those that are originated with the intent to be sold immediately or in the short term, are categorized as loans originated. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans originated are categorized as held-to-maturity investments. All other investments are categorized as available-for-sale investments.

All purchases and sales of investments are recognized on the trade date. Investments are derecognized when the rights to receive cash flows from the investments have expired or where the Group has transferred substantially all risks and rewards of ownership.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Held-for-trading investments and available-for-sale investments are subsequently carried at fair value, except for certain equity investments (categorized as available-for-sale investments) that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such equity investments are measured at their cost less any provision for impairment losses. The directors consider this treatment appropriate because there is no reliable open market value for these securities, there is uncertainty as to their future cash flows, and the variability in the range of reasonable fair value estimates is significant and as a result, the probabilities of the various outcomes are difficult to assess.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Investments (continued)

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, and other valuation techniques commonly used by market participants.

Changes in the fair values of held-for-trading investments are included in consolidated results.

Changes in the fair values of available-for-sale investments, net of deferred tax, are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated results.

Loans originated and held-to-maturity investments are subsequently measured at amortized cost less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity, using the effective interest rate method. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. An investment is impaired if its carrying amount is greater than its estimated recoverable amount.

(7) Derivatives

Derivatives represent options embedded in convertible bonds purchased by the Group and are carried in the balance sheet at fair value as financial assets when favorable to the Group and financial liabilities when unfavorable.

If the convertible bond is categorized as available-for-sale, the embedded options are separated and categorized as held-for-trading financial instruments. The fair value of the embedded derivatives is the difference between the fair value of the hybrid convertible bond and the fair value of the host bond without embedded options. Changes in the fair value of the options are recognized as profit or loss.

If the convertible bond is categorized as held-for-trading, embedded derivatives are not separated from the host bond.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(8) 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 originated. 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 consolidated 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.

(9) Investment properties

Investment properties consist of investments in buildings that are held to earn rental income or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

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 (3% 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.

Impairment losses are recognized when the carrying amounts of investment properties are not expected to be recoverable. These impairment losses are recognized as an expense in the consolidated results. Impairment losses against the carrying amount of investment properties are reversed to the consolidated results when the circumstances and events that lead to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

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

(10) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(11) 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 consolidated balance sheet.

(12) Deferred policy acquisition costs

Deferred policy acquisition costs for long term life insurance and investment-linked policies

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 investment type contracts, such as investment-linked 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(13) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. 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 consolidated results.

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 consolidated results 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	3%	30-35 years
Office equipment, furniture and fixtures	–	5 years
Motor vehicles	4%	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.

(14) 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)

(15) 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.

(16) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of an acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill is amortized on a straight-line basis over its estimated useful economic life of 10 years. Goodwill on acquisitions on or after March 31, 2004 is not amortized. It is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value.

(17) Long term life insurance business

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 contracts.

Future life policyholders' benefit 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(17) Long term life insurance business (continued)

Future life policyholders' benefit liabilities are assessed at each balance sheet date for adequacy, using current estimates of future contractual cash flows and claims handling and administrative expenses, as well as investment income from the assets backing such liabilities. Any deficiency is immediately charged to the income statement initially by writing off deferred acquisition costs and subsequently by establishing additional reserves. As mentioned above, long term life insurance 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.

(18) Property and casualty and short term life business

Property and casualty and short term life insurance contracts provide insurance protection for a fixed period of short duration and the contract terms enable the insurer to cancel a contract or to adjust the provisions of a contract at the end of any contract period.

Claim reserves

These comprise a best estimate of property and casualty and short term life provisions for losses and loss adjustment expenses, representing the accumulation of estimates for ultimate losses less a deduction for the estimated value of salvage and subrogation, and including a provision for losses incurred but not yet reported ("IBNR"). The methods of determining such estimates and establishing the resulting reserves are continually reviewed and updated. Resulting adjustments are reflected in the consolidated results for the period. The Group does not discount its claim reserves.

Unearned premium reserves

Upon inception of property and casualty and short term 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.

Premium deficiency reserves

Premium deficiency reserves are assessed for individual life, group life and property and casualty portfolios on the basis of estimates of future claims, costs, premiums earned and proportionate investment income. Where applicable, such accounts are included as a component of policyholders' reserves. Premium deficiency reserves assessed on property and casualty business are disclosed, when material, as a separate provision.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(19) Investment-linked business

Revenue from investment-linked business consists of policy fees for the cost of insurance, administration fees and gains on surrenders during the year. Amounts received other than policy fees collected as premiums and administration fees from these contracts are reported as deposits. Policy benefits and claims incurred in the period are charged to claim expenses in the consolidated results, to the extent such amounts are not covered by policyholder deposits.

Separate account (investment-linked) assets and liabilities represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. The net investment income on separate account assets accrues directly to the policyholders. The assets and liabilities of each investment-linked fund are carried at market value and are segregated from each other and from the rest of the Group's invested assets. Subscriptions, withdrawals, net investment income and administration expenses are included in the separate account assets and liabilities and are not reflected in the consolidated results.

(20) Universal life business

Revenue for these contracts consists of policy fees for the cost of insurance, administration fees and gains on surrenders during the year. Policy 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 policyholders' contract deposits and benefit payments made in excess of policyholders' contract deposits.

(21) Dividends

Dividends are proposed by the directors, and are approved by the shareholders and the China Insurance Regulatory Commission ("CIRC") before they are recognized as a liability.

(22) Revenue recognition

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

(a) Premium income

Life insurance premiums from long term, traditional and participating life contracts are recognized as revenue when premiums as stated in the contracts are collectible from the policyholders. Premiums from long term property and casualty insurance 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(22) Revenue recognition (continued)

(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 deposits.

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 and surrender charges.

(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 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 accrued on a time proportion basis, taking into account the principal amount outstanding and the interest rate applicable.

(23) 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. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Reinsurance is recorded gross in the balance sheet unless a right of 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 2004, the Group is required to cede 10% of gross premium income from property and casualty and short term life insurance to state-owned reinsurers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) 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 rental receivables 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 expense over the lease term on a straight-line basis.

(25) Employee benefits

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.

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.

Medical benefits

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

(26) Tax

The income tax charges (and business tax payable) are estimated based on existing tax legislation, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(26) Tax (continued)

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.

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, unless the deferred tax liability arises from goodwill for which amortization is not deductible for tax purposes.

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.

(27) Impairment of assets

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(27) Impairment of assets (continued)

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. In addition, goodwill should be reviewed for impairment at the balance sheet date irrespective of whether there is any indication of impairment. 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 for an asset other than goodwill 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 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. An impairment loss recognized for goodwill is not reversed in a subsequent period.

(28) Use of estimates

The preparation of financial statements in conformity with IFRSs requires management to make certain estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Therefore, actual results could differ from those estimates.

(29) 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. CHANGES IN THE GROUP's ORGANIZATION

The principal structure of the Group changed during 2004 as follows:

(a) On September 29, 2003, China Ping An Trust & Investment Co., Ltd. ("Ping An Trust") entered into a sale and purchase agreement to acquire Bank of China's 50% equity interest in Fujian Asia Bank Limited (the "Bank"). On December 23, 2003, the China Banking Regulatory Commission (the "CBRC") approved the above sale and purchase of equity interest in the Bank and the change of the Bank's name into Ping An Bank Limited ("Ping An Bank"). The CBRC also approved that Ping An Trust made an additional capital contribution of US$23 million into Ping An Bank. The acquisition, additional capital contribution and the related business registration were completed by February 2004. Thereafter, Ping An Bank has become a 73% owned subsidiary of Ping An Trust and Ping An Bank's financial statements are consolidated into the Group's consolidated financial statements.

(b) On September 20, 2004, the Company entered into a sale and purchase agreement to transfer its 20% equity interest in Shenzhen Ping An Industries Co., Ltd. ("Ping An Industries") to Shenzhen Ping An Property Investment and Management Co., Ltd. ("Ping An Property"). After such transfer, the Group's equity interest in Ping An Industries decreased to 99.26%.

(c) On September 28, 2004, the Company entered into a sale and purchase agreement to transfer its 90% equity interest in Ping An Property to Ping An Trust. After such transfer, the Group's equity interest in Ping An Property decreased to 99.26%.

(d) On December 13, 2004, the Company established Ping An Annuity Insurance Company of China, Ltd. ("Ping An Annuity"). The other four shareholders of Ping An Annuity are Ping An Life Insurance Company of China, Ltd. ("Ping An Life"), Ping An Property & Casualty Insurance Company of China, Ltd. ("Ping An Property & Casualty"), Ping An Trust and Ping An Industries. The paid-up capital of Ping An Annuity is RMB300,000,000 and the Group's total equity interest amounts to 99.95%.

(e) On December 29, 2004, with the approval of the China Securities Regulatory Commission, Ping An Trust acquired a 10.88% equity interest in Ping An Securities Company Ltd. ("Ping An Securities") from certain shareholders of Ping An Securities. Upon completion of such transfer, the Group's equity interest in Ping An Securities increased to 74.44%.

(f) During 2004, Shanghai Mingxin Real Estate Development Co., Ltd. was liquidated. All of its assets and liabilities were taken over by Ping An Life.

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.

5. SEGMENT REPORTING (continued)

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.

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

	Life insurance RMB Million	Property and casualty insurance RMB Million	Corporate RMB Million	Others RMB Million	Elimination RMB Million	Total RMB Million
Revenue						
Gross written premiums and policy fees	49,899	10,150	–	–	–	60,049
Less: Premiums ceded to reinsurers	(813)	(3,309)	–	–	–	(4,122)
Increase in unearned premium reserves, net	(114)	(1,077)	–	–	–	(1,191)
Net earned premiums	48,972	5,764	–	–	–	54,736
Reinsurance commission income	234	1,142	–	–	–	1,376
Net investment income	6,517	295	439	79	(69)	7,261
Realized and unrealized gains/(losses)	(755)	(51)	2	31	–	(773)
Other income	276	30	48	328	(31)	651
Total revenue	55,244	7,180	489	438	(100)	63,251
Change in deferred policy acquisition costs	2,071	190	–	–	–	2,261
Claims and policyholders' benefits	(12,033)	(4,440)	–	–	–	(16,473)
Increase in policyholders' reserves	(33,967)	–	–	–	–	(33,967)
Commission expenses	(4,577)	(678)	–	–	–	(5,255)
General and administrative expenses	(3,653)	(1,742)	(171)	(387)	31	(5,922)
Finance costs	(16)	(4)	–	(22)	–	(42)
Provision for insurance guarantee fund	(32)	(74)	–	–	–	(106)
Total expenses	(52,207)	(6,748)	(171)	(409)	31	(59,504)
Operating profit	3,037	432	318	29	(69)	3,747
Income taxes	(333)	(215)	(46)	(7)	–	(601)
Minority interests	–	–	–	(2)	(28)	(30)
Net profit	2,704	217	272	20	(97)	3,116

5. SEGMENT REPORTING (continued)

	Life insurance RMB Million	Property and casualty insurance RMB Million	Corporate RMB Million	Others RMB Million	Elimination RMB Million	Total RMB Million
Balance sheet						
Investment in an associate	–	–	–	3	–	3
Other investments	180,993	7,579	19,619	2,214	(8,964)	201,441
Other assets	42,839	8,066	7,770	4,731	(354)	63,052
Gross assets	223,832	15,645	27,389	6,948	(9,318)	264,496
Policyholders' and other reserves	198,031	11,995	–	–	–	210,026
Other liabilities	19,678	1,989	1,477	2,992	(350)	25,786
Gross liabilities	217,709	13,984	1,477	2,992	(350)	235,812
Depreciation, and amortization of land use rights and goodwill	350	117	1	101	–	569
Impairment losses recognized	35	15	–	23	–	73
Capital expenditure	361	87	8	14	–	470
Total other non-cash expenses charged to consolidated results	(26)	(26)	–	1	–	(51)

5. SEGMENT REPORTING (continued)

The segment analysis as of and for the year ended December 31, 2003 is as follows:

	Life insurance RMB Million	Property and casualty insurance RMB Million	Corporate RMB Million	Others RMB Million	Elimination RMB Million	Total RMB Million
Revenue						
Gross written premiums and policy fees	55,043	8,091	–	–	–	63,134
Less: Premiums ceded to reinsurers	(981)	(2,819)	–	–	–	(3,800)
Increase in unearned premium reserves, net	(256)	(229)	–	–	–	(485)
Net earned premiums	53,806	5,043	–	–	–	58,849
Reinsurance commission income	371	876	–	–	–	1,247
Net investment income	5,356	260	229	103	–	5,948
Realized and unrealized gains	302	43	–	50	–	395
Other income	123	2	–	59	–	184
Total revenue	59,958	6,224	229	212	–	66,623
Change in deferred policy acquisition costs	2,848	37	–	–	–	2,885
Claims and policyholders' benefits	(10,826)	(3,960)	–	–	–	(14,786)
Increase in policyholders' reserves	(40,417)	–	–	–	–	(40,417)
Commission expenses	(5,074)	(602)	–	–	–	(5,676)
General and administrative expenses	(4,007)	(1,310)	(32)	(159)	3	(5,505)
Finance costs	(205)	(15)	–	(4)	–	(224)
Provision for insurance guarantee fund	(28)	(56)	–	–	–	(84)
Total expenses	(57,709)	(5,906)	(32)	(163)	3	(63,807)
Operating profit	2,249	318	197	49	3	2,816
Share of profits of an associate	–	–	–	5	–	5
Income taxes	(299)	(222)	27	–	–	(494)
Minority interests	–	–	–	(5)	(2)	(7)
Net profit	1,950	96	224	49	1	2,320

5. SEGMENT REPORTING (continued)

	Life insurance RMB Million	Property and casualty insurance RMB Million	Corporate RMB Million	Others RMB Million	Elimination RMB Million	Total RMB Million
Balance sheet						
Investment in an associate	–	–	–	3	–	3
Other investments	143,371	5,874	12,798	2,055	(8,181)	155,917
Other assets	39,445	6,765	227	4,719	(1,032)	50,124
Gross assets	182,816	12,639	13,025	6,777	(9,213)	206,044
Policyholders' and other reserves	163,556	9,508	–	–	–	173,064
Other liabilities	15,414	1,591	64	3,654	(1,032)	19,691
Gross liabilities	178,970	11,099	64	3,654	(1,032)	192,755
Depreciation, and amortization of land use rights and goodwill	337	122	–	16	–	475
Impairment losses recognized	3	–	–	32	–	35
Capital expenditure	614	131	1	2	(5)	743
Total other non-cash expenses charged to consolidated results	28	56	–	–	–	84

6. WRITTEN PREMIUMS AND POLICY FEES

	2004 RMB Million	2003 RMB Million
Gross written premiums, policy fees and premium deposits as reported in accordance with PRC GAAP	**65,618**	67,497
Less: Business tax and surcharges	**(739)**	(552)
Gross written premiums, policy fees and premium deposits (net of business tax and surcharges)	**64,879**	66,945
Less: Premium deposits allocated to separate (investment-linked) accounts		
Individual life	**(2,882)**	(2,951)
Group insurance	**(534)**	(860)
Less: Premium deposits allocated to universal life contract deposits		
Individual life	**(1,333)**	–
Bancassurance	**(81)**	–
Gross written premiums and policy fees	**60,049**	63,134
Gross		
Life		
Individual life		
First year premiums and policy fees	**7,628**	9,023
Renewal premiums and policy fees	**28,321**	25,594
	35,949	34,617
Bancassurance		
First year premiums and policy fees	**5,639**	10,443
Renewal premiums and policy fees	**197**	119
	5,836	10,562
Group insurance	**8,114**	9,864
Life business gross written premiums and policy fees	**49,899**	55,043

6. WRITTEN PREMIUMS AND POLICY FEES (continued)

Gross (continued)

	2004 RMB Million	2003 RMB Million
Property and casualty		
Automobile insurance	**6,232**	4,589
Non-automobile insurance	**3,545**	3,351
Accident and health insurance	**373**	151
Property and casualty business gross written premiums	**10,150**	8,091
Gross written premiums and policy fees	**60,049**	63,134

Net of reinsurance premiums ceded

	2004 RMB Million	2003 RMB Million
Life		
Individual life	**35,668**	34,049
Bancassurance	**5,836**	10,562
Group insurance	**7,582**	9,451
	49,086	54,062
Property and casualty		
Automobile insurance	**4,902**	3,617
Non-automobile insurance	**1,654**	1,534
Accident and health insurance	**285**	121
	6,841	5,272
Net written premiums and policy fees	**55,927**	59,334

7. INVESTMENT INCOME

(1) Net investment income

	2004 RMB Million	2003 RMB Million
Interest income on fixed maturity investments		
Bonds	**3,074**	2,142
Term deposits	**3,592**	3,520
Others	**72**	118
Dividend income on equity investments		
Equity investment funds	**382**	69
Equity securities	**11**	–
Operating lease income from investment properties	**130**	99
Total	**7,261**	5,948
Yield of net investment income (% per annum)	**4.1**	4.1

The investment yield is computed geometrically using the monthly investment yields, while the monthly investment yields are, in turn, derived from the Modified Dietz method.

(2) Realized and unrealized gains/(losses)

	2004 RMB Million	2003 RMB Million
Fixed maturity investments	**22**	(8)
Equity investments	**(789)**	398
Derivative financial assets	**(6)**	–
Other investments	**–**	5
Total	**(773)**	395

(3) Total investment income

	2004 RMB Million	2003 RMB Million
Net investment income	**7,261**	5,948
Realized and unrealized gains/(losses)	**(773)**	395
Total	**6,488**	6,343
Yield of total investment income (% per annum)	**3.6**	4.5

The yield of total investment income is computed using the same method for the investment yield of net investment income.

8. OTHER INCOME

	2004	2003
	RMB Million	RMB Million
Securities brokerage commission	**145**	26
Investment-linked business administration fees	**146**	119
Securities underwriting commission	**102**	20
Exchange gains/(losses), net	**3**	–
Interest income on due from banks	**9**	–
Others	**246**	19
Total	**651**	184

9. CLAIMS AND POLICYHOLDERS' BENEFITS

		2004	
	Gross	**Ceded**	**Net**
	RMB Million	**RMB Million**	**RMB Million**
Claims and claim adjustment expenses	**9,292**	**(2,307)**	**6,985**
Surrenders	**3,866**	**–**	**3,866**
Annuities	**2,287**	**–**	**2,287**
Maturities	**2,506**	**–**	**2,506**
Policyholder dividends and provisions	**822**	**–**	**822**
Interest credited to policyholders' contract deposits	**7**	**–**	**7**
Total	**18,780**	**(2,307)**	**16,473**

		2003	
	Gross	Ceded	Net
	RMB Million	RMB Million	RMB Million
Claims and claim adjustment expenses	8,958	(2,284)	6,674
Surrenders	3,010	–	3,010
Annuities	1,635	–	1,635
Maturities	2,479	–	2,479
Policyholder dividends and provisions	988	–	988
Total	17,070	(2,284)	14,786

10. OPERATING PROFIT

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

	2004 RMB Million	2003 RMB Million
Employee costs, excluding directors' emoluments (10(2))	**2,720**	2,471
Depreciation of investment properties	**66**	55
Depreciation of property, plant and equipment	**460**	399
Amortization of land use rights	**19**	21
Amortization of goodwill	**24**	3
Loss on disposal of property, plant and equipment, net	**10**	2
Impairment losses for investment properties, property, plant and equipment, construction-in-progress, and land use rights	**73**	35
Write-back of provision for doubtful debts, net	**(39)**	–
Write-back of provision for loans	**(12)**	–
Auditors' remuneration	**10**	2
Operating lease payments in respect of land and buildings	**521**	524

(2) Employee costs, excluding directors' emoluments

	2004 RMB Million	2003 RMB Million
Wages, salaries and bonuses	**2,225**	2,077
Retirement benefits, social security contributions and welfare benefits	**495**	394
Total	**2,720**	2,471

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 Special Economic Zones	33%
Hong Kong profits tax	– Subsidiaries in Hong Kong Special Administrative Region	17.5%

	2004 RMB Million	2003 RMB Million
Current income tax of the Group	**572**	635
Share of tax attributable to an associate	**–**	–
Total current income tax	**572**	635
Deferred tax relating to the origination and reversal of temporary differences:		
Provision for policyholders' reserves	**(246)**	(349)
Provision for claim reserves	**(81)**	(43)
Provision for unearned premium reserves	**41**	(5)
Deferred policy acquisition costs	**339**	432
Fair value adjustment on held-for-trading investments	**7**	(25)
Others	**(31)**	(5)
Total deferred tax	**29**	5
	601	640
Less: Tax refund	**–**	(146)
Income taxes	**601**	494

11. INCOME TAXES (continued)

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

	2004 RMB Million	2003 RMB Million
Accounting profit before income tax and minority interests	**3,747**	2,821
Tax computed at the main applicable tax rate of 15%	**562**	423
Tax effect of income not taxable in determining taxable income	**(423)**	(215)
Tax effects of expenses not deductible in determining taxable income	**393**	225
Tax effect of higher tax rate for branches and entities (in the PRC) that are located outside the Special Economic Zones	**69**	207
Income taxes	**601**	640

12. DIVIDENDS

	2004 RMB Million	2003 RMB Million
Proposed dividends – RMB0.14 per ordinary share (2003: RMB0.12 per ordinary share)	**867**	592
Paid in the year	**518**	493

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 5,588,324,591 shares in issue during 2004 (2003: 4,933,333,334 shares in issue as adjusted to reflect the capitalization issue on December 19, 2003).

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

14. BONDS

	2004 RMB Million	2003 RMB Million
Held-to-maturity, at amortized cost	**66,618**	32,332
Loans originated, at amortized cost	**27,925**	19,170
Available-for-sale, at fair value	**15,658**	14,564
Held-for-trading, at fair value	**2,664**	2,111
Total	**112,865**	68,177
Government bonds	**70,439**	38,248
Finance bonds	**27,364**	19,155
Corporate bonds	**15,062**	10,774
Total	**112,865**	68,177
Listed	**40,479**	31,972
Unlisted	**72,386**	36,205
Total	**112,865**	68,177

15. TERM DEPOSITS, DUE FROM BANKS, AND CASH AND CASH EQUIVALENTS

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

	2004			
	Term deposits RMB Million	Due from banks RMB Million	Cash and cash equivalents RMB Million	Total RMB Million
Top five banks				
Bank of China Limited	**9,463**	**99**	**4,993**	**14,555**
Industrial and Commercial Bank of China	**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**
The Hongkong and Shanghai Banking Corporation Limited	**157**	**–**	**2,830**	**2,987**
Others	**34,750**	**241**	**2,924**	**37,915**
Total	**80,320**	**439**	**15,254**	**96,013**

	2003		
	Term deposits RMB Million	Cash and cash equivalents RMB Million	Total RMB Million
Top five banks			
Bank of China Limited	10,167	1,468	11,635
China Construction Bank Corporation	9,700	837	10,537
Guangdong Development Bank	8,381	623	9,004
China Minsheng Banking Corp., Ltd.	8,847	–	8,847
Industrial and Commercial Bank of China	4,900	1,607	6,507
Other banks			
Agricultural Bank of China	1,901	776	2,677
Others	34,337	2,706	37,043
Total	78,233	8,017	86,250

16. EQUITY INVESTMENT FUNDS

	Fair value	
	2004	2003
	RMB Million	RMB Million
Available-for-sale	**2,336**	–
Held-for-trading	**3,413**	4,648
Total	**5,749**	4,648
Listed	**1,402**	1,824
Unlisted	**4,347**	2,824
Total	**5,749**	4,648

17. EQUITY SECURITIES

	2004	2003
	RMB Million	RMB Million
Available-for-sale (unlisted), at cost and net of impairment losses	**211**	200
Held-for-trading (listed), at fair value	**55**	40
Total	**266**	240

18. DERIVATIVE FINANCIAL ASSETS

	Fair value	
	2004	2003
	RMB Million	RMB Million
Options embedded in convertible bonds	**62**	–

19. INVESTMENTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries as of December 31, 2004 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	December 17, 2002 The PRC	99.00%	–	3,800,000,000	Life insurance activities
Ping An Property & Casualty	December 24, 2002 The PRC	99.00%	–	1,600,000,000	Property and casualty insurance activities
Ping An Trust	November 19, 1984 The PRC	99.26%	–	2,700,000,000	Investment and financing activities
Ping An Securities	July 18, 1996 The PRC	–	74.44%	1,000,000,000	Security investment and brokerage activities
Ping An Bank	January 8, 1993 The PRC	–	72.46%	US$50,000,000	Banking activities
Ping An Annuity	December 13, 2004 The PRC	95.00%	4.95%	300,000,000	Annuity insurance activities
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 activities
Shenzhen Ping An Futures Brokerage Co., Ltd.	April 10, 1996 The PRC	–	99.26%	30,000,000	Futures brokerage activities
Ping An Industries	November 24, 1992 The PRC	–	99.26%	20,000,000	Investment activities
Ping An Property	January 6, 1995 The PRC	–	99.26%	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)

20. INVESTMENT IN AN ASSOCIATE

Details of the principal associate of the Group are as follows:

Name	Date/place of incorporation	Attributable equity interest	Registered and paid-up capital	Principal activities
		Indirect	RMB	
Zhong An Pawn Shop Co., Ltd.	March 28, 1993 The PRC	29.78%	10,000,000	Pawning activities

21. INVESTMENT PROPERTIES

	2004 **RMB Million**	2003 RMB Million
Cost		
Beginning of year	**1,670**	1,791
Transfer from property, plant and equipment	**384**	–
Transfer to property, plant and equipment	**(85)**	(121)
End of year	**1,969**	1,670
Accumulated depreciation and impairment losses		
Beginning of year	**337**	297
Charge for the year	**66**	55
Transfer to property, plant and equipment	**(13)**	(35)
Impairment losses	**75**	20
End of year	**465**	337
Net book value		
End of year	**1,504**	1,333
Beginning of year	**1,333**	1,494
Fair value	**1,891**	1,643

The Group is still in the process of applying for title certificates for investment properties with a net book value of RMB384 million as of December 31, 2004 (2003: RMB474 million).

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

22. PREMIUM RECEIVABLES

	2004 RMB Million	2003 RMB Million
Premium receivables	**681**	529
Less: Provision for doubtful receivables	**(64)**	(90)
Premium receivables, net	**617**	439

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.

An aging analysis of premium receivables is as follows:

	2004 RMB Million	2003 RMB Million
Within 3 months	**543**	381
Over 3 and within 6 months	**62**	54
Over 6 and within 12 months	**12**	3
Over 12 months	**–**	1
Total	**617**	439

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

23. INTEREST RECEIVABLES

Group

	2004 RMB Million	2003 RMB Million
Interest receivables	**382**	316
Less: Provision for doubtful receivables	**–**	–
Interest receivables, net	**382**	316

23. INTEREST RECEIVABLES (continued)

Company

	2004 RMB Million	2003 RMB Million
Interest receivables	**126**	10
Less: Provision for doubtful receivables	**–**	–
Interest receivables, net	**126**	10

Provision is made on the amounts of receivables that are considered uncollectible. Interest receivables are expected to be recovered within one year.

24. REINSURANCE ASSETS

	2004 RMB Million	2003 RMB Million
Ceded unearned premiums reserves	**2,500**	2,521
Anticipated claims recoverable from reinsurers in respect of outstanding claims	**1,742**	1,338
Due from reinsurance companies in respect of claims paid and other balances	**114**	44
Total	**4,356**	3,903

25. DEFERRED POLICY ACQUISITION COSTS

	RMB Million
As of January 1, 2003	17,476
Deferred	7,483
Amortized	(4,598)
As of December 31, 2003	20,361
Deferred	6,875
Amortized	(4,614)
As of December 31, 2004	22,622

26. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements RMB Million	Buildings RMB Million	Office equipment, furniture and fixtures RMB Million	Motor vehicles RMB Million	Total RMB Million
Cost					
Beginning of year	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	–	(384)	–	–	(384)
Transfer from investment properties	–	85	–	–	85
Disposals	–	(14)	(76)	(55)	(145)
End of year	692	2,336	1,426	448	4,902
Accumulated depreciation and impairment losses					
Beginning of year	399	326	767	330	1,822
Charges for the year	124	100	201	35	460
Acquisition of Ping An Bank	–	–	1	1	2
Disposals	–	(3)	(60)	(50)	(113)
Transfer from investment properties	–	13	–	–	13
Impairment losses	–	22	(39)	–	(17)
End of year	523	458	870	316	2,167
Net book value					
End of year	169	1,878	556	132	2,735
Beginning of year	268	2,204	572	103	3,147

The Group is still in the process of applying for the title certificates for its buildings with a net book value of RMB282 million as of December 31, 2004 (2003: RMB418 million).

26. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Office equipment, furniture and fixtures RMB Million
Cost	
Beginning of year	5
Additions	8
End of year	13
Accumulated depreciation and impairment losses	
Beginning of year	3
Charges for the year	1
End of year	4
Net book value	
End of year	9
Beginning of year	2

27. CONSTRUCTION-IN-PROGRESS

	2004 **RMB Million**	2003 RMB Million
Cost		
Beginning of year	**157**	202
Additions	**122**	155
Transfer to fixed assets	**(49)**	(103)
Disposals	**–**	(97)
End of year	**230**	157
Accumulated impairment losses		
Beginning of year	**11**	59
Provision for the year	**15**	(8)
Disposals	**–**	(40)
End of year	**26**	11
Net book value		
End of year	**204**	146
Beginning of year	**146**	143

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 cost is 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 of December 31, 2004 is expected to be amortized over the lease terms ranging from 50 to 70 years (2003: 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 RMB644 million as of December 31, 2004 (2003: RMB636 million). Out of this amount, RMB552 million (2003: RMB543 million) 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 of December 31, 2004.

29. GOODWILL

	2004 RMB Million	2003 RMB Million
Cost		
Beginning of year	**244**	–
Addition	**105**	244
End of year	**349**	244
Accumulated amortization and impairment losses		
Beginning of year	**3**	–
Amortization for the year	**24**	3
End of year	**27**	3
Net book value		
End of year	**322**	241
Beginning of year	**241**	–

30. DEFERRED INCOME TAX ASSETS/LIABILITIES

	2004 RMB Million	2003 RMB Million
Net deferred income tax assets, beginning of year	**293**	199
Recognized as income or expenses during the year	**(29)**	(5)
Recognized in equity during the year	**88**	99
Net deferred income tax assets, end of year	**352**	293
Deferred income tax assets		
Provision for policyholders' reserves	**3,390**	3,144
Provision for claim reserves	**167**	86
Provision for unearned premium reserves	**42**	72
Fair value adjustment on held-for-trading and available-for-sale investments	**122**	41
Others	**38**	19
Total	**3,759**	3,362
Deferred income tax liabilities		
Deferred policy acquisition costs	**3,393**	3,054
Provision for unearned premium reserves	**11**	–
Others	**3**	15
Total	**3,407**	3,069

31. STATUTORY DEPOSITS

	2004 RMB Million	2003 RMB Million
Ping An Life	**760**	760
Ping An Property & Casualty	**440**	440
Total	**1,200**	1,200

Ping An Life and Ping An Property & Casualty have made statutory deposits of RMB760 million and RMB440 million, respectively, with PRC banks as of December 31, 2004. Such deposits are made 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.

31. STATUTORY DEPOSITS (continued)

	2004	2003
	RMB Million	RMB Million
Maturing:		
Within 1 year	**300**	–
1 – 5 years	**900**	1,200
Total	**1,200**	1,200

32. SHARE CAPITAL

	Number of shares registered, issued and fully paid at nominal value RMB1 each	**Nominal value of share capital**
		RMB Million
As of January 1, 2004	4,933,333,334	4,933
Issued on initial public offering	1,261,720,000	1,262
As of December 31, 2004	6,195,053,334	6,195

On June 24, 2004, 1,261,720,000 ordinary shares of RMB1 each were issued at HKD10.33 (equivalent to approximately RMB10.96) each for a total cash consideration, before issue expenses, of RMB13,826 million through an initial public offering.

On December 19, 2003, the Company's paid-in capital was increased to RMB4,933,333,334 by the creation of 2,466,666,667 additional shares of nominal value RMB1 each. Such additional shares were credited as fully paid by capitalization of the Company's capital reserve in the amount of RMB2,466,666,667.

33. RESERVES

Group

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

Company

		Reserves						
	Notes	Capital reserve RMB Million	Revenue reserve fund RMB Million	Common welfare fund RMB Million	General reserve RMB Million	Net unrealized gains/ (losses) RMB Million	Retained profits RMB Million	Total RMB Million
Balance, January 1, 2003		5,284	2,880	381	395	–	280	9,220
Transfer from capital reserve to share capital		(2,466)	–	–	–	–	–	(2,466)
Net profit for the year ended December 31, 2003		–	–	–	–	–	2,320	2,320
Net losses on available-for-sale investments		–	–	–	–	(768)	–	(768)
Net losses on available-for-sale investments removed from equity and reported in net profit		–	–	–	–	107	–	107
Deferred tax recognized, net	30	–	–	–	–	99	–	99
Appropriation to discretionary reserve		–	1,057	–	–	–	(1,057)	–
2002 dividends declared		–	–	–	–	–	(493)	(493)
Appropriations to statutory reserves		–	211	105	–	–	(316)	–
Balance, December 31, 2003		2,818	4,148	486	395	(562)	734	8,019
Issue of shares through initial public offering	32	12,564	–	–	–	–	–	12,564
Share issue expenses		(547)	–	–	–	–	–	(547)
Net profit for the year ended December 31, 2004		–	–	–	–	–	3,116	3,116
Net losses on available-for-sale investments		–	–	–	–	(659)	–	(659)
Net losses on available-for-sale investments removed from equity and reported in net profit		–	–	–	–	69	–	69
Deferred tax recognized, net	30	–	–	–	–	88	–	88
2003 dividends declared		–	–	–	–	–	(592)	(592)
Appropriations to statutory reserves		–	261	130	–	–	(391)	–
Balance, December 31, 2004		14,835	4,409	616	395	(1,064)	2,867	22,058

33. RESERVES (continued)

According to the PRC Company Law and 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.

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

Capital reserve mainly represents share premium 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, after the Company's initial public offering, 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 profit determined in accordance with IFRS.

As approved by the resolutions passed in the directors' meetings, profit appropriations of the Company for the years ended December 31, 2003 and 2004 are as follows:

	2004 **RMB Million**	2003 RMB Million
Appropriation to statutory revenue reserve	**261**	211
Appropriation to statutory common welfare fund	**130**	105
Cash dividends proposed	**867**	592

The profit appropriation for the year ended December 31, 2003 was approved in the shareholders' meeting and by CIRC during 2004.

33. RESERVES (continued)

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 of each financial year end. Accordingly, the above appropriations to the statutory revenue reserve and statutory common welfare fund were incorporated in the consolidated financial statements for the years ended December 31, 2003 and 2004, respectively. The declaration of cash dividends for the years ended December 31, 2003 and 2004 were/will be made and approved subsequent to December 31, 2003 and 2004, and accordingly were/will be recorded in the consolidated financial statements for the respective subsequent year.

34. CUSTOMERS' DEPOSITS

The customers' deposits as of December 31, 2004 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, during 2004, Ping An Life and Ping An Property & Casualty are required to provide for an insurance guarantee fund at 1% of the net premiums of property and casualty insurance, accident insurance, short-term health insurance, etc. For Ping An Property & Casualty, no additional provision is required when the accumulated balance of the provision reaches 6% of its total assets as determined in accordance with PRC GAAP.

According to a CIRC directive issued on December 30, 2004, in addition to the insurance guarantee fund provided on the above basis, Ping An Life should, starting from 2005, 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, and at 0.05% of the net premiums of other long term life insurance. No additional provision is required when the accumulated balance of Ping An Life's provision reaches 1% of its total assets as determined in accordance with PRC GAAP.

The accumulated balance of the insurance guarantee fund as of December 31, 2004 should be paid to the CIRC by December 31, 2005.

37. POLICYHOLDERS' CONTRACT DEPOSITS

Policyholders' contract deposits represent the accumulation of premiums received from universal life contracts less charges plus interest credited.

38. UNEARNED PREMIUM RESERVES

	2004		
	Property and casualty RMB Million	**Life RMB Million**	**Total RMB Million**
Gross	**7,571**	**1,901**	**9,472**
Ceded	**(2,146)**	**(354)**	**(2,500)**
Net	**5,425**	**1,547**	**6,972**

	2003		
	Property and casualty RMB Million	Life RMB Million	Total RMB Million
Gross	6,353	1,949	8,302
Ceded	(2,005)	(516)	(2,521)
Net	4,348	1,433	5,781

39. CLAIM RESERVES AND CLAIMS RECOVERABLE

	Property and casualty RMB Million	**Life RMB Million**	**Total RMB Million**
As of January 1, 2004			
Gross claim reserves	**3,155**	**1,662**	**4,817**
Less: Reinsurance recoverable	**(1,178)**	**(160)**	**(1,338)**
Net claim reserves	**1,977**	**1,502**	**3,479**
Add: Claims and claim adjustment expenses incurred, net	**4,440**	**2,545**	**6,985**
Less: Claims and claim adjustment expenses paid, net	**(3,552)**	**(2,012)**	**(5,564)**
As of December 31, 2004			
Net claim reserves	**2,865**	**2,035**	**4,900**
Add: Reinsurance recoverable	**1,559**	**183**	**1,742**
Gross claim reserves	**4,424**	**2,218**	**6,642**

39. CLAIM RESERVES AND CLAIMS RECOVERABLE (continued)

	Property and casualty RMB Million	Life RMB Million	Total RMB Million
As of January 1, 2003			
Gross claim reserves	2,263	573	2,836
Less: Reinsurance recoverable	(703)	(73)	(776)
Net claim reserves	1,560	500	2,060
Add: Claims and claim adjustment expenses incurred, net	3,960	2,714	6,674
Less: Claims and claim adjustment expenses paid, net	(3,543)	(1,712)	(5,255)
As of December 31, 2003			
Net claim reserves	1,977	1,502	3,479
Add: Reinsurance recoverable	1,178	160	1,338
Gross claim reserves	3,155	1,662	4,817

40. POLICYHOLDERS' RESERVES

The liabilities for future life policyholder benefits are accrued when premium income is recognized, based on the present value of estimated future policy benefits and payments less the present value of estimated future net premiums to be collected from policyholders. These estimates are based on the following assumptions:

(a) Interest rates are based on management's estimates of future yields on the Group's investments. In determining the interest rate assumptions, the Company considers past investment experience, the current and future asset allocation and expected return for each asset class. As of December 31, 2004, for the purposes of gross premium reserve valuation and liability adequacy test on a portfolio basis, the best estimate interest rate is assumed to be 4.75% (2003: 5%).

(b) 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 Company's actual experience.

(c) The assumption for policy administration expenses is determined based on expected unit costs plus, where applicable, a margin for adverse deviation. Unit costs have been based on an analysis of actual experience.

40. POLICYHOLDERS' RESERVES (continued)

(d) The amount of policyholder dividends to be paid is determined on an annual basis. Policyholder dividends are determined based on the insurance contracts, relevant regulations and the Group's distribution basis, and comprise life policyholders' share of net income and allowable unrealized gains of investments. Investment, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to the relevant regulations.

41. ASSETS MANAGED UNDER TRUST

Ping An Trust and Ping An Securities collect and manage cash investments on behalf of external third parties. The total assets held in trust are as follows:

	2004 **RMB Million**	2003 RMB Million
Ping An Trust	**1,084**	189
Ping An Securities	**–**	112

42. FINANCIAL RISK MANAGEMENT

Product risk

Product risk is the risk of loss due to actual experience emerging differently from the assumed when the product was designed and priced, as a result of investment returns, expenses, claims, and policyholder behavior. The Group controls this risk through closely monitoring its product designing, pricing, and actual claims experience. Product risk is also mitigated through the use of aggregate retention limits and through catastrophe reinsurance.

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 a duration of sufficient length to match the duration of its life insurance liabilities. When the regulatory and market environment permit, however, the Group intends 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 rate.

Market risk

Market risk is the risk of potential loss to future earnings, fair values or future cash flows that may result from changes in the value of a financial instrument as a result of changes in interest rates, market prices and other factors that affect market risk sensitive instruments. Market risk is attributed to all market risk sensitive financial instruments.

42. FINANCIAL RISK MANAGEMENT (continued)

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, 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 issued by PRC companies and reinsurance arrangements with reinsurers. The Group mitigates credit risk by utilizing detailed credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counter party exposure limits within its investment portfolio.

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.

Concentration risk

Concentration risk is the risk of incurring a major loss as a result of having a significant portion of the Group's investments concentrated in a single entity, group of related entities or industry segment. The Group seeks to control concentration risk by limiting the amount of investment in any single entity or group of related entities.

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.

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.

43. FINANCIAL INSTRUMENTS

(1) Maturity profile

Bonds

	2004 Held-to-maturity RMB Million	Loans originated RMB Million	Available-for-sale RMB Million	Held-for-trading RMB Million	Total RMB Million
Within 1 year	**76**	**1,626**	**–**	**984**	**2,686**
1 – 2 years	**132**	**–**	**315**	**120**	**567**
2 – 3 years	**1,388**	**282**	**906**	**43**	**2,619**
3 – 4 years	**3,823**	**562**	**1,080**	**576**	**6,041**
4 – 5 years	**2,367**	**1,473**	**3,882**	**201**	**7,923**
More than 5 years	**56,909**	**21,871**	**6,658**	**367**	**85,805**
Floating rate	**1,923**	**2,111**	**2,817**	**373**	**7,224**
Total	**66,618**	**27,925**	**15,658**	**2,664**	**112,865**
Effective interest rate (% per annum)	**1.95-7.02**	**1.90-6.31**	**1.90-6.27**	**2.53-6.15**	**1.90-7.02**

	2003 Held-to-maturity RMB Million	Loans originated RMB Million	Available-for-sale RMB Million	Held-for-trading RMB Million	Total RMB Million
Within 1 year	285	496	6,447	1,098	8,326
1 – 2 years	1	1,626	–	–	1,627
2 – 3 years	134	–	30	–	164
3 – 4 years	1,240	282	129	–	1,651
4 – 5 years	3,185	777	835	527	5,324
More than 5 years	25,880	14,186	4,714	225	45,005
Floating rate	1,607	1,803	2,409	261	6,080
Total	32,332	19,170	14,564	2,111	68,177
Effective interest rate (% per annum)	1.95-5.13	1.00-5.10	1.90-5.08	2.53-3.72	1.00-5.13

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

43. FINANCIAL INSTRUMENTS (continued)

(1) Maturity profile (continued)

Other loans originated

Group

	2004			
	Term deposits RMB Million	Policy loans RMB Million	Loans and advances to customers RMB Million	Due from banks RMB Million
Within 1 year	**8,549**	**545**	**63**	**352**
1 – 2 years	**16,079**	**–**	**–**	**62**
2 – 3 years	**26,962**	**–**	**39**	**25**
3 – 4 years	**10,550**	**–**	**–**	**–**
4 – 5 years	**857**	**–**	**–**	**–**
More than 5 years	**17,323**	**–**	**28**	**–**
Total	**80,320**	**545**	**130**	**439**
Effective interest rate (% per annum)	**1.45-8.80**	**5.50-7.50**	**2.77-5.85**	**2.05-3.03**

	2003			
	Term deposits RMB Million	Securities purchased under agreements to resell RMB Million	Policy loans RMB Million	Loans and advances to customers RMB Million
Within 1 year	3,689	2,968	297	21
1 – 2 years	5,580	–	–	–
2 – 3 years	17,201	–	–	–
3 – 4 years	29,620	–	–	–
4 – 5 years	10,570	–	–	–
More than 5 years	11,573	–	–	–
Total	78,233	2,968	297	21
Effective interest rate (% per annum)	0.50-7.50	2.46-7.50	5.50-7.50	15.00-30.00

43. FINANCIAL INSTRUMENTS (continued)

(1) Maturity profile (continued)

Other loans originated (continued)

Company

	Term deposits	
	2004	2003
	RMB Million	RMB Million
Within 1 year	**105**	323
2 – 3 years	**250**	–
More than 5 years	**10,271**	4,388
Total	**10,626**	4,711
Effective interest rate (% per annum)	**1.98-8.80**	0.55-5.77

Financial liabilities

	2004		2003	
	Customers' deposits	**Securities sold under agreements to repurchase**	Customers' deposits	Securities sold under agreements to repurchase
	RMB Million	**RMB Million**	RMB Million	RMB Million
Within 1 year	**1,849**	**601**	2,304	200
Effective interest rate (% per annum)	**0.00-3.60**	**1.90-2.40**	0.72-1.62	2.14

43. FINANCIAL INSTRUMENTS (continued)

(2) Fair value

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

	Carrying amounts		Estimated fair values	
	2004 **RMB Million**	2003 RMB Million	**2004** **RMB Million**	2003 RMB Million
Financial assets				
Fixed maturity investments				
Bonds	**112,865**	68,177	**108,715**	67,142
Term deposits	**80,320**	78,233	**80,320**	78,233
Policy loans	**545**	297	**545**	297
Securities purchased under agreements to resell	**–**	2,968	**–**	2,968
Loans and advances to customers	**130**	21	**130**	21
Equity investments				
Equity investment funds	**5,749**	4,648	**5,749**	4,648
Equity securities	**266**	240	**266**	240
Derivative financial assets	**62**	–	**62**	–
Cash and cash equivalents	**15,254**	8,017	**15,254**	8,017
Due from banks	**439**	–	**439**	–
Financial liabilities				
Customers' deposits	**1,849**	2,304	**1,849**	2,304
Securities sold under agreements to repurchase	**601**	200	**601**	200

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

(a) 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.

(b) Equity securities: fair values are based on quoted market prices except, certain common stocks, which are carried at cost as a reasonable estimate of their fair value.

(c) Derivative financial assets: fair value represents the difference between the fair value of the hybrid convertible bond and the fair value of the host bond without embedded options.

(d) Other assets and liabilities as shown above: carrying amounts of these assets and liabilities approximate their fair values.

44. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(1) Reconciliation from profit before tax and minority interests to cash flows from operating activities:

	Notes	2004 RMB Million	2003 RMB Million
Profit before tax and minority interests		**3,747**	2,821
Adjustments for:			
Impairment losses for investment properties, property, plant and equipment, construction-in-progress, and land use rights	10(1)	**73**	35
Depreciation and amortization	10(1)	**569**	475
Loss on disposal of property, plant and equipment	10(1)	**10**	2
Net investment income	7(1)	**(7,261)**	(5,948)
Realized and unrealized losses/(gains)	7(2)	**773**	(395)
Share of profits of an associate		**–**	(5)
Write-back of provision for doubtful debts, net	10(1)	**(39)**	–
Write-back of provision for loans	10(1)	**(12)**	–
Finance costs		**42**	224
Operating loss before working capital changes		**(2,098)**	(2,791)

44. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(1) Reconciliation from profit before tax and minority interests to cash flows from operating activities: (continued)

	2004 RMB Million	2003 RMB Million
Operating loss before working capital changes	**(2,098)**	(2,791)
Changes in operational assets and liabilities:		
Decrease in due from banks	**20**	–
Increase in premium receivables	**(152)**	(47)
Increase in reinsurance assets	**(453)**	(966)
Increase in statutory deposits	**–**	(756)
Increase in deferred policy acquisition costs	**(2,261)**	(2,885)
Decrease/(increase) in other assets	**341**	(250)
Decrease in customers' deposits	**(457)**	(188)
Decrease in premiums received in advance	**(502)**	(475)
Increase/(decrease) in commission payable	**59**	(47)
Increase in claim reserves	**1,825**	1,981
Decrease in due to reinsurers	**(105)**	(13)
Increase in policyholders' contract deposits	**1,411**	–
Increase in unearned premium reserves	**1,170**	888
Increase in policyholders' reserves	**33,967**	40,417
Increase in policyholder dividend payable and provisions	**788**	424
Increase in insurance guarantee fund	**117**	84
Increase in other liabilities	**1,108**	595
Cash generated from operations	**34,778**	35,971
Income taxes refunded	**–**	146
Income taxes paid	**(408)**	(939)
Net cash inflows from operating activities	**34,370**	35,178

44. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(2) As disclosed in Note 4(a), in 2004, Ping An Trust acquired a 50% equity interest in Ping An Bank. Details of the acquisition are summarized as follows:

	RMB Million
Assets acquired:	
Cash on hand	**1**
Due from banks	**459**
Loans and advances, net	**3**
Other assets	**1**
	464
Liabilities assumed:	
Customers' deposits	**2**
Other liabilities	**191**
	193
Net assets	**271**
50% equity interest in net assets acquired	**135**
Add: Goodwill recognized on acquisition of equity interest in Ping An Bank	**16**
Less: Cash consideration partially paid in 2003	**(45)**
Cash consideration paid in 2004	**106**
Analysis of the net inflow of cash and cash equivalents in connection with the acquisition of equity interest in Ping An Bank:	
Cash and cash equivalents acquired	**401**
Cash consideration paid in 2004	**(106)**
Net inflow of cash and cash equivalents in connection with the acquisition of equity interest in Ping An Bank	**295**

44. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(3) As disclosed in Notes 4(e), Ping An Trust acquired 10.88% equity interest in Ping An Securities from certain of its shareholders. Upon completion of such transfer, the equity interest of Ping An Securities held by the Company was further increased to 74.44%. Details of the acquisition are summarized as follows:

	RMB Million
Net assets	**631**
10.88% equity interest in net assets	**69**
Add: Goodwill recognized on additional equity interest in Ping An Securities	**89**
Cash consideration paid	**158**

45. SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) The Group had the following significant transactions with Ping An Securities until it became a subsidiary of the Group on October 22, 2003:

Recurring transactions	2003 RMB Million
Securities commissions paid	6
Interest income for dealing deposits placed	19
Bonds purchased	314
Rental income received	2

In the opinion of the directors, the above transactions are conducted in the normal course of the Group's business.

45. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(2) Details of the directors' and the supervisors' remuneration are as follows:

	2004			
	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Current directors				
MA Mingzhe	–	11,688	16	11,704
SUN Jianyi	–	1,714	19	1,733
LI Heihu	–	–	–	–
GAO Lei	–	–	–	–
HUANG Jianping	–	–	–	–
LIU Haifeng David	–	–	–	–
Henry CORNELL	–	–	–	–
LIN Yu Fen	–	–	–	–
CHEUNG Lee Wah	–	–	–	–
Anthony Philip HOPE	–	–	–	–
YIP Dicky Peter	–	–	–	–
LIN Lijun	–	348	19	367
FAN Gang	–	424	19	443
DOU Wenwei	–	218	18	236
SHI Yuxin	–	–	–	–
HU Aimin	–	–	–	–
BAO Youde	60	–	–	60
KWONG Che Keung Gordon	200	–	–	200
CHEUNG Wing Yui	200	–	–	200
Sub-total	460	14,392	91	14,943
Past director				
PAN Guangqian	–	399	1	400

During 2004, 6.09 million share appreciation right units were granted to the two executive directors of the Company.

45. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(2) Details of the directors' and the supervisors' remuneration are as follows: (continued)

	2004			
	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Current supervisors				
XIAO Shaolian	200	–	–	200
SUN Fuxin	40	–	–	40
CHEN Shangwu	40	–	–	40
DUAN Weihong	–	–	–	–
ZHOU Fulin	–	–	–	–
CHEN Bohai	–	–	–	–
SONG Liankun	–	263	1	264
HE Peiquan	–	296	1	297
HE Shi	–	441	19	460
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 Lui	–	475	20	495
Sub-total	–	2,957	94	3,051
Total	740	18,748	207	19,695

45. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(2) Details of the directors' and the supervisors' remuneration are as follows: (continued)

	2003			
	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Current directors				
MA Mingzhe	–	9,980	14	9,994
SUN Jianyi	–	1,895	16	1,911
LI Heihu	–	–	–	–
GAO Lei	–	–	–	–
HUANG Jianping	–	–	–	–
LIU Haifeng David	–	–	–	–
Henry CORNELL	–	–	–	–
LIN Yu Fen	–	–	–	–
CHEUNG Lee Wah	–	–	–	–
Anthony Philip HOPE	–	–	–	–
YIP Dicky Peter	–	–	–	–
LIN Lijun	–	328	16	344
FAN Gang	–	431	16	447
DOU Wenwei	–	190	15	205
SHI Yuxin	–	–	–	–
HU Aimin	–	–	–	–
BAO Youde	45	–	–	45
KWONG Che Keung Gordon	150	–	–	150
CHEUNG Wing Yui	150	–	–	150
Sub-total	345	12,824	77	13,246
Past director				
PAN Guangqian	–	398	–	398

45. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(2) Details of the directors' and the supervisors' remuneration are as follows: (continued)

	2003			
	Fees RMB'000	Salaries, allowance and other benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Current supervisors				
XIAO Shaolian	150	–	–	150
SUN Fuxin	30	–	–	30
CHEN Shangwu	30	–	–	30
DUAN Weihong	–	–	–	–
ZHOU Fulin	–	–	–	–
CHEN Bohai	–	–	–	–
SONG Liankun	–	289	–	289
HE Peiquan	–	311	–	311
HE Shi	–	426	16	442
Sub-total	210	1,026	16	1,252
Past supervisors				
YANG Xiuli	–	734	16	750
CHEN Kexiang	–	634	16	650
LIU Yigong	–	582	16	598
XIAO Wei	–	369	17	386
LEI Lui	–	239	14	253
Sub-total	–	2,558	79	2,637
Total	555	16,806	172	17,533

45. SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(3) The five individuals whose emoluments were the highest in the Group include one (2003: one) director whose emolument is reflected in the analysis presented above.

Details of emoluments of the remaining four (2003: four) highest paid individuals are as follows:

	2004 **RMB Million**	2003 RMB Million
Salaries, allowances and other benefits	**37**	24

The number of non-director, highest paid individuals whose emoluments fell within the following bands is as follows:

	2004	2003
RMB3,500,001 – RMB4,000,000	**–**	1
RMB4,000,001 – RMB4,500,000	**–**	1
RMB6,000,001 – RMB6,500,000	**1**	–
RMB7,000,001 – RMB7,500,000	**1**	1
RMB8,500,001 – RMB9,000,000	**1**	–
RMB9,000,001 – RMB9,500,000	**–**	1
RMB13,500,001 – RMB14,000,000	**1**	–

During 2004, 3.85 million share appreciation right units were granted to the above highest paid non-director individuals.

The Company has no contributions to pension scheme for the above highest paid non-director individuals.

(4) During the year, no emoluments were paid by the Group to the directors, the supervisors or the other highest paid, non-director employees as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office. No director or supervisor waived or agreed to waive any emoluments during the year.

(5) The compensation expenses for share appreciation rights granted to the directors, supervisors and highest paid individuals are not included in the above analysis.

46. COMMITMENTS

(1) Capital commitments

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

	2004 **RMB Million**	2003 RMB Million
Contracted, but not provided for	**150**	282
Authorized, but not contracted for	**3,312**	2,110

(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:

	2004 **RMB Million**	2003 RMB Million
Within 1 year	**344**	355
1 – 5 years	**434**	310
More than 5 years	**21**	11
	799	676

(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:

	2004 **RMB Million**	2003 RMB Million
Within 1 year	**68**	65
1 – 5 years	**41**	53
More than 5 years	**–**	2
	109	120

47. EMPLOYEE BENEFITS

(1) Pension

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

(2) Housing benefits

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

(3) Medical benefits

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

(4) Share appreciation rights scheme

On February 5, 2004, the Company's board of directors approved a scheme of share appreciation rights for the senior executives and certain key employees of the Group. No shares will be issued under this scheme. The rights will be granted in units with each unit representing one H share of the Company after its initial public offering in Hong Kong. The rights to the units will be issued in the next five years and can be exercised since the fourth anniversary of the grant. 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 the H share at the time of exercise.

During 2004, the Company granted 41.92 million share appreciation right units to eligible employees. The Company recognizes compensation expenses for such share appreciation rights over the applicable vesting period. Such compensation expenses recognized during the year amounted to RMB29 million.

48. 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 on those claims when management can reasonably estimate the outcome of the lawsuits taking into account of 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.

49. POST BALANCE SHEET EVENTS

A Level I American Depositary Receipt program in respect of the Company's H shares was established on March 28, 2005. American Depositary Shares evidenced by American Depositary Receipts are traded under the symbol "PNGAY" in the over-the-counter markets in the United States. Each American Depositary Share represents 20 H shares.

On April 4, 2005, Ping An Trust entered into the Capital Increase Agreement with Ping An Securities, 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 the approval of the relevant PRC authorities.

On April 18, 2005, the Company proposed a final dividend of RMB14 cents per ordinary share, The proposed dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

50. COMPARATIVE FIGURES

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

- reclassification to present investment assets and investment income by category of investments;
- reclassification to present unearned premium reserves on a gross basis;
- reclassification of loss adjustment expenses from general and administrative expenses to claims and policyholders' benefits; and
- reclassification to include policyholder dividends and provisions in claims and policyholders' benefits.

51. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved and authorized for issue by the Company's directors on April 18, 2005.