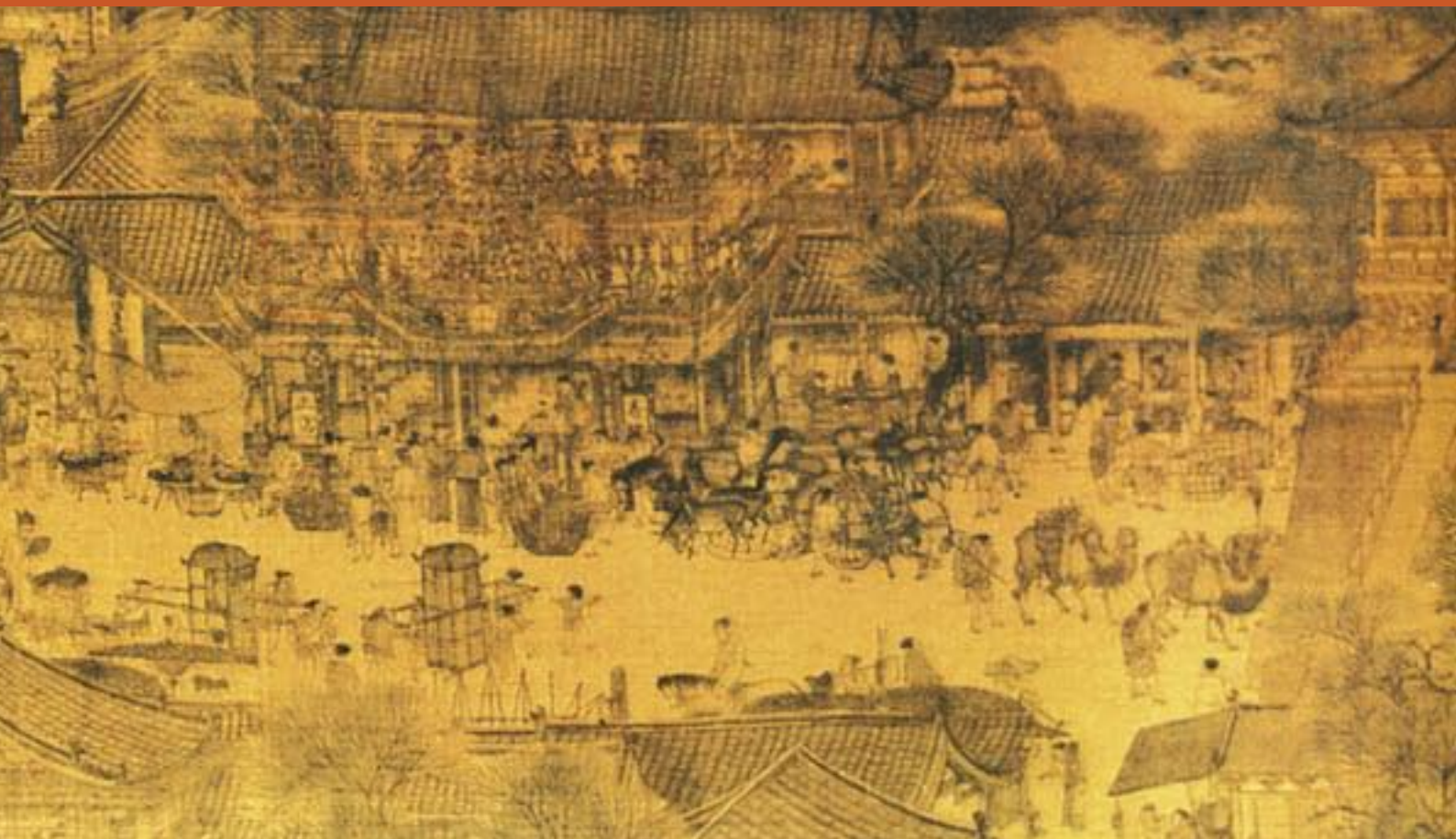


2005 | Interim Report



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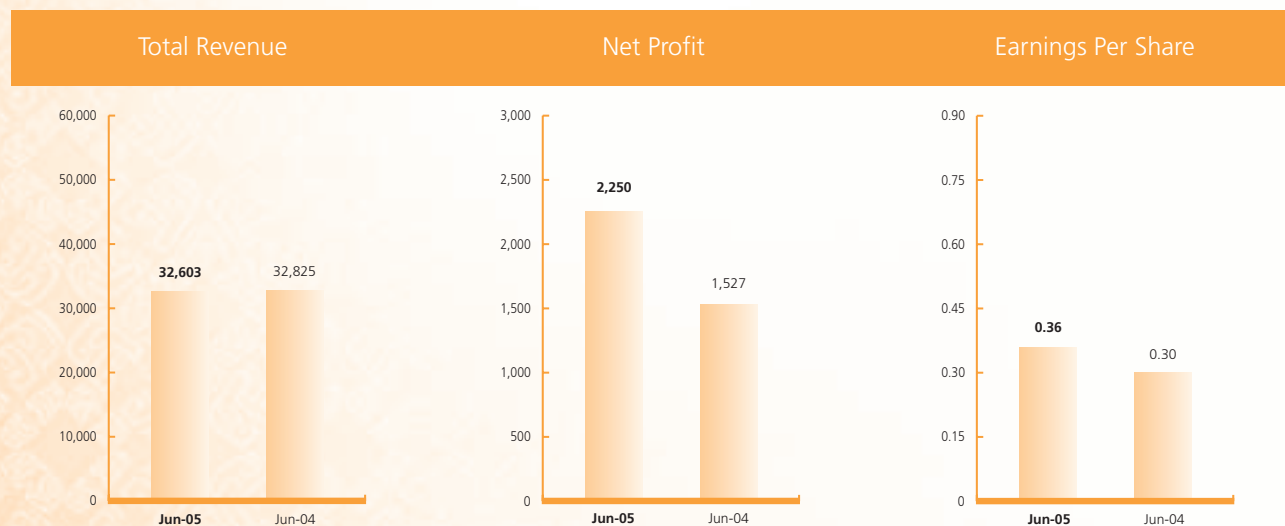
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Cautionary Statements Regarding Forward-Looking Statements

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

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

FINANCIAL HIGHLIGHTS



PROFIT AND LOSS

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

	2005	2004
Total Revenue	32,603	32,825
Net Profit	2,250	1,527

PER ORDINARY SHARE

For six months ended June 30, (in RMB)

	2005	2004
Basic earnings	0.36	0.30



BALANCE SHEET

(in RMB million)	As of June 30, 2005	As of December 31, 2004
Total Assets	292,519	264,439
Total Liabilities	261,933	235,812
Total Equity	30,586	28,627

CHAIRMAN'S STATEMENT

Interim Report 2005

2005 is the first year for the full opening of the PRC insurance market after WTO accession and also a critical year for our development. With the unremitting support from our shareholders and the diligence and dedication of our staff, the Group sustained good development momentum in the first half of 2005 and achieved its main objectives as planned. Net profit for the half year ended June 30, 2005 increased 47.3% to RMB2,250 million over the same period last year. Meanwhile, our business mix and key performance indicators continued to improve, and our productivity and unit cost indicators were also enhanced. Such progress and improvement demonstrate the positive effects of the active transformation strategies implemented in the past three years.

Review for the first half year

Steady growth and quality improvement in our core insurance business

Our core life insurance business delivered strong profitability growth in the first half of 2005 and its net profit increased 35.2% to RMB1,868 million over the same period last year. Total gross written premiums, policy fees and premium deposits increased 2.3% to RMB29,747 million over the same period last year. Premium growth was achieved concurrently with further improvement in our product mix. The proportion of premiums and premium deposits obtained through our individual life, our group life, and our bancassurance distribution channels were 78.8%, 13.8% and 7.4%, respectively, as compared to 69.3%, 20.2% and 10.5%, in the same period last year. In particular, premiums and premium deposits from the more profitable individual life business increased 16.3% to RMB23,441 million over the same period last year, first year premiums and premium deposits increased 57.8% to RMB6,179 million over the same period last year, and renewal premiums and premium deposits continued to grow steadily. This was achieved through significant improvement in the productivity of our agency force, reflecting the positive effect of our agency rationalization program.

Net profit from property and casualty insurance business increased significantly to RMB142 million from RMB45 million in the same period last year. Written premiums from property and casualty insurance reached RMB6,290 million, an increase of 22.5% over the same period last year, among which, written premiums attributable to automobile insurance, non-automobile insurance, and accident and health insurance increased by 23.7%, 18.5% and 45.6%, over the same period last year. Growth in our property and casualty business was accompanied by a further improvement in our combined ratio to 96.1% from 97.2% over the full year of 2004.

Progress in our back-office support centralization project

Construction of our national back-office support centre in Zhangjiang, Shanghai is proceeding smoothly. We have completed an initial pilot testing for the centralization of our underwriting and claims functions in several branches. We will enter the next phase of this project with valuable experience accumulated during the test.

Strengthening our comprehensive financial service platform

Following the establishment of Ping An Annuity Insurance Company of China, Ltd. in the second half of last year, Ping An Health Insurance Company of China, Ltd. and Ping An Asset Management Co., Ltd. were both established in the first half of 2005. In addition, the headquarter of Ping An Bank moved to Shanghai. As a result, the Group has a total of eight subsidiaries providing a wide range of financial services and products to our customers. In order to better meet our customers' demand for more diversified financial services, we initiated an overall organizational transformation where suitable products will be developed, and appropriate channels and resources will be effectively allocated to serve both our individual and corporate customers. This will further enhance our ability to cross-sell different financial services and products.

Prospects for the second half of 2005

Although competition has increased due to market liberalization, we believe that future growth in the insurance industry is assured as corporate governance and professional standards in the industry continue to improve. Our optimistic outlook is based on the rapid growth of the Chinese economy, an increase in purchasing power of both individuals and corporations, and the continued improvement in insurance industry regulation.

Operation results in the first half of 2005 were very encouraging and the Group has accomplished its intermediate objectives. In the second half of 2005, we will pursue new business opportunities, continue our re-organization and strengthen the competitiveness of our core business. We will also seek to open new investment channels, such as infrastructure projects to diversify our investment risks, increase returns on investment, and improve our asset liability management. We have various initiatives to expand our banking business. This will include the application for full-scope Renminbi operating license, development and sales of new products and opening new branches. We intend to use Ping An Bank as a brand builder to demonstrate our capacity for innovation in products, channels and services.

With the support from our shareholders, employees and management, we are confident that we will fulfill our objectives for the next six months and further enhance our shareholder value.

Ma Mingzhe

Chairman and Chief Executive Officer

August 20, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

Group's Consolidated Performance

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

For six months ended June 30, (in RMB million)	2005	2004
Gross written premiums, policy fees and premium deposits	36,037	34,200
Less: Premium deposits	(5,488)	(1,919)
Gross written premiums and policy fees	30,549	32,281
Total revenue	32,603	32,825
Operating profit	2,673	1,842
Net profit	2,250	1,527

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

For six months ended June 30, (in RMB million)	2005	2004
Life insurance	1,868	1,382
Property and casualty insurance	142	45
Other businesses	240	100
Net profit	2,250	1,527

Consolidated net profit increased 47.3% to RMB2,250 million in the six months ended June 30, 2005 from RMB1,527 million in the same period in 2004. This increase was primarily due to the better performance in our core life insurance and property and casualty insurance businesses, which accounted for approximately 83.0% and 6.3%, respectively, of our net profit.

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

Consolidated Investment Income

For six months ended June 30, (in RMB million, except percentages)	2005	2004
Net investment income	4,481	3,432
Realized and unrealized gains/(losses)	19	(769)
Total investment income	4,500	2,663
Net investment yield	4.1%	4.1%
Total investment yield	4.1%	3.6%

Our net investment income increased 30.6% to RMB4,481 million in the six months ended June 30, 2005 from RMB3,432 million in the same period in 2004. This increase was primarily due to the increase in our investment assets to RMB219,666 million as of June 30, 2005 from RMB174,145 million as of June 30, 2004. Net investment yield maintained unchanged at 4.1% in the six months ended June 30, 2005.

Our total investment income increased 69.0% to RMB4,500 million in the six months ended June 30, 2005 from RMB2,663 million in the same period in 2004. Total investment yield increased to 4.1% in the six months ended June 30, 2005 from 3.6% in the same period in 2004. This increase was primarily due to the decrease in bond yield rates, which resulted in a higher valuation of our bond investments that were "carried at fair value through profit or loss". In addition, our equity investments in the PRC equity markets suffered a smaller loss in the six months ended June 30, 2005 as compared to the loss in the same period in 2004. As a result, the realized and unrealized gains in the six months ended June 30, 2005 were RMB19 million as compared to realized and unrealized losses of RMB769 million in the same period in 2004.

We continued to improve the asset allocation of our portfolio in response to the changes in the capital markets. As a result, our bond investment as a percentage of our total investment assets increased to 62.3% as of June 30, 2005 from 56.0% as of December 31, 2004. In addition, we were able to achieve an average yield of 4.5% from our new money investment in bonds during the first half of 2005. The following table presents our investment portfolio allocations among the major categories of our investments:

(in RMB million, except percentages)	As of June 30, 2005		As of December 31, 2004	
	Carrying Value	% of Total	Carrying Value	% of Total
Fixed maturity investments				
Term deposits	72,185	32.9%	80,320	39.9%
Bond investments ⁽¹⁾	136,889	62.3%	112,860	56.0%
Other fixed maturity investments	946	0.4%	675	0.3%
Equity investments ⁽²⁾	8,303	3.8%	6,018	3.0%
Investment properties	1,343	0.6%	1,504	0.8%
Total investments	219,666	100.0%	201,377	100.0%

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

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

Life Insurance Business

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

	As of June 30, 2005	As of December 31, 2004
Market share of gross written premiums, policy fees and premium deposits ⁽¹⁾	14.8%	17.2%
Persistency ratio:		
13-month	85.5%	87.5%
25-month	82.5%	80.3%
Number of customers:		
Individual (in thousands)	29,537	28,362
Corporate (in thousands)	221	177

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

Market share as of June 30, 2005 was computed based on gross written premiums, policy fees and premium deposits accumulated over a period of six months.

Market share as of December 31, 2004 was computed based on gross written premiums, policy fees and premium deposits accumulated over a period of one year.

We are the second largest life insurance company in the PRC in terms of gross written premiums, policy fees and premium deposits. For six months ended June 30, 2005, our life insurance business accounted for approximately 14.8% of the gross written premiums, policy fees and premium deposits received by the PRC life insurance companies, based on our PRC GAAP financial data and the PRC insurance industry data calculated in accordance with the PRC GAAP.

We continued to focus on maintaining excellent customer services. As a result, our 13-month and 25-month persistency ratios were maintained at a very respectable rate of more than 85% and 80%, respectively. In addition, the number of our individual life sales agents are maintained at approximately 200,000 while the average productivity per agent continue to increase.

Results of Operations

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

For six months ended June 30, (in RMB million)	2005	2004
Gross written premiums, policy fees and premium deposits	29,747	29,064
Gross written premiums and policy fees	24,259	27,145
Net earned premiums	23,516	26,628
Investment income	3,966	2,433
Other income	295	181
Total revenue	27,777	29,242
Change in deferred policy acquisition costs	1,565	543
Increase in policyholders' reserves	(14,739)	(18,866)
Claims and policyholders' benefits	(8,011)	(5,337)
Commission expenses	(2,465)	(2,253)
Changes in fair value of derivative financial liabilities	(137)	(80)
General, administrative and other expenses	(1,911)	(1,706)
Total expenses	(25,698)	(27,699)
Income taxes	(211)	(161)
Net profit	1,868	1,382

Gross Written Premiums, Policy Fees and Premium Deposits

Individual Life Business. Gross written premiums, policy fees and premium deposits for our individual life business increased 16.3% to RMB23,441 million in the six months ended June 30, 2005 from RMB20,148 million in the same period in 2004. This increase was primarily due to the 57.8% increase in first year premiums, policy fees and premium deposits to RMB6,179 million in the six months ended June 30, 2005 from RMB3,916 million in the same period in 2004. In addition, renewal premiums, policy fees and premium deposits for our individual life business increased 6.3% to RMB17,262 million in the six months ended June 30, 2005 from RMB16,232 million in the same period in 2004. These increases were primarily due to the continued improvement in the quality and productivity of our agency force. In addition, our recently launched universal life products provided growth momentum in the first half of 2005.

Bancassurance Business. Gross written premiums, policy fees and premium deposits for our bancassurance business decreased 28.2% to RMB2,192 million in the six months ended June 30, 2005 from RMB3,055 million in the same period in 2004. This decrease was primarily due to our continued efforts to manage the growth of this business line to preserve profit margin.

Group Insurance Business. Gross written premiums, policy fees and premium deposits for our group insurance business decreased 29.8% to RMB4,114 million in the six months ended June 30, 2005 from RMB5,861 million in the same period in 2004. This decrease was primarily due to our continued efforts to manage the growth of this business line to improve profit margin. As a result of our product mix improvement, gross written premiums and policy fees for our short-term group insurance business increased 44.9% to RMB1,090 million in the six months ended June 30, 2005 from RMB752 million in the same period in 2004.

For six months ended June 30, (in RMB million)	2005	2004
Individual life		
First year premiums and policy fees	4,085	3,916
First year premium deposits	2,094	–
Total first year premiums, policy fees and premium deposits	6,179	3,916
Renewal premiums and policy fees	15,536	14,679
Renewal premium deposits	1,726	1,553
Total renewal premiums, policy fees and premium deposits	17,262	16,232
Total individual life	23,441	20,148
Bancassurance		
Gross written premiums and policy fees	721	3,055
Premium deposits	1,471	–
Total bancassurance	2,192	3,055
Group insurance		
Gross written premiums and policy fees	3,917	5,495
Premium deposits	197	366
Total group insurance	4,114	5,861
Total life insurance		
Gross written premiums and policy fees	24,259	27,145
Premium deposits	5,488	1,919
Total gross written premiums, policy fees and premium deposits	29,747	29,064

Investment Income

Net investment income for our life insurance business increased 25.3% to RMB3,971 million in the six months ended June 30, 2005 from RMB3,168 million in the same period in 2004. This increase was primarily due to the increase in investment assets to RMB197,304 million as of June 30, 2005 from RMB160,918 million as of June 30, 2004. Net investment yield for our life insurance business increased to 4.2% in the six months ended June 30, 2005 from 4.1% in the same period in 2004.

Total investment income for our life insurance business increased 63.0% to RMB3,966 million in the six months ended June 30, 2005 from RMB2,433 million in the same period in 2004. Total investment yield for our life insurance business increased to 4.2% in the six months ended June 30, 2005 from 3.5% in the same period in 2004.

For six months ended June 30, (in RMB million, except percentages)	2005	2004
Net investment income	3,971	3,168
Net investment yield	4.2%	4.1%
Total investment income	3,966	2,433
Total investment yield	4.2%	3.5%

Change in Deferred Policy Acquisition Costs

The change in deferred policy acquisition costs was RMB1,565 million in the six months ended June 30, 2005 as compared to RMB543 million in the same period in 2004. The bigger change in deferred policy acquisition costs was primarily due to the significant increase in first year premiums, policy fees and premium deposits from individual life business.

Increase in Policyholders' Reserves

The increase in policyholders' reserves was RMB14,739 million in the six months ended June 30, 2005 as compared to RMB18,866 million in the same period in 2004. The smaller increase in policyholders' reserves was primarily due to (1) the decrease in gross written premiums attributable to our bancassurance and group insurance businesses, (2) the increase in payment for claims and policyholders' benefits, and (3) the increase in sales of universal life products. A portion of the policyholders' liabilities for universal life products was recorded as policyholders' contract deposits instead of policyholders' reserves.

Claims and Policyholders' Benefits

Claims and policyholders' benefits increased 50.1% to RMB8,011 million in the six months ended June 30, 2005 from RMB5,337 million in the same period in 2004. Claims and policyholders' benefits as a percentage of gross written premiums, policy fees and premium deposits increased to 26.9% in the six months ended June 30, 2005 from 18.4% in the same period in 2004. These increases were primarily due to the increase in payments for maturities and survival benefits, and surrenders of insurance policies. Payments for maturities and survival benefits increased significantly to RMB2,175 million in the six months ended June 30, 2005 from RMB1,081 million in the same period in 2004. Payments for surrenders of insurance policies increased 40.9% to RMB2,629 million in the six months ended June 30, 2005 from RMB1,866 million in the same period in 2004.

Commission Expenses

Commission expenses, which we paid primarily to our sales agents, increased 9.4% to RMB2,465 million in the six months ended June 30, 2005 from RMB2,253 million in the same period in 2004. This increase was primarily due to the increase in first year premiums, policy fees and premium deposits from individual life products. Commission expenses as a percentage of gross written premiums, policy fees, and premium deposits increased to 8.3% in the six months ended June 30, 2005 from 7.8% in the same period in 2004.

General, Administrative and Other Expenses

General, administrative and other expenses increased 12.0% to RMB1,911 million in the six months ended June 30, 2005 from RMB1,706 million in the same period in 2004. General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits increased to 6.4% in the six months ended June 30, 2005 from 5.9% in the same period in 2004. These increases were primarily due to the increase in sales of first year premiums, policy fees and premium deposits.

Income Taxes

Income taxes increased 31.1% to RMB211 million in the six months ended June 30, 2005 from RMB161 million in the same period in 2004. This increase was primarily due to the increase in our operating profit. The effective tax rate decreased to 10.1% in the six months ended June 30, 2005 from 10.4% in the same period in 2004. This decrease was primarily due to the increase in interest income from government bonds, which was entitled to certain tax exemptions.

Net Profit

As a result of the foregoing, net profit for our life insurance business increased 35.2% to RMB1,868 million in the six months ended June 30, 2005 from RMB1,382 million in the same period in 2004.

Property and Casualty Insurance Business

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

	As of June 30, 2005	As of December 31, 2004
Market share of gross written premiums ⁽¹⁾	9.4%	9.5%
Number of customers:		
Individual (in thousands)	5,912	5,519
Corporate (in thousands)	774	613

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

Market share as of June 30, 2005 was computed based on gross written premiums accumulated over a period of six months.

Market share as of December 31, 2004 was computed based on gross written premiums accumulated over a period of one year.

We are the third largest property and casualty insurance company in the PRC in terms of gross written premiums. For six months ended June 30, 2005, our property and casualty insurance business accounted for approximately 9.4% of the gross written premiums received by the PRC property and casualty insurance companies, based on our PRC GAAP financial data and the PRC insurance industry data calculated in accordance with the PRC GAAP.

Combined Ratio

	For six months ended June 30, 2005	For year ended December 31, 2004
Expense ratio	20.0%	20.2%
Loss ratio	76.1%	77.0%
Combined ratio	96.1%	97.2%

We continued to grow our property and casualty business with a focus on proper management of our underwriting risks and operation cost controls. This strategy has enabled us to improve both our expense ratio and our loss ratio. As a result, our combined ratio improved to 96.1% in the six months ended June 30, 2005 from 97.2% in the full year of 2004.

Results of Operations

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

For six months ended June 30, (in RMB million)	2005	2004
Gross written premiums	6,290	5,136
Net earned premiums	3,430	2,595
Investment income	174	96
Other income	695	562
Total revenue	4,299	3,253
Change in deferred policy acquisition costs	169	138
Claims expenses	(2,612)	(1,884)
Commission expenses	(439)	(331)
General, administrative and other expenses	(1,099)	(993)
Total expenses	(3,981)	(3,070)
Income taxes	(176)	(138)
Net profit	142	45

Gross Written Premiums

Gross written premiums increased 22.5% to RMB6,290 million in the six months ended June 30, 2005 from RMB5,136 million in the same period in 2004. This increase in gross written premiums was primarily due to the significant growth in all three principal lines of our property and casualty insurance businesses.

For six months ended June 30, (in RMB million)	2005	2004
Automobile insurance	3,720	3,007
Non-automobile insurance	2,321	1,958
Accident and health insurance	249	171
Total gross written premiums	6,290	5,136

Automobile Insurance Business. Gross written premiums attributable to our automobile insurance business increased 23.7% to RMB3,720 million in the six months ended June 30, 2005 from RMB3,007 million in the same period in 2004. This increase was primarily due to the continued increase in demand for automobiles in the PRC and the stabilization of automobile insurance premium rates resulting from a decrease in price competition.

Non-automobile Insurance Business. Gross written premiums attributable to our non-automobile insurance business increased 18.5% to RMB2,321 million in the six months ended June 30, 2005 from RMB1,958 million in the same period in 2004. This increase was primarily due to the increase in sales of commercial property insurance and cargo insurance. Gross written premiums attributable to our commercial property insurance increased 24.4% to RMB1,009 million in the six months ended June 30, 2005 from RMB811 million in the same period in 2004. Gross written premiums attributable to our cargo insurance increased 31.0% to RMB279 million in the six months ended June 30, 2005 from RMB213 million in the same period in 2004.

Accident and Health Insurance Business. Gross written premiums attributable to our accident and health insurance business increased 45.6% to RMB249 million in the six months ended June 30, 2005 from RMB171 million in the same period in 2004. This increase was primarily due to our continued focus on growing this line of business in 2005.

Investment Income

Net investment income for our property and casualty business increased 34.8% to RMB182 million in the six months ended June 30, 2005 from RMB135 million in the same period in 2004. This increase was primarily due to the increase in investment assets to RMB8,970 million as of June 30, 2005 from RMB6,413 million as of June 30, 2004. Net investment yield for our property and casualty business decreased to 4.2% in the six months ended June 30, 2005 from 4.5% in the same period in 2004.

Total investment income for our property and casualty insurance business increased 81.3% to RMB174 million in the six months ended June 30, 2005 from RMB96 million in the same period in 2004. Our total investment yield for our property and casualty insurance business increased to 4.1% in the six months ended June 30, 2005 from 3.9% in the same period in 2004.

For six months ended June 30, (in RMB million, except percentages)	2005	2004
Net investment income	182	135
Net investment yield	4.2%	4.5%
Total investment income	174	96
Total investment yield	4.1%	3.9%

Change in Deferred Policy Acquisition Costs

The change in deferred policy acquisition costs was RMB169 million in the six months ended June 30, 2005 as compared to RMB138 million in the same period in 2004. The bigger change in deferred policy acquisition costs was primarily due to the significant increase in gross written premiums for our property and casualty business.

Claims

For six months ended June 30, (in RMB million)	2005	2004
Automobile insurance	1,943	1,377
Non-automobile insurance	556	443
Accident and health insurance	113	64
Total claims	2,612	1,884

Total claims increased 38.6% to RMB2,612 million in the six months ended June 30, 2005 from RMB1,884 million in the same period in 2004.

Claims attributable to our automobile insurance business, our non-automobile insurance business, and our accident and health insurance business increased 41.1%, 25.5% and 76.6%, respectively, over the same period last year. These increases were primarily due to the increase in premium growth, and the additional claim reserves being provided for compulsory third party motor insurance coverage, motor loan guarantees and flood damage.

Commission Expenses

Commission expenses increased 32.6% to RMB439 million in the six months ended June 30, 2005 from RMB331 million in the same period in 2004. As a percentage of gross written premiums, commission expenses increased to 7.0% in the six months ended June 30, 2005 from 6.4% in the same period in 2004. These increases were primarily due to higher market commission rates resulting from increased competition in the property and casualty insurance industry.

General, Administrative and Other Expenses

General, administrative and other expenses increased 10.7% to RMB1,099 million in the six months ended June 30, 2005 from RMB993 million in the same period in 2004. As a percentage of gross written premiums, general, administrative and other expenses decreased to 17.5% in the six months ended June 30, 2005 from 19.3% in the same period in 2004. The decrease was primarily due to the operating cost control and the improved economies of scale.

Income Taxes

Income taxes increased 27.5% to RMB176 million in the six months ended June 30, 2005 from RMB138 million in the same period in 2004. The effective tax rate decreased to 55.3% in the six months ended June 30, 2005 from 75.4% in the same period in 2004. This decrease was primarily due to the increase in interest income from government bonds, which was entitled to certain tax exemptions.

Net Profit

As a result of the foregoing, net profit from our property and casualty insurance business increased significantly to RMB142 million in the six months ended June 30, 2005 from RMB45 million in the same period in 2004.

Liquidity and Financial Resources

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

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

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

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

(in RMB million)	As of June 30, 2005	As of December 31, 2004
Cash and cash equivalents	19,358	15,254
Held-for-trading investments	2,967	5,796
Total liquid assets	22,325	21,050

Short-term borrowings are represented by securities sold under agreements to repurchase. These were used as part of the liquidity management for our daily operations. The Group had no other significant loan arrangements besides these short-term borrowings.

(in RMB million)	As of June 30, 2005	As of December 31, 2004
Short-term borrowings	5,170	601

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

Capital Structure

Shareholders' equity increased to RMB30,114 million as of June 30, 2005 from RMB28,197 million as of December 31, 2004.

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

The Group had no material charges on its group assets.

Gearing Ratio

	As of June 30, 2005	As of December 31, 2004
Gearing ratio	89.7%	89.3%

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

Exposure to Fluctuations in Exchange Rates

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

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

(in RMB million)	As of June 30, 2005	As of December 31, 2004
Net exposure to fluctuations in exchange rates	792	918

INDEPENDENT AUDITORS' REVIEW REPORT

To the board of directors

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

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (collectively the "Group") for six months ended June 30, 2005 set out on pages 18 to 39.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited requires the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for six months ended June 30, 2005.

Ernst & Young

Certified Public Accountants

Hong Kong

August 20, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For six months ended June 30, 2005

For six months ended June 30, (in RMB million)	<i>Notes</i>	(Unaudited) 2005	(Unaudited) 2004 (Restated)
Gross written premiums and policy fees	5	30,549	32,281
Less: Premiums ceded to reinsurers		(2,311)	(2,171)
Net written premiums and policy fees		28,238	30,110
Increase in unearned premium reserves, net		(1,292)	(887)
Net earned premiums		26,946	29,223
Reinsurance commission income		772	670
Net investment income	6	4,481	3,432
Realized and unrealized gains/(losses)	6	19	(769)
Other income		385	269
Total revenue		32,603	32,825
Change in deferred policy acquisition costs		1,734	681
Claims and policyholders' benefits	7	(10,623)	(7,221)
Increase in policyholders' reserves		(14,739)	(18,866)
Changes in fair value of derivative financial liabilities		(137)	(80)
Commission expenses		(2,904)	(2,584)
General and administrative expenses		(3,155)	(2,861)
Provision for insurance guarantee fund		(106)	(52)
Total expenses		(29,930)	(30,983)
Operating profit	8	2,673	1,842
Income taxes	9	(423)	(315)
Net profit		2,250	1,527
Attributable to:			
– Shareholders		2,235	1,504
– Minority interests		15	23
		2,250	1,527
Proposed dividends	10	–	–
		RMB	RMB
Earnings per share for net profit attributable to shareholders – basic	11	0.36	0.30

The accompanying notes form an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2005

(in RMB million)	Notes	(Unaudited) June 30, 2005	(Audited) December 31, 2004 (Restated)
ASSETS			
Investments			
Fixed maturity investments			
Bonds	12, 18	136,837	112,798
Term deposits	18	72,185	80,320
Policy loans	18	690	545
Loans and advances to customers	18	256	130
Equity investments			
Equity investment funds	13	6,600	5,749
Equity securities	14	1,700	266
Derivative financial assets		52	62
Investment in an associate		3	3
Investment properties		1,343	1,504
Total investments		219,666	201,377
Cash and cash equivalents		19,358	15,254
Due from banks	18	464	439
Premium receivables		963	617
Interest receivables		1,475	382
Policyholder account assets in respect of insurance contracts		11,620	9,758
Policyholder account assets in respect of investment contracts		3,293	3,145
Reinsurance assets		4,614	4,356
Deferred policy acquisition costs	15	24,356	22,622
Property, plant and equipment		2,718	2,735
Construction-in-progress		348	204
Land use rights		946	928
Goodwill		326	322
Deferred income tax asset		216	362
Statutory deposits		1,260	1,200
Other assets		896	738
Total assets		292,519	264,439

The accompanying notes form an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

As of June 30, 2005

(in RMB million)	<i>Notes</i>	(Unaudited) June 30, 2005	(Audited) December 31, 2004 (Restated)
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	16	6,195	6,195
Reserves		20,066	19,517
Retained profits		3,853	2,485
		30,114	28,197
Minority interests		472	430
Total equity		30,586	28,627
Liabilities			
Customers' deposits	18	1,612	1,849
Securities sold under agreements to repurchase	18	5,170	601
Premiums received in advance		814	1,627
Commission payable		638	556
Due to reinsurers		838	209
Dividends payable to shareholders		171	74
Income tax payable		529	490
Insurance guarantee fund		473	827
Policyholder dividend payable and provisions		2,506	1,977
Policyholders' contract deposits		4,927	1,411
Policyholder account liabilities in respect of insurance contracts		11,620	9,758
Policyholder account liabilities in respect of investment contracts		3,293	3,145
Unearned premium reserves		10,930	9,472
Claim reserves		7,602	6,642
Policyholders' reserves		208,509	193,770
Derivative financial liabilities		264	127
Investment contract reserves		15	15
Other liabilities		2,022	3,262
Total liabilities		261,933	235,812
Total equity and liabilities		292,519	264,439

The accompanying notes form an integral part of the condensed consolidated financial statements.

MA Mingzhe
Director

CHEUNG Chi Yan Louis
Chief Financial Officer

SUN Jianyi
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For six months ended June 30, 2005 (in RMB million)

(Restated)

	Notes	Shareholders' equity								Total
		Reserves						Retained profits	Minority interests	
		Share capital	Capital reserve	Revenue reserve fund	Common welfare fund	General reserve	Net unrealized gains/ (losses)			
(Unaudited)										
As of January 1, 2004										
As previously reported		4,933	2,818	4,148	486	395	(180)	352	337	13,289
Effect of implementation of new/revised accounting standards	3	-	-	-	-	-	(61)	-	(1)	(62)
As restated		4,933	2,818	4,148	486	395	(241)	352	336	13,227
Net profit for six months ended June 30, 2004		-	-	-	-	-	-	1,504	23	1,527
Net losses on available-for-sale investments		-	-	-	-	-	(826)	-	(8)	(834)
Net losses on available-for-sale investments removed from equity and reported in net profit		-	-	-	-	-	8	-	-	8
Deferred tax recognized, net		-	-	-	-	-	123	-	1	124
Issue of shares through initial public offering		1,262	12,564	-	-	-	-	-	-	13,826
Share issue expenses		-	(581)	-	-	-	-	-	-	(581)
Acquisition of a subsidiary		-	-	-	-	-	-	-	136	136
Dividends declared	10	-	-	-	-	-	-	(592)	-	(592)
As of June 30, 2004		6,195	14,801	4,148	486	395	(936)	1,264	488	26,841

The accompanying notes form an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For six months ended June 30, 2005 (in RMB million)

	Notes	Shareholders' equity								Total
		Reserves						Retained profits	Minority interests	
		Share capital	Capital reserve	Revenue reserve fund	Common welfare fund	General reserve	Net unrealized gains/ (losses)			
(Unaudited)										
As of January 1, 2005										
As previously reported		6,195	14,835	4,409	616	395	(682)	2,485	431	28,684
Effect of implementation of new/revised accounting standards	3	-	-	-	-	-	(56)	-	(1)	(57)
As restated		6,195	14,835	4,409	616	395	(738)	2,485	430	28,627
Net profit for six months ended June 30, 2005		-	-	-	-	-	-	2,235	15	2,250
Net gains on available-for-sale investments		-	-	-	-	-	755	-	7	762
Net gains on available-for-sale investments removed from equity and reported in net profit		-	-	-	-	-	(109)	-	(1)	(110)
Increase in capital of a subsidiary		-	-	-	-	-	-	-	22	22
Deferred tax recognized, net		-	-	-	-	-	(97)	-	(1)	(98)
Dividends declared	10	-	-	-	-	-	-	(867)	-	(867)
As of June 30, 2005		6,195	14,835	4,409	616	395	(189)	3,853	472	30,586

The accompanying notes form an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For six months ended June 30, (in RMB Million)	(Unaudited) 2005	(Unaudited) 2004
Cash inflows from operating activities	15,112	20,119
Cash outflows from investing activities	(10,238)	(17,779)
Cash inflows/(outflows) from financing activities	(770)	12,583
Net increase in cash and cash equivalents	4,104	14,923
Cash and cash equivalents at beginning of period	15,254	8,017
Cash and cash equivalents at end of period	19,358	22,940

The accompanying notes form an integral part of the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2005

1. Organization and principal activities

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 provision of financial services.

2. Basis of preparation and significant accounting policies

These unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and the disclosure requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual audited financial statements for year ended December 31, 2004, except as disclosed in note 3 below about the changes in significant accounting policies following the adoption of certain new or revised International Financial Reporting Standards ("IFRSs"). These condensed consolidated financial statements should be read in conjunction with the audited financial statements for year ended December 31, 2004.

3. Changes in significant accounting policies

The Group has changed certain significant accounting policies following the adoption of the following new or revised IFRSs:

(1) *IFRS 4, Insurance Contracts*

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

3. Changes in significant accounting policies (Continued)

(1) IFRS 4, Insurance Contracts (Continued)

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

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

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004
(Debit)/Credit		
Gross written premiums and policy fees	–	(16)
Claims and policyholders' benefits	1	–
Increase in policyholders' reserves	(1)	16
Net impact on net profit	–	–

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

(in RMB million)	(Unaudited) June 30, 2005	(Audited) December 31, 2004
Debit/(Credit)		
Policyholder account assets in respect of insurance contracts	11,620	9,758
Policyholder account assets in respect of investment contracts	3,293	3,145
Separate account (investment-linked) assets	(14,913)	(12,903)
Policyholders' reserves	15	15
Investment contract reserves	(15)	(15)
Policyholder account liabilities in respect of insurance contracts	(11,620)	(9,758)
Policyholder account liabilities in respect of investment contracts	(3,293)	(3,145)
Separate account (investment-linked) liabilities	14,913	12,903

3. Changes in significant accounting policies (Continued)

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

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

(in RMB million)	(Unaudited) June 30, 2005	(Audited) December 31, 2004
Debit/(Credit)		
Fixed maturity investments – bonds	(198)	(67)
Deferred income tax assets	30	10
Reserves – net unrealized losses	166	56
Minority interests	2	1

(3) IFRS 2, Share-based Payment

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

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004
Charge for the period	14	–

(4) Other recently adopted IFRSs

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

The Group believes that the adoption of other new or revised IFRSs has had no significant impact on the Group's consolidated financial statements.

4. Segment reporting

Segment information is presented in respect of the Group's business segment. The Group's revenue and net profit were mainly derived from the PRC. Accordingly, no segment analysis by geographical area is presented.

The segment analysis for six months ended June 30, 2005 (the "Period") is as follows:

(in RMB million)	Life insurance (Unaudited)	Property and casualty insurance (Unaudited)	Corporate (Unaudited)	Others (Unaudited)	Elimination (Unaudited)	Total (Unaudited)
Gross written premiums and policy fees	24,259	6,290	-	-	-	30,549
Less: Premiums ceded to reinsurers	(420)	(1,891)	-	-	-	(2,311)
Increase in unearned premium reserves, net	(323)	(969)	-	-	-	(1,292)
Net earned premiums	23,516	3,430	-	-	-	26,946
Reinsurance commission income	88	684	-	-	-	772
Net investment income	3,971	182	308	20	-	4,481
Realized and unrealized gains/(losses)	(5)	(8)	8	24	-	19
Other income	207	11	67	133	(33)	385
Total revenue	27,777	4,299	383	177	(33)	32,603
Change in deferred policy acquisition costs	1,565	169	-	-	-	1,734
Claims and policyholders' benefits	(8,011)	(2,612)	-	-	-	(10,623)
Increase in policyholders' reserves	(14,739)	-	-	-	-	(14,739)
Changes in fair value of derivative financial liabilities	(137)	-	-	-	-	(137)
Commission expenses	(2,465)	(439)	-	-	-	(2,904)
General and administrative expenses	(1,852)	(1,052)	(118)	(166)	33	(3,155)
Provision for insurance guarantee fund	(59)	(47)	-	-	-	(106)
Total expenses	(25,698)	(3,981)	(118)	(166)	33	(29,930)
Operating profit	2,079	318	265	11	-	2,673
Income taxes	(211)	(176)	(37)	1	-	(423)
Net profit	1,868	142	228	12	-	2,250

4. Segment reporting (Continued)

The segment analysis for six months ended June 30, 2004 (restated) is as follows:

(in RMB million)	Life insurance (Unaudited)	Property and casualty insurance (Unaudited)	Corporate (Unaudited)	Others (Unaudited)	Elimination (Unaudited)	Total (Unaudited)
Gross written premiums and policy fees	27,145	5,136	-	-	-	32,281
Less: Premiums ceded to reinsurers	(420)	(1,751)	-	-	-	(2,171)
Increase in unearned premium reserves, net	(97)	(790)	-	-	-	(887)
Net earned premiums	26,628	2,595	-	-	-	29,223
Reinsurance commission income	120	550	-	-	-	670
Net investment income	3,168	135	116	40	(27)	3,432
Realized and unrealized gains/(losses)	(735)	(39)	-	5	-	(769)
Other income	61	12	2	196	(2)	269
Total revenue	29,242	3,253	118	241	(29)	32,825
Change in deferred policy acquisition costs	543	138	-	-	-	681
Claims and policyholders' benefits	(5,337)	(1,884)	-	-	-	(7,221)
Increase in policyholders' reserves	(18,866)	-	-	-	-	(18,866)
Changes in fair value of derivative financial liabilities	(80)	-	-	-	-	(80)
Commission expenses	(2,253)	(331)	-	-	-	(2,584)
General and administrative expenses	(1,690)	(957)	(40)	(191)	17	(2,861)
Provision for insurance guarantee fund	(16)	(36)	-	-	-	(52)
Total expenses	(27,699)	(3,070)	(40)	(191)	17	(30,983)
Operating profit	1,543	183	78	50	(12)	1,842
Income taxes	(161)	(138)	(13)	(3)	-	(315)
Net profit	1,382	45	65	47	(12)	1,527

5. Gross written premiums and policy fees

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004 (Restated)
Gross written premiums, policy fees and premium deposits, as reported in accordance with PRC GAAP	36,453	34,550
Less: Business tax and surcharges	(416)	(350)
Gross written premiums, policy fees and premium deposits (net of business tax and surcharges)	36,037	34,200
Less: Premium deposits allocated to policyholder accounts	(1,923)	(1,903)
Premium deposits allocated to investment policies	–	(16)
Premium deposits allocated to policyholders' contract deposits	(3,565)	–
Gross written premiums and policy fees	30,549	32,281
Life		
Individual life	19,621	18,595
Bancassurance	721	3,055
Group insurance	3,917	5,495
	24,259	27,145
Property and casualty		
Automobile insurance	3,720	3,007
Non-automobile insurance	2,321	1,958
Accident and health insurance	249	171
	6,290	5,136
Gross written premiums and policy fees	30,549	32,281

6. Investment income

(1) Net investment income

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004 (Restated)
Interest income on fixed maturity investments		
Bonds	2,506	1,258
Term deposits	1,810	1,769
Others	22	40
Dividend income on equity investments		
Equity investment funds	99	321
Equity securities	33	–
Operating lease income from investment properties	49	60
Interest expenses on securities sold under agreements to repurchase	(38)	(16)
Total	4,481	3,432
Yield of net investment income (% per annum)	4.1	4.1

The above yield is calculated for investment assets excluding investment properties.

6. Investment income (Continued)

(2) Realized and unrealized gains/(losses)

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004
		(Restated)
Fixed maturity investments	242	(79)
Equity investments	(212)	(690)
Convertible bond derivatives	(11)	–
Total	19	(769)

(3) Total investment income

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004
		(Restated)
Net investment income	4,481	3,432
Realized and unrealized gains/(losses)	19	(769)
Total	4,500	2,663
Yield of total investment income (% per annum)	4.1	3.6

The above yield is calculated for investment assets excluding investment properties.

7. Claims and policyholders' benefits

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004
		(Restated)
Claims and claim adjustment expenses	4,166	2,924
Surrenders	2,629	1,866
Annuities	1,001	1,131
Maturities and survival benefits	2,175	1,081
Policyholder dividends and provisions	599	219
Interest credited to policyholders' contract deposits	53	–
Total	10,623	7,221

8. Operating profit

Operating profit is arrived at after charging the following items:

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004 (Restated)
Employee costs, excluding directors' remuneration	1,515	1,230
Depreciation of investment properties	26	31
Depreciation of property, plant and equipment	162	150
Amortization of land use rights	12	10
Impairment losses for investment properties, property, plant and equipment, construction-in-progress, and land use rights	39	17
Operating lease payments in respect of land and buildings	250	276
Provision for doubtful debts, net	154	40

9. 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 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%

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004
Current income tax	374	297
Deferred tax	49	18
Income taxes	423	315

10. Dividends**(1) Dividends attributable to the interim period**

The directors do not recommend the payment of any dividend in respect of the Period (Six months ended June 30, 2004: Nil).

(2) Dividends attributable to the previous financial year and declared during the interim period

For six months ended June 30, (in RMB million)	(Unaudited) 2005	(Unaudited) 2004
Final dividend of RMB0.14 per ordinary share (Six months ended June 30, 2004: RMB0.12 per ordinary share)	867	592

11. Earnings per share

The basic earnings per share for the Period is computed by dividing the unaudited net profit attributable to shareholders for the Period by the weighted average number of 6,195,053,334 shares (Six months ended June 30, 2004: 4,981,861,026 shares) in issue during the Period.

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

12. Bonds

(in RMB million)	(Unaudited) June 30, 2005	(Audited) December 31, 2004 (Restated)
Held-to-maturity, at amortized cost	109,019	83,612
Available-for-sale, at fair value	25,947	26,522
Carried at fair value through profit or loss		
Held-for-trading	1,871	2,664
Total	136,837	112,798
Government bonds	84,575	70,419
Finance bonds	35,035	27,332
Corporate bonds	17,227	15,047
Total	136,837	112,798
Listed	45,253	40,479
Unlisted	91,584	72,319
Total	136,837	112,798
Fair value	141,599	108,715

13. Equity investment funds

(in RMB million)	(Unaudited) June 30, 2005	(Audited) December 31, 2004 (Restated)
Available-for-sale, at fair value	4,955	2,336
Carried at fair value through profit or loss		
Held-for-trading	928	3,015
Designated at fair value	717	398
Total	6,600	5,749
Listed	899	1,402
Unlisted	5,701	4,347
Total	6,600	5,749

14. Equity securities

(in RMB million)	(Unaudited) June 30, 2005	(Audited) December 31, 2004 (Restated)
Available-for-sale (unlisted), at fair value	232	211
Available-for-sale (listed), at fair value	1,352	-
Carried at fair value through profit or loss		
Held-for-trading (listed)	116	55
Total	1,700	266

15. Deferred policy acquisition costs

(in RMB Million)	(Unaudited)
As of January 1, 2004	20,361
Deferred	3,108
Amortized	(2,427)
As of June 30, 2004	21,042
As of January 1, 2005	22,622
Deferred	3,764
Amortized	(2,030)
As of June 30, 2005	24,356

16. Share capital

(in million)	(Unaudited) June 30, 2005	(Audited) December 31, 2004
Number of shares registered, issued and fully paid at RMB1 each	6,195	6,195

17. 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 assets and liabilities

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 permits, 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 rates.

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.

Credit risk

Credit risk is the risk of economic loss resulting from the failure of one of the Group's obligors to make payment of 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, reinsurance arrangements with reinsurers, etc. Credit risk may also arise from intermediaries holding investments or other assets on behalf of the Group. The Group mitigates credit risk by utilizing detailed credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counter party exposure limits, etc.

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.

17. Financial risk management (Continued)**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 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 or supporting documentations, failure to comply with 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.

18. Maturity profile of financial instruments**(1) Bonds**

(in RMB million)	(Unaudited)			Total
	Held-to-maturity	Available-for-sale	Held-for-trading	
Within 1 year	118	720	46	884
1-2 years	70	110	41	221
2-3 years	2,704	2,569	153	5,426
3-4 years	2,620	1,314	487	4,421
4-5 years	3,149	3,546	95	6,790
More than 5 years	97,606	13,780	371	111,757
Floating rate	2,752	3,908	678	7,338
Total	109,019	25,947	1,871	136,837

18. Maturity profile of financial instruments (Continued)

(1) Bonds (Continued)

(Restated)

(in RMB million)	(Audited) December 31, 2004			Total
	Held-to-maturity	Available-for-sale	Held-for-trading	
Within 1 year	76	1,622	984	2,682
1-2 years	132	315	120	567
2-3 years	1,388	1,180	43	2,611
3-4 years	3,823	1,645	576	6,044
4-5 years	2,367	5,331	201	7,899
More than 5 years	73,240	12,185	367	85,792
Floating rate	2,586	4,244	373	7,203
Total	83,612	26,522	2,664	112,798

Interest on bonds with floating rate is repriced at intervals of not more than one year.

(2) Other financial assets

(in RMB million)	(Unaudited) June 30, 2005			
	Term deposits	Policy loans	Loans and advances to customers	Due from banks
Within 1 year	6,822	690	158	439
1-2 years	30,881	–	–	25
2-3 years	14,029	–	–	–
3-4 years	4,627	–	27	–
4-5 years	–	–	41	–
More than 5 years	15,826	–	30	–
Total	72,185	690	256	464

18. Maturity profile of financial instruments (Continued)**(2) Other financial assets** (Continued)

(in RMB million)	(Audited) December 31, 2004			
	Term deposits	Policy loans	Loans and advances to customers	Due from banks
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

(3) Financial liabilities

(in RMB million)	(Unaudited) June 30, 2005		(Audited) December 31, 2004	
	Customers' deposits	Securities sold under agreements to repurchase	Customers' deposits	Securities sold under agreements to repurchase
Within 1 year	1,612	5,170	1,849	601

19. Significant related party transactions

The Group had no significant transactions with related parties during the Period.

20. Commitments

(1) Capital commitments

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

(in RMB million)	(Unaudited) June 30, 2005	(Audited) December 31, 2004
Contracted, but not provided for	352	150
Authorized, but not contracted for	3,554	3,312

(2) Operating lease commitments

The Group leases office premises and staff quarters under various rental agreements. Future minimum lease payments under non-cancelable operating leases are as follows:

(in RMB million)	(Unaudited) June 30, 2005	(Audited) December 31, 2004
Within 1 year	332	344
Between 1 year and 5 years	453	434
After 5 years	19	21
	804	799

(3) Operating lease rental receivables

The Group leases its investment properties under various rental agreements. Future minimum lease receivables under non-cancelable operating leases are as follows:

(in RMB million)	(Unaudited) June 30, 2005	(Audited) December 31, 2004
Within 1 year	52	68
Between 1 year and 5 years	32	41
After 5 years	–	–
	84	109

21. 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 but not limited to being the plaintiff or the defendant in litigation and arbitration. Legal proceedings mostly involve claims on the Group's insurance policies. Provision has been made for probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account of any legal advice.

No provision has been made for pending lawsuits or possible violations of contracts or other contingencies when the outcome cannot be reasonably estimated or management believes the probability of incurring liabilities 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.

22. Subsequent event

On July 21, 2005, the PRC's exchange rate regime was reformed. Consequently, the PRC currency, Renminbi, appreciated against several major currencies, including the United States Dollar and Hong Kong Dollar.

The Group held monetary assets and liabilities denominated in foreign currencies as part of its daily operation. These monetary assets and liabilities will be revalued and the differences arising from the revaluation will be recorded as a component of the income statement for periods subsequent to the revaluation. This impact did not exist as of June 30, 2005.

As of June 30, 2005, the Group's monetary assets net of monetary liabilities denominated in foreign currencies was approximately RMB15,837 million.

23. Comparative figures

Certain prior year/period comparative figures have been reclassified to conform with current period's presentation.

24. Approval of the financial statements

The condensed consolidated financial statements have been approved and authorized for issue by the Company's board of directors on August 20, 2005.

OTHER INFORMATION

Share Capital Structure

	Number of shares	Approximate percentage of issued share capital
Domestic Shares	3,636,409,636	58.70%
H Shares	2,558,643,698	41.30%
	6,195,053,334	100.00%

Disclosure of Interests

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

As at June 30, 2005, the following persons (other than the directors and supervisors of the Company) had interests in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO"):

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

Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of	Percentage of
						total number of H/D Shares in issue (%)	total shares in issue (%)
HSBC Insurance Holdings Limited	H	Beneficial owner	1, 19	1,232,815,613	Long position	48.18	19.90
HSBC Holdings plc	H	Interest of controlled corporations	1, 2, 19	1,235,058,417	Long position	48.27	19.94

- Interests and short positions of other substantial shareholders

Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of	Percentage of
						total number of H/D Shares in issue (%)	total shares in issue (%)
Shenzhen Jingao Industrial Development Co., Ltd.	D	Interest of controlled corporations	3	148,000,000	Long position	4.07	2.39
				<u>331,117,788</u>	Beneficial Owner	<u>9.11</u>	<u>5.34</u>
				479,117,788		13.18	7.73
Ping An Securities Company Ltd. Labor Union	D	Interest of controlled corporations	3	479,117,788	Long position	13.18	7.73

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Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total shares in issue (%)
China Ping An Trust & Investment Co., Ltd. Labor Union	D	Interest of controlled corporations	3	479,117,788	Long position	13.18	7.73
Shenzhen New Horse Investment Development Co., Ltd.	D	Beneficial Owner	4	389,592,366	Long position	10.71	6.29
Ping An Insurance (Group) Company of China, Ltd. Labor Union	D	Interest of controlled corporations	4	389,592,366	Long position	10.71	6.29
Guangzhou Hengde Trade Development Co., Ltd.	D	Beneficial Owner	5	200,000,000	Long position	5.50	3.23
Li Siu Nam	D	Interest of controlled corporations	5	200,000,000	Long position	5.50	3.23
Shenzhen Investment Holdings Co., Ltd.	D	Beneficial Owner		543,181,445	Long position	14.94	8.77
Shenzhen Shum Yip Investment Company Ltd.	D	Beneficial Owner		301,585,684	Long position	8.29	4.87
Yuan Trust Investment Company Ltd.	D	Beneficial Owner		380,000,000	Long position	10.45	6.13
Capital China Group Limited	D	Beneficial Owner		332,526,844	Long position	9.14	5.37
Wuhan Wuxin Industrial Co., Ltd.*	D	Beneficial Owner		195,455,920	Long position	5.37	3.16
GS Capital Partners (Asia), L.P.	H	Beneficial owner	6	213,347,476	Long position	8.34	3.44
GS Advisors, L.L.C.	H	Interest of controlled corporations	6	310,901,538	Long position	12.15	5.02
The Goldman Sachs Group, Inc.	H	Interest of controlled corporations	6, 7, 19	425,185,682	Long position	16.62	6.86
		Interest of controlled corporations	7	11,090,500	Short position	0.43	0.18
MSCP/PA Holdings Limited (Mauritius company)	H	Beneficial owner	12, 19	289,375,848	Long position	11.31	4.67

Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of	Percentage of
						total number of H/D Shares in issue (%)	total shares in issue (%)
MSCP/PA Holdings Limited (Cayman Islands company)	H	Interest of controlled corporations	12, 19	289,375,848	Long position	11.31	4.67
Morgan Stanley Leveraged Equity Fund II, L.P.	H	Interest of controlled corporations	12, 19	289,375,848	Long position	11.31	4.67
Morgan Stanley Leveraged Equity Fund II, Inc.	H	Interest of controlled corporations	12, 19	289,375,848	Long position	11.31	4.67
Morgan Stanley	H	Interest of controlled corporations	8 to 19	329,167,310	Long position	12.86	5.31
		Interest of controlled corporations	8, 11, 13, 16, 18	25,213,573	Short position	0.99	0.41

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

Notes:

- (1) HSBC Insurance Holdings Limited was a wholly owned subsidiary of HSBC Holdings plc and its interest in 1,232,815,613 shares of the Company was deemed to be the interest of HSBC Holdings plc.
- (2) Besides (1) above, HSBC Holdings plc also was interested in the Company by virtue of its control over the following companies which held direct interest in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation	No. of shares	Nature of interest
HSBC CCF Financial Products (France) SNC ("CCF SNC")	100	2,071,804	Long position
The Hongkong and Shanghai Banking Corporation Limited	100	171,000	Long position

CCF SNC was 100% owned by CCF S.A. which was owned as to 99.68% by HSBC Bank plc. HSBC Holdings plc owned 100% interest in HSBC Bank plc.

The Hongkong and Shanghai Banking Corporation Limited was a subsidiary of HSBC Asia Holdings BV, which was a wholly-owned subsidiary of HSBC Asia Holdings (UK), which in turn was a wholly-owned subsidiary of HSBC Holdings BV. HSBC Holdings BV was a wholly-owned subsidiary of HSBC Finance (Netherlands), which in turn was wholly-owned by HSBC Holdings plc.

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

- (4) Shenzhen New Horse Investment Development Co., Ltd. was owned as to 95% by Ping An Insurance (Group) Company of China, Ltd. Labor Union. The interest in 389,592,366 shares relates to the same block of shares in the Company.
- (5) Guangzhou Hengde Trade Development Co., Ltd. was 90% owned by Li Siu Nam. The interest in 200,000,000 shares relates to the same block of shares in the Company.
- (6) GS Capital Partners (Asia) L.P. holding 213,347,476 shares in the Company was a controlled corporation of and owned as to 1% by GS Advisors, L.L.C., which in turn was a wholly owned subsidiary of The Goldman Sachs Group Inc. GS Capital Partners Offshore (Asia) L.P. and GS Capital Partners L.P., holding 35,373,746 shares and 62,180,316 shares in the Company respectively, were controlled corporations of and owned as to 1% by GS Advisors, L.L.C.. The interests of GS Capital Partners (Asia) L.P., GS Capital Partners Offshore (Asia) L.P. and GS Capital Partners L.P. in a total of 310,901,538 shares have been included as the interest of GS Advisors, L.L.C. and part of the interest of The Goldman Sachs Group, Inc..
- (7) Besides (6) above, The Goldman Sachs Group, Inc. also held interest in the Company by virtue of its control over the following corporations:

Name of controlled corporation	Percentage of ownership in controlled corporation	No. of shares	Nature of interest
Goldman Sachs (Asia) Finance	100	15,389,601 10,425,500	Long position Short position
Goldman Sachs & Co.	100	1,007,500	Long position
Goldman Sachs International	100	70,079,399 665,000	Long position Short position
Stone Street Fund 1994, L.P.	1.00	13,584,034	Long position
Bridge Street Fund 1994, L.P.	0.03	14,223,610	Long position

- (8) Morgan Stanley Dean Witter Hong Kong Securities Limited ("HKSL") was a wholly owned subsidiary of MSDW Asia Securities Products L.L.C., which in turn was wholly owned by Morgan Stanley Dean Witter (Hong Kong) Holdings Limited. Morgan Stanley Asia Pacific (Holdings) Limited, holding 100% of Morgan Stanley Dean Witter (Hong Kong) Holdings Limited, was owned as to 90% by Morgan Stanley International Holdings Inc.. Morgan Stanley held 90% interest in Morgan Stanley International Holdings Inc.. HKSL's long position in 77,838 shares and short position in 107,500 shares were included as part of the interest and short position of Morgan Stanley.
- (9) Morgan Stanley Investment Management Company was wholly owned by Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd., which in turn was wholly owned by Morgan Stanley Asia Regional (Holdings) III L.L.C.. Morgan Stanley Asia Pacific (Holdings) Limited owned 100% interest in Morgan Stanley Asia Regional (Holdings) III L.L.C.. The 25,132,037 shares held by Morgan Stanley Investment Management Company was included as the interest of Morgan Stanley.
- (10) Morgan Stanley Asset & Investment Trust Management Co., Limited was wholly owned by Morgan Stanley International Incorporated, which was in turn 90% owned by Morgan Stanley. The interest of Morgan Stanley Asset & Investment Trust Management Co., Limited in 828,000 shares was included as the interest of Morgan Stanley.

- (11) Morgan Stanley & Co International Limited, holding a long position in 10,552,567 shares and a short position in 22,046,561 shares of the Company, was wholly owned by Morgan Stanley UK Group. Morgan Stanley Group (Europe), holding 100% of Morgan Stanley UK Group, was owned as to 98.3% by Morgan Stanley International Limited. Morgan Stanley International Incorporated owned 100% interest in Morgan Stanley International Limited. The said interest and short position of Morgan Stanley & Co International Limited were included as the interest and short position of Morgan Stanley.
- (12) MSCP/PA Holdings Limited (Mauritius company) was wholly owned by MSCP/PA Holdings Limited (Cayman Islands company), which in turn was owned as to 51.6% by Morgan Stanley Leveraged Equity Fund II, L.P.. Morgan Stanley held 100% interest in Morgan Stanley Leveraged Equity Fund II, Inc., which held 9% of Morgan Stanley Leveraged Equity Fund II, L.P..
- The interest of MSCP/PA Holdings Limited (Mauritius company) in 289,375,848 shares was included as the interest of MSCP/PA Holdings Limited (Cayman Islands company), Morgan Stanley Leveraged Equity Fund II, L.P., Morgan Stanley Leveraged Equity Fund II, Inc. and Morgan Stanley respectively.
- (13) MSDW Equity Finance Services I (Cayman) Limited ("SI") was wholly owned by MSDW Offshore Equity Services Inc., which was in turn wholly owned by Morgan Stanley. SI's long position in 1,716,408 shares and short position in 1,716,408 shares were included as the interest and short position of Morgan Stanley.
- (14) Morgan Stanley Swiss Holdings GmbH, holding 1,631 shares of the Company, was wholly owned by Morgan Stanley International Incorporated. The interest of Morgan Stanley Swiss Holdings GmbH in 1,631 shares was included as the interest of Morgan Stanley.
- (15) Morgan Stanley Capital Services Inc., wholly owned by Morgan Stanley, held 16,560 shares in the Company. The said interest was included as the interest of Morgan Stanley.
- (16) Morgan Stanley & Co. Incorporated, holding a long position in 106,420 shares and a short position in 104 shares, was a wholly owned subsidiary of Morgan Stanley. The said interest and short position were included as the interest and short position of Morgan Stanley.
- (17) Morgan Stanley Capital (Luxembourg) S.A., holding 1,360,000 shares, was owned as to 93.75% by Morgan Stanley International Incorporated. The interest of Morgan Stanley Capital (Luxembourg) S.A. in 1,360,000 shares was included as the interest of Morgan Stanley.
- (18) Morgan Stanley Capital (Cayman Islands) Limited, holding a short position in 1,343,000 shares, was a wholly owned subsidiary of Morgan Stanley. The said short position was included as the short position of Morgan Stanley.
- (19) In respect of the interests of HSBC Insurance Holdings Limited and HSBC Holdings plc in the Company, 282,297,973 shares were also deemed to be interested by MSCP/PA Holdings Limited (Mauritius company) and Morgan Stanley and 331,631,306 shares were also deemed to be interested by The Goldman Sachs Group, Inc. by virtue of the agreements entered into by HSBC Insurance Holdings Limited with MSCP/PA Holdings Limited (Mauritius company) and The Goldman Sachs Group, Inc., under which a total of 613,929,279 shares of the Company are to be acquired by HSBC Insurance Holdings Limited from The Goldman Sachs Group, Inc. and MSCP/PA Holding Limited (Mauritius company).

Save as disclosed above, the Company is not aware of any other person (other than the directors and supervisors of the Company) having any interests or short positions in the shares and underlying shares of the Company as at June 30, 2005 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Interests and short positions of directors and supervisors

As at June 30, 2005, none of the directors or supervisors of the Company held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the directors or supervisors to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Purchase, sale, or redemption of securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities from January 1, 2005 to June 30, 2005.

Audit committee

The Company has established an audit committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the financial reporting process of the Group. The audit committee consists of two independent non-executive Directors, namely Mr. Bao Youde and Mr. Kwong Che Keung Gordon and a non-executive Director, Mr. Anthony Philip Hope. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls and financial reporting matters including a review of the condensed interim accounts of the Company.

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

None of the directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules for any part of the period from January 1, 2005 to June 30, 2005 except that Mr. Ma Mingzhe has occupied the positions of both the chairman and chief executive officer of the Company.

After considering the relevant principle of Code Provision A.2.1 of the Code on Corporate Governance Practices and the management structure of the Company, the Board is of the opinion that although the chairman of the Board has the casting vote in the event of an equality of votes, the Board comprises 18 directors and the decision of the Board is not made by the chairman of the Board alone. There is a clear division of the responsibilities between the management of the Board and the day-to-day management of the Company's business and the management power of the Company is not concentrated in any one individual.

As 16 members of the Board are non-executive Directors, the role of the chairman of the Board who is also the chief executive officer of the Company is very important as he can:

- (1) maintain a close communication channel between the Board and the day-to-day management;
- (2) ensure the Board's direction and opinion can be fully and accurately carried out by the day-to-day management;

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

Based on the management history of the Company, such kind of management structure has proved to be able to provide the Company with efficient management and at the same time with protection of all the shareholders' rights to the greatest extents. The Company therefore does not currently intend to separate the roles of chairman and chief executive officer.

Code for securities transactions by directors and supervisors of the Company

On May 28, 2004, the Company adopted a code of conduct regarding securities transactions by directors and supervisors of the Company (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all directors and supervisors of the Company who have confirmed that they complied with the required standard set out in the Model Code and the Code of Conduct at the applicable times for the period from January 1, 2005 to June 30, 2005.

Disclosure of information of the Stock Exchange's website

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

By Order of the Board

Ma Mingzhe

Chairman and Chief Executive Officer

Shenzhen, PRC

August 20, 2005