EMBEDDED VALUE

Introduction

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

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

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

Components of Economic Value

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

The adjusted net asset value is based on the audited shareholders net assets of the Group as measured on a PRC statutory basis. The values placed on certain assets have been adjusted to the market values. It should be noted that the adjusted net asset is for the whole Group, including Ping An Life and other business units, whilst the value of in-force insurance business and the value of one year's new business presented are only in respect of Ping An Life and not the other business units.

EMBEDDED VALUE

Key Assumptions

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

Risk Discount Rate

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

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

Investment Returns

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

Taxation

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

Mortality

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

Morbidity

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

Discontinuances

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

Expenses

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

Policyholder Dividends

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

New Business Volumes and Business Mix

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

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

EMBEDDED VALUE

Embedded Value Movement

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

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

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

Sensitivity Analysis

The Group has investigated the effect, on the value of in-force business and the value of one year's new business, of varying independently certain assumptions regarding future experience. Specifically, the following changes in assumptions have been considered:

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

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

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

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