NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

1. Corporate information

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

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

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

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

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

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

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

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

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

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

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

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

  Fair Value Option

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

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

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

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

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

  IFRS 4, Insurance Contracts

  Financial Guarantee Contracts

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

3. Summary of significant accounting policies

(1) Basis of preparation

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

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

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

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

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

(2) Changes in accounting policies

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

- *IFRS 4, Insurance Contracts*

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

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

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

- *IFRS 4, Insurance Contracts (Continued)*

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

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

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

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

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

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

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

- *IFRS 2, Share-based Payment*

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

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

- *IFRS 3, Business Combinations*

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) Foreign currency translation

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

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

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

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

(4) Principles of consolidation

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

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

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

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

(5) Subsidiaries

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

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

(6) Associates

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

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

(7) Investments

Classification

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity financial assets

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

(d) Available-for-sale financial assets

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

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

Initial measurement

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

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

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

(10) Investment properties

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

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

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

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

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

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

(11) Cash and cash equivalents

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

(12) Securities sold under repurchase agreements – repos

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

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

(13) Deferred policy acquisition costs

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

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

(14) Property, plant and equipment

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

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

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

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

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

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

(15) Construction-in-progress

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

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

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

(16) Land use rights

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

(17) Goodwill

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

(18) Product classification

(a) Insurance contracts

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

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

(b) Investment contracts

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

(19) Insurance contract liabilities

(a) Long term life insurance policyholders' reserves

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

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

(19) Insurance contract liabilities *(Continued)*

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

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

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

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

(b) Claim reserves

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

(c) Unearned premium reserves

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

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

(19) Insurance contract liabilities *(Continued)*

(d) Liability adequacy test

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

(20) Investment contract liabilities

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

(21) Investment-linked business

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

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

(22) Universal life business

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

(23) Dividends

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

(24) Revenue recognition

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

(a) Premiums income

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

(b) Investment-linked business

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

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

(c) Universal life business

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

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

(24) Revenue recognition *(Continued)*

(d) Net investment income

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

(25) Reinsurance

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

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

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

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

(26) Operating leases

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

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

(27) Employee benefits

(a) Pension obligations

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

(b) Housing benefits

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

(c) Medical benefits

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

(28) Share-based payment transactions

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

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

(29) Tax

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

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

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

(29) Tax (Continued)

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

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

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

Tax refunds are accounted for on a cash basis.

(30) Impairment of assets

(a) Investment assets

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

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

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

(b) Goodwill

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

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

(30) Impairment of assets *(Continued)*

(b) Goodwill (Continued)

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

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

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

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

(c) Other assets

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

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

(31) Related parties

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

4. Critical accounting estimates and judgments in applying accounting policies

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

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

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

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

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

(3) Fair value of investment contracts

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

5. Segment reporting

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

Segment assets and liabilities mainly comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's consolidated balance sheet. The Group's revenue and net profit for the year were mainly derived from the above activities in the PRC. Accordingly, no further segment analysis by geographical area is provided.

5. Segment reporting *(Continued)*

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

5. Segment reporting *(Continued)*

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

5. Segment reporting *(Continued)*

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

5. Segment reporting *(Continued)*

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

5. Segment reporting *(Continued)*

Analysis of written premiums and policy fees is as follows:

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

6. Gross written premiums and policy fees

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

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

7. Investment income

(1) Net investment income

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

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

(2) Realized gains/(losses)

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

7. Investment income *(Continued)*

(3) Unrealized gains/(losses)

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

(4) Total investment income

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

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

8. Other income

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

9. Claims and policyholders' benefits

(1)

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

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

(2)

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

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

10. Operating profit

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

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

10. Operating profit *(Continued)*

(2) Employee costs, excluding directors' emoluments

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

11. Income taxes

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

11. Income taxes *(Continued)*

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

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

12. Dividends

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

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

13. Earnings per share

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

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

14. Bonds

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

15. Term deposits and cash and cash equivalents

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

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

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

16. Equity investment funds

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

17. Equity securities

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

18. Derivative financial instruments

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

19. Investments in subsidiaries

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

Name	Date/place of incorporation	Attributable equity interest Direct	Attributable equity interest Indirect	Registered and paid-up capital (RMB unless otherwise stated)	Principal activities
Ping An Life Insurance Company of China, Ltd.	December 17, 2002 The PRC	99.00%	–	3,800,000,000	Life insurance
Ping An Property & Casualty Insurance Company of China, Ltd.	December 24, 2002 The PRC	99.00%	–	1,600,000,000	Property and casualty insurance
China Ping An Trust & Investment Co., Ltd.	November 19, 1984 The PRC	99.52%	–	4,200,000,000	Investment and financing
Ping An Securities Company, Ltd.	July 18, 1996 The PRC	–	85.80%	1,800,000,000	Security investment and brokerage
Ping An Bank Limited	January 8, 1993 The PRC	–	72.65%	US$50,000,000	Banking
Ping An Annuity Insurance Company of China, Ltd. ("Ping An Annuity")	December 13, 2004 The PRC	95.00%	4.96%	300,000,000	Annuity insurance
Ping An Asset Management Co., Ltd.	May 27, 2005 The PRC	90.00%	9.90%	200,000,000	Asset management
Ping An Health Insurance Company of China, Ltd.	June 13, 2005 The PRC	95.00%	4.96%	500,000,000	Health insurance
China Ping An Insurance Overseas (Holdings) Limited	October 24, 1996 Hong Kong	100.00%	–	HK$55,000,000	Investment holding
China Ping An Insurance (Hong Kong) Company Limited	August 17, 1976 Hong Kong	–	75.00%	HK$80,000,000	Property and casualty insurance
Shenzhen Ping An Futures Brokerage Co., Ltd.	April 10, 1996 The PRC	–	92.80%	50,000,000	Futures brokerage
Shenzhen Ping An Industries Co., Ltd.	November 24, 1992 The PRC	–	99.52%	20,000,000	Investment

19. Investments in subsidiaries *(Continued)*

Name	Date/place of incorporation	Attributable equity interest Direct	Attributable equity interest Indirect	Registered and paid-up capital (RMB unless otherwise stated)	Principal activities
Shenzhen Ping An Property Investment and Management Co., Ltd.	January 6, 1995 The PRC	–	99.52%	20,000,000	Property management
Beijing Ping An Real Estate Development Co., Ltd.	January 18, 1994 The PRC	–	99.00%	US$12,000,000	Development of property in Beijing (completed)
Fuzhou Ping An Real Estate Development Co., Ltd.	March 28, 1994 The PRC	–	74.25%	US$5,000,000	Development of property in Fuzhou (completed)
Shenzhen Ping An Real Estate Investment Co., Ltd.	March 8, 2005 The PRC	–	99.52%	300,000,000	Investment in real estates

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

20. Investment properties

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

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

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

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

Change in accounting estimates

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

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

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

21. Cash and cash equivalents

Group

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

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

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

Company

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

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

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

22. Premium receivables

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

22. Premium receivables *(Continued)*

An aging analysis of premiums receivables is as follows:

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

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

23. Interest receivables

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

24. Reinsurance assets

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

25. Deferred policy acquisition costs

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

26. Property, plant and equipment

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

27. Construction-in-progress

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

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

28. Land use rights

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

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

29. Goodwill

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

30. Deferred income tax assets/liabilities

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

Net deferred income tax assets/(liabilities)

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

31. Statutory deposits

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

32. Share capital

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

33. Reserves

Group

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

Company

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

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

Company *(Continued)*

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

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

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

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

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

33. Reserves *(Continued)*

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

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

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

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

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

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

34. Customers' deposits

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

35. Securities sold under agreements to repurchase

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

36. Insurance guarantee fund

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

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

37. Insurance contract liabilities

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

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

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

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

37. Insurance contract liabilities *(Continued)*

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

As at December 31, (in RMB million)	**2005**	2004
		(Restated)
Policyholders' reserves	**223,538**	193,770
Policyholder contract deposits	**9,795**	1,411
Policyholder account liabilities in respect of insurance contracts	**12,820**	9,758
Claim reserves	**2,282**	1,684
Total	**248,435**	206,623

The policyholders' reserves are analyzed as follows:

(in RMB million)	**2005**	2004
		(Restated)
As at January 1	**193,770**	159,898
New business	**8,280**	11,151
Inforce change	**21,277**	22,721
Effect of net unrealized gains on investments	**211**	–
As at December 31	**223,538**	193,770

The Group does not have significant reinsurance assets in respect of the policyholders' reserves carried for long term life insurance contracts and investment contracts with discretionary participation features.

(2) Short term life insurance contracts

As at December 31, (in RMB million)	**2005**	2004
Unearned premium reserves	**2,227**	1,901
Claim reserves	**558**	534
Total	**2,785**	2,435

37. Insurance contract liabilities *(Continued)*

(2) Short term life insurance contracts *(Continued)*

The unearned premium reserves of short term life insurance are analyzed as follows:

	2005			2004		
(in RMB million)	**Gross**	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
As at January 1	**1,901**	**(354)**	**1,547**	1,949	(516)	1,433
Premiums written in the year	**4,683**	**(793)**	**3,890**	4,013	(793)	3,220
Premiums earned during the year	**(4,357)**	**798**	**(3,559)**	(4,061)	955	(3,106)
As at December 31	**2,227**	**(349)**	**1,878**	1,901	(354)	1,547

The claim reserves of short term life insurance are analyzed as follows:

	2005			2004		
(in RMB million)	**Gross**	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
As at January 1	**534**	**(183)**	**351**	465	(160)	305
Claims incurred during the year	**2,082**	**(576)**	**1,506**	1,795	(496)	1,299
Claims paid during the year	**(2,058)**	**559**	**(1,499)**	(1,726)	473	(1,253)
As at December 31	**558**	**(200)**	**358**	534	(183)	351

(3) Property and casualty insurance contracts

As at December 31, (in RMB million)	**2005**	2004
Unearned premium reserves	**8,821**	7,571
Claim reserves	**5,093**	4,424
Total	**13,914**	11,995

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

37. Insurance contract liabilities *(Continued)*

(3) Property and casualty insurance contracts *(Continued)*

The unearned premium reserves of property and casualty insurance are analyzed as follows:

	2005			2004		
(in RMB million)	**Gross**	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
As at January 1	**7,571**	**(2,146)**	**5,425**	6,353	(2,005)	4,348
Premiums written in the year	**12,076**	**(3,431)**	**8,645**	10,150	(3,309)	6,841
Premiums earned during the year	**(10,826)**	**3,431**	**(7,395)**	(8,932)	3,168	(5,764)
As at December 31	**8,821**	**(2,146)**	**6,675**	7,571	(2,146)	5,425

The claim reserves of property and casualty insurance are analyzed as follows:

	2005			2004		
(in RMB million)	**Gross**	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
As at January 1	**4,424**	**(1,559)**	**2,865**	3,155	(1,178)	1,977
Claims incurred during the year	**7,152**	**(1,893)**	**5,259**	6,205	(1,765)	4,440
Claims paid during the year	**(6,483)**	**1,962**	**(4,521)**	(4,936)	1,384	(3,552)
As at December 31	**5,093**	**(1,490)**	**3,603**	4,424	(1,559)	2,865

38. Investment contract liabilities *(Continued)*

As at December 31, (in RMB million)	**2005**	2004
		(Restated)
Policyholder account liabilities in respect of investment contracts	**3,078**	3,145
Investment contract reserves	**14**	15
Total	**3,092**	3,160
Current portion	**22**	5
Non-current portion	**3,070**	3,155
Total	**3,092**	3,160

The investment contract liabilities are analyzed as follows:

(in RMB million)	**2005**	2004
		(Restated)
As at January 1	**3,160**	2,904
Premiums received	**291**	582
Interest credited to policyholders	**133**	28
Liabilities released for benefits paid	**(462)**	(285)
Policy administration fees and surrender charges deducted	**(54)**	(50)
Others	**24**	(19)
As at December 31	**3,092**	3,160

39. Insurance contract liabilities and reinsurance assets – assumptions and sensitivities

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

Assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions relating to both long term life insurance contracts and investment contracts. Such assumptions are determined as appropriate and prudent estimates at the date of valuation.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality, morbidity and lapse rates

Mortality and morbidity rates, varying by age of the insured, and lapse rates, varying by contract type, are based upon expected experience at the date of contract issue plus, where applicable, a margin for adverse deviation. The mortality, morbidity and lapse assumptions are based on experience studies of the Group's actual experience.

For long term life insurance policies, increased mortality rates will lead to a larger number of claims and claims will occur sooner than anticipated, which will increase the expenditure and reduce profits for the shareholders.

For annuity contracts, a high mortality will decrease payments, thereby reducing expenditure and increase profits.

Impact of increase in lapse rates at early duration of the policy would tend to reduce profits for the shareholders but lapse rates at later policy durations is broadly neutral in effect.

Investment return

Future investment return has been assumed to be 4.2% in 2006 and to increase by 0.1% every year to 4.7% in 2011 and thereafter. These rates have been derived by consideration of the current market condition and the Group's current and expected future asset allocation. They are the best estimate rates used in gross premium reserve valuation and liability adequacy test on a portfolio basis.

An increase in investment return assumption would lead to a decrease in policyholders' liabilities.

39. Insurance contract liabilities and reinsurance assets – assumptions and sensitivities *(Continued)*

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

Assumptions (Continued)

Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. The assumption for policy administration expenses is determined based on expected unit costs. Unit costs have been based on an analysis of actual experience.

An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

Others

Other assumptions include taxation, future bonus rates, etc.

Change in assumptions

The assumptions used to estimate the liabilities of the Group's long term life insurance contracts and investment contracts with discretionary participation features require judgment and are subject to uncertainty. In 2005, the long term life insurance policyholders' reserves increased by RMB1,196 million due to the recognition of changes in investment return and lapse rate assumptions.

Sensitivities

The Group has investigated the impact on long term life insurance contract liabilities, of varying independently certain assumptions regarding future experience. For most insurance contracts, the assumptions are established at the inception of the policies and remain unchanged. The impact of assumption changes to liabilities would only realize if the liabilities fail the liability adequacy test. The following changes in assumptions have been considered:

- investment return assumption increased by 25 basis points every year;
- investment return assumption decreased by 25 basis points every year;
- a 10% increase in maintenance expense rates;
- a 10% decrease in mortality and morbidity rates; and
- a 10% decrease in policy lapse rates.

Assumptions (In RMB million)	**Impact on gross policyholders' reserves***	**Impact of assumption change as a percentage of gross policyholders' reserves**
Investment return increased by 25 basis points	(894)	(0.40%)
Investment return decreased by 25 basis points	952	0.43%
10% increase in maintenance expense rates	26	0.01%
10% decrease in morbidity/mortality rates	313	0.14%
10% decrease in policy lapse rates	361	0.16%

* Including investment contracts with discretionary participation features

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

39. Insurance contract liabilities and reinsurance assets – assumptions and sensitivities *(Continued)*

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

Sensitivities (Continued)

The sensitivity analysis also does not take into account the fact that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above analysis include the use of hypothetical market movements to demonstrate potential risk and the assumption that interest rates move in identical fashion.

(2) Property and casualty and short term life insurance contracts

Assumptions

The principal assumption underlying the estimates is the Group's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variation in interest, delays in settlement, etc.

Sensitivities

The property and casualty and short term life insurance claims reserves are sensitive to the above key assumptions. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim reserves are not known with certainty at the balance sheet date.

Reproduced below is an exhibit that shows the development of net claim reserves:

Property and casualty insurance

As at December 31, (in RMB million)	2003	2004	**2005**
Reserves for net losses and allocated loss adjustment expenses	1,824	2,652	**3,452**
Paid (cumulative) as of:			
One year later	1,035	1,336	**–**
Two years later	1,318	–	**–**
Net liability re-estimated as of:			
End of year	1,824	2,652	**3,452**
One year later	1,963	2,626	**–**
Two years later	1,892	–	**–**
Redundancy/(deficiency)	(68)	26	**–**
Reserves for loss and allocated loss adjustment expenses	1,824	2,652	**3,452**
Unallocated loss adjustment expenses	153	213	**151**
Total reserves included in the balance sheet	1,977	2,865	**3,603**

39. **Insurance contract liabilities and reinsurance assets – assumptions and sensitivities** *(Continued)*

(2) Property and casualty and short term life insurance contracts *(Continued)*

Sensitivities (Continued)

Short term life insurance

As at December 31, (in RMB million)	2003	2004	**2005**
Reserves for net losses and allocated loss adjustment expenses	305	351	**358**
Paid (cumulative) as of:			
One year later	258	338	**–**
Two years later	271	–	**–**
Net liability re-estimated as of:			
End of year	305	351	**358**
One year later	272	356	**–**
Two years later	271	–	**–**
Redundancy/(deficiency)	34	(5)	**–**

To illustrate the sensitivities of ultimate claims costs, for example, a respective percentage change in average claim costs or the number of claims alone result in a similar percentage change in claim reserves. On the other hand, while other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short term life insurance as at December 31, 2005 by approximately RMB180 million and RMB18 million, respectively.

(3) Reinsurance

The Group limits its exposure to losses within insurance operations mainly through participation in reinsurance arrangements. The majority of the business ceded is placed on quota share basis with retention limits varying by product lines. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

40. Assets managed under trust

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

As at December 31, (in RMB million)	2005	2004
Ping An Trust	**3,330**	1,084
Ping An Annuity	**128**	–
	3,458	1,084

41. Risk management

Insurance risk

The risk under insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This could occur due to any of the following factors:

Occurrence risk – the possibility that the number of insured events will differ from those expected.

Severity risk – the possibility that the cost of the events will differ from those expected.

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Group comprises both long term life insurance contracts, property and casualty and short term life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For property and casualty insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks etc.

These risks currently do not vary significantly in relation to the location of the risk insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

There would be no significant mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums. However, for contracts with discretionary participation features, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party.

41. Risk management *(Continued)*

Insurance risk *(Continued)*

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, refuse to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behaviour and decisions.

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note 5.

Market risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

(a) Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the Renminbi and other currencies in which the Group conducts business may affect its financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimizing its net foreign currency position.

As at December 31, 2005, the Group's monetary assets net of monetary liabilities dominated in foreign currencies amounted to approximately RMB15,709 million.

(b) Price risk

The Group's price risk exposure at year end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices. They are principally available-for-sale investments and financial assets carried at fair value through profit or loss.

Such investments are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

41. Risk management *(Continued)*

Market risk *(Continued)*

(c) Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table sets out the Group's financial instruments exposed to interest rate risk by maturity and effective interest rate:

Bonds

As at December 31, (in RMB million)	**2005** Held-to-maturity	Available-for-sale	Carried at fair value though profit or loss	Total
Within 1 year	**126**	**706**	**3,863**	**4,695**
1-2 years	**1,349**	**1,390**	**76**	**2,815**
2-3 years	**3,868**	**2,203**	**561**	**6,632**
3-4 years	**2,438**	**2,646**	**133**	**5,217**
4-5 years	**898**	**1,684**	**–**	**2,582**
More than 5 years	**106,495**	**23,703**	**381**	**130,579**
Floating rate	**2,750**	**3,706**	**773**	**7,229**
Total	**117,924**	**36,038**	**5,787**	**159,749**
Effective interest rate (% per annum)	**1.95-7.02**	**1.95-6.27**	**1.42-6.15**	**1.42-7.02**

As at December 31, (in RMB million)	2004 (Restated) Held-to-maturity	Available-for-sale	Carried at fair value though profit or loss	Total
Within 1 year	76	1,622	984	2,682
1-2 years	132	315	120	567
2-3 years	1,388	1,180	43	2,611
3-4 years	3,823	1,645	576	6,044
4-5 years	2,367	5,331	201	7,899
More than 5 years	73,240	12,185	367	85,792
Floating rate	2,586	4,244	373	7,203
Total	83,612	26,522	2,664	112,798
Effective interest rate (% per annum)	1.95-7.02	1.90-6.27	2.53-6.15	1.90-7.02

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

41. Risk management *(Continued)*

Market risk *(Continued)*

(c) Interest rate risk (Continued)

Other financial assets

As at December 31, (in RMB million)	2005 Term deposits	2005 Policy loans	2005 Loans and advances to customers
Within 1 year	**16,581**	**864**	**533**
1-2 years	**24,405**	**–**	**1**
2-3 years	**10,637**	**–**	**8**
3-4 years	**1,477**	**–**	**85**
4-5 years	**1,590**	**–**	**–**
More than 5 years	**14,269**	**–**	**35**
Total	**68,959**	**864**	**662**
Effective interest rate (% per annum)	**2.25-8.80**	**5.22-6.50**	**2.31-6.12**

As at December 31, (in RMB million)	2004 Term deposits	2004 Policy loans	2004 Loans and advances to customers
Within 1 year	8,549	545	63
1-2 years	16,079	–	–
2-3 years	26,962	–	39
3-4 years	10,550	–	–
4-5 years	857	–	–
More than 5 years	17,323	–	28
Total	80,320	545	130
Effective interest rate (% per annum)	1.45-8.80	5.50-7.50	2.77-5.85

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

41. Risk management *(Continued)*

Market risk *(Continued)*

(c) Interest rate risk (Continued)

Financial liabilities

	2005		2004	
As at December 31, (in RMB million)	**Customers' deposits**	**Securities sold under agreements to repurchase**	Customers' deposits	Securities sold under agreements to repurchase
Within 1 year	**1,862**	**7,095**	1,849	601
Effective interest rate (% per annum)	**0.00-1.62**	**1.52-1.78**	0.00-3.60	1.90-2.40

Financial risk

(a) Credit risk

Credit risk is the risk of economic loss resulting from the failure of one of the Group's obligors to make payment of any principal or interest when due in the case of fixed income investments or, in the case of an equity investment, the loss in value resulting from a corporate failure. The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in bonds, equity investments, reinsurance arrangements with reinsurers, policy loans, etc. The Group mitigates credit risk by utilizing credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counter party exposure limits, etc.

(b) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds to meet the Group's obligations as they become due. The Group is exposed to liquidity risk on insurance policies that permit surrender, withdrawal or other forms of early termination. The Group seeks to manage its liquidity risk by matching to the extent possible the duration of its investment assets with the duration of its insurance policies.

Mismatching risk of asset and liability

The objective of the Group's asset and liability management is to match assets with liabilities on the basis of both duration and interest rate. In the current regulatory and market environment, however, the Group is unable to invest in assets that have duration of sufficient length to match the duration of its insurance and investment contract liabilities. With the current regulatory and market environment permits, however, the Group is trying to lengthen the duration of its assets by matching the new liabilities of lower guarantee rates, while narrowing the gap of existing liabilities of higher guarantee rates.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failure of proper internal controls on business processes, people and systems or from uncontrollable external events. The Group is exposed to many types of operational risks in the conduct of its business from inadequate or failure to obtain proper authorizations, supporting documentations and ensuring operational and informational security procedures as well as from frauds or errors by employees. The Group attempts to manage operational risk by establishing clear policies and requiring well-documented business processes to ensure transactions are properly authorized, supported and recorded.

42. Fair value of financial instruments

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

As at December 31,	Carrying amounts		Estimated fair values	
(in RMB million)	**2005**	2004	**2005**	2004
		(Restated)		(Restated)
Financial assets				
Fixed maturity investments				
Bonds	**159,749**	112,798	**166,564**	108,715
Term deposits	**68,959**	80,320	**68,959**	80,320
Policy loans	**864**	545	**864**	545
Loans and advances to customers	**662**	130	**662**	130
Equity investments				
Equity investment funds	**10,058**	5,497	**10,058**	5,497
Equity securities	**5,183**	266	**5,183**	266
Derivative financial assets	**27**	62	**27**	62
Cash and cash equivalents	**17,636**	15,945	**17,636**	15,945
Premium receivables	**749**	617	**749**	617
Interest receivables	**438**	382	**438**	382
Financial liabilities				
Customers' deposits	**1,862**	1,849	**1,862**	1,849
Securities sold under agreements to repurchase	**7,095**	601	**7,095**	601
Commission payable	**633**	556	**633**	556
Due to reinsurers	**533**	209	**533**	209
Dividends payable to shareholders	**76**	74	**76**	74
Derivative financial liabilities	**133**	127	**133**	127

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

(1) Fixed maturity investments: fair values are generally based upon quoted market prices. Where quoted market prices are not readily available, fair values are estimated using either prices observed in recent transactions or values obtained from discounted cash flow models using current market yield rate of comparable investments.

(2) Equity investments: fair values are based on quoted market prices except for certain unlisted equity investments, which are carried at cost as a reasonable estimate of their fair value.

(3) Others: carrying amounts of these assets and liabilities would approximate their fair values.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

43. Notes to consolidated cash flow statement

Reconciliation from profit before tax to net cash from operating activities:

For the year ended December 31, (in RMB million)	Notes	2005	2004 (Restated)
Profit before tax		**4,812**	3,747
Adjustments for:			
Impairment losses for investment properties, property, plant and equipment, construction-in-progress, and land use rights	*10 (1)*	**75**	73
Depreciation	*10 (1)*	**536**	526
Amortization of land use rights	*10 (1)*	**20**	19
Amortization of goodwill	*10 (1)*	**–**	24
Loss on disposal of property, plant and equipment and investment properties	*10 (1)*	**19**	10
Net investment income	*7 (1)*	**(9,338)**	(7,219)
Realized losses	*7 (2)*	**505**	56
Unrealized losses/(gains)	*7 (3)*	**(822)**	717
Foreign currency losses/(gains), net		**405**	(3)
Provision/(write-back) of provision for doubtful debts, net	*10 (1)*	**122**	(39)
Write-back of provision for loans and advances to customers	*10 (1)*	**(73)**	(12)
Operating loss before working capital changes		**(3,739)**	(2,101)
Changes in operational assets and liabilities:			
Increase in premium receivables		**(160)**	(152)
Increase in reinsurance assets		**(533)**	(453)
Increase in deferred policy acquisition costs		**(3,830)**	(2,261)
Increase in statutory deposits		**(40)**	–
Decrease/(increase) in other assets		**(122)**	341
Increase/(decrease) in customers' deposits		**13**	(457)
Increase/(decrease) in premiums received in advance		**253**	(502)
Increase in commission payable		**77**	59
Increase/(decrease) in due to reinsurers		**324**	(105)
Increase/(decrease) in insurance guarantee fund		**(767)**	117
Increase in policyholder dividend payable and provisions		**887**	788
Increase in policyholders' reserves		**29,557**	33,872
Increase in policyholder contract deposits		**8,384**	1,411
Increase in unearned premium reserves		**1,581**	1,170
Increase in claim reserves		**1,291**	1,825
Increase/(decrease)in investment contract reserves		**(1)**	80
Increase in derivative financial liabilities		**6**	15
Increase/(decrease) in other liabilities		**(934)**	1,108
Cash generated from operations		**32,247**	34,755
Income taxes paid		**(437)**	(408)
Net cash from operating activities		**31,810**	34,347

44. Directors' and supervisors' remuneration

For the year ended December 31, (in RMB thousand)	2005 Fees	Salaries, allowances and other benefits	Contributions to pension schemes	Total
Current directors				
MA Mingzhe	–	14,114	21	14,135
SUN Jianyi	–	2,036	20	2,056
FAN Gang	–	438	20	458
DOU Wenwei	–	234	20	254
BAO Youde	150	–	–	150
KWONG Che Keung Gordon	300	–	–	300
CHEUNG Wing Yui	300	–	–	300
CHOW Wing Kin Anthony	156	–	–	156
Henry CORNELL	–	–	–	–
HUANG Jianping	–	–	–	–
LIU Haifeng David	–	–	–	–
LIN Yu Fen	–	–	–	–
CHEUNG Lee Wah	–	–	–	–
Anthony Philip HOPE	–	–	–	–
LIN Lijun	–	–	–	–
SHI Yuxin	–	–	–	–
HU Aimin	–	–	–	–
CHEN Hongbo	–	–	–	–
Sub-total	906	16,822	81	17,809
Past directors				
PAN Guangqian	–	411	–	411
YIP Dicky Peter	–	–	–	–
Current supervisors				
XIAO Shaolian	250	–	–	250
SUN Fuxin	60	–	–	60
CHEN Shangwu	60	–	–	60
SONG Liankun	–	263	–	263
HE Peiquan	–	297	–	297
HE Shi	–	482	20	502
DUAN Weihong	–	–	–	–
ZHOU Fulin	–	–	–	–
CHEN Bohai	–	–	–	–
Sub-total	370	1,042	20	1,432

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

44. Directors' and supervisors' remuneration *(Continued)*

For the year ended December 31, (in RMB thousand)	2005 Fees	Salaries, allowances and other benefits	Contributions to pension schemes	Total
Past supervisors				
YANG Xiuli	–	778	18	796
CHEN Kexiang	–	972	19	991
XIAO Wei	–	385	19	404
LEI Hui	–	474	20	494
Sub-total	–	2,609	76	2,685
Total	1,276	20,884	177	22,337

For the year ended December 31, (in RMB thousand)	2004 Fees	Salaries, allowances and other benefits	Contributions to pension schemes	Total
Current directors				
MA Mingzhe	–	11,688	16	11,704
SUN Jianyi	–	1,714	19	1,733
LIN Lijun	–	348	19	367
FAN Gang	–	424	19	443
DOU Wenwei	–	218	18	236
BAO Youde	60	–	–	60
KWONG Che Keung Gordon	200	–	–	200
CHEUNG Wing Yui	200	–	–	200
LI Heihu	–	–	–	–
GAO Lei	–	–	–	–
HUANG Jianping	–	–	–	–
LIU Haifeng David	–	–	–	–
Henry CORNELL	–	–	–	–
LIN Yu Fen	–	–	–	–
CHEUNG Lee Wah	–	–	–	–
Anthony Philip HOPE	–	–	–	–
YIP Dicky Peter	–	–	–	–
SHI Yuxin	–	–	–	–
HU Aimin	–	–	–	–
Sub-total	460	14,392	91	14,943
Past director				
PAN Guangqian	–	399	1	400

44. Directors' and supervisors' remuneration *(Continued)*

For the year ended December 31, (in RMB thousand)	2004 Fees	Salaries, allowances and other benefits	Contributions to pension schemes	Total
Current supervisors				
XIAO Shaolian	200	–	–	200
SUN Fuxin	40	–	–	40
CHEN Shangwu	40	–	–	40
SONG Liankun	–	263	1	264
HE Peiquan	–	296	1	297
HE Shi	–	441	19	460
DUAN Weihong	–	–	–	–
ZHOU Fulin	–	–	–	–
CHEN Bohai	–	–	–	–
Sub-total	280	1,000	21	1,301
Past supervisors				
YANG Xiuli	–	736	18	754
CHEN Kexiang	–	734	19	753
LIU Yigong	–	638	18	656
XIAO Wei	–	374	19	393
LEI Hui	–	475	20	495
Sub-total	–	2,957	94	3,051
Total	740	18,748	207	19,695

The compensation expenses for share appreciation rights granted to the directors and supervisors are not included in the above analysis.

During the year, no emoluments were paid by the Group to the directors and the supervisors as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office.

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

45. Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one (2004: one) director whose emolument is reflected in the analysis presented in note 44.

Details of emoluments of the remaining four (2004: four) highest paid individuals are as follows:

For the year ended December 31, (in RMB million)	2005	2004
Salaries, allowances and other benefits	**41**	37

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

	2005	2004
RMB6,000,001 – RMB6,500,000	**1**	1
RMB7,000,001 – RMB7,500,000	**–**	1
RMB8,000,001 – RMB8,500,000	**1**	–
RMB8,500,001 – RMB9,000,000	**–**	1
RMB11,500,001 – RMB12,000,000	**1**	–
RMB13,500,001 – RMB14,000,000	**–**	1
RMB15,000,001 – RMB15,500,000	**1**	–

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

Under the PRC tax regulations, individual income tax is calculated at progressive rates with a cap of 45%.

The effective income tax rate of the five highest paid individuals in the Group range from 35.7% to 43.5% (2004: 35.6% to 43.3%), and their average effective tax rate is 41.9% (2004: 41.4%).

The compensation expenses for share appreciation rights granted to the above highest paid individuals are not included in the above analysis.

During the year, no emoluments were paid by the Group to the above highest paid, non-director individuals as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office.

46. Significant related party transactions

(1) The consolidated financial statements included the financial statements of Ping An Insurance (Group) Company of China, Ltd. and the subsidiaries listed in note 19.

(2) Compensation of key management personnel

The summary of compensation of our five (2004: four) key management personnel other than directors and supervisors for the year is as follows:

For the year ended December 31, (in RMB million)	2005	2004
Salaries and other short term employee benefits	**43**	35

The compensation expenses for share appreciation rights granted to key management personnel are not included in the above analysis.

Further details of directors' and supervisors' remuneration are included in note 44 to the financial statements.

The number of units in share appreciation rights granted to key management personnel including directors and supervisors during the year is 3.4 million (2004: 10.4 million). The related expense recognized in the income statement during the year is RMB15 million (2004: RMB7 million).

(3) In late August 2005, HSBC and its associates increased their equity interests in the Company to 19.9%. As at December 31, 2005, the Group's aggregate bank balances with HSBC were approximately RMB232 million. Interest income earned by the Group on such bank balances from September to December 2005 was approximately RMB3 million.

47. Commitments

(1) Capital commitments

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

As at December 31, (in RMB million)	2005	2004
Contracted, but not provided for	**472**	150
Authorized, but not contracted for	**3,030**	3,312

47. Commitments *(Continued)*

(2) Operating lease commitments

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

As at December 31, (in RMB million)	2005	2004
Within 1 year	**372**	344
1-5 years	**473**	434
More than 5 years	**5**	21
	850	799

(3) Operating lease rental receivables

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

As at December 31, (in RMB million)	2005	2004
Within 1 year	**64**	68
1-5 years	**33**	41
	97	109

48. Employee benefits

(1) Pension

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

(2) Housing benefits

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

(3) Medical benefits

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

48. Employee benefits *(Continued)*

(4) Share appreciation rights scheme

On February 5, 2004, the Company's board of directors approved a scheme of share appreciation rights for the senior executives and certain key employees of the Group. No shares will be issued under this scheme. The rights are granted in units with each unit representing one H share of the Company. The rights to the units will be issued in the next five years. Upon exercise of the said rights, the participants will receive a cash payment, subject to the restrictions that the annual amount of aggregate benefit to all participants shall not exceed a percentage of the estimated net profits in the year in which the rights are exercised, which is equal to the product of the number of units exercised and the difference between the exercise price and market price of an H share at the time of exercise.

The expense recognized for employee services received during the year is RMB61 million (2004: RMB29 million).

The following table illustrates the number of units in share appreciation rights during the year.

(in million)	**2005 Number of units**	2004 Number of units
As at January 1	**42**	–
Granted during the year	**16**	42
As at December 31,	**58**	42

The weighted average remaining contractual life for the share appreciation rights outstanding as at December 31, 2005 is 2.5 years (2004: 3.5 years).

The fair value of share appreciation rights is measured at the grant date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share appreciation rights were granted. The following table lists the inputs to the model used for the year.

	2005	2004
Risk-free interest rate (%)	**1.5%**	0.01%
Expected dividend yield (%)	**1%**	–
Expected volatility (%)	**29%**	38%
Expected life (in years)	**3-5**	3-5

The services received and a liability to pay for those services are recognized over the expected vesting period. Until the liability is settled, it is remeasured at each reporting date with changes in fair value recognized in the income statement. The carrying amount of the liability relating to the share appreciation rights as at December 31, 2005 is RMB90 million (2004: RMB29 million).

NOTES TO FINANCIAL STATEMENTS

As at December 31, 2005

49. Contingent liabilities

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

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

50. Post balance sheet events

Refer to note 12 and note 33 for the profit appropriations.

51. Comparative figures

As further explained in note 3(2) to the financial statements, due to the adoption of new or revised IFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

52. Approval of the financial statements

These financial statements have been approved and authorized for issue by the Company's directors on March 29, 2006.