



PROFESSION

Business Review



Business Review

In 2006, we continued to focus on providing multiple financial products and services to our customers through our multi-channel distribution network. With our principal operating subsidiaries, namely Ping An Life, Ping An Property & Casualty, Ping An Trust, Ping An Securities, Ping An Bank, Ping An Annuity, Ping An Health and Ping An Asset Management, we offer our customers a wide range of financial products and services under a single brand name. We are growing profitably across our broad portfolio of businesses. In particular, our core life insurance and property and casualty insurance business reached new historic highs in net profit. Our life insurance and property and casualty insurance businesses accounted for approximately 82.9% and 14.0% respectively of our total income in 2006.

Being one of the largest insurance companies in the PRC in terms of gross written premiums and policy fees, we had gross written premiums and policy fees of RMB69,696 million in 2006, of which RMB53,622 million, or approximately 76.9%, was from our life insurance business and RMB16,074 million, or approximately 23.1%, was from our property and casualty insurance business.

LIFE INSURANCE

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

For the year ended December 31, (in RMB million, except percentages)	2006	2005
Gross written premiums and policy fees	53,622	46,945
Individual life insurance	45,870	38,758
Bancassurance	928	1,133
Group insurance	6,824	7,054
Premium deposits	15,158	11,746
Individual life insurance	9,296	7,411
Bancassurance	5,284	4,091
Group insurance	578	244
Gross written premiums, policy fees and premium deposits	68,780	58,691
Market share of gross written premiums, policy fees and premium deposits ⁽¹⁾	17.0%	16.1%

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

As at or for the year ended December 31,	2006	2005
Number of customers:		
Individual (in thousand)	31,761	30,312
Corporate (in thousand)	307	267
Total (in thousand)	32,068	30,579
Persistency ratio:		
13-month	89.0%	85.9%
25-month	80.3%	81.9%
Agent productivity:		
First year premiums, policy fees and premium deposits per agent per month	4,737	4,446
New life insurance policies per agent per month	2.1	2.3

We are the second largest life insurance company in the PRC in terms of gross written premiums, policy fees and premium deposits. In 2006, our life insurance business accounted for approximately 17.0% of the total gross written premiums, policy fees and premium deposits received by the PRC life insurance companies, based on our PRC Accounting Standards financial data and PRC insurance industry data calculated in accordance with PRC Accounting Standards and published by the National Bureau of Statistics of China. Through our extensive distribution network, we sell a full range of risk and savings products that address the needs of our customers at every stage of their lives.

We are one of the most profitable life insurance companies in the PRC. During 2006, we continued to focus on our core strategies emphasizing financial strength, agency development, product innovation and service enhancement. As a result, the gross written premiums, policy fees and premium deposits from our individual life insurance products accounted for approximately 80.2% of our life insurance business in 2006, compared to approximately 78.7% in 2005. In particular, most of our individual life insurance first year premiums in 2006 were from regular premium products. Our focus on regular premium individual life insurance products provides us with a stable revenue stream that enables us to generate sustainable longer term profits. In addition, the value of one year's new business was RMB5,132 million, representing an increase of 13.1% from the previous year.

In 2006, our group life insurance business focused on employee welfare benefits program. We continued to rationalize our group insurance business model and achieved positive results from our business transformation. We will also capitalize on the new opportunity of selling pension products to our corporate customers. These products will be offered through our subsidiary, Ping An Annuity.

Regarding our bancassurance business, we continued to manage the sales of our bancassurance products with a view towards maintaining profitability. In addition, we are also exploring innovative partnership programs with other banks to sell more sophisticated insurance products to our customers.

Quality Improvements

Through the continued refinement of our sales agents training system, we enhanced the productivity and professionalism of our sales agents. We have also continued our efforts in enhancing customer service. As a result, the 13-month and 25-month persistency ratios for our individual life insurance customers maintained at a satisfactory level of above 85% and 80% respectively as at December 31, 2006.

Legacy High Guaranteed Return Products

Like other major PRC life insurance companies, we offered life insurance products with relatively high guaranteed rates of return equal to or in excess of 5% from 1995 to 1999, primarily as a result of the prevailing high market interest rates in that period. In June 1999, the CIRC imposed a cap of 2.5% with respect to the guaranteed rate of return a life insurance company may offer on its products. As a result, we have offered guaranteed return products with rates of return equal to or less than 2.5% since June 1999. The policyholders' reserves for life insurance policies with high guaranteed rates of return as calculated based on our PRC Accounting Standards financial data represented 37.3% of our total policyholders' reserves as at December 31, 2006 compared to 40.0% as at December 31, 2005. The average pricing rate for all of our guaranteed return life insurance products was 4.5% in 2006 as compared to 4.7% in 2005. We expect these high guaranteed return life insurance policies as a percentage of our total in-force life insurance policies to decline as our new policies with lower or no guaranteed rates of return continue to grow.

Distribution Network

Our life insurance products are primarily distributed through a distribution network that includes a sales force of approximately 205,437 individual life insurance sales agents, approximately 2,127 group insurance sales representatives and approximately 24,214 branch offices of China Post and commercial banks in the PRC that have bancassurance arrangements with us.

The following table sets forth certain information of our life insurance distribution channels as at the dates indicated:

As at December 31,	2006	2005
Number of individual life sales agents	205,437	200,193
Number of group sales representatives	2,127	1,644
Bancassurance outlets	24,214	27,222

Customers

For the year ended December 31, 2006, approximately 47.8% of the gross written premiums, policy fees and premium deposits received by our life insurance business were attributable to customers located in or near Guangdong, Shanghai, Beijing, Jiangsu and Liaoning, which are among the more economically developed areas in the PRC. We believe these and other more economically developed areas will continue to offer greater potential for further profitable growth. Meanwhile, we will actively implement the "Two Tier Market Development" strategy to further explore the market potential in rural areas. As at December 31, 2006, we had approximately 31.76 million individual customers and approximately 307,000 corporate customers.

Business Review

PROPERTY AND CASUALTY INSURANCE

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

For the year ended December 31, (in RMB million, except percentages)

	2006	2005
Gross written premiums	16,074	12,076
Automobile	11,057	7,497
Non-automobile	4,207	4,044
Accident and health	810	535
Market share of gross written premiums ⁽¹⁾	10.7%	9.9%

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

As at or for the year ended December 31,

	2006	2005
Combined ratio:		
Expense ratio	25.8%	23.3%
Loss ratio	69.6%	72.0%
Combined ratio	95.4%	95.3%
Number of customers:		
Individual (in thousand)	6,222	6,006
Corporate (in thousand)	1,724	1,680
Total (in thousand)	7,946	7,686

We are the third largest property and casualty insurance company in the PRC in terms of gross written premiums. In 2006, our property and casualty insurance business accounted for approximately 10.7% of the gross written premiums received by PRC property and casualty insurance companies, based on our PRC Accounting Standards financial data and PRC insurance industry data calculated in accordance with PRC Accounting Standards and published by the National Bureau of Statistics of China.

In 2006, our growth rate surpassed that of the industry average and our major competitors, as a result our market share increased to 10.7% in 2006 from 9.9% in 2005. Gross written premiums from Ping An Property & Casualty recorded robust growth, which mainly attributed to our financial strength, underwriting skills, excellent services and operation efficiency. Those strengths will continue to contribute to our future growth and achievements.

Gross written premiums and net profit for our property and casualty business reached RMB16,074 million and RMB1,048 million in 2006, representing an increase of 33.1% and 148.3% respectively from the previous year, both of which were higher than the industry's average growth rate. The growth came from all business segments in terms of product types, by distribution channels, geographic regions and customer types.

Quality Improvements

We continued to focus on disciplined underwriting and service enhancement. This strategy has enabled us to improve our loss ratio significantly. As a result, our loss ratio improved to 69.6% in 2006 from 72.0% in 2005.

Distribution Network

The distribution network for our property and casualty insurance products includes 39 branch offices with another being set up located in substantially all of the PRC's provinces, autonomous regions and municipalities, together with over 1,300 sub-branches located throughout the PRC. We distribute our property and casualty insurance products primarily through our in-house sales representatives and through various intermediaries, such as banks and automobile dealerships, and insurance brokers.

The following table sets forth certain information of our property and casualty insurance distribution channels as at the dates indicated:

As at December 31,	2006	2005
Number of direct sales representatives	8,424	7,708
Number of insurance agents	10,868	6,176

Customers

For the year ended December 31, 2006, approximately 49.6% of the gross written premiums from our property and casualty insurance business were attributable to customers located in or near Guangdong, Shanghai, Beijing, Zhejiang and Jiangsu, which are among the more economically developed areas in the PRC. We believe these and other more economically developed areas will continue to offer greater potential for further profitable growth. As at December 31, 2006, we had approximately 6.22 million individual customers and approximately 1.72 million corporate customers.

PING AN TRUST

We provide asset management services to our customers through Ping An Trust. In addition, Ping An Trust also acts as an investment holding company for some of our long-term equity investment and provides infrastructure investment and property investment services to our other subsidiaries. Assets held in trust increased to RMB16,677 million as at December 31, 2006 from RMB3,330 million as at December 31, 2005. In 2006, our trust business developed several new product lines, such as equity related trust products and foreign exchange related trust products. This product innovation will provide our trust business with new opportunity of revenue growth.

PING AN SECURITIES

We conduct our securities business through Ping An Securities, and provide securities services to customers through 22 branch offices nationwide and through our PA18 Internet financial portal. The principal services that we provide to our customers are brokerage services, investment banking services, asset management services and research and consulting services. Brokerage services consist of executing stock and bond trades on the Shanghai and Shenzhen stock exchanges for customers, holding physical securities on behalf of customers and facilitating the payment of dividends and interest repayment of outstanding principal amounts to customers. Investment banking services include securities underwriting, financial advice for mergers and acquisitions and restructurings, securities business training and the provision of market and trading information. Asset management services consist of managing securities portfolios of clients and providing asset management advice. In 2006, we were given the approval to engage in innovative business and became one of the innovative securities companies, setting an important milestone for our future development. In 2006, the stock market recorded new highs in terms of both transaction volume and new capital being raised. Our traditional business and innovative business also recorded robust growth. Ping An Securities recorded a net profit of RMB609 million in 2006, the highest ever recorded since its incorporation, compared with RMB6 million in 2005.

PING AN BANK

Ping An Bank obtained an approval from the CBRC to provide Renminbi services to corporate customers in June 2006. Its registered capital increased from RMB414 million to RMB614 million. In 2006, while continuing to adopt a prudence approach, Ping An Bank also optimized its product mix, applied multi distribution channels and extensively explored its customer bases. As at December 31, 2006, Ping An Bank had total assets which amounted to RMB3,046 million, total deposit balance which amounted to RMB772 million, total loans balance which amounted to RMB1,469 million and a capital adequacy ratio of 50.2%.

Business Review

SZCB

SZCB, being established on August 3, 1995, is the first city commercial bank in the PRC. By the end of 2006, SZCB had completed its restructuring and its registered capital was increased from RMB1,600 million to RMB5,502 million. The Group, through equity transfer and contribution of fund, acquired 89.36% of SZCB and became its largest shareholder. As at December 31, 2006, SZCB's total assets which amounted to RMB82,128 million, total deposit balance which amounted to RMB72,273 million and total loans balance which amounted to RMB47,457 million. The capital adequacy ratio was 10.7% and the non-performing loan's ratio was 6.5% as at December 31, 2006.

PING AN ANNUITY

Ping An Annuity was set up on December 13, 2004. Having obtained approval from the CIRC on December 27, 2006, Ping An Annuity will restructure its business platform. It intends to set up 35 branches and 127 sub-branches across the country in the next few months by adopting a customer oriented approach. Following the restructuring, its principal business will remain to be corporate annuity and supplementary pension while at the same time gradually integrate the group insurance business from Ping An Life. Ping An Annuity, after the restructuring, will have better network, more channels and a wider range of products, skills and talents to provide more comprehensive and more professional annuity service to its customers.

PING AN HEALTH

Ping An Health was set up on June 13, 2005, with a registered capital of RMB500 million. It is one of the foremost companies to be granted an approval to provide health specialty insurance. In 2006, by leveraging on the financial strength of the Group, Ping An Health has commenced development of brand new health insurance products and services by soliciting international experts. Our goal is to provide comprehensive health management and services to its customers. In December 2006, the Shanghai branch office of Ping An Health commenced operation.

PING AN ASSET MANAGEMENT

Our assets under the management of Ping An Asset Management grew steadily in 2006. Total investment income and total investment yield both recorded substantial growth. Ping An Asset Management has been designated as one of the leading companies to participate in infrastructure investment. It also initiated non-capital market investment during the year to broaden its investment channels. In terms of internal management, Ping An Asset Management has standardized and regulated its business flow, reinforced its internal management, risk measures, assets allocation and performance measurement mechanism to sustain continuous improvement in investment capability.

PING AN ASSET MANAGEMENT (HONG KONG)

Ping An Asset Management (Hong Kong) was incorporated on May 16, 2006. Being responsible for our overseas investment management business, it intends to provide Hong Kong and overseas investment products and third party assets management service to domestic and overseas professional investors, in addition to being entrusted to manage investment assets of our other subsidiaries. Ping An Asset Management (Hong Kong) has set up an experienced international investment team and an operating platform. We believe this unit will help further improve the matching of assets and liabilities and enhance the risk adjusted return rate of our insurance assets. It can also provide innovative products and services to increase our sales competitiveness.

BACK-OFFICE CENTRALIZATION

The construction of the Integrated Operating Center (“IOC”) is progressing smoothly. The IOC will serve as a supporting platform for business development and risk management.

Specifically, we have made the following progress at the date of this report:

- Centralized all underwriting, claims and document processing of individual life insurance and bancassurance businesses;
- Centralized 40% policy owner services of individual life insurance business;
- Centralized 60% claims processing of property and casualty insurance business and the automated underwriting percentage for automobile insurance reached 50%;
- Centralized all accounting activities of operating expenses of property and casualty insurance, life insurance and annuity businesses;
- Built a national call center that serves all life insurance customers and 90% property and casualty insurance customers.

The IOC is one of the largest financial back-office support centers in Asia and will raise the standard of our operation in terms of service quality, operating efficiency and risk management etc. We believe that the IOC will further enhance our marketing capabilities, improve and centralize our management of underwriting and claims processing for both life insurance and property and casualty insurance, enhance our internal controls and risk management system, increase our management efficiency through proper division of responsibilities among different levels of management, and reduce operating costs to improve our overall profitability.

REGULATORY DEVELOPMENTS

In 2006, the State Council, the CIRC and other relevant PRC regulatory authorities promulgated a series of new or amended laws and regulations.

Administrative Measures on the Pilot Indirect Investments of Insurance Funds into Infrastructure Projects

On March 14, 2006, the CIRC promulgated the Administrative Measures on the Pilot Indirect Investments of Insurance Funds into Infrastructure Projects, which is the first regulation governing the indirect investment of insurance funds in infrastructure projects and has important and practical meaning on the regulation of investment of insurance funds in infrastructure projects as well as optimizing the structure of insurance assets.

Regulations on Mandatory Traffic Accident Liability Insurance for Motor Vehicles

On March 21, 2006, the State Council promulgated the Regulations on Mandatory Traffic Accident Liability Insurance for Motor Vehicles which came into effect on July 1, 2006. It clearly stipulates the scope of application of the Mandatory Traffic Accident Liability Insurance System for Motor Vehicles, the principles, the rights and obligations of the insurer and the insured, as well as the governing areas of the regulatory bodies. This regulation is fundamental to the successful implementation of the Mandatory Traffic Accident Liability Insurance System for Motor Vehicles.

Administration Measures for the Issuance of Securities by Listed Companies

On May 6, 2006, the CSRC promulgated the Administration Measures for the Issuance of Securities by Listed Companies. It strengthens the mechanism for regulating securities issuance to the public, tightens control over fund raising, encourages return to shareholders and further enhances market refinance mechanism and its efficiency.

Administration Measures for Initial Public Offering and Listing of Shares

On May 17, 2006, the CSRC promulgated the Administration Measures for Initial Public Offering and Listing of Shares which further regulated the initial public offering and listing of shares in the domestic share market. This facilitates the establishment of the market operating mechanism in IPO and improves the efficiency of fund raising activities.

Business Review

Several Opinions of the State Council on the Reform and Development of the Insurance Industry

On June 15, 2006, the State Council promulgated Several Opinions of the State Council on the Reform and Development of the Insurance Industry (Guofa [2006] No.23) which sets out ten specific opinions regarding the full implementation of a scientific development approach; guiding opinions, targets and policies for the development and reform of the insurance industry; speeding up the development pace of the insurance industry and promoting social harmony.

Health Insurance Management Regulation

On August 7, 2006, the CIRC promulgated the Health Insurance Management Regulation which came into effect on September 1, 2006. It is the first regulation on commercial health insurance and has important and practical meaning on promoting health insurance development, product innovation, market regulation as well as protection of the insured's interest and improvement of external environment.

Measures for Administration of Investment in Domestic Securities by Qualified Foreign Investment Institutions

On August 24, 2006, the CSRC, the People's Bank of China and the PRC Foreign Exchange Management Bureau jointly promulgated the Measures for Administration of Investment in Domestic Securities by Qualified Foreign Investment Institutions, which came into effect on September 1, 2006. The new administrative measures substantially lowered the entry barrier for investment in domestic securities by qualified foreign investment institutions so as to encourage more long-term funds to enter the PRC market and for the healthy development of the domestic capital market.

Administrative Measures on the Offering and Underwriting of Securities

On September 17, 2006, the CSRC promulgated the Administrative Measures on the Offering and Underwriting of Securities, which came into effect on September 19, 2006. Such measures aim at regulating the price consultation process, price determination and allocation of shares during initial offering of shares. It sets up the clawback mechanism and introduces the share allocation system for allocating shares to strategic investors as well as the over-allotment option system ("Greenshoe") so as to further improve the existing price consultation system. In addition, it also tightens the control over the behaviors of the issuers, securities companies, securities service institutions and investors participating in securities investment.

The Notice Regarding Equity Investment in Commercial Bank by Insurance Companies

On October 16, 2006, the CIRC promulgated the Notice Regarding Equity Investment in Commercial Bank by Insurance Companies. Pursuant to the Notice, insurance funds can be invested in commercial banks, which broadens the scope of application of insurance funds and provides long-term investment channels which better suits the needs of each insurance company, and in turn improves the asset allocation of insurance funds, diversifies investment risks and enhances investment return.