As at December 31, 2006

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 the provision of life insurance, property and casualty insurance, banking 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 and business of the Group changed during 2006 as follows:

(1) On May 16, 2006, China Ping An Insurance Overseas (Holdings) Limited ("Ping An Overseas") established Ping An of China Asset Management (Hong Kong) Company Limited ("Ping An Asset Management (Hong Kong)") in Hong Kong. The paid-up capital of Ping An Asset Management (Hong Kong) is 25 million Hong Kong dollar ("HK$") and the Group's equity interest amounts to 100%.

(2) On July 28, 2006, the Company entered into a share purchase agreement with Shenzhen Investment Holdings Company Limited and certain shareholders of Shenzhen Commercial Bank Co., Ltd. ("SZCB") to acquire 1,008,186,384 shares representing approximately 63% of the then share capital of SZCB for a consideration of RMB1,008,186,384. Further, as part of the reorganization of SZCB and pursuant to the said share purchase agreement, the Company also entered into a subscription agreement with SZCB on the same date to subscribe for 3,902 million new shares in SZCB. The above acquisition and additional share subscription was approved by China Banking Regulatory Commission ("CBRC") on November 30, 2006. Further, on December 15, 2006, the directors of SZCB approved a transfer of 6,611,320 ordinary shares in SZCB from some of its shareholders to the Company. Upon completion of the above acquisition, share subscription and share transfer on December 15, 2006, the Group's equity interest in SZCB amounts to 89.36%.

(3) On July 31, 2006, Shenzhen Ping An Real Estate Investment Co., Ltd. ("Ping An Real Estate") together with Pan-China Real Estate (Yuxi) Company Limited established Yuxi Ping An Real Estate Co., Ltd. ("Yuxi Real Estate"). The paid-up capital of Yuxi Real Estate is RMB38.5 million and the Group's equity interest in it amounts to 79.90%.

(4) With an approval from the CBRC on September 8, 2006, China Ping An Trust & Investment Co., Ltd ("Ping An Trust") and The Hongkong and Shanghai Banking Corporation Limited ("HSBC") injected RMB146 million and United States dollars ("US$") equivalent to RMB54 million, respectively, into Ping An Bank Limited ("Ping An Bank"). Upon completion of such capital injection, the registered and paid-up capital of Ping An Bank increased to RMB614 million and the Group's equity interest in it became 72.91%. On June 23, 2006, Ping An Bank obtained approval from CBRC to provide Renminbi services to corporate customers.

(5) With an approval from the China Insurance Regulatory Commission ("CIRC") on October 17, 2006, the Company and other shareholders of Ping An Property & Casualty Insurance Company of China, Ltd ("Ping An Property & Casualty") injected RMB1.4 billion into Ping An Property & Casualty. After the capital injection, the paid–up capital of Ping An Property & Casualty increased to RMB3 billion. On December 31, 2006, the Group's interest amounts to 99.06%.

(6) On October 31, 2006, Ping An Real Estate acquired 51% equity interest of Pan-China Real Estate (Jingzhou) Co., Ltd. ("Pan-China Real Estate"). The paid-up capital of Pan-China Real Estate is US$9.7 million and the Group's equity interest in it amounts to 50.94%.

(7) On November 17, 2006 Shenzhen Debao Auto Services Co., Ltd transferred shares in Ping An Trust worth RMB16,616,000 to the Company. After the transfer, the paid–up capital of Ping An Trust remains unchanged at RMB4,200 million. On December 31, 2006, the Group's equity interest amounts to 99.88%.

(8) On December 20, 2006, the Company injected additional capital of HK$500 million into Ping An Overseas. After the capital injection, the paid–up capital of Ping An Overseas increased to HK$555 million. On December 31, 2006, the Group's equity interest amounts to 100%.

As at December 31, 2006

1. CORPORATE INFORMATION *(Continued)*

(9) During 2006, Ping An Overseas established Anseng Investment Company Limited, Timely Reach Investments Limited, Total Faith Investments Limited, Reach Investments Limited in British Virgin Islands ("BVI"). All these four companies wholly owned by the Group are for investment holding purposes.

2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has not applied the following key new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC-Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives
IFRIC-Int 10	Interim Financial Reporting and Impairment
IFRIC-Int 11	IFRS 2 – Group and Treasury Share Transaction
IFRIC-Int 12	Service Concession Arrangements

The IAS 1 Amendment shall be applied for annual periods beginning on or after January 1, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 shall be applied for annual periods beginning on or after January 1, 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32.

IFRS 8 shall be applied for annual periods beginning on or after January 1, 2009 and will replace the existing IAS 14 "Segment Reporting". IFRS 8 requires an entity to adopt the "management approach" to report on the financial performance of its operating segments. Generally, the information to be reported would be that used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

IFRIC-Int 7, IFRIC-Int 8, IFRIC-Int 9, IFRIC-Int 10, IFRIC-Int 11 and IFRIC-Int 12 shall be applied for annual periods beginning on or after March 1, 2006, May 1, 2006, June 1, 2006, November 1, 2006, March 1, 2007 and January 1, 2008, respectively.

The Group is in the process of making an assessment of the impact of the new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of the IAS 1 Amendment, IFRS 7 and IFRS 8 may result in new or amended disclosures, these new and revised IFRSs may not have a significant impact on the Group's results of operations and financial position.

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 International Accounting Standards Board 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 those financial instruments that have been measured at fair values. 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 prevailing PRC Accounting Standards. The major adjustments made include measuring certain financial instruments at fair values, restating insurance contract liabilities and deferred policy acquisition costs, related deferred tax, etc.

The Group presents its balance sheet broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), presented in the notes.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

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.

(2) Changes in accounting policies

The Group has revised certain significant accounting policies following adoption of the following revised IFRSs which management considers to be most relevant to its current operations.

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

  Fair Value Option

  Effective January 1, 2006, the Group has adopted IAS 39 amendment on fair value option. As a result, the Group has an option to designate a financial asset or financial liability at fair value through profit or loss when one of the following conditions is met:

  – 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.

  During the year, the Group did not opt to designate significant new financial asset or liability at fair value through profit or loss.

As at December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

- ***IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts***

  Financial Guarantee Contracts

  Effective January 1, 2006, the Group has adopted IAS 39 and IFRS 4 amendments on financial guarantee contracts. Under the amended IAS 39, financial guarantee contracts that are not considered to be insurance contracts are recognized initially at fair value and generally remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

  Other than any financial guarantee contracts issued by the Group's banking operations which are accounted for under IAS 39, the Group has previously regarded certain contracts it issued with financial guarantee element as insurance contracts and has used accounting applicable to insurance contracts, and accordingly has elected to apply IFRS 4 to account for such contracts.

- ***IAS 19*** ***Amendment – Employee Benefits***
  IAS 21 ***Amendment – The Effects of Changes in Foreign Exchange Rates***
  IAS 39 ***Amendment – Cash Flow Hedge Accounting of Intra-group Transactions***
  IFRIC-Int 4 ***Determining whether an Arrangement contains a Lease***

  Other than additional disclosures, adoption of these revised standards and new interpretation did not have significant impact on the Group's financial statements.

The above revised accounting policies have no significant impact on these financial statements, and the Group considers other new or revised IFRSs and related pronouncements effective in 2006 do not have significant impact on these financial statements either.

(3) Foreign currency translation

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

Transactions in foreign currencies are initially recorded at the functional currency rate 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. 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement, except when it relates to items when gains or losses are recognized directly in equity, the gain or loss is then recognized net of the exchange component in equity.

The functional currency of the overseas subsidiaries is HK$. 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.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

(4) Principles of consolidation

The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(4) Principles of consolidation *(Continued)*

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

(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 results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

(6) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are stated at cost less any impairment losses.

(7) Financial assets

The Group classifies its investments into financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired or originated. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are relatively passively managed and/or carried at amortized cost. Financial assets are classified as at fair value through profit or loss when, for example, the Group acquire such assets to cover certain insurance and investment contract liabilities measured at fair value.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date the Group commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(7) Financial assets *(Continued)*

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on a different basis; or

– the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realized gain and loss are recognized in the income statement.

Financial assets at fair value through profit or loss include derivative financial instruments.

Held-to-maturity financial assets are non-derivative financial assets that comprise fixed or determinable payments and maturities of which the Group has the positive intention and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost, using the effective interest method. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortized cost, using the effective interest method. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the income statement.

(8) Derivative financial instruments

Derivative financial instruments include options embedded in convertible bonds purchased by the Group, derivatives embedded in certain insurance contracts, interest rate swaps and futures, credit default swaps, cross currency swaps, forward currency contracts, and options on interest rates, currencies and equities, etc. Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(8) Derivative financial instruments *(Continued)*

Embedded derivatives are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through the income statement. Embedded derivatives that meet the definition of insurance contracts are treated and measured as insurance contracts.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are initially recorded at fair value. Subsequent to initial recognition, these instruments are remeasured at fair value. Fair value adjustments and realized gains and losses are recognized in the income statement.

(9) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

For investments in open ended investment funds, fair value is determined by reference to published bid-values.

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the balance sheet date.

If the fair value can not be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(10) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

For held-to-maturity financial assets and loans and other receivables carried at amortized cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the income statement.

As at December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Impairment of financial assets *(Continued)*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognized in the income statement.

For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted equity investment that is not carried at fair value, because its fair value can not be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment for these assets is not reversed.

(11) Derecognition of financial assets

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(11) Derecognition of financial assets *(Continued)*

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(12) Assets purchased under agreements to resell

The Group enters into purchases of assets under agreements to resell substantially identical assets. These agreements are classified as loans and receivables. Assets 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 may not take physical possession of assets purchased under agreements to resell. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying assets.

(13) Investment properties

Investment properties are interest 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.

(14) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises cash on hand, demand deposits, current accounts with central bank and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

(15) Assets sold under repurchase agreements

Assets sold under repurchase agreements are recorded at the cost of the borrowings. The Group may be required to provide additional collateral based on the fair value of the underlying assets and such collateral assets continue to be carried on the balance sheet.

As at December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(16) 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 income statement.

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 or losses 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.

(17) Property and equipment

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(17) Property and equipment *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose 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 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.

(18) 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.

(19) Prepaid land premiums

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognized on a straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and the buildings as a finance lease in property and equipment.

(20) Business combinations and goodwill

Business combinations are accounted for using acquisition accounting method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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 allocated:

- represents the lowest within the Group at which the goodwill is monitored for internal management purpose; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(20) Business combinations and goodwill *(Continued)*

- 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*.

Where goodwill forms part of cash generating unit (or group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the income statement.

(21) Insurance 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 dependent 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 ("DPF"). Deposits collected under investment contracts without DPF 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 DPF are accounted for through the income statement as if they are insurance contracts.

(22) 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.

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 loss recognition occurs. For participating life insurance policies, under current PRC insurance regulations, not less than 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. After the respective amounts allocated to policyholders and to the Group have been deducted from distributable surplus, any unallocated portion at the end of the reporting period is held within liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(22) Insurance contract liabilities *(Continued)*

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

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 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.

(d) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance 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.

(23) 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.

(24) 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.

As at December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(24) Investment-linked business *(Continued)*

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.

(25) Universal life business

Revenue for these contracts consists of policy fees which are used to cover the insured risks and associated costs, as well as related investment income. Policy fees include 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.

(26) Dividends

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

(27) 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.

(d) Interest income

Interest income is recognized as it accrues (using the effective interest method by applying the rate that exactly discounts estimated future cash receipts through the expected life of a financial instrument to its net carrying amount). Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(27) Revenue recognition *(Continued)*

(e) Other fees and commission income

The Group earns other fees and commission income from a diverse range of services it provides to its customers. Other fees income can be divided into the following two categories:

Fees income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund administration fees, custodian fees, fiduciary fees, credit related fees, asset management fees, portfolio and other management fees, advisory fees, etc. However, loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fees income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on the completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, brokerage fees, etc. Loan syndication fees are recognized in the income statement when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same effective interest rate as for the other participants.

(f) Dividend income

Dividends income is recognized when the right to receive dividend payment is established.

(28) Reinsurance

The Group cedes insurance risk in the normal course of business for its insurance businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognized in the income statement immediately at the date of purchase and are not amortized.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contracts.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(29) 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 income statement 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.

(30) 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.

(31) 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. 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.

(32) Tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(32) Tax *(Continued)*

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(33) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for a non-financial asset is required, the Group makes an estimate of the asset's recoverable amount. A non-financial asset's recoverable amount is the higher of the asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of a non-financial asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

As at December 31, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(33) Impairment of non-financial assets *(Continued)*

For non-financial assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed 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. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit (or group of cash generating units), to which the goodwill relates. The recoverable amount is the higher of its fair value less costs to sell and its value-in-use, determined on an individual asset (or cash generating unit) basis, unless the individual asset (or cash generating unit) does not generate cash flows that are largely independent from those of other assets or groups of assets (or groups of cash generating units). Impairment losses recognized in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

Intangible assets with indefinite useful lives are tested for impairment annually at each year end either individually or at the cash generating unit level, as appropriate.

(34) Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously upon reimbursement from customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitments.

(35) Fiduciary activities

Where the Group acts in a fiduciary capacity such as nominee, trustee or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the balance sheet.

The Group's banking operation grants entrusted loans on behalf of third-party lenders, which are recorded off-balance sheet. The Group, as an agent, grants such entrusted loans to borrowers under the direction of those third-party lenders who fund these loans. The Group has been contracted by those third-party lenders to manage the administration and collection of these loans on their behalf. Those third-party lenders determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which is recognized ratably over the period in which the service is provided. The risk of loss is borne by those third-party lenders.

(36) Financial guarantee contracts

The Group's banking operation issues letters of credit and letters of guarantee. These financial guarantee contracts provide for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation. The Group initially measures such contracts at fair value. This amount is recognized ratably over the period of the contract to fees and commission income. Subsequently, the liabilities are measured as the higher of the initial fair value less cumulative amortization and the fair value of the provision related to the Group's obligation under the contract. The change in fair value of the provision due to impairment is recognized in the income statement as impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(36) Financial guarantee contracts *(Continued)*

Apart from the above financial guarantee contracts issued by the Group's banking operations which are accounted for under IAS 39, the Group has previously regarded certain contracts it issued with financial guarantee element as insurance contracts and has used accounting applicable to insurance contracts, and accordingly has elected to apply IFRS 4 to account for such contracts.

(37) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

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.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which has the most significant effect on the amounts recognized in the financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Valuation of insurance contract liabilities

Life insurance contract liabilities

The liability for life insurance contracts (including investment contracts with DPF liabilities) is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

Certain acquisition costs related to the sale of new policies are recorded in deferred policy acquisition costs and are amortized to the income statement over time. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and may require additional write-offs to the income statement.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(Continued)*

Estimates and assumptions *(Continued)*

(1) Valuation of insurance contract liabilities *(Continued)*

Life insurance contract liabilities (Continued)

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Group base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Group's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. 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.

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.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

Lapse and surrender rates depend on product features, policy duration and external circumstance, such as sale trends. Credible own experience is used in establishing these assumptions.

Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

Property and casualty and short term life insurance contract liabilities

For property and casualty and short term life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported at the balance sheet date ("IBNR"). It may take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or maker factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(Continued)*

Estimates and assumptions *(Continued)*

(2) *Valuation of investment contracts without DPF liabilities*

Unitized investment contract fair values are determined by reference to the values of the assets backing the liabilities, which are based on the value of the unit-linked funds.

Non-unitized investment contract fair values are determined by using valuation techniques, such as discounted cash flow methods. A variety of factors are considered in these valuation techniques, including time value of money, volatility, policyholder behavior, servicing cost and fair values of similar instruments.

(3) *Fair value of financial assets and derivative financial instruments determining using valuation techniques*

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing model. For reference to similar instruments, instruments should have similar credit ratings.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Option pricing models incorporate all factors that market participants would consider and are based on observable market data when available. These models consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions.

The valuation techniques described above are calibrated annually.

(4) *Impairment losses of loans and advances*

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

As at December 31, 2006

5. BUSINESS COMBINATION

On December 15, 2006, following approvals from the regulatory authorities, the Group completed its acquisition of 89.36% equity interest in SZCB.

The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition were:

(in RMB million)	Fair value recognized on acquisition	Carrying value
Balances with central bank	7,338	7,338
Cash and amounts due from banks and other financial institutions	3,410	3,410
Loans and advance to customers	43,700	43,700
Investments	23,249	23,236
Investment properties	107	102
Property and equipment	442	404
Deferred income tax assets	417	417
Other assets	1,700	1,339
Sub-total	80,363	79,946
Due to banks and other financial institutions	3,684	3,684
Customer deposits	67,335	67,335
Deferred income tax liabilities	63	–
Other liabilities	3,849	3,849
Sub-total	74,931	74,868
Fair value of net assets	5,432	5,078
Fair value of net assets acquired attributable to the Group	4,854	
Goodwill arising on acquisition	82	
Cost of acquisition	4,936	
Cash outflow on acquisition of the subsidiary:		
Net cash acquired with the subsidiary	9,282	
Cash paid	(4,931)	
Net cash inflow	4,351	

From the date of acquisition, SZCB has contributed RMB65 million to the net profit of the Group. Disclosure of the Group's consolidated total revenue and net profit as if SZCB was acquired since 1 January 2006, which is required under IFRS 3 Business Combinations, is impracticable due to SZCB's lack of detailed information for IFRS reporting purposes as at that date. At that time, SZCB prepared accounts in accordance with PRC Accounting Standards only.

The cost of acquisition includes directly attributable costs including legal, due diligence and other professional fees.

6. SEGMENT REPORTING

The Group's business segment information is currently divided into five business segments – life insurance business, property and casualty insurance business, banking 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.

The segment analysis as at and for the year ended December 31, 2006 is as follows:

(in RMB million)	Life insurance	Property and casualty insurance	Banking	Corporate	Others	Elimination	Total
Income statement							
Gross written premiums and policy fees	53,622	16,074	–	–	–	–	69,696
Less: Premiums ceded to reinsurers	(631)	(3,640)	–	–	–	–	(4,271)
Increase in unearned premium reserves, net	(290)	(2,122)	–	–	–	–	(2,412)
Net earned premiums	52,701	10,312	–	–	–	–	63,013
Reinsurance commission income	278	1,271	–	–	–	–	1,549
Interest income of banking operations	–	–	192	–	–	–	192
Other fees and commission income	73	–	10	–	1,092	(560)	615
Investment income	19,298	684	44	1,321	535	(11)	21,871
Other income	524	46	22	29	223	(141)	703
Total income	72,874	12,313	268	1,350	1,850	(712)	87,943
Change in deferred policy acquisition costs	4,808	672	–	–	–	–	5,480
Claims and policyholders' benefits	(58,890)	(7,178)	–	–	–	–	(66,068)
Changes in fair value of derivative financial liabilities	104	–	–	–	(4)	–	100
Commission expenses of insurance operations	(6,559)	(1,572)	–	–	–	53	(8,078)
Interest expenses of banking operations	–	–	(80)	–	–	–	(80)
Other fees and commission expenses	(32)	–	(3)	–	(47)	32	(50)
Loan loss provisions, net of reversals	–	–	(2)	–	(1)	–	(3)
Foreign currency losses	(413)	(16)	(1)	(26)	(10)	–	(466)
General and administrative expenses	(6,007)	(3,029)	(86)	(891)	(833)	616	(10,230)
Total expenses	(66,989)	(11,123)	(172)	(917)	(895)	701	(79,395)
Operating profit before tax	5,885	1,190	96	433	955	(11)	8,548
Income taxes	(181)	(142)	(25)	(42)	(158)	–	(548)
Net profit	5,704	1,048	71	391	797	(11)	8,000
Balance sheet							
Segment assets	359,825	24,211	85,591	31,272	15,751	(22,341)	494,309
Segment liabilities	340,917	19,621	79,410	1,721	9,833	(4,943)	446,559
Other segment information							
Capital expenditure	1,372	274	56	47	111	–	1,860
Depreciation	419	118	3	11	30	–	581
Amortization of prepaid land premiums	20	–	–	–	1	–	21
Impairment losses reversal	(90)	1	–	–	(60)	–	(149)
Total other non-cash expenses charged to consolidated results	31	69	–	–	3	–	103

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6. 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	Banking	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
Interest income of banking operations	–	–	25	–	–	–	25
Other fees and commission income	108	–	–	–	272	(126)	254
Investment income	8,545	398	–	624	88	–	9,655
Other income	302	51	–	74	96	(32)	491
Total income	54,986	8,988	25	698	456	(158)	64,995
Change in deferred policy acquisition costs	3,645	185	–	–	–	–	3,830
Claims and policyholders' benefits	(45,116)	(5,259)	–	–	–	–	(50,375)
Changes in fair value of derivative financial liabilities	(6)	–	–	–	–	–	(6)
Commission expenses of insurance operations	(5,168)	(820)	–	–	–	60	(5,928)
Interest expenses of banking operations	–	–	(7)	–	–	–	(7)
Other fees and commission expenses	(46)	–	–	–	(18)	46	(18)
Loan loss provisions, net of reversals	73	–	–	–	–	–	73
Foreign currency losses	(379)	(7)	–	(3)	(2)	(14)	(405)
General and administrative expenses	(4,321)	(2,294)	(11)	(416)	(371)	66	(7,347)
Total expenses	(51,318)	(8,195)	(18)	(419)	(391)	158	(60,183)
Operating profit before tax	3,668	793	7	279	65	–	4,812
Income taxes	(124)	(371)	–	(40)	(12)	–	(547)
Net profit	3,544	422	7	239	53	–	4,265
Balance sheet							
Segment assets	278,534	18,791	1,118	26,405	6,772	(11,914)	319,706
Segment liabilities	266,961	16,428	620	1,096	2,308	(1,229)	286,184
Other segment information							
Capital expenditure	872	149	–	31	27	–	1,079
Depreciation	389	107	1	3	36	–	536
Amortization of prepaid land premiums	20	–	–	–	–	–	20
Impairment losses recognized	52	–	–	–	23	–	75
Total other non-cash expenses charged to consolidated results	(60)	110	(1)	–	–	–	49

6. SEGMENT REPORTING *(Continued)*

Analysis of written premiums and policy fees is as follows:

For the year ended December 31, (in RMB million)	2006	2005
Gross		
Life		
Individual life		
Single premiums and policy fees	**2,954**	2,628
First year regular premiums and policy fees	**7,918**	5,497
Renewal premiums and policy fees	**34,998**	30,633
	45,870	38,758
Bancassurance		
Single premiums and policy fees	**614**	872
First year regular premiums and policy fees	**66**	35
Renewal premiums and policy fees	**248**	226
	928	1,133
Group insurance	**6,824**	7,054
Life business gross written premiums and policy fees	**53,622**	46,945
Property and casualty		
Automobile insurance	**11,057**	7,497
Non-automobile insurance	**4,207**	4,044
Accident and health insurance	**810**	535
Property and casualty business gross written premiums	**16,074**	12,076
Gross written premiums and policy fees	**69,696**	59,021
Net of reinsurance premiums ceded		
Life		
Individual life	**45,839**	38,600
Bancassurance	**928**	1,133
Group insurance	**6,224**	6,402
	52,991	46,135
Property and casualty		
Automobile insurance	**9,650**	6,304
Non-automobile insurance	**1,994**	1,851
Accident and health insurance	**790**	490
	12,434	8,645
Net written premiums and policy fees	**65,425**	54,780

As at December 31, 2006

7. GROSS WRITTEN PREMIUMS AND POLICY FEES

For the year ended December 31, (in RMB million)	2006	2005
Gross written premiums, policy fees and premium deposits, as reported in accordance with PRC Accounting Standards	**85,984**	71,624
Less: Business tax and surcharges	**(1,130)**	(857)
Gross written premiums, policy fees and premium deposits (net of business tax and surcharges)	**84,854**	70,767
Less: Premium deposits allocated to policyholder contract deposits	**(11,553)**	(8,532)
Premium deposits allocated to policyholder accounts	**(3,322)**	(3,214)
Premium deposits allocated to investment contracts	**(283)**	–
Gross written premiums and policy fees	**69,696**	59,021
Long term life business gross written premiums and policy fees	**48,578**	42,420
Short term life business gross written premiums	**5,044**	4,525
Property and casualty business gross written premiums	**16,074**	12,076
Gross written premiums and policy fees	**69,696**	59,021

8. NET INTEREST INCOME OF BANKING OPERATIONS

(1) Interest income of banking operations

For the year ended December 31, (in RMB million)	2006	2005
Loans and advances to customers	**132**	6
Balances with central bank	**5**	–
Cash and amounts due from banks and other financial institutions	**55**	19
Total	**192**	25

(2) Interest expenses of banking operations

For the year ended December 31, (in RMB million)	2006	2005
Customer deposits	**47**	1
Due to banks and other financial institutions	**33**	6
Total	**80**	7

(3) Net interest income of banking operations

For the year ended December 31, (in RMB million)	2006	2005
Interest income of banking operations	**192**	25
Less: interest expenses of banking operations	**(80)**	(7)
Net interest income of banking operations	**112**	18

9. NET OTHER FEES AND COMMISSION INCOME

(1) Other fees and commission income

For the year ended December 31, (in RMB million)	2006	2005
Credit related fees and commissions	**7**	–
Brokerage fees	**346**	115
Underwriting commission income	**140**	79
Trust service fees	**83**	16
Others	**39**	44
Total	**615**	254

(2) Other fees and commission expense

For the year ended December 31, (in RMB million)	2006	2005
Brokerage fees paid	**42**	7
Other fees paid	**8**	11
Total	**50**	18

(3) Net other fees and commission income

For the year ended December 31, (in RMB million)	2006	2005
Other fees and commission income	**615**	254
Less: other fees and commission expense	**(50)**	(18)
Net other fees and commission income	**565**	236

10. INVESTMENT INCOME

(1) Net investment income

For the year ended December 31, (in RMB million)	2006	2005
Interest income on fixed maturity investments		
Bonds		
– Held-to-maturity	**4,836**	4,315
– Available-for-sale	**1,717**	1,154
– Carried at fair value through profit or loss	**92**	50
Term deposits		
– Loans and receivables	**2,991**	3,463
Others		
– Loans and receivables	**88**	63
Dividend income on equity investments		
Equity investment funds		
– Available-for-sale	**1,625**	82
– Carried at fair value through profit or loss	**548**	90
Equity securities		
– Available-for-sale	**237**	84
– Carried at fair value through profit or loss	**113**	11
Operating lease income from investment properties	**117**	107
Interest expenses on assets sold under agreements to repurchase	**(166)**	(81)
Total	**12,198**	9,338
Yield of net investment income (% per annum)	**4.6**	4.2

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.

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10. INVESTMENT INCOME *(Continued)*

(2) Realized gains/(losses)

For the year ended December 31, (in RMB million)	2006	2005
Fixed maturity investments		
– Available-for-sale	**103**	258
– Carried at fair value through profit or loss	**170**	43
Equity investments		
– Available-for-sale	**2,923**	(253)
– Carried at fair value through profit or loss	**3,124**	(553)
Derivative financial instruments		
– Carried at fair value through profit or loss	**237**	–
Total	**6,557**	(505)

(3) Unrealized gains/(losses)

For the year ended December 31, (in RMB million)	2006	2005
Fixed maturity investments		
– Carried at fair value through profit or loss	**(9)**	10
Equity investments		
– Carried at fair value through profit or loss	**3,117**	808
Derivative financial instruments		
– Carried at fair value through profit or loss	**8**	4
Total	**3,116**	822

(4) Total investment income

For the year ended December 31, (in RMB million)	2006	2005
Net investment income	**12,198**	9,338
Realized gains/(losses)	**6,557**	(505)
Unrealized gains	**3,116**	822
Total	**21,871**	9,655
Yield of total investment income (% per annum)	**8.3**	4.3

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.

11. OTHER INCOME

For the year ended December 31, (in RMB million)	2006	2005
Investment-linked business administration fees	**219**	177
Interest income on cash equivalents from insurance operations	**214**	205
Others	**270**	109
Total	**703**	491

12. CLAIMS AND POLICYHOLDERS' BENEFITS

(1)

For the year ended December 31, (in RMB million)	2006 Gross	2006 Recovered from reinsurers	2006 Net
Claims and claim adjustment expenses	**12,735**	**(2,479)**	**10,256**
Surrenders	**6,293**	**–**	**6,293**
Annuities	**2,922**	**–**	**2,922**
Maturities and survival benefits	**3,167**	**–**	**3,167**
Policyholder dividends and provisions	**1,487**	**–**	**1,487**
Interest credited to policyholder contract deposits	**523**	**–**	**523**
Subtotal	**27,127**	**(2,479)**	**24,648**
Increase in policyholders' reserves	**41,420**	**–**	**41,420**
Total	**68,547**	**(2,479)**	**66,068**

For the year ended December 31, (in RMB million)	2005 Gross	2005 Recovered from reinsurers	2005 Net
Claims and claim adjustment expenses	10,304	(2,474)	7,830
Surrenders	5,618	–	5,618
Annuities	2,765	–	2,765
Maturities and survival benefits	3,369	–	3,369
Policyholder dividends and provisions	1,064	–	1,064
Interest credited to policyholder contract deposits	172	–	172
Subtotal	23,292	(2,474)	20,818
Increase in policyholders' reserves	29,557	–	29,557
Total	52,849	(2,474)	50,375

(2)

For the year ended December 31, (in RMB million)	2006 Gross	2006 Recovered from reinsurers	2006 Net
Long term life insurance contracts benefits	**56,960**	**(5)**	**56,955**
Short term life insurance claims	**2,469**	**(534)**	**1,935**
Property and casualty insurance claims	**9,118**	**(1,940)**	**7,178**
Total	**68,547**	**(2,479)**	**66,068**

For the year ended December 31, (in RMB million)	2005 Gross	2005 Recovered from reinsurers	2005 Net
Long term life insurance contracts benefits	43,615	(5)	43,610
Short term life insurance claims	2,082	(576)	1,506
Property and casualty insurance claims	7,152	(1,893)	5,259
Total	52,849	(2,474)	50,375

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13. OPERATING PROFIT BEFORE TAX

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

For the year ended December 31, (in RMB million)	2006	2005
Employee costs *(Note 13(2))*	**5,121**	3,095
Provision for insurance guarantee fund	**271**	209
Depreciation of investment properties	**86**	50
Depreciation of property and equipment	**495**	486
Amortization of prepaid land premiums	**21**	20
Loss/(gain) on disposal of property and equipment and investment properties	**(45)**	19
Charge/(write-back) of impairment losses on investment properties, property and equipment, and prepaid land premiums	**(149)**	75
Provision for doubtful debts, net	**100**	122
Loan loss provisions, net of reversals	**3**	(73)
Auditors' remuneration:		
– Annual audit fees	**14**	10
Operating lease payments in respect of land and buildings	**525**	506

(2) Employee costs

For the year ended December 31, (in RMB million)	2006	2005
Wages, salaries and bonuses	**4,079**	2,626
Retirement benefits, social security contributions and welfare benefits	**1,042**	469
Total	**5,121**	3,095

14. 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 and non-taxable 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 and Ping An Bank	15%
	– Located outside the Special Economic Zones	33%
Hong Kong profits tax	– Subsidiaries in Hong Kong Special Administrative Region	17.5%

14. INCOME TAXES *(Continued)*

For the year ended December 31, (in RMB million)	2006	2005
Consolidated income statement		
Current income tax	**635**	396
Less: 2004 and 2005 tax credit received in 2006	**(289)**	–
	346	396
Deferred income tax relating to the origination and reversal of temporary differences:		
Policyholders' reserves	**(982)**	(451)
Claim reserves	**(270)**	(64)
Unearned premium reserves	**(2)**	46
Deferred policy acquisition costs	**1,134**	575
Fair value adjustment on financial assets and liabilities carried at fair value through profit or loss	**462**	54
Others	**(140)**	(9)
Total deferred income tax	**202**	151
Income taxes reported in consolidated income statement	**548**	547
Consolidated statement of changes in equity		
Deferred income tax related to net unrealized gains charged directly to equity	**1,343**	260

During 2006, the Group received an approval from the State Administration of Taxation that the tax-deductible salaries of Ping An Life and Ping An Property & Casualty for 2004 are RMB1,154 million and RMB700 million, respectively and that their respective tax-deductible salaries for the years from 2005 would be determined based on their prior year's tax-deductible salaries and other financial factors in the current year. In 2006, the Group received a tax credit of RMB289 million for the 2004 and 2005 income tax paid/payable by Ping An Life and Ping An Property & Casualty.

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)	2006	2005
Accounting profit before income taxes	**8,548**	4,812
Tax computed at the main applicable tax rate of 15% (2005: 15%)	**1,282**	722
Tax effect of income not taxable in determining taxable income	**(1,133)**	(580)
Tax effect of expenses not deductible in determining taxable income	**531**	228
Tax credit received	**(289)**	–
Tax effect of higher tax rate on branches and entities (in the PRC) that are located outside the Special Economic Zones	**157**	177
Income taxes reported in consolidated income statement	**548**	547

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15. DIVIDENDS

For the year ended December 31, (in RMB million)	2006	2005
Dividends on ordinary shares declared during the year:		
Final dividend for 2005: Nil (2004: RMB0.14)	**–**	867
Special interim dividend for 2006: RMB0.20 (2005: Nil)	**1,239**	–
Interim dividend for 2006: RMB0.12 (2005: Nil)	**743**	–
	1,982	867
Dividends on ordinary shares proposed for approval at annual general meeting (not recognized as a liability as at December 31):		
Final dividend for 2006: RMB0.22 (2005: Nil)	**1,616**	–

16. EARNINGS PER SHARE

The basic earnings per share for the year is computed by dividing the net profit attributable to equity holders of the Company for the year by the weighted average number of 6,195,053,334 shares in issue during 2006 (2005: weighted average number of 6,195,053,334 shares in issue during the year).

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

17. BALANCES WITH CENTRAL BANK AND STATUTORY DEPOSITS

As at December 31, (in RMB million)	2006	2005
Mandatory deposits with central bank for banking operations	**5,787**	9
Other deposits with central bank	**1,927**	11
Statutory deposits for insurance operations	**1,520**	1,240
Total	**9,234**	1,260

Details of statutory deposits for insurance operations are as follows:

As at December 31, (in RMB million)	2006	2005
Ping An Life	**760**	760
Ping An Property & Casualty	**600**	320
Ping An Health	**100**	100
Ping An Annuity	**60**	60
Total	**1,520**	1,240
Maturing:		
Within 1 year	**1,520**	340
1-5 years	**–**	900
Total	**1,520**	1,240

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.

18. CASH AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

As at December 31, (in RMB million)	**2006**	2005
Cash on hand	**347**	14
Term deposits	**77,463**	69,399
Due from banks and other financial institutions	**16,375**	11,538
Loans and advances	**1,727**	131
Total	**95,912**	81,082
Current portion*	**61,489**	29,773
Non-current portion	**34,423**	51,309
Total	**95,912**	81,082

* Expected recovery or settlement within 12 months from the balance sheet date.

Amounts due from banks and other financial institutions

As at December 31, (in RMB million)	**2006**	2005
Top five banks		
China Construction Bank Corporation	**21,741**	10,390
Industrial Bank Co., Ltd.	**11,429**	5,438
China Minsheng Banking Corp., Ltd.	**11,062**	9,061
Bank of China Limited	**7,542**	11,980
Agricultural Bank of China	**5,787**	3,085
Other banks		
Industrial and Commercial Bank of China Limited	**5,327**	10,204
Guangdong Development Bank	**5,046**	5,343
The Hongkong and Shanghai Banking Corporation Limited	**710**	232
Others	**26,921**	25,335
Total	**95,565**	81,068

Due from banks and other financial institutions amounting to RMB259 million as at December 31, 2006 (2005: Nil) were pledged by the Group as collateral for warrants issued by a subsidiary of the Group.

Notes to Financial Statements

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19. FIXED MATURITY INVESTMENTS

As at December 31, (in RMB million)	2006	2005
Bonds	**207,309**	159,749
Policy loans	**1,381**	864
Assets purchased under agreements to resell	**6,950**	–
Total	**215,640**	160,613

Bonds

As at December 31, (in RMB million)	2006	2005
Held-to-maturity, at amortized cost	**130,960**	117,924
Available-for-sale, at fair value	**64,640**	36,038
Carried at fair value through profit or loss		
Held-for-trading	**11,709**	5,787
Total	**207,309**	159,749
Government bonds	**94,940**	93,033
Finance bonds	**68,625**	42,495
Corporate bonds	**43,744**	24,221
Total	**207,309**	159,749
Listed	**50,626**	49,053
Unlisted	**156,683**	110,696
Total	**207,309**	159,749

20. EQUITY INVESTMENTS

As at December 31, (in RMB million)	2006	2005
Equity investment funds	**14,934**	15,682
Equity securities	**31,795**	5,183
Total	**46,729**	20,865

(1) Equity investment funds

As at December 31, (in RMB million)	2006	2005
Available-for-sale, at fair value	**8,286**	6,860
Carried at fair value through profit or loss		
Held-for-trading	**6,020**	8,563
Designated at fair value	**628**	259
Total	**14,934**	15,682
Listed	**2,849**	1,851
Unlisted	**12,085**	13,831
Total	**14,934**	15,682

20. EQUITY INVESTMENTS *(Continued)*

(2) Equity securities

As at December 31, (in RMB million)	2006	2005
Available-for-sale, at fair value	**23,340**	4,507
Carried at fair value through profit or loss		
Held-for-trading	**8,455**	676
Total	**31,795**	5,183
Listed	**31,395**	4,973
Unlisted	**400**	210
Total	**31,795**	5,183

Held-for-trading equity securities amounting to RMB94 million as at December 31, 2006 (2005: Nil) were pledged by the Group as collateral for warrants issued by a subsidiary of the Group.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2006		2005	
As at December 31, (in RMB million)	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Options embedded in convertible bonds	**10**	**–**	27	–
Derivatives embedded in insurance policies	**–**	**29**	–	133
Stock warrants	**–**	**88**	–	–
Interest rate swaps	**11**	**61**	–	–
Total	**21**	**178**	27	133

As at December 31, (in RMB million)	2006	2005
Nominal amount of interest rate swaps	**2,506**	–
Nominal amount of forward currency contracts	**5**	–
Total	**2,511**	–

22. LOAN AND ADVANCES TO CUSTOMERS

As at December 31, (in RMB million)	2006	2005
Corporate customers	**32,020**	347
Public authorities	**3,269**	–
Private customers	**16,294**	278
Subtotal	**51,583**	625
Less: loan loss provisions	**(2,431)**	(94)
Total	**49,152**	531
Current portion*	**28,027**	401
Non-current portion	**21,125**	130
Total	**49,152**	531

* Expected recovery or settlement within 12 months from the balance sheet date.

Loans and advances to customers amounting to RMB2,231 million are used as collateral for collateralized borrowings of the Group.

As at December 31, 2006

22. LOAN AND ADVANCES TO CUSTOMERS *(Continued)*

Movement in loan loss provisions is as follows:

(in RMB million)	2006	2005
As at January 1	**94**	196
Acquisition of SZCB	**2,529**	–
Additions	**3**	–
Accredited interest on impaired loans	**(2)**	–
Write-off	**(193)**	(29)
Reversal	**–**	(73)
As at December 31	**2,431**	94

23. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

Particulars of the Company's principal subsidiaries and an associate as at December 31, 2006 are set out below:

Subsidiaries	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	99.06%	–	3,000,000,000	Property and casualty insurance
China Ping An Trust & Investment Co., Ltd.	November 19, 1984 The PRC	99.88%	–	4,200,000,000	Trust and investment
Ping An Securities Company, Ltd.	July 18, 1996 The PRC	–	86.11%	1,800,000,000	Security investment and brokerage
Shenzhen Commercial Bank Co., Ltd.	August 3, 1995 The PRC	89.36%	–	5,502,000,000	Banking
Ping An Bank Limited	January 8, 1993 The PRC	–	72.91%	613,845,000	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 of China Asset Management (Hong Kong) Company Limited	May 16, 2006 Hong Kong	–	100%	HK$25,000,000	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$555,000,000	Investment holding

23. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE *(Continued)*

Subsidiaries	Date/place of incorporation	Attributable equity interest Direct	Attributable equity interest Indirect	Registered and paid-up capital (RMB unless otherwise stated)	Principal activities
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	–	93.13%	50,000,000	Futures brokerage
Shenzhen Ping An Industries Co., Ltd.	November 24, 1992 The PRC	–	99.88%	20,000,000	Investment
Shenzhen Ping An Property Investment and Management Co., Ltd.	January 6, 1995 The PRC	–	99.88%	20,000,000	Property management
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	–	99.88%	300,000,000	Real estate investment
Yuxi Ping An Real Estate Co., Ltd.	July 31, 2006 The PRC	–	79.90%	38,500,000	Property leasing
Shenzhen Xin An Investment Consultant Co., Ltd	September 5, 2005 The PRC	–	99.88%	3,000,000	Consulting
Pan-China Real Estate (Jingzhou) Co., Ltd	March 1, 2005 The PRC	–	50.94%	US$9,700,000	Real estate investment
Anseng Investment Company Limited	April 6, 2006 BVI	–	100.00%	US$2	Investment holding
Timely Reach Investments Limited	August 11, 2006 BVI	–	100.00%	US$1	Investment holding
Total Faith Investments Limited	September 8, 2006 BVI	–	100.00%	US$1	Investment holding
Jade Reach Investments Limited	November 13, 2006 BVI	–	100.00%	US$1	Investment holding

Associates	Date/place of incorporation	Attributable equity interest Direct	Attributable equity interest Indirect	Registered and paid-up capital (RMB unless otherwise stated)	Principal activities
Veolia Water (Kunming) Investment Limited	May 11, 2005 Hong Kong	–	24.00%	US$95,000,000	Water services investment

As at December 31, 2006

24. PREMIUM RECEIVABLES

As at December 31, (in RMB million)	2006	2005
Premium receivables	**3,094**	841
Less: Provision for doubtful receivables	**(155)**	(92)
Premium receivables, net	**2,939**	749

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

An aging analysis of premium receivables is as follows:

As at December 31, (in RMB million)	2006	2005
Within 3 months	**2,838**	676
Over 3 and within 6 months	**79**	58
Over 6 months	**22**	15
Total	**2,939**	749

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

25. REINSURANCE ASSETS

As at December 31, (in RMB million)	2006	2005
Ceded unearned premium reserves	**2,406**	2,495
Anticipated claims recoverable from reinsurers in respect of outstanding claims	**1,724**	1,690
Total	**4,130**	4,185

26. DEFERRED POLICY ACQUISITION COSTS

	2006			2005		
	Life	**Property and Casualty**	**Total**	Life	Property and Casualty	Total
As at January 1	**25,295**	**1,133**	**26,428**	21,674	948	22,622
Deferred	**7,852**	**2,931**	**10,783**	6,443	1,646	8,089
Amortized	**(3,044)**	**(2,259)**	**(5,303)**	(2,798)	(1,461)	(4,259)
Effect of net unrealized gains on investments	**(42)**	**–**	**(42)**	(24)	–	(24)
As at December 31	**30,061**	**1,805**	**31,866**	25,295	1,133	26,428

27. INVESTMENT PROPERTIES

(in RMB million)	2006	2005
Cost		
Beginning of year	**1,762**	1,969
Acquisition of SZCB	**124**	–
Additions	**398**	1
Transfer from/(to) property and equipment, net	**41**	(131)
Disposal	**(407)**	(77)
End of year	**1,918**	1,762
Accumulated depreciation and impairment losses		
Beginning of year	**519**	465
Acquisition of SZCB	**17**	–
Charge for the year	**86**	50
Transfer to property and equipment, net	**(1)**	(22)
Disposal	**(79)**	(56)
Charge/(write-back) of impairment losses for the year	**(152)**	82
End of year	**390**	519
Net book value		
End of year	**1,528**	1,243
Beginning of year	**1,243**	1,504
Fair value	**2,095**	1,666

The fair value of the investment properties as at December 31, 2006 was estimated by the directors of the Company having regard to valuations during 2004-2006 performed by firms of independent valuers.

The rental income arising from investment properties during the year amounted to RMB117 million (2005: RMB107 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 RMB93 million as at December 31, 2006 (2005: RMB225 million).

As at December 31, 2006

28. PROPERTY AND EQUIPMENT

(in RMB million)	Leasehold improvements	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost						
As at January 1, 2005	692	2,336	1,426	448	230	5,132
Additions	115	126	297	76	464	1,078
Transfer of construction in progress	48	–	–	–	(48)	–
Transfer from investment properties, net	–	131	–	–	–	131
Disposals	(383)	(82)	(144)	(124)	–	(733)
As at December 31, 2005	472	2,511	1,579	400	646	5,608
Acquisition of SZCB	72	363	106	1	10	552
Additions	46	115	368	86	764	1,379
Transfer of construction in progress	103	673	–	–	(776)	–
Transfer to investment properties, net	–	(41)	–	–	–	(41)
Disposals	(125)	(27)	(103)	(74)	–	(329)
As at December 31, 2006	568	3,594	1,950	413	644	7,169
Accumulated depreciation and impairment losses						
As at January 1, 2005	523	458	870	316	26	2,193
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	26	2,070
Acquisition of SZCB	47	30	33	–	–	110
Depreciation charge	96	152	196	51	–	495
Transfer from investment properties, net	–	1	–	–	–	1
Disposals	(125)	(17)	(64)	(55)	(15)	(276)
Impairment losses	–	3	–	–	–	3
As at December 31, 2006	303	746	1,097	246	11	2,403
Net book value						
As at December 31, 2006	265	2,848	853	167	633	4,766
As at December 31, 2005	187	1,934	647	150	620	3,538

The Group is still in the process of applying for the title certificates for its buildings with a net book value of RMB187 million as at December 31, 2006 (2005: RMB140 million).

29. INTANGIBLE ASSETS

(in RMB million)	Goodwill	Prepaid land premiums	Other intangible assets	Total
Cost				
As at January 1, 2005	327	997	243	1,567
Additions	–	47	67	114
As at December 31, 2005	327	1,044	310	1,681
Additions	82	2	81	165
Acquisition of SZCB	–	–	9	9
Disposal	–	(20)	(16)	(36)
As at December 31, 2006	409	1,026	384	1,819
Accumulated amortization and impairment losses				
As at January 1, 2005	–	69	134	203
Amortization charge	–	20	47	67
As at December 31, 2005	–	89	181	270
Amortization charge	–	21	60	81
Disposal	–	–	(16)	(16)
As at December 31, 2006	–	110	225	335
Net book value				
As at December 31, 2006	409	916	159	1,484
As at December 31, 2005	327	955	129	1,411

(1) 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 pretax, company specific risk adjusted discount rates. 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.

(2) Prepaid land premiums

Prepaid land premiums are acquired under PRC laws for fixed periods, and the related costs are amortized on a straight-line basis. All of the Group's prepaid land premiums are related to lands located in the PRC. The net book value of the prepaid land premiums as at December 31, 2006 is expected to be amortized over lease terms ranging from 50 to 70 years (2005: 50 to 70 years).

The Group is still in the process of applying for the title certificates for prepaid land premiums with a net book value of RMB498 million as at December 31, 2006 (2005: RMB506 million). This amount as at December 31, 2006 represents costs incurred to acquire lands in Shanghai for the construction of new properties. In the opinion of the Company's management, where necessary, adequate provision for impairment losses has been made for prepaid land premiums without title certificates as at December 31, 2006.

As at December 31, 2006

30. OTHER ASSETS AND RECEIVABLES

As at December 31, (in RMB million)	2006	2005
Prepayments	**1,689**	–
Due from reinsurers	**787**	704
Interest receivables	**611**	438
Settled assets	**464**	8
Interest rate swap deposits	**238**	–
Other assets	**1,594**	723
Total	**5,383**	1,873

31. SHARE CAPITAL

As at December 31, (in million)	2006	2005
Number of shares registered, issued and fully paid at RMB1 each	**6,195**	6,195

32. 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

(in RMB million)	*Note*	Capital reserve	Surplus reserve fund	Statutory public welfare fund	General reserve	Net unrealized gains/ (losses)	Retained profits/ (accumulated losses)	Total
As at January 1, 2006		14,835	4,743	783	395	24	(1,652)	19,128
Net profit for 2006		–	–	–	–	–	5,920	5,920
Net gains on available-for-sale investments		–	–	–	–	848	–	848
Net gains on available-for-sale investments removed from equity and reported in net profit		–	–	–	–	(188)	–	(188)
Deferred tax recognized, net		–	–	–	–	(99)	–	(99)
Dividends declared	*15*	–	–	–	–	–	(1,982)	(1,982)
Transfer to statutory surplus reserve fund		–	783	(783)	–	–	–	–
Appropriations to statutory surplus reserve fund		–	600	–	–	–	(600)	–
As at December 31, 2006		14,835	6,126	–	395	585	1,686	23,627
As at January 1, 2005		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)
Dividends declared	*15*	–	–	–	–	–	(867)	(867)
Appropriations to statutory reserve		–	334	167	–	–	(501)	–
As at December 31, 2005		14,835	4,743	783	395	24	(1,652)	19,128

32. RESERVES *(Continued)*

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 Accounting Standards, to a statutory surplus reserve fund. The Company can cease such profit appropriation to this fund if the fund reaches 50% of the Company's registered share capital. The Company may also make appropriations from its net profit to the discretionary surplus 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 surplus reserve fund.

According to the revised PRC Company Law effective January 1, 2006, the Group is no longer required to make appropriation for statutory public welfare fund. According to a circular effective on April 1, 2006 which was issued by the Ministry of Finance, the Company has transferred the balance of statutory public welfare fund as at January 1, 2006 to statutory surplus reserve fund.

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 surplus reserve fund, discretionary surplus reserve fund and capital reserve can be transferred to share capital. The balance of the statutory surplus reserve fund 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 Accounting Standards and (ii) the retained profits determined in accordance with IFRSs.

The profit appropriation for the year ended December 31, 2005 was approved in the shareholders' meeting held in 2006.

According to the Company's Articles of Association, the Company has to make appropriations to the statutory surplus reserve fund as at each financial year end. Accordingly, the appropriation to the statutory surplus reserve fund was incorporated in the consolidated financial statements for the years ended December 31, 2005 and 2006, respectively.

33. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

As at December 31, (in RMB million)	**2006**	2005
Deposits from other banks and financial institutions	**3,465**	37
Short-term borrowing	**1,518**	–
Long-term borrowing	**155**	–
Total	**5,138**	37
Current portion*	**4,983**	37
Non-current portion	**155**	–
Total	**5,138**	37

* Expected recovery or settlement within 12 months from the balance sheet date.

34. ASSETS SOLD UNDER AGREEMENTS TO REPURCHASE

The face value of the assets which are used as collateral for the collateralized borrowings of the Group approximates the borrowed amount.

As at December 31, 2006

35. CUSTOMER DEPOSITS

As at December 31, (in RMB million)	2006	2005
Corporate customers		
– Current accounts	**38,838**	95
– Term deposits	**21,911**	–
– Settlement balances	**348**	446
Individual customers		
– Current/saving accounts	**5,744**	–
– Term deposits	**5,677**	–
– Settlement balances	**3,442**	1,284
Total	**75,960**	1,825
Current portion*	**72,413**	–
Non-current portion	**3,547**	1,825
Total	**75,960**	1,825

* Expected recovery or settlement within 12 months from the balance sheet date.

36. INSURANCE CONTRACT LIABILITIES

As at December 31, (in RMB million)	2006	2005
Policyholders' reserves	**268,360**	223,538
Policyholder contract deposits	**20,844**	9,795
Policyholder account liabilities in respect of insurance contracts	**20,961**	12,820
Unearned premium reserves	**13,371**	11,048
Claim reserves	**6,677**	5,824
Total	**330,213**	263,025

	2006			2005		
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	**310,424**	**–**	**310,424**	246,326	–	246,326
Short term life insurance contracts	**3,134**	**(466)**	**2,668**	2,785	(549)	2,236
Property and casualty insurance contracts	**16,655**	**(3,664)**	**12,991**	13,914	(3,636)	10,278
Total	**330,213**	**(4,130)**	**326,083**	263,025	(4,185)	258,840

As at December 31, (in RMB million)	2006	2005
Current gross insurance contract liabilities*		
Long term life	**11,755**	5,009
Short term life	**3,100**	2,757
Property and casualty	**12,105**	9,264
Non-current gross insurance contract liabilities		
Long term life	**298,669**	241,317
Short term life	**34**	28
Property and casualty	**4,550**	4,650
Total	**330,213**	263,025

* Expected recovery or settlement within 12 months from the balance sheet date.

36. INSURANCE CONTRACT LIABILITIES *(Continued)*

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

As at December 31, (in RMB million)	2006	2005
Policyholders' reserves	**268,360**	223,538
Policyholder contract deposits	**20,844**	9,795
Policyholder account liabilities in respect of insurance contracts	**20,961**	12,820
Claim reserves	**259**	173
Total	**310,424**	246,326

The policyholders' reserves are analyzed as follows:

(in RMB million)	2006	2005
As at January 1	**223,538**	193,770
New business	**10,154**	8,280
Inforce change	**31,266**	21,277
Effect of net unrealized gain on investments through equity	**3,402**	211
As at December 31	**268,360**	223,538

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)	2006	2005
Unearned premium reserves	**2,441**	2,227
Claim reserves	**693**	558
Total	**3,134**	2,785

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

	2006			2005		
(in RMB million)	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
As at January 1	**2,227**	**(349)**	**1,878**	1,901	(354)	1,547
Premiums written in the year	**5,125**	**(610)**	**4,515**	4,683	(793)	3,890
Premiums earned during the year	**(4,911)**	**686**	**(4,225)**	(4,357)	798	(3,559)
As at December 31	**2,441**	**(273)**	**2,168**	2,227	(349)	1,878

As at December 31, 2006

36. INSURANCE CONTRACT LIABILITIES *(Continued)*

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

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

	2006			2005		
(in RMB million)	**Gross**	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
As at January 1	**558**	**(200)**	**358**	534	(183)	351
Claims incurred during the year	**2,469**	**(534)**	**1,935**	2,082	(576)	1,506
Claims paid during the year	**(2,334)**	**541**	**(1,793)**	(2,058)	559	(1,499)
As at December 31	**693**	**(193)**	**500**	558	(200)	358

(3) Property and casualty insurance contracts

As at December 31, (in RMB million)	**2006**	2005
Unearned premium reserves	**10,930**	8,821
Claim reserves	**5,725**	5,093
Total	**16,655**	13,914

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

	2006			2005		
(in RMB million)	**Gross**	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
As at January 1	**8,821**	**(2,146)**	**6,675**	7,571	(2,146)	5,425
Premiums written in the year	**16,995**	**(3,640)**	**13,355**	12,775	(3,431)	9,344
Premiums earned during the year	**(14,886)**	**3,653**	**(11,233)**	(11,525)	3,431	(8,094)
As at December 31	**10,930**	**(2,133)**	**8,797**	8,821	(2,146)	6,675

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

	2006			2005		
(in RMB million)	**Gross**	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
As at January 1	**5,093**	**(1,490)**	**3,603**	4,424	(1,559)	2,865
Claims incurred during the year	**9,118**	**(1,940)**	**7,178**	7,152	(1,893)	5,259
Claims paid during the year	**(8,486)**	**1,899**	**(6,587)**	(6,483)	1,962	(4,521)
As at December 31	**5,725**	**(1,531)**	**4,194**	5,093	(1,490)	3,603

37. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

As at December 31, (in RMB million)	2006	2005
Policyholder account liabilities in respect of investment contracts	3,971	3,078
Investment contract reserves	262	14
Total	4,233	3,092
Current portion*	61	22
Non-current portion	4,172	3,070
Total	4,233	3,092

* Expected recovery or settlement within 12 months from the balance sheet date.

The investment contract liabilities are analyzed as follows:

(in RMB million)	2006	2005
As at January 1	3,092	3,160
Premiums received	634	291
Interest credited to policyholders	654	133
Liabilities released for benefits paid	(286)	(462)
Policy administration fees and surrender charges deducted	(41)	(54)
Others	180	24
As at December 31	4,233	3,092

38. DEFERRED INCOME TAX ASSETS/LIABILITIES

As at December 31, (in RMB million)	2006	2005
Net deferred income tax liabilities, beginning of year	49	(362)
Recognized as income or expenses	202	151
Recognized in equity	1,343	260
Recognized from acquisition of SZCB	(354)	–
Net deferred income tax liabilities, end of year	1,240	49
Net deferred income tax (assets)/liabilities		
Policyholders' reserves	(5,364)	(3,872)
Deferred policy acquisition costs	5,093	3,965
Claim reserves	(501)	(231)
Unearned premium reserves	13	15
Fair value adjustment on available-for-sale investments and financial assets and liabilities carried at fair value through profit or loss	2,537	216
Loan loss provisions	(280)	–
Provisions for placement and settled assets	(103)	–
Others	(155)	(44)
Total	1,240	49

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 4.3% in 2007 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.

Expenses

Maintenance expenses assumptions reflect the projected costs of maintaining and servicing in force policies. 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 2006, the long term life insurance policyholders' reserves increased by RMB1,659 million due to the recognition of changes in lapse rate assumptions.

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

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	Impact on gross policyholders' reserves* (In RMB million)	Impact of assumption change as a percentage of gross policyholders' reserves
Investment return increased by 25 basis points	(1,070)	(0.40%)
Investment return decreased by 25 basis points	1,141	0.43%
10% increase in maintenance expense rates	17	0.01%
10% decrease in morbidity/mortality rates	374	0.14%
10% decrease in policy lapse rates	253	0.09%

* Including investment contracts with discretionary participation features

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.

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39. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES *(Continued)*

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

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	**2006**
Reserves for losses and allocated loss adjustment expenses	1,824	2,652	3,452	**4,025**
Paid (cumulative) as of:				
One year later	1,035	1,336	1,829	**–**
Two years later	1,318	1,743	–	**–**
Three years later	1,469	–	–	**–**
Reserve re-estimated as of:				
One year later	1,963	2,626	2,933	**–**
Two years later	1,892	2,098	–	**–**
Three years later	1,762	–	–	**–**
Redundancy/(deficiency)	62	554	519	**–**
Reserves for loss and allocated loss adjustment expenses	1,824	2,652	3,452	**4,025**
Reserves for unallocated loss adjustment expenses	153	213	151	**169**
Total reserves included in the balance sheet	1,977	2,865	3,603	**4,194**

	Short term life insurance			
As at December 31, (in RMB million)	2003	2004	2005	**2006**
Reserves for net losses and allocated loss adjustment expenses	305	351	358	**500**
Paid (cumulative) as of:				
One year later	258	338	432	**–**
Two years later	271	355	–	**–**
Three years later	274	–	–	**–**
Net liability re-estimated as of:				
One year later	272	356	443	**–**
Two years later	271	355	–	**–**
Three years later	274	–	–	**–**
Redundancy/(deficiency)	31	(4)	(85)	**–**

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. In other words, 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, 2006 by approximately RMB210 million and RMB25 million, respectively.

39. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – ASSUMPTIONS AND SENSITIVITIES *(Continued)*

(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.

40. OTHER LIABILITIES

As at December 31, (in RMB million)	2006	2005
Annuity and other insurance payable	3,183	2,451
Premiums received in advance	1,353	1,880
Salaries and welfare payable	2,019	618
Commission payable	894	633
Due to reinsurers	746	533
Insurance guarantee fund	82	60
Others	2,669	1,444
Total	10,946	7,619

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 Accounting Standards. 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 Accounting Standards.

The balance of the insurance guarantee fund as at December 31, 2006 will be paid to the China Insurance Regulatory Commission in 2007.

41. FIDUCIARY ACTIVITIES

As at December 31, (in RMB million)	2006	2005
Assets under trust schemes	16,677	3,330
Assets under corporate annuity schemes	634	128
Entrusted loans	2,120	–
Total	19,431	3,458

42. 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.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, or refuse to pay premiums, etc. Thus, the resultant insurance risk is subject to policyholders' behavior and decisions.

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note 6.

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, 2006, the Group's monetary assets net of monetary liabilities denominated in foreign currencies amounted to approximately RMB13,564 million (December 31, 2005: approximately RMB14,223 million).

42. RISK MANAGEMENT *(Continued)*

Market risk *(Continued)*

(a) Foreign currency risk *(Continued)*

The foreign currency risk of the Group's banking operations is analyzed as follows:

	2006			
As at December 31, (in RMB million)	**RMB**	**USD**	**Other currencies**	**Total**
Assets:				
Balances with central bank	**7,445**	**173**	**96**	**7,714**
Cash and amounts due from banks and other financial institutions	**2,169**	**1,881**	**853**	**4,903**
Assets purchased under agreement to resell	**6,941**	**–**	**–**	**6,941**
Derivative financial assets	**–**	**11**	**–**	**11**
Loans and advances to customers	**45,362**	**1,048**	**173**	**46,583**
Investments	**15,602**	**1,122**	**390**	**17,114**
Other assets	**2,052**	**224**	**49**	**2,325**
Total assets	**79,571**	**4,459**	**1,561**	**85,591**
Liabilities:				
Due to banks and other financial institutions	**2,359**	**2,206**	**354**	**4,919**
Customer deposits	**70,395**	**1,608**	**1,041**	**73,044**
Assets sold under agreement to repurchase	**301**	**–**	**–**	**301**
Derivative financial liabilities	**–**	**61**	**–**	**61**
Other liabilities	**1,022**	**33**	**30**	**1,085**
Total liabilities	**74,077**	**3,908**	**1,425**	**79,410**
Net assets position	**5,494**	**551**	**136**	**6,181**

	2005			
As at December 31, (in RMB million)	RMB	USD	Other currencies	Total
Assets:				
Balances with central bank	8	12	–	20
Cash and amounts due from banks and other financial institutions	1	832	1	834
Loans and advances to customers	–	252	–	252
Other assets	1	11	–	12
Total assets	10	1,107	1	1,118
Liabilities:				
Due to banks and other financial institutions	–	557	–	557
Customer deposits	–	58	–	58
Other liabilities	1	4	–	5
Total liabilities	1	619	–	620
Net assets	9	488	1	498

42. RISK MANAGEMENT *(Continued)*

Market risk *(Continued)*

(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.

(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.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Interest on floating rate instruments is re-priced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

The following table sets out the Group's financial instruments exposed to interest rate risk by contractual repricing or maturity date, whichever is earlier, and effective interest rate:

Bonds

	2006			
As at December 31, (in RMB million)	**Held-to-maturity**	**Available-for-sale**	**Carried at fair value through profit or loss**	**Total**
Within 1 year	**9,273**	**4,866**	**8,683**	**22,822**
1-2 years	**4,782**	**2,684**	**467**	**7,933**
2-3 years	**2,820**	**3,165**	**246**	**6,231**
3-4 years	**1,092**	**1,578**	**–**	**2,670**
4-5 years	**19,874**	**3,072**	**208**	**23,154**
More than 5 years	**93,119**	**49,275**	**2,105**	**144,499**
Total	**130,960**	**64,640**	**11,709**	**207,309**
Fixed rate	**123,560**	**60,278**	**11,006**	**194,844**
Floating rate	**7,400**	**4,362**	**703**	**12,465**
Total	**130,960**	**64,640**	**11,709**	**207,309**
Effective interest rate (% per annum)	**2.29-7.02**	**2.23-6.16**	**N/A**	**2.23-7.02**

42. RISK MANAGEMENT *(Continued)*

Market risk *(Continued)*

(c) Interest rate risk *(Continued)*

Bonds (Continued)

As at December 31, (in RMB million)	2005 Held-to-maturity	Available-for-sale	Carried at fair value through profit or loss	Total
Within 1 year	2,876	4,412	4,636	11,924
1-2 years	1,349	1,390	76	2,815
2-3 years	3,868	2,204	561	6,633
3-4 years	2,438	2,646	133	5,217
4-5 years	898	1,684	–	2,582
More than 5 years	106,495	23,702	381	130,578
Total	117,924	36,038	5,787	159,749
Fixed rate	115,174	32,332	5,014	152,520
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	N/A	1.95-7.02

Other financial assets

As at December 31, (in RMB million)	**2006 Balances with central bank and statutory deposits**	**Cash and amounts due from banks and other financial institutions**	**Assets purchased under agreements to resell**	**Policy loans**	**Loans and advances to customers**
Within 1 year	**3,447**	**75,645**	**6,950**	**1,381**	**47,440**
1-2 years	**–**	**94**	**–**	**–**	**685**
2-3 years	**–**	**399**	**–**	**–**	**251**
3-4 years	**–**	**430**	**–**	**–**	**605**
4-5 years	**–**	**6,620**	**–**	**–**	**34**
More than 5 years	**5,592**	**12,377**	**–**	**–**	**124**
Overdue/Non-interest earning	**195**	**347**	**–**	**–**	**13**
Total	**9,234**	**95,912**	**6,950**	**1,381**	**49,152**
Fixed rate	**8,539**	**66,813**	**6,950**	**1,381**	**23,193**
Floating rate	**500**	**28,752**	**–**	**–**	**25,946**
Overdue/Non-interest earning	**195**	**347**	**–**	**–**	**13**
Total	**9,234**	**95,912**	**6,950**	**1,381**	**49,152**
Effective interest rate (% per annum)	**0.99-4.17**	**1.62-8.80**	**1.46-10.00**	**5.25-6.50**	**1.52-10.00**

As at December 31, 2006

42. RISK MANAGEMENT *(Continued)*

Market risk *(Continued)*

(c) ***Interest rate risk*** *(Continued)*

Other financial assets (Continued)

As at December 31, (in RMB million)	2005 Balances with central bank and statutory deposits	Cash and amounts due from banks and other financial institutions	Policy loans	Loans and advances to customers
Within 1 year	857	57,897	864	531
1-2 years	400	9,265	–	–
2-3 years	–	97	–	–
3-4 years	–	–	–	–
4-5 years	–	430	–	–
More than 5 years	–	13,379	–	–
Overdue/Non-interest earning	3	14	–	–
Total	1,260	81,082	864	531
Fixed rate	757	39,681	864	531
Floating rate	500	41,387	–	–
Overdue/Non-interest earning	3	14	–	–
Total	1,260	81,082	864	531
Effective interest rate (% per annum)	1.89-4.17	0.72-8.80	5.22-6.50	2.31-6.12

Financial liabilities

As at December 31, (in RMB million)	**2006 Assets sold under agreements to repurchase**	**Due to banks and other financial institutions**	**Customer deposits**
Within 1 year	**13,334**	**4,927**	**73,863**
1-2 years	**102**	**211**	**479**
2-3 years	**–**	**–**	**346**
3-4 years	**–**	**–**	**62**
4-5 years	**–**	**–**	**961**
More than 5 years	**–**	**–**	**–**
Overdue/Non-interest bearing	**–**	**–**	**249**
Total	**13,436**	**5,138**	**75,960**
Fixed rate	**12,995**	**5,056**	**73,111**
Floating rate	**441**	**82**	**2,600**
Overdue/Non-interest bearing	**–**	**–**	**249**
Total	**13,436**	**5,138**	**75,960**
Effective interest rate (% per annum)	**2.30-5.00**	**2.31-6.60**	**0.00-3.60**

42. RISK MANAGEMENT *(Continued)*

Market risk *(Continued)*

(c) Interest rate risk *(Continued)*

Financial liabilities (Continued)

As at December 31, (in RMB million)	2005 Assets sold under agreements to repurchase	Due to banks and other financial institutions	Customer deposits
Within 1 year	7,095	37	1,825
1-2 years	–	–	–
2-3 years	–	–	–
3-4 years	–	–	–
4-5 years	–	–	–
More than 5 years	–	–	–
Total	7,095	37	1,825
Fixed rate	7,095	4	1,825
Floating rate	–	33	–
Overdue/Non-interest bearing	–	–	–
Total	7,095	37	1,825
Effective interest rate (% per annum)	1.52-1.78	0.78-4.62	0.00-1.62

As at December 31, 2006

42. RISK MANAGEMENT *(Continued)*

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, loans and advances, investments in bonds, equity investments, reinsurance arrangements with reinsurers, policy loans, etc. The Group mitigates credit risk by using a variety of controls including utilizing credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counter party exposure limits.

The majority of the Group's loans and advance are for use within Mainland China, and major off-balance sheet items such as bank acceptances are also related to the domestic customers in Mainland China. However, different industries in Mainland China have their unique characteristics in terms of economic development. Therefore, each industry in Mainland China could present a different credit risk.

The Group carries out credit assessment before granting credit to individual customers and monitors on a regular basis the credit granted. Credit risk is also managed through obtaining collateral and guarantees. In the case of off-balance sheet credit related commitments, guarantee deposits are in general received by the Group to reduce credit risk.

The composition by industry of the Group's loans and advances to customers' gross of loan loss provisions is as follows:

As at December 31, (in RMB million)	2006	%	2005	%
Agriculture, forestry and fishing	**187**	**0.4**	–	–
Mining	**683**	**1.3**	–	–
Manufacturing	**9,198**	**17.8**	148	23.7
Energy and utilities	**927**	**1.8**	–	–
Transportation and logistics	**1,386**	**2.7**	40	6.4
Commercial	**7,374**	**14.3**	–	–
Real estate	**7,810**	**15.1**	65	10.4
Public services	**4,573**	**8.9**	–	–
Construction	**1,773**	**3.4**	–	–
Financial services	**40**	**0.1**	–	–
Personal loans	**14,193**	**27.5**	–	–
Others	**783**	**1.5**	–	–
Banking subtotal	**48,927**	**94.8**	253	40.5
Other operations	**2,656**	**5.2**	372	59.5
Total	**51,583**	**100.0**	625	100.0

(b) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds or being unable to liquidate a position in a timely manner at a reasonable price 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 and to ensure that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

42. RISK MANAGEMENT *(Continued)*

Financial risk *(Continued)*

(b) Liquidity risk *(Continued)*

The Group is exposed to liquidity risk on its banking operations. The Group seeks to manage its banking liquidity risk by optimizing the assets and liabilities structure, maintaining the stability of the deposit base, etc.

The liquidity risk of the Group's banking operations is analyzed as followed:

As at December 31, (in RMB million)	2006 Overdue	On demand	Up to 3 months	4-12 months	1-5 years	Over 5 years	Undated	Total
Assets:								
Balances with central bank	–	1,927	–	–	–	–	5,787	7,714
Cash and amounts due from banks and other financial institutions	–	880	2,537	1,486	–	–	–	4,903
Assets purchased under agreement to resell	–	–	6,941	–	–	–	–	6,941
Derivative financial assets	–	–	–	–	9	2	–	11
Loans and advances to customers	1,405	–	9,830	15,569	7,529	12,250	–	46,583
Investments	–	–	1,742	2,844	4,769	7,739	20	17,114
– Held-to-maturity	–	–	–	520	3,444	5,249	–	9,213
– Available-for-sale	–	–	–	60	1,141	2,281	20	3,502
– Fair value through profit or loss	–	–	1,742	2,264	184	209	–	4,399
Other assets	13	111	109	5	102	185	1,800	2,325
Total assets	1,418	2,918	21,159	19,904	12,409	20,176	7,607	85,591
Liabilities:								
Due to banks and other financial institutions	–	2,459	2,216	244	–	–	–	4,919
Customer deposits	–	45,153	13,392	10,951	3,548	–	–	73,044
Assets sold under agreement to repurchase	–	–	129	172	–	–	–	301
Derivative financial liabilities	–	–	–	–	9	52	–	61
Other liabilities	–	149	475	178	226	–	57	1,085
Total liabilities	–	47,761	16,212	11,545	3,783	52	57	79,410
Net liquidity gap	1,418	(44,843)	4,947	8,359	8,626	20,124	7,550	6,181

As at December 31, 2006

42. RISK MANAGEMENT *(Continued)*

Financial risk *(Continued)*

(b) Liquidity risk *(Continued)*

	2005							
As at December 31, (in RMB million)	Overdue	On demand	Up to 3 months	4-12 months	1-5 years	Over 5 years	Undated	Total
Assets:								
Balances with central bank	–	11	–	–	–	–	9	20
Cash and amounts due from banks and other financial institutions	–	24	730	56	24	–	–	834
Loans and advances to customers	–	–	–	137	81	34	–	252
Other assets	–	2	5	–	–	–	5	12
Total assets	–	37	735	193	105	34	14	1,118
Liabilities:								
Due to banks and other financial institutions	–	6	551	–	–	–	–	557
Customer deposits	–	6	41	11	–	–	–	58
Other liabilities	–	4	–	–	1	–	–	5
Total liabilities	–	16	592	11	1	–	–	620
Net liquidity gap	–	21	143	182	104	34	14	498

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. When the current regulatory and market environment permits, however, the Group will 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.

43. 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)	**2006**	2005	**2006**	2005
Financial assets				
Balances with central banks and statutory deposits	**9,234**	1,260	**9,234**	1,260
Cash and amounts due from banks and other financial institutions	**95,912**	81,082	**95,912**	81,082
Fixed maturity investments	**215,640**	160,613	**222,887**	167,328
Equity investments	**46,729**	20,865	**46,729**	20,865
Derivative financial assets	**21**	27	**21**	27
Loan and advances to customers	**49,152**	531	**49,152**	531
Premium receivables	**2,939**	749	**2,939**	749
Financial liabilities				
Due to banks and other financial institutions	**5,138**	37	**5,138**	37
Assets sold under agreements to repurchase	**13,436**	7,095	**13,436**	7,095
Derivative financial liabilities	**178**	133	**178**	133
Customer deposits	**75,960**	1,825	**75,960**	1,825

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.

44. CASH AND CASH EQUIVALENTS

Group

As at December 31, (in RMB million)	2006	2005
Balances with central bank	**1,927**	11
Cash and amounts due from banks and other financial institutions		
– Cash on hand	**347**	14
– Term deposits	**18,356**	384
– Placements with banks and other financial institutions	**15,732**	11,539
– Loans and advances	**319**	76
Equity investments		
– Money-market placements	**2,114**	5,624
Fixed maturity investments		
– Bonds within 3 months	**438**	–
– Assets purchased under agreements to resell	**6,731**	–
Total	**45,964**	17,648

The above money-market placements are non-interest bearing. The carrying amounts disclosed above approximate fair values at year end.

As at December 31, 2006

45. NOTE 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	2006	2005
Profit before tax		**8,548**	4,812
Adjustments for:			
Charge/(write-back) of impairment losses on investment properties, property and equipment, and prepaid land premiums	*13 (1)*	**(149)**	75
Depreciation	*13 (1)*	**581**	536
Amortization of prepaid land premiums	*13 (1)*	**21**	20
Loss/(gain) on disposal of property and equipment and investment properties	*13 (1)*	**(45)**	19
Investment income		**(21,871)**	(9,655)
Foreign currency losses		**466**	405
Provision for doubtful debts, net	*13 (1)*	**100**	122
Loan loss provisions, net of reversals	*13 (1)*	**3**	(73)
Operating loss before working capital changes		**(12,346)**	(3,739)
Changes in operational assets and liabilities:			
Decrease/(increase) in balances with central bank and statutory deposits		**38**	(16)
Decrease/(increase) in amounts due from banks and other financial institutions		**(702)**	80
Increase in premium receivables		**(2,253)**	(160)
Decrease/(increase) in reinsurance assets		**55**	(533)
Increase in policyholder dividend payable and provisions		**1,243**	887
Increase in policyholder account assets in respect of insurance contracts		**(8,141)**	(3,062)
Increase in policyholder account assets in respect of investment contracts		**(893)**	(67)
Increase in loans and advances to customers		**(4,922)**	(299)
Increase in deferred policy acquisition costs		**(5,480)**	(3,830)
Increase in other assets		**(1,577)**	(146)
Increase in insurance contract liabilities		**63,786**	40,813
Increase/(decrease) in investment contract liabilities for policyholders		**1,141**	(1)
Increase/(decrease) in due to banks and other financial institutions		**(85)**	449
Increase in customer deposits		**6,800**	13
Increase/(decrease) in derivative financial liabilities		**(16)**	6
Increase in other liabilities		**778**	1,933
Cash generated from operations		**37,426**	32,328
Income taxes paid		**(161)**	(438)
Net cash from operating activities		**37,265**	31,890

46. COMPENSATION OF KEY MANAGEMENT PERSONNEL

(1) Key management personnel comprise the Company's directors, supervisors and senior officers as defined in the Company's articles of association. The summary of compensation of key management personnel for the year is as follows:

For the year ended December 31, (in RMB million)	2006	2005
Salaries and other short term employee benefits	**127**	63

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

The number of units in share appreciation rights granted to key management personnel during the year is 3.53 million (2005: 3.40 million). The related expense recognized in the income statement during the year is RMB311 million (2005: RMB15 million).

46. COMPENSATION OF KEY MANAGEMENT PERSONNEL *(Continued)*

(2) Directors' and supervisors' remuneration

For the year ended December 31, (in RMB thousand)	2006 Fees	Salaries, allowances and other benefits	Bonus	Contributions to pension schemes	Total before tax	Total after tax
Current directors						
MA Mingzhe	–	4,816	18,659	35	23,510	13,382
CHEUNG Chi Yan Louis	–	10,009	9,861	1	19,871	11,155
SUN Jianyi	–	2,427	7,453	35	9,915	5,815
Anthony Philip HOPE	–	–	–	–	–	–
CHEN Hongbo	–	–	–	–	–	–
WONG Tung Shun Peter	–	–	–	–	–	–
NG Sing Yip	–	–	–	–	–	–
HUANG Jianping	–	–	–	–	–	–
LIN Lijun	–	359	29	48	436	379
FAN Gang	–	463	33	50	546	465
DOU Wenwei	–	222	15	40	277	249
CHEUNG Lee Wah	–	–	–	–	–	–
HU Aimin	–	–	–	–	–	–
SHI Yuxin	–	–	–	–	–	–
LIN Yu Fen	–	–	–	–	–	–
BAO Youde	150	–	–	–	150	122
KWONG Che Keung Gordon	300	–	–	–	300	232
CHEUNG Wing Yui	300	–	–	–	300	232
CHOW Wing Kin Anthony	300	–	–	–	300	232
Sub-total	1,050	18,296	36,050	209	55,605	32,263
Past directors						
LIU Haifeng David	–	–	–	–	–	–
Henry CORNELL	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–
Current supervisors						
XIAO Shaolian	250	–	–	–	250	198
SUN Fuxin	60	–	–	–	60	50
DONG Likun	36	–	–	–	36	30
LIN Li	–	–	–	–	–	–
CHE Feng	–	–	–	–	–	–
DUAN Weihong	–	–	–	–	–	–
HU Jie	–	237	–	28	265	229
HE Shi	–	585	39	47	671	565
WANG Wenjun	–	170	5	37	212	190
Sub-total	346	992	44	112	1,494	1,262
Past supervisors						
ZHOU Fulin	–	–	–	–	–	–
CHEN Bohai	–	–	–	–	–	–
SONG Liankun	–	132	–	–	132	113
HE Peiquan	–	149	–	–	149	127
CHEN Shangwu	24	–	–	–	24	20
Sub-total	24	281	–	–	305	260
Total	1,420	19,569	36,094	321	57,404	33,785

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46. COMPENSATION OF KEY MANAGEMENT PERSONNEL *(Continued)*

(2) Directors' and supervisors' remuneration *(Continued)*

	2005					
For the year ended December 31, (in RMB thousand)	Fees	Salaries, allowances and other benefits	Bonus	Contributions to pension schemes	Total before tax	Total after tax
Current directors						
MA Mingzhe	–	4,024	10,090	21	14,135	8,135
SUN Jianyi	–	2,036	–	20	2,056	1,463
Henry CORNELL	–	–	–	–	–	–
HUANG Jianping	–	–	–	–	–	–
LIU Haifeng David	–	–	–	–	–	–
LIN Yu Fen	–	–	–	–	–	–
CHEUNG Lee Wah	–	–	–	–	–	–
Anthony Philip HOPE	–	–	–	–	–	–
DOU Wenwei	–	226	8	20	254	224
FAN Gang	–	438	–	20	458	387
LIN Lijun	–	–	–	–	–	–
SHI Yuxin	–	–	–	–	–	–
HU Aimin	–	–	–	–	–	–
CHEN Hongbo	–	–	–	–	–	–
BAO Youde	150	–	–	–	150	121
KWONG Che Keung Gordon	300	–	–	–	300	231
CHEUNG Wing Yui	300	–	–	–	300	231
CHOW Wing Kin Anthony	156	–	–	–	156	120
Sub-total	906	6,724	10,098	81	17,809	10,912
Past director						
YIP Dicky Peter	–	–	–	–	–	–
Current supervisors						
XIAO Shaolian	250	–	–	–	250	197
CHEN Shangwu	60	–	–	–	60	50
SUN Fuxin	60	–	–	–	60	50
DUAN Weihong	–	–	–	–	–	–
ZHOU Fulin	–	–	–	–	–	–
CHEN Bohai	–	–	–	–	–	–
HE Peiquan	–	297	–	–	297	254
SONG Liankun	–	263	–	–	263	226
HE Shi	–	482	–	20	502	423
Sub-total	370	1,042	–	20	1,432	1,200
Total	1,276	7,766	10,098	101	19,241	12,112

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.

46. COMPENSATION OF KEY MANAGEMENT PERSONNEL *(Continued)*

(3) After-tax compensation of key management personnel other than directors and supervisors is as follows:

	2006			
For the year ended December 31, (in RMB thousand)	**Salaries, allowances and other benefits after tax**	**Bonus after tax**	**Contributions to pension schemes**	**Total after tax**
LEUNG Ka Kui Dominic	**4,798**	**12,305**	**–**	**17,103**
Richard JACKSON	**12,280**	**–**	**–**	**12,280**
KU Min-shen	**3,452**	**–**	**–**	**3,452**
John PEARCE	**–**	**–**	**–**	**–**
REN Huichuan	**943**	**76**	**47**	**1,066**
GOH Yethun	**2,731**	**–**	**9**	**2,740**
WANG Liping	**975**	**76**	**35**	**1,086**
CHEN Kexiang	**945**	**114**	**45**	**1,104**
LO Sai Lai	**2,035**	**–**	**–**	**2,035**
Total	**28,159**	**12,571**	**136**	**40,866**

	2005			
For the year ended December 31, (in RMB thousand)	Salaries, allowances and other benefits after tax	Bonus after tax	Contributions to pension schemes	Total after tax
LEUNG Ka Kui Dominic	4,788	1,873	2	6,663
CHEUNG Chi Yan Louis	5,710	2,790	2	8,502
YIP Lai Shing	4,701	–	2	4,703
KU Min-shen	3,163	–	2	3,165
Richard JACKSON	1,921	–	–	1,921
Total	20,283	4,663	8	24,954

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

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47. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group include three (2005: one) directors whose emolument is reflected in the analysis presented in note 46.

Details of emoluments of the remaining two (2005: four) highest paid individuals are as follows:

For the year ended December 31, (in RMB million)	2006	2005
Salaries, allowances and other benefits	**51**	41

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

For the year ended December 31,	2006	2005
RMB6,000,001 – RMB6,500,000	**–**	1
RMB8,000,001 – RMB8,500,000	**–**	1
RMB11,500,001 – RMB12,000,000	**–**	1
RMB15,000,001 – RMB15,500,000	**–**	1
RMB20,000,001 – RMB25,000,000	**1**	–
RMB30,000,001 – RMB35,000,000	**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 40.7% to 44.2% (2005: 35.7% to 43.5%), and their average effective tax rate is 42.6% (2005: 41.9%).

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.

48. SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) Related party relationship

The Company's related parties where control exists are mainly subsidiaries of the Company. For details, please refer to Note 23.

The Company's related parties where significant influence exists are set out below:

Name of related parties	Relationship with the Company
HSBC Holdings Limited ("HSBC Holdings")	Parent of shareholders
HSBC Insurance Holdings Limited ("HSBC Insurance")	Shareholder
HSBC	Shareholder

In late August 2005, HSBC Holdings through its wholly owned subsidiaries, HSBC Insurance and HSBC held 19.9% of the Company's shares. Since then, HSBC Holdings and its subsidiaries became the Company's related parties who had significant influence over the Group.

(2) As at December 31, 2006, the Group's aggregate bank balances with HSBC were approximately RMB710 million (2005: RMB232 million). Interest income earned by the Group on such bank balances for 2006 was approximately RMB15 million (2005: RMB3 million).

49. 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)	2006	2005
Contracted, but not provided for	**3,431**	472
Authorized, but not contracted for	**1,182**	3,030
Total	**4,613**	3,502

(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)	2006	2005
Within 1 year	**453**	372
1-5 years	**649**	473
More than 5 years	**65**	5
Total	**1,167**	850

(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)	2006	2005
Within 1 year	**59**	64
1-5 years	**63**	33
More than 5 years	**69**	–
Total	**191**	97

(4) Credit commitments

As at December 31, (in RMB million)	2006	2005
Letter of credit issued	**734**	10
Acceptance	**9,017**	–
Guarantee issued	**6,536**	–
Loan commitment	**12,823**	60
Others	**5**	3
Total	**29,115**	73

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50. EMPLOYEE BENEFITS

(1) Pension

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

(2) Housing benefits

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

(3) Medical benefits

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

(4) Share appreciation rights scheme

On February 5, 2004, the Company's board of directors approved a scheme of share appreciation rights for the senior executives and certain key employees of the Group. No shares will be issued under this scheme. The rights 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 RMB1,019 million (2005: RMB61 million).

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

(in million)	2006 Number of units	2005 Number of units
As at January 1,	**58**	42
Granted during the year	**16**	16
As at December 31,	**74**	58

The weighted average remaining contractual life for the share appreciation rights outstanding as at December 31, 2006 is 1.7 years (2005: 2.5 years).

50. EMPLOYEE BENEFITS *(Continued)*

(4) Share appreciation rights scheme *(Continued)*

The fair value of share appreciation rights is initially 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.

	2006	2005
Risk-free interest rate (%)	**1.5%**	1.5%
Expected dividend yield (%)	**1.0%**	1.0%
Expected volatility (%)	**31.0%**	29.0%
Expected life (in years)	**3-5**	3-5

The services received and liabilities 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, 2006 is RMB1,109 million (2005: RMB90 million).

51. CONTINGENT LIABILITIES

(1) Guarantees

Ping An Real Estate provided guarantees for several loans under trust schemes managed by Ping An Trust. The guarantees provided were RMB426 million as at December 31, 2006.

(2) Litigation

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 probable losses to the Group, including those claims where 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.

52. POST BALANCE SHEET EVENTS

1. Pursuant to the approval from the Company's shareholders and the China Securities Regulatory Commission, the Company issued 1.15 billion ordinary A-shares with par value of RMB1 at a price of RMB33.80 each in February 2007. The total cash consideration received, after deduction of issuance expenses, amounts to RMB38,222 million and the Company's registered and paid-up capital has increased to RMB7,345 million.

2. Pursuant to an agreement entered into by SZCB, Ping An Trust and HSBC in February 2007, SZCB will acquire all of the equity interest held by Ping An Trust and HSBC in Ping An Bank. Upon completion of such transfer, the Group's equity interest in Ping An Bank will increase to 89.36%.

3. In March 2007, Ping An Asset Management (Hong Kong) obtained a license issued by Securities and Futures Commission of Hong Kong to conduct asset management business.

4. During the 5th Session of the 10th National People's Congress, which was concluded on March 16, 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on January 1, 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

5. On April 11, 2007, the directors proposed 2006 final dividend distribution of RMB0.22 per share totaling RMB1,616 million. This proposal is subject to Company shareholders' approval.

Notes to Financial Statements

As at December 31, 2006

53. COMPARATIVE FIGURES

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

- reclassification to present interest income and interest expense for banking operation separately;
- reclassification to present fees and commission income from fees and commission expenses for non-insurance operations separately;
- reclassification to present loan loss provisions separately; and
- reclassification to present assets and liabilities on the face of balance sheet in a more condensed manner and to provide breakdown of certain assets and liabilities in the notes to the financial statements.

54. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved and authorized for issue by the Company's directors on April 11, 2007.