中国平安
专业·价值 PING AN OF CHINA

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

Hong Kong Exchanges and Clearing Limited Stock Code: 2318

Interim Report 2008

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Cautionary Statement Regarding Forward-Looking Statements

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

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

DEFINITION

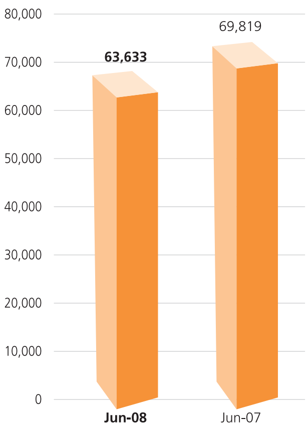
In this report, unless the context otherwise indicated, the following expressions shall have the following meanings:

Company, the Company, Group, the Group	Ping An Insurance (Group) Company of China, Ltd.
Ping An Life	Ping An Life Insurance Company of China, Ltd., a subsidiary of the Company
Ping An Property & Casualty	Ping An Property & Casualty Insurance Company of China, Ltd., a subsidiary of the Company
Ping An Health	Ping An Health Insurance Company of China, Ltd., a subsidiary of the Company
Ping An Annuity	Ping An Annuity Insurance Company of China, Ltd., a subsidiary of the Company
Ping An Trust	China Ping An Trust & Investment Co., Ltd., a subsidiary of the Company
Ping An Securities	Ping An Securities Company, Ltd., a subsidiary of Ping An Trust
Ping An Asset Management	Ping An Asset Management Co., Ltd., a subsidiary of the Company
Shenzhen Ping An Bank	Shenzhen Ping An Bank Co., Ltd., a subsidiary of the Company
Ping An Overseas Holdings	China Ping An Insurance Overseas (Holdings) Limited, a subsidiary of the Company
Ping An Hong Kong	China Ping An Insurance (Hong Kong) Company Limited, a subsidiary of Ping An Overseas Holdings
Ping An Asset Management (Hong Kong)	Ping An of China Asset Management (Hong Kong) Company Limited, a subsidiary of Ping An Overseas Holdings
PRC Accounting Standards	The Accounting Standards for Business Enterprises and the other relevant regulations issued by the Ministry of Finance of the People's Republic of China
IFRS	International Financial Reporting Standards issued by International Accounting Standards Board
CSRC	China Securities Regulatory Commission
CIRC	China Insurance Regulatory Commission

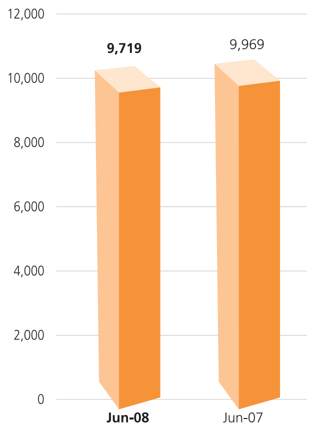
CBRC	China Banking Regulatory Commission
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Model Code	the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules
HSBC	The Hongkong and Shanghai Banking Corporation Limited
ICBC	Industrial and Commercial Bank of China
ICBC (Asia)	Industrial and Commercial Bank of China (Asia) Limited
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Stock Exchange	The Stock Exchange of Hong Kong Limited
the Code on Corporate Governance Practices	the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules
Fortis	Fortis SA/NV and Fortis N.V.
Fortis Bank NV/SA	a wholly owned subsidiary of Fortis
Fortis Investment	Fortis Investment Management NV/SA

FINANCIAL HIGHLIGHTS

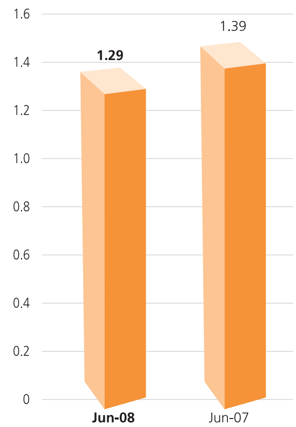
Total Income



Net Profit



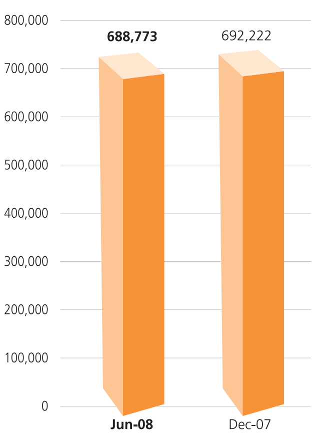
Earnings Per Share



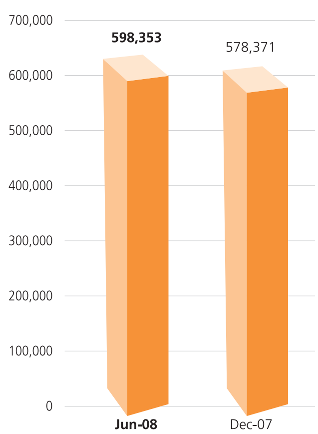
PROFIT AND LOSS **For the six months ended June 30, (in RMB million)**	**2008**	2007
Total Income	**63,633**	69,819
Net Profit	**9,719**	9,969

PER ORDINARY SHARE **For the six months ended June 30, (in RMB)**	**2008**	2007
Basic Earnings	**1.29**	1.39

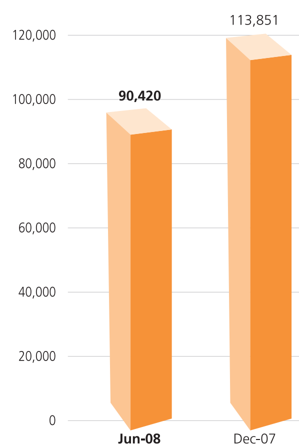
Total Assets



Total Liabilities



Total Equity



BALANCE SHEET **(in RMB million)**	**As at** **June 30, 2008**	As at December 31, 2007
Total Assets	**688,773**	692,222
Total Liabilities	**598,353**	578,371
Total Equity	**90,420**	113,851

* Certain comparative figures have been reclassified to conform to current period's presentation.

In the first half of 2008, China faced and overcame a number of hardships brought about by unfavorable domestic and international economic environment, and by a number of catastrophic natural disasters. Whilst China's economic development remains promising and continues to grow as forecasted under the current macro-economic policy and control, the number of unfavorable factors that would hinder micro-economic growth has clearly grown. In the face of such complex operating environment, during the first half of the year, the Company has actively tackled the unfavorable factors, such as the heightened combined ratio of the property and casualty insurance business caused by the natural disasters and excessive market competition, the increase in cost driven by inflation and extreme volatility in the global capital market. By focusing on our strategy of profitable growth, we have maintained strong growth momentum of our three key businesses of insurance, banking and asset management.

For the six months ended June 30, 2008, the Company realized premium income of RMB69,228 million, representing an increase of 28.5% when compared with the corresponding period of the previous year. Due to the significant decrease in investment income, our net profit was RMB9,719 million, representing a decrease of 2.5% over the corresponding period of the previous year. Reviewing our operations for the first half of the year, the Company has achieved outstanding performance in the following sectors:

- Our core insurance business continued to sustain a healthy growth. In terms of our life insurance business, we have successfully implemented our "Reaching New Heights" and "Two-Tier Market Development" strategies. Our individual life sales force has maintained its growth momentum, and the number of sales agents has reached 315,000. The market share of our property and casualty insurance business has been steadily increasing with premium income reaching RMB14,671 million, representing an increase of 26.1% when compared with the corresponding period of the previous year. The asset entrusted under our pension annuity and the assets under investment management annuity business have doubled since the end of 2007, placing us No.1 in the market in terms of asset size and pension contribution.

- Our banking business has enjoyed an excellent start, and we have accelerated the build-out of our nationwide network. Both the corporate and retail businesses have achieved sound and steady growth. The accumulated number of in-force credit cards in Shanghai and Shenzhen has exceeded 700,000. Non-performing loan ratio was controlled at 0.5%, amongst the lowest in the industry. Quanzhou Branch, our first branch in a new region following the bank's merger and re-naming, obtained regulatory approval to operate, marking an important step forward for our cross-region operation. At the same time, we have increased investment in the banking business' infrastructure and developed strategic initiatives to strengthen the headquarters' ability to support a nationwide service network.

- Our third-party asset management business has made good progress. The first domestic QDII account entrusted to Ping An Asset Management has entered into the substantive operating stage, the size of assets under management has continued to grow. Ping An Trust has continually developed new and creative wealth management products, both asset size and customer number have increased steadily. Ping An Securities has successfully launched the first collective asset management product. With the backing of an integrated financial service platform, the advantages of our third-party asset management business in terms of customers, channels, products and services are starting to become apparent.

- Our investment business responded vigilantly to fluctuations in the capital markets. We have made timely adjustments to our asset allocation, increased the proportion of investment in fixed income assets, and focused on non-capital markets investments. All our investment projects remain on track. Furthermore, our overseas investment plan and the establishment of our global investment platform are proceeding smoothly. Taking advantage of the cooperation opportunities that brought by our investment in Fortis, we have entered into formal agreement with Fortis Bank NV/SA to acquire an equity stake in Fortis Investment, in order to accelerate the establishment of our global investment capability and to build a global asset management and QDII platform.

- Cross-selling has achieved remarkable result, and the synergies brought about by an integrated financial platform are becoming increasingly apparent. In the first half of the year, cross-selling accounted for 14.0% of the premium income for the property and casualty insurance business, 9.1% of the bank's new corporate deposits, 55.8% of new credit cards issued, 12.5% of new assets entrusted under the pension annuity and 12.7% of new assets under the investment management annuity business. The above figures demonstrate the efforts that we have endeavored to promote cross-selling for the past few years, through resource sharing and service integration, we have greatly increased the breadth and depth of our cross-selling activities.

May 27, 2008 marked the 20th anniversary of the establishment of Ping An. As a way of expressing our deep condolence for the victims of the Wenchuan earthquake, we had simplified our 20th anniversary celebration. Immediately after the disaster, our Company announced donations of approximately RMB40 million in total for disaster-relief in the disaster-hit areas and the reconstruction and repairment of elementary schools in Wenchuan and Beichuan counties. At the same time, our staff across all levels have made donations totalling over RMB35 million, the largest amount of staff donation amongst all insurance companies in China to date. In the face of this disaster, Ping An has resolutely taken up the sacred duty of helping people in distress and protecting people's livelihoods by taking concrete actions to assist the victims and affected customers to overcome their hardships.

Our Company is dedicated to fulfilling our social responsibility. Our role as a charitable corporate citizen has received widespread attention and high regards from all walks of society. In the fifth "2008 China Charity Ranking Announcement Ceremony", our Company was granted the "China's Top 10 Charitable Enterprises for 2008" award for the first time. In the "China's Most Respected Enterprises" poll jointly sponsored by the Economic Observer Newspaper and the Management Case Study Center of Peking University, our Company was granted the honour of "China's Most Respected Enterprises" for the seventh consecutive year. In the report on the "Assessment of Corporate Governance of Top 100 Chinese Listed Companies for 2008" issued by the Chinese Academy of Social Sciences, our Company was ranked No. 1 amongst 100 elected enterprises. With our outstanding operating results and strong profit growth and having been named twice as a Forbes 500 company, our Company marched into the Fortune 500 for the first time, ranking as No. 1 amongst Chinese private enterprises on the list.

Looking ahead to the second half of 2008, the fundamentals of the Chinese economy are sound and the macro-economic control measures will become more flexible. However, with the woes of the U.S. sub-prime problem yet to dissipate, worldwide economic growth slowing down and the global inflation rising, there will be potential pressure on slowing down the growth of the Chinese economy, our Company's goal of surpassing the annual profit target will be a major challenge. In the second half of the year, our life insurance business will continue to implement the "Two Tier Market Development" strategy and enhance the average productivity per agent through the week unit working system. Our property and casualty insurance business will continue with its strategy to build sales channel aggressively and to control costs of sale effectively so we can achieve our goal of "surpassing targets healthily". For the banking business, various systems and operation platforms will be erected to expedite our development into a nationwide bank. For the investment business, risk management and control will be strengthened, investments will be actively sought in non-capital market, whilst third-party asset management business will be further expanded. Meanwhile, the Company will continue to expand the breadth and depth of cross-selling, ensuring that our synergies will be fully maximized.

Since the fourth quarter of last year, the global economy has suffered from the impact of the sub-prime issue in the U.S., investor confidence has fallen sharply and stock markets worldwide have experienced deep correction, our Company's share price also experienced significant fluctuations. However, the Company's fundamentals remain sound, and strong growth continues to be recorded across all businesses with the competitive advantages of our integrated financial platform remaining apparent. In the second half of 2008, China will host the Beijing Olympic Games which will draw the attention of the world, and at the same time, it will mark the beginning of Ping An's third decade of operations. Looking at the opportunities and challenges that lie ahead, from the perspective of an enterprise that is striving to be a century-old financial institution, we clearly recognize that the past twenty years has merely been an important stage in our founding and development. Our dream of becoming a century-old enterprise can only be realized through having the ability to maintain sustainable growth, and in this sense, we are fully confident in our Company's long-term investment value.

We firmly believe that, with the advantages of our Company's integrated financial platform, prudent investment and financial policies, strong customer base and centralized operation, Ping An is ready for all kinds of challenges that lie ahead, and each of our businesses will strive to achieve "sustainable, valuable and superior" growth in order to deliver long-term sustainable value to our clients, shareholders and society.

Ma Mingzhe
Chairman and Chief Executive Officer

Shenzhen, PRC
August 15, 2008

GROUP'S CONSOLIDATED PERFORMANCE

In the first half of 2008, amidst various adverse economic factors as well as the difficulties brought about by catastrophic natural disasters, China's economy continued to grow at a steady pace as forecasted under the macroeconomic control policies. However, the number of unfavourable factors that would hinder micro-economic growth has clearly grown. Under this complex operating environment, the Company has actively tackled unfavorable factors by focusing on our integrated-financial services platform and ever-increasing competitive advantages. As a result, we have maintained the strong growth momentum of our insurance, banking and asset management businesses.

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

For the six months ended June 30, (in RMB million)	2008	2007
Total income	**63,633**	69,819
Total expenses	**(53,289)**	(59,003)
Operating profit before tax	**10,344**	10,816
Net profit	**9,719**	9,969

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

For the six months ended June 30, (in RMB million)	2008	2007
Life insurance	**8,325**	6,018
Property and casualty insurance	**339**	760
Banking	**795**	1,086
Securities	**401**	676
Other businesses(1)	**(141)**	1,429
Net profit	**9,719**	9,969

(1) Other businesses mainly include corporate, trust business and asset management business.

Consolidated net profit decreased 2.5% to RMB9,719 million in the six months ended June 30, 2008 from RMB9,969 million in the same period in 2007. This decrease was primarily due to the decrease in both investment returns and profit from our investment business, as a result of fluctuations in the capital markets. The significant decrease in net profit of other businesses was primarily due to the significant decrease in net profit of our corporate business to RMB-339 million in the six months ended June 30, 2008 from RMB1,140 million in the same period in 2007, as a result of the decrease in investment income.

Our life insurance business, property and casualty insurance business, banking business and securities business accounted for approximately 85.7%, 3.5%, 8.2% and 4.1%, respectively, of our net profit.

1 Certain comparative figures have been reclassified or restated to conform to current period's presentation.

Consolidated Investment Income

For the six months ended June 30, (in RMB million, except percentages)	2008	2007
Net investment income	**10,259**	9,893
Net realized and unrealized gains	**601**	15,844
Impairment losses	**(1,585)**	–
Total investment income	**9,275**	25,737
Net investment yield(1)	**3.8%**	4.3%
Total investment yield(1)	**3.6%**	8.5%

(1) Lease income from investment properties and interest income from cash and cash equivalents are included in the calculation of the above yields. Net foreign currency gains/losses on investment assets denominated in foreign currencies and investment income from banking business are excluded in the calculation of the above yields. Average investment assets used as the denominator are computed based on Modified Dietz method in principle.

In the first half of 2008, our domestic and overseas investments were affected by the negative factors from both domestic and overseas capital markets. In the face of the market fluctuations, we proactively managed to adjust asset allocation for stable investment returns, and achieved the objectives in different phases of our investment business. However, the significant decrease in total investment income definitely has certain negative impact on our net profit.

Our net investment income increased 3.7% to RMB10,259 million in the six months ended June 30, 2008 from RMB9,893 million in the same period in 2007. This increase was primarily due to the increase in interest income from our fixed maturity investments. Net investment yield decreased to 3.8% in the six months ended June 30, 2008 from 4.3% in the same period in 2007. This decrease was primarily due to the lower dividend income from our equity investment funds.

Our total investment income decreased 64.0% to RMB9,275 million in the six months ended June 30, 2008 from RMB25,737 million in the same period in 2007. Total investment yield decreased to 3.6% in the six months ended June 30, 2008 from 8.5% in the same period in 2007. These decreases were primarily due to the significant decrease in net realized and unrealized gains as a result of stock market fluctuations.

Our certain available-for-sale equity investments have incurred relatively significant and prolonged unrealized losses. We have impaired those available-for-sale equity investments which met objective evidence of impairment criteria as at June 30, 2008. Our holding of Fortis shares are classified as available-for-sale equity investments. According to our long term holding strategy and relevant accounting policies, impairment provision on Fortis shares was not considered to be necessary as at June 30, 2008.

We managed to improve the asset allocation of our investment portfolio in response to fluctuations in the capital markets. As a result, our fixed maturity investments as a percentage of our total investment assets increased to 64.2% as at June 30, 2008 from 47.7% as at December 31, 2007, while our equity investments decreased to 15.6% as at June 30, 2008 from 24.7% as at December 31, 2007.

The following table presents our investment portfolio allocations among the major categories of our investments:

	As at June 30, 2008		As at December 31, 2007	
(in RMB million, except percentages)	**Carrying Value**	**% of Total**	Carrying Value	% of Total
Fixed maturity investments				
Term deposits[1]	**49,622**	**11.1%**	33,188	7.0%
Bond investments[1]	**235,184**	**52.4%**	191,023	40.2%
Other fixed maturity investments[1]	**2,946**	**0.7%**	2,411	0.5%
Equity investments				
Equity investment fund[1]	**15,379**	**3.4%**	15,792	3.3%
Equity securities	**51,390**	**11.4%**	100,015	21.1%
Investment in associates	**3,401**	**0.8%**	1,472	0.3%
Investment properties	**3,608**	**0.8%**	3,812	0.8%
Cash, cash equivalents and others	**86,999**	**19.4%**	127,174	26.8%
Total investments[2]	**448,529**	**100.0%**	474,887	100.0%

(1) These figures exclude items that are classified as cash and cash equivalents.
(2) Investment assets exclude banking business.

In the second half of 2008, as part of our efforts in attaining long term sustainable investment returns, we will further refine our investment strategies, proactively adjust our investment portfolio asset allocation and actively develop our non-capital market investment business.

Foreign Currency Losses

In the first half of 2008, Renminbi continued to appreciate against other major currencies, in particular the U.S. Dollar. As a result, we experienced a net foreign exchange loss of RMB525 million in the six months ended June 30, 2008 as compared to a loss of RMB335 million in the same period in 2007.

LIFE INSURANCE BUSINESS

We conduct our life insurance business through Ping An Life, Ping An Annuity and Ping An Health. Ping An Life is the second largest life insurance company in the PRC in terms of gross written premiums, policy fees and premium deposits. For the six months ended June 30, 2008, our life insurance business accounted for approximately 12.8% of the total gross written premiums, policy fees and premium deposits received by the PRC life insurance companies, based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards.

The following table sets forth certain operation data of our life insurance business:

	As at June 30, 2008	As at December 31, 2007
Market share of gross written premiums, policy fees and premium deposits(1)	**12.8%**	16.0%
Number of customers:		
Individual (in thousands)	**35,048**	33,808
Corporate (in thousands)	**399**	351
Total (in thousands)	**35,447**	34,159
Persistency ratio:		
13-month	**92.5%**	90.4%
25-month	**84.1%**	81.2%

(1) Based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards and published by the CIRC.
Market share as at June 30, 2008 was computed based on gross written premiums, policy fees and premium deposits accumulated over a period of six months.
Market share as at December 31, 2007 was computed based on gross written premiums, policy fees and premium deposits accumulated over a period of one year.

In 2008, sales through bancassurance channels of the whole life insurance industry achieved significant growth. We have also reinforced the development of bancassurance channels, however, the growth rate was still below the industry average, therefore resulting in a decrease in market share of our life insurance business.

Our life insurance business has been responsive to meet the ever-changing market demand with the adoption of proactive product strategies and the enhancement of marketing efforts. We continued to strengthen the infrastructure of our organization, distribution channels and customer platforms, and reinforce the development strategy of bancassurance channels. While we strive to ensure the productivity and service quality of our sales agents, the number of our individual life insurance sales agents increased to approximately 315,000 as at June 30, 2008 from approximately 302,000 as at December 31, 2007. We also continue our efforts in enhancing customer service quality. As a result, the 13-month and 25-month persistency ratios for our individual life insurance policies maintained at a satisfactory level of above 90% and 80% respectively as at June 30, 2008. In addition, the progress of our back office process re-engineering is encouraging, which will provide strong support for the rapid growth of our business.

Results of Operations

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

For the six months ended June 30, (in RMB million)	2008	2007
Gross written premiums, policy fees and premium deposits	**54,557**	42,248
Less: Premium deposits	**(15,036)**	(10,045)
Gross written premiums and policy fees	**39,521**	32,203
Net earned premiums	**38,495**	31,450
Investment income	**8,768**	22,038
Share of profits of associates	**27**	–
Other income	**762**	370
Total income	**48,052**	53,858
Change in deferred policy acquisition costs	**4,966**	3,727
Claims and policyholders' benefits	**(33,922)**	(43,045)
Commission expenses of insurance operations	**(5,934)**	(4,601)
Foreign currency losses	**(403)**	(316)
General, administrative and other expenses	**(3,837)**	(3,649)
Total expenses	**(39,130)**	(47,884)
Income taxes	**(597)**	44
Net profit	**8,325**	6,018

Gross Written Premiums, Policy Fees and Premium Deposits

For the six months ended June 30, 2008 (in RMB million)	Premiums and policy fees	Premium deposits	Total
Individual life			
New business			
First year regular premiums	8,007	3,436	11,443
First year single premiums	13	–	13
Short term accident and health premiums	977	–	977
Total new business	8,997	3,436	12,433
Renewal business	23,994	5,857	29,851
Total individual life	32,991	9,293	42,284
Bancassurance			
New business			
First year regular premiums	31	63	94
First year single premiums	935	5,674	6,609
Short term accident and health premiums	1	–	1
Total new business	967	5,737	6,704
Renewal business	145	6	151
Total bancassurance	1,112	5,743	6,855
Group insurance			
New business			
First year single premiums	3,219	–	3,219
Short term accident and health premiums	2,004	–	2,004
Total new business	5,223	–	5,223
Renewal business	195	–	195
Total group insurance	5,418	–	5,418
Total life insurance	39,521	15,036	54,557

For the six months ended June 30, 2007 (in RMB million)	Premiums and policy fees	Premium deposits	Total
Individual life			
New business			
First year regular premiums	6,921	1,890	8,811
First year single premiums	13	–	13
Short term accident and health premiums	935	–	935
Total new business	7,869	1,890	9,759
Renewal business	19,836	4,638	24,474
Total individual life	27,705	6,528	34,233
Bancassurance			
New business			
First year regular premiums	45	–	45
First year single premiums	195	3,517	3,712
Short term accident and health premiums	1	–	1
Total new business	241	3,517	3,758
Renewal business	126	–	126
Total bancassurance	367	3,517	3,884
Group insurance			
New business			
First year single premiums	2,278	–	2,278
Short term accident and health premiums	1,641	–	1,641
Total new business	3,919	–	3,919
Renewal business	212	–	212
Total group insurance	4,131	–	4,131
Total life insurance	32,203	10,045	42,248

Individual Life Business. Gross written premiums, policy fees and premium deposits for our individual life business increased 23.5% to RMB42,284 million in the six months ended June 30, 2008 from RMB34,233 million in the same period in 2007. This increase was primarily due to the 27.4% increase in first year premiums, policy fees and premium deposits to RMB12,433 million in the six months ended June 30, 2008 from RMB9,759 million in the same period in 2007, as a result of the continued improvement in the quantity and productivity of our agency force. In addition, renewal premiums, policy fees and premium deposits for our individual life business increased 22.0% to RMB29,851 million in the six months ended June 30, 2008 from RMB24,474 million in the same period in 2007. Meanwhile, gross written premiums and policy fees for renewal insurance policies of our short term accident and health insurance and guaranteed renewal health insurance increased 7.8% to RMB1,386 million in the six months ended June 30, 2008 from RMB1,286 million in the same period in 2007.

Bancassurance Business. Gross written premiums, policy fees and premium deposits for our bancassurance business increased 76.5% to RMB6,855 million in the six months ended June 30, 2008 from RMB3,884 million in the same period in 2007. This increase was primarily due to the launch of our new investment-linked products sold through our bancassurance channels in the second half of 2007.

Group Insurance Business. Gross written premiums and policy fees for our group insurance business increased 31.2% to RMB5,418 million in the six months ended June 30, 2008 from RMB4,131 million in the same period in 2007. This increase was primarily due to our focus on multi sales channel development, promotion of employee welfare benefit plans and other businesses. Gross written premiums and policy fees for our short-term accident and health insurance of group insurance business increased 22.1% to RMB2,004 million in the six months ended June 30, 2008 from RMB1,641 million in the same period in 2007.

The following table sets forth the breakdown of gross written premiums, policy fees and premium deposits for our life business by product type:

	2008		2007	
For the six months ended June 30, (in RMB million, except percentages)	**Amount**	**% of Total**	Amount	% of Total
Participating	**21,597**	**39.6%**	17,137	40.6%
Universal life	**14,400**	**26.4%**	11,583	27.4%
Long term health	**4,203**	**7.7%**	4,095	9.7%
Life	**2,818**	**5.2%**	2,928	6.9%
Investment-linked	**5,298**	**9.7%**	2,035	4.8%
Annuity	**3,259**	**6.0%**	1,893	4.5%
Short term accident and health	**2,982**	**5.4%**	2,577	6.1%
Total	**54,557**	**100.0%**	42,248	100.0%

Investment Income

For the six months ended June 30, (in RMB million, except percentages)	2008	2007
Net investment income	**8,192**	8,937
Net realized and unrealized gains	**1,858**	13,101
Impairment losses	**(1,282)**	–
Total investment income	**8,768**	22,038
Net investment yield(1)	**4.0%**	4.6%
Total investment yield(1)	**4.2%**	8.9%

(1) Lease income from investment properties and interest income from cash and cash equivalents are included in the calculation of the above yields. Net foreign currency gains/losses on investment assets denominated in foreign currencies are excluded in the calculation of the above yields. Average investment assets used as the denominator are computed based on Modified Dietz method in principle.

Net investment income for our life insurance business decreased 8.3% to RMB8,192 million in the six months ended June 30, 2008 from RMB8,937 million in the same period in 2007. This decrease was primarily due to the decrease in dividend income received from our equity investment funds as a result of stock market fluctuations, which was partially offset by an increase in interest income from our fixed maturity investments. Net investment yield for our life insurance business decreased to 4.0% in the six months ended June 30, 2008 from 4.6% in the same period in 2007.

Total investment income for our life insurance business decreased 60.2% to RMB8,768 million in the six months ended June 30, 2008 from RMB22,038 million in the same period in 2007. Total investment yield for our life insurance business decreased to 4.2% in the six months ended June 30, 2008 from 8.9% in the same period in 2007. These decreases were primarily due to the significant decrease in net realized and unrealized gains as a result of the stock market fluctuations, as well as the impairment losses provided for certain available-for-sale equity investments.

Change in Deferred Policy Acquisition Costs

The change in deferred policy acquisition costs was RMB4,966 million in the six months ended June 30, 2008 as compared to RMB3,727 million in the same period in 2007. The bigger change in deferred policy acquisition costs was primarily due to the increase in first year premiums, policy fees and premium deposits from our individual life business.

Claims and Policyholders' Benefits

Claims and policyholders' benefits decreased 21.2% to RMB33,922 million in the six months ended June 30, 2008 from RMB43,045 million in the same period in 2007. The following table summarizes total expenses pursuant to claims, surrenders, annuities, maturities and survival benefits, policyholder dividends and provisions, interest credited to policyholder contract deposits, and increase in policyholders' reserves.

For the six months ended June 30, (in RMB million)	2008	2007
Claims	**1,979**	1,604
Surrenders	**4,588**	4,181
Annuities	**1,660**	1,427
Maturities and survival benefits	**7,217**	3,582
Policyholder dividends and provisions	**4,162**	897
Interest credited to policyholder contract deposits	**1,083**	451
Increase in policyholders' reserves	**13,233**	30,903
Total claims and policyholders' benefits	**33,922**	43,045

Payments for claims increased 23.4% to RMB1,979 million in the six months ended June 30, 2008 from RMB1,604 million in the same period in 2007. This increase was primarily due to the increase in gross written premiums and policy fees for our guaranteed renewal health insurance as well as higher claims expense incurred for our short term accident and health products.

Payments for surrenders increased 9.7% to RMB4,588 million in the six months ended June 30, 2008 from RMB4,181 million in the same period in 2007. This increase was primarily due to the increase in payments for surrenders of certain insurance products sold through our bancassurance channels.

Payments for maturities and survival benefits increased significantly to RMB7,217 million in the six months ended June 30, 2008 from RMB3,582 million in the same period in 2007. This increase was primarily due to the increase in maturities and survival benefits paid as a result of the product features of certain individual life insurance and bancassurance products.

Payments for policyholder dividends and provisions increased significantly to RMB4,162 million in the six months ended June 30, 2008 from RMB897 million in the same period in 2007. This increase was primarily due to the higher dividend level for our participating products and distribution of special dividends. Our participating special dividend reserves decreased accordingly.

Payments for interest credited to policyholder contract deposits increased significantly to RMB1,083 million in the six months ended June 30, 2008 from RMB451 million in the same period in 2007. This increase was primarily due to the increase in sales of universal life policies and higher credit interest rates for our universal life insurance. Our universal life smoothing reserves decreased accordingly.

The increase in policyholders' reserves was RMB13,233 million in the six months ended June 30, 2008 as compared to RMB30,903 million in the same period in 2007. The smaller increase in policyholders' reserves was primarily due to (1) the significant increase in payments for policyholder dividends and interests credited for universal life insurance and significant decrease in market value of certain investment assets in the first half of 2008, as a result, the difference (decrease) of change in participating special dividend reserves and universal life smoothing reserves between the two periods was RMB16,571 million; (2) the significant increase in payments for maturities and survival benefits.

Commission Expenses

For the six months ended June 30,	**2008**	2007
Commission expenses as a percentage of gross written premiums, policy fees and premium deposits	**10.9%**	10.9%

Commission expenses of insurance operations, which we paid primarily to our sales agents, increased 29.0% to RMB5,934 million in the six months ended June 30, 2008 from RMB4,601 million in the same period in 2007. This increase was primarily due to the increase in gross written premiums, policy fees, and premium deposits. As a percentage of gross written premiums, policy fees and premium deposits, commission expenses maintained at 10.9% in the six months ended June 30, 2008 as compared to the same period in 2007.

General, Administrative and Other Expenses

For the six months ended June 30, (in RMB million, except percentages)	**2008**	2007
Business tax and surcharges	**569**	753
Other general, administrative expenses and other expenses	**3,268**	2,896
Total	**3,837**	3,649
General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits	**7.0%**	8.6%

General, administrative and other expenses increased 5.2% to RMB3,837 million in the six months ended June 30, 2008 from RMB3,649 million in the same period in 2007. This increase was primarily due to the increase in gross written premiums, policy fees and premium deposits. General, administrative and other expenses as a percentage of gross written premiums, policy fees and premium deposits decreased to 7.0% in the six months ended June 30, 2008 from 8.6% in the same period in 2007. This decrease was primarily due to the decrease in business tax and surcharges paid on realized investment gains, as a result of capital market fluctuations.

Income Taxes

For the six months ended June 30,	2008	2007
Effective tax rate	6.7%	-0.7%

Income taxes increased to RMB597 million in the six months ended June 30, 2008 from RMB-44 million in the same period in 2007. The effective tax rate increased to 6.7% in the six months ended June 30, 2008 from -0.7% in the same period in 2007. These increases were primarily due to the significant decrease in dividend income from equity investment funds, which was entitled to certain tax exemptions.

Net Profit

As a result of the foregoing, the net profit from our life insurance business increased 38.3% to RMB8,325 million in the six months ended June 30, 2008 from RMB6,018 million in the same period in 2007.

PROPERTY AND CASUALTY INSURANCE BUSINESS

We conduct our property and casualty insurance business through Ping An Property & Casualty and Ping An Hong Kong. Ping An Property & Casualty is the third largest property and casualty insurance company in the PRC in terms of gross written premiums. For the six months ended June 30, 2008, our property and casualty insurance business accounted for approximately 10.7% of the total gross written premiums received by the PRC property and casualty insurance companies, based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards.

The following tables set forth certain operation data of our property and casualty insurance business:

	As at June 30, 2008	As at December 31, 2007
Market share of gross written premiums[1]	**10.7%**	10.3%
Number of customers:		
Individual (in thousands)	**8,680**	7,140
Corporate (in thousands)	**2,036**	1,617
Total (in thousands)	**10,716**	8,757

	For the six months ended June 30, 2008	For the year ended December 31, 2007
Combined ratio:		
Expense ratio	**36.5%**	36.5%
Loss ratio	**69.6%**	61.1%
Combined ratio	**106.1%**	97.6%

(1) Based on our financial data and the PRC insurance industry data calculated in accordance with the PRC Accounting Standards and published by the CIRC.
Market share as at June 30, 2008 was computed based on gross written premiums accumulated over a period of six months.
Market share as at December 31, 2007 was computed based on gross written premiums accumulated over a period of one year.

In the first half of 2008, the occurrence of natural disasters such as heavy snow storm, earthquakes and rain storm, as well as the decrease in premium rates of compulsory third party liability insurance for automobiles, have led to an increase in combined ratio and exerted pressure on the profitability of our property and casualty insurance business. If excluding net loss from heavy snow storm, earthquakes and rain storm, our combined ratio was 98.2% in the six months ended June 30, 2008.

In order to achieve healthy and stable growth in our property and casualty insurance business in an increasingly competitive market, we have proactively implemented measures to strengthen the build-up of our distribution network, including the reinforcement of our direct sales channels targeting high-end customers and strengthening of the sales capability of our professional sales force. Also, more efforts were put on the development of low-cost sales channels such as telemarketing and cross selling, with the aim to increase the share attributable to sales through low-cost distribution channels. Meanwhile, based on the characteristics of regional markets, we have implemented more refined regional development and resources allocation strategies.

We continuously review every segment of our operations and refine the critical processes, with the aim of reinforcing our centralized operating platform, establishing a leading operations management system in Mainland China, minimizing operation costs and achieving a sustainable corporate growth.

Results of Operations

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

For the six months ended June 30, (in RMB million)	**2008**	2007
Gross written premiums	**14,671**	11,637
Net earned premiums	**9,619**	7,599
Reinsurance commission income	**657**	564
Investment income	**990**	957
Other income	**29**	12
Total income	**11,295**	9,132
Change in deferred policy acquisition costs	**350**	409
Claims expenses	**(6,697)**	(4,804)
Commission expenses of insurance operations	**(1,405)**	(1,124)
Foreign currency losses	**(37)**	(11)
General and administrative expenses	**(3,165)**	(2,540)
Including: investment related general and administrative expenses	**(50)**	(32)
Other expenses	**(12)**	(11)
Total expenses	**(10,966)**	(8,081)
Income taxes	**10**	(291)
Net profit	**339**	760

Gross Written Premiums

For the six months ended June 30, (in RMB million)	2008	2007
Automobile insurance	**10,225**	7,801
Non-automobile insurance	**3,650**	3,254
Accident and health insurance	**796**	582
Total gross written premiums	**14,671**	11,637

Gross written premiums increased 26.1% to RMB14,671 million in the six months ended June 30, 2008 from RMB11,637 million in the same period in 2007. This increase was primarily due to the steady growth in all three principal lines of our property and casualty insurance business.

Automobile Insurance Business. Gross written premiums attributable to our automobile insurance business increased 31.1% to RMB10,225 million in the six months ended June 30, 2008 from RMB7,801 million in the same period in 2007. This increase was primarily due to the continued increase in demand for automobiles in the PRC.

Non-automobile Insurance Business. Gross written premiums attributable to our non-automobile insurance business increased 12.2% to RMB3,650 million in the six months ended June 30, 2008 from RMB3,254 million in the same period in 2007. This increase was primarily due to the increase in sales of commercial property insurance and cargo insurance. Gross written premiums attributable to our commercial property insurance increased 6.3% to RMB1,645 million in the six months ended June 30, 2008 from RMB1,547 million in the same period in 2007, and gross written premiums attributable to our cargo insurance increased 40.9% to RMB455 million in the six months ended June 30, 2008 from RMB323 million in the same period in 2007.

Accident and Health Insurance Business. Gross written premiums attributable to our accident and health insurance business increased 36.8% to RMB796 million in the six months ended June 30, 2008 from RMB582 million in the same period in 2007. This increase was primarily due to our continuous focus on growing this line of business.

Investment Income

For the six months ended June 30, (in RMB million, except percentages)	2008	2007
Net investment income	**538**	407
Net investment yield(1)	**3.7%**	3.5%
Total investment income	**990**	957
Total investment yield(1)	**5.8%**	6.4%

(1) Lease income from investment properties and interest income from cash and cash equivalents are included in the calculation of the above yields, Net foreign currency gains/losses on investment assets denominated in foreign currencies is excluded in the calculation of above yields. Average investment assets used as the denominator are computed based on Modified Dietz method in principle.

Net investment income for our property and casualty insurance business increased 32.2% to RMB538 million in the six months ended June 30, 2008 from RMB407 million in the same period in 2007. This increase was primarily due to the higher dividend income received from our equity investment funds. Net investment yield for our property and casualty insurance business increased to 3.7% in the six months ended June 30, 2008 from 3.5% in the same period in 2007.

Total investment income for our property and casualty insurance business increased 3.4% to RMB990 million in the six months ended June 30, 2008 from RMB957 million in the same period in 2007. Our total investment yield for our property and casualty insurance business decreased to 5.8% in the six months ended June 30, 2008 from 6.4% in the same period in 2007. This decrease was primarily due to the decrease in net realized and unrealized gains as a result of stock market fluctuations.

Change in Deferred Policy Acquisition Costs

The change in deferred policy acquisition costs was RMB350 million in the six months ended June 30, 2008 as compared to RMB409 million in the same period in 2007. The smaller change in deferred policy acquisition costs was primarily due to the decrease in the percentage of acquisition cost that can be deferred in the six months ended June 30, 2008 as compared to the same period in 2007.

Claims Expenses

For the six months ended June 30, (in RMB million)	**2008**	2007
Automobile insurance	**5,292**	3,935
Non-automobile insurance	**1,029**	594
Accident and health insurance	**376**	275
Total claims	**6,697**	4,804

Total claims increased 39.4% to RMB6,697 million in the six months ended June 30, 2008 from RMB4,804 million in the same period in 2007.

Claims attributable to our automobile insurance business increased 34.5% to RMB5,292 million in the six months ended June 30, 2008 from RMB3,935 million in the same period in 2007. This increase was primarily due to the increase in gross written premiums during the past twelve months.

Claims attributable to our non-automobile insurance business increased 73.2% to RMB1,029 million in the six months ended June 30, 2008 from RMB594 million in the same period in 2007. This increase was primarily due to the increase in claims expense as a result of natural disasters such as snow storm and earthquakes.

Claims attributable to our accident and health insurance business increased 36.7% to RMB376 million in the six months ended June 30, 2008 from RMB275 million in the same period in 2007. This increase was primarily due to the increase in gross written premiums during the past twelve months.

For the six months ended June 30, 2008, claims for our property and casualty business due to heavy snow storm, earthquakes and rain storm, which include claims incurred and claim reserves, net of claims recoverable from reinsurers, were approximately RMB486 million, RMB114 million and RMB132 million respectively.

Commission Expenses

For the six months ended June 30,	2008	2007
Commission expenses as a percentage of gross written premiums	**9.6%**	9.7%

Commission expenses of insurance operations increased 25.0% to RMB1,405 million in the six months ended June 30, 2008 from RMB1,124 million in the same period in 2007. This increase was primarily due to the increase in gross written premiums. As a percentage of gross written premiums, commission expenses decreased to 9.6% in the six months ended June 30, 2008 from 9.7% in the same period in 2007, which was kept on a steady level.

General, Administrative and Other Expenses

For the six months ended June 30, (in RMB million, except percentages)	2008	2007
Business tax and surcharges	**834**	661
Other general, administrative expenses and other expenses	**2,343**	1,890
Total	**3,177**	2,551
General, administrative and other expenses as a percentage of gross written premiums	**21.7%**	21.9%

General, administrative and other expenses increased 24.5% to RMB3,177 million in the six months ended June 30, 2008 from RMB2,551 million in the same period in 2007. This increase was primarily due to the increase in gross written premiums and increased marketing efforts resulting from intensified market competition in the property and casualty insurance industry. General, administrative and other expenses as a percentage of gross written premiums decreased to 21.7% in the six months ended June 30, 2008 from 21.9% in the same period in 2007.

Income Taxes

For the six months ended June 30,	2008	2007
Effective tax rate	-3.0%	27.7%

Income taxes decreased to RMB-10 million in the six months ended June 30, 2008 from RMB291 million in the same period in 2007. The effective tax rate decreased to -3.0% in the six months ended June 30, 2008 from 27.7% in the same period in 2007. These decreases were primarily due to the increase in dividend income from equity investment funds, which was entitled to certain tax exemptions.

Net Profit

As a result of the foregoing, the net profit from our property and casualty insurance business decreased 55.4% to RMB339 million in the six months ended June 30, 2008 from RMB760 million in the same period in 2007.

BANKING BUSINESS

We conduct our banking business through Shenzhen Ping An Bank.

In the first half of 2008, whilst Shenzhen Ping An Bank is developing its existing businesses, gradual establishment of a national branch network is underway. The approval of the opening of Quanzhou Branch by the CBRC signifies another important milestone of Shenzhen Ping An Bank for its national expansion. Shenzhen Ping An Bank maintained a robust growth in corporate and consumer banking businesses. Since the first launch of credit card in Shenzhen and Shanghai in mid 2007, the accumulated number of in-force credit cards has reached 700,000. Amidst the growth in businesses, loan quality has been consistently improving. Non-performing loan ratio is controlled at 0.5%. Projects such as operation centralization, IT platform reconstruction and strengthening of risk management are well underway; management capability at head office level has been improved; mechanisms supporting capital management, financial management and cost management have been established and enhanced; more manpower are being allocated to various businesses and high calibre managers are not only brought in externally, but also cultivated internally. All these measures have laid down a solid foundation for the Shenzhen Ping An Bank to become a nationwide bank.

Results of Operation

The following is a summary of the results of our banking business.

For the six months ended June 30, (in RMB million)	2008	2007
Net interest income	**1,985**	1,459
Net fees and commission income	**87**	52
Investment income	**(52)**	43
Other income, net	**13**	477
Total operating income	**2,033**	2,031
Assets impairment losses/(reversal)	**(61)**	62
Net operating income	**1,972**	2,093
General, administrative and other expenses[1]	**(1,009)**	(851)
Profit before tax	**963**	1,242
Income taxes	**(168)**	(156)
Net profit	**795**	1,086

(1) General and administrative expenses include operating expenses, business tax and surcharges, other expenses and non-operating expenses.

The net profit from our banking business decreased 26.8% to RMB795 million in the six months ended June 30, 2008 from RMB1,086 million in the same period in 2007. If taken out the one-off benefits of non-performing package assets disposal and reversals of litigation provisions from the first half results of 2007 (RMB409 million in total), the net profit in the six months ended June 30, 2008 in fact increased even though significant capital expenditure and investments for future has been made.

Net Interest Income

For the six months ended June 30, (in RMB million, except percentages)	2008	2007
Interest income		
Loan and advances to customers	**2,274**	1,348
Balances with the central bank	**146**	73
Due from banks and other financial institutions	**323**	295
Bond interest income	**633**	541
Total interest income	**3,376**	2,257
Interest expense		
Customers deposits	**1,085**	641
Due to banks and other financial institutions	**306**	157
Total interest expense	**1,391**	798
Net interest income	**1,985**	1,459
Net interest spread(1)	**2.9%**	2.4%
Average interest earning assets balance	**127,736**	118,411
Average interest bearing liabilities balance	**121,579**	110,507

(1) Net interest spread represents the difference between the average yield on interest earning assets (excluding recovery of interest income on non-performing loans) and the average cost on interest bearing liabilities.

Net interest income increased 36.1% to RMB1,985 million in the six months ended June 30, 2008 from RMB1,459 million in the same period in 2007. This increase was primarily due to the widening of net interest spread. Net interest spread increased 50 basis point to 2.9% in the six months ended June 30, 2008 from 2.4% in the same period in 2007.

Investment Income

Investment income for our banking business decreased to RMB-52 million in the six months ended June 30, 2008 from RMB43 million in the same period in 2007. This decrease was primarily due to the changes in fair values of bond investments and derivative financial instruments.

Other Income

Other income decreased significantly to RMB13 million in the six months ended June 30, 2008 from RMB477 million in the same period in 2007. As discussed above, this decrease was primarily due to the lack of one off benefits from non-performing package assets disposal and reversals of litigation provisions in the first half of 2008.

General, Administrative and Other Expenses

For the six months ended June 30, (in RMB million, expect percentages)	2008	2007
General and administrative expenses	864	733
Business tax and surcharges	126	77
Other expenses and non-operating expenses	19	41
Total general, administrative and other expenses	1,009	851
Cost to income ratio(1)	42.5%	36.1%

(1) Cost-to-income ratio is defined as general and administrative expenses/operating income.

General, administrative and other expenses increased 18.6% to RMB1,009 million in the six months ended June 30, 2008 from RMB851 million in the same period in 2007. Cost to income ratio increased to 42.5% in the six months ended June 30, 2008 from 36.1% in the same period in 2007. These increases were primarily due to investments for the growth of credit card business, opening of new sub-branches, investments on the IT infrastructure and staff hiring. All of these are necessary to support sustainable growth of business in future, as well as laying down a solid foundation for national expansion in future.

Assets Impairment Losses

Assets impairment losses were RMB61 million in the six months ended June 30, 2008 as compared to impairment reversal of RMB62 million in the same period in 2007. This increase was primarily due to the fact that there was no write-back of provision in respect of non-performing assets in the first half of 2008.

Income Tax

For the six months ended June 30,	2008	2007
Effective tax rate	17.4%	12.6%

Income tax increased 7.7% to RMB168 million in the six months ended June 30, 2008 from RMB156 million in the same period in 2007. Effective tax rate increased to 17.4% in the six months ended June 30, 2008 from 12.6% in the same period in 2007. This increase was primarily due to the implementation of new Corporate Income Tax Law on January 1, 2008. Income tax rate for the Shenzhen area increased to 18.0% in 2008 from 15.0% in 2007.

Loans and advances mix

(in RMB million)	As at June 30, 2008	As at December 31, 2007
Corporate loans	**43,398**	36,142
Discounted bills	**4,956**	5,976
Retail loans	**20,689**	19,782
Total loans and advances	**69,043**	61,900

Total loan and advances increased 11.5% to RMB69,043 million as at June 30, 2008 from RMB61,900 million as at December 31, 2007. Corporate loans increased 20.1% to RMB43,398 million and accounted for 62.9% of the total loans and advances as at June 30, 2008 (December 31, 2007: 58.4%). Retail loans increased 4.6% to RMB20,689 million and accounted for 30.0% of the total loans and advances as at June 30, 2008 (December 31, 2007: 32.0%). Due to loan mix restructuring and asset and liability management, discounted bills decreased 17.1% to RMB4,956 million as at June 30, 2008.

Deposits Mix

(in RMB million)	As at June 30, 2008	As at December 31, 2007
Corporate deposits	**81,445**	96,941
Retail deposits	**11,896**	10,184
Guarantee deposits	**6,320**	5,397
Outward remittance and remittance outstanding	**1,014**	531
Total customer deposits	**100,675**	113,053

Total customer deposits decreased 10.9% to RMB100,675 million as at June 30, 2008 from RMB113,053 million as at December 31, 2007. If excluding the withdrawal of short term deposits by the parent company amounted to RMB14,300 million, total corporate deposits from external corporate customers (including corporate deposits, guarantee deposits and outward remittance and remittance outstanding) remain steady.

Loan Quality

(in RMB million, except percentages)	As at June 30, 2008	As at December 31, 2007
Pass	**64,712**	58,370
Special mention	**3,999**	3,019
Substandard	**204**	296
Doubtful	**84**	167
Loss	**44**	48
Total loans and advances	**69,043**	61,900
Total non performing loans	**332**	511
Non-performing loans ratio	**0.5%**	0.8%
Impairment provisions balance	**422**	420
Provisions coverage ratio	**127.1%**	82.2%

Loan quality continue to improve in the first half of 2008. Non-performing loan ratio and absolute balance decreased from 0.8% to 0.5% and from RMB511 million to RMB332 million respectively. This decrease was primarily due to successful collection of bad loans of RMB180 million in the first half of 2008 and low migration rate from performing categories to non-performing categories.

Provision coverage ratio increased significantly to 127.1% as at June 30, 2008 from 82.2% as at December 31, 2007. As discussed above, this increase was primarily due to the significant decrease in non-performing loans.

Capital Adequacy Ratio

(in RMB million, except percentages)	As at June 30, 2008	As at December 31, 2007
Capital	**7,152**	6,209
Risk-weighted assets	**70,696**	68,466
CAR (regulators stipulate >=8%)	**10.1%**	9.1%
Core CAR (regulators stipulate >=4%)	**10.2%**	9.1%

As at June 30, 2008, Shenzhen Ping An Bank's capital adequacy ratio and core capital adequacy ratios were comfortably above regulatory stipulated level at 10.1% and 10.2% respectively.

SECURITIES BUSINESS

We conduct our securities business through Ping An Securities.

In the first half of 2008, as the domestic capital markets went through a thorough reshuffle, for which the transaction volume of secondary markets substantially shrank, our securities brokerage and proprietary trading businesses were somehow affected. Nethertheless, the Company's investment banking business continued to maintain a strong momentum. Apart from keeping our leading position in small and medium enterprises underwriting, we successfully underwrote the further issuance of RMB11.5 billion by CONCH, making a breakthrough in our underwriting history. In March 2008, we successfully launched our first combined financial product, Nian Nian Hong No.1 ("年年紅1號"). In the future, while continuing to focus on enhancing the capability of our branches, Ping An Securities will leverage the Group's integrated financial strengths and grasp the opportunities of business expansion, so as to constantly increase its market share in the brokerage business.

Results of Operation

The following is a summary of the results of our securities business:

For the six months ended June 30, (in RMB million)	2008	2007
Net fees and commission income	**854**	975
Investment income	**103**	491
Other income	**3**	–
Total operating income	**960**	1,466
Foreign currency losses	**(4)**	(2)
General, administrative and other expenses	**(456)**	(605)
Total operating expenses	**(460)**	(607)
Income taxes	**(99)**	(183)
Net profit	**401**	676

Net Fees and Commission Income

The following table sets forth the major components of net fees and commission income:

For the six months ended June 30, (in RMB million)	2008	2007
Fees and commission income		
Brokerage fees	**509**	790
Underwriting commission income	**392**	224
Others	**11**	32
Total fees and commission income	**912**	1,046
Fees and commission expenses		
Brokerage fees paid	**(58)**	(71)
Total fees and commission expenses	**(58)**	(71)
Net fees and commission income	**854**	975

Brokerage fees income from our brokerage business decreased 35.6% to RMB509 million in the six months ended June 30, 2008 from RMB790 million in the same period in 2007. This decrease was primarily due to the significant shrinkage of the transaction volume as a result of the thorough reshuffle of domestic capital markets.

Underwriting commission income from our investment banking business increased 75.0% to RMB392 million in the six months ended June 30, 2008 from RMB224 million in the same period in 2007. This increase was primarily due to the increased issue amount of major underwriting of our investment banking business and a breakthrough of sizable underwriting.

The decrease in brokerage fees expenses was in line with the decrease in brokerage fees income.

As a result of the foregoing, net fees and commission income decreased 12.4% to RMB854 million in the six months ended June 30, 2008 from RMB975 million in the same period in 2007.

Investment Income

For the six months ended June 30, (in RMB million)	2008	2007
Net investment income	79	36
Net realized and unrealized gains	24	455
Total investment income	103	491

Total investment income from our securities business decreased 79.0% to RMB103 million in the six months ended June 30, 2008 from RMB491 million in the same period in 2007. This decrease was primarily due to the significant decrease in net realized and unrealized gains as a result of stock market fluctuations.

General, Administrative and Other Expenses

General, administrative and other expenses decreased 24.6% to RMB456 million in the six months ended June 30, 2008 from RMB605 million in the same period in 2007. This decrease was primarily due to the decrease in innovative business related expenses as a result of capital market fluctuations.

Income Taxes

For the six months ended June 30,	2008	2007
Effective tax rate	19.8%	21.3%

Income taxes decreased 45.9% to RMB99 million in the six months ended June 30, 2008 from RMB183 million in the same period in 2007. This decrease was primarily due to the decrease of taxable profit. The effective tax rate decreased to 19.8% in the six months ended June 30, 2008 from 21.3% in the same period in 2007.

Net Profit

As a result of the foregoing, the net profit from our securities business decreased 40.7% to RMB401 million in the six months ended June 30, 2008 from RMB676 million in the same period in 2007.

TRUST BUSINESS

We conduct our trust business through Ping An Trust.

In the first half of 2008, facing the changing market environment and slow-moving of trust products sales, Ping An Trust kept abreast of market demands, initiatively adjusted product structures, focused mainly on researches of fixed gain products and innovative products and successfully launched a series of innovative products, such as credit assets backed securitization, fund investment trust and private equity investment trust. Our trusted business maintained sound development momentum and Ping An Trust continued to gain market influence. In the mean time, Ping An Trust further explored customer resources, expanded sale channels and smoothly implemented the constructions of private banking platform, customer service platform and risk management platform. All those measures will pave the track for the fast development of our trust business in the future. In addition, with the gradual expansion of investment team and the perfection of investment platforms, Ping An Trust's investments in non-capital markets progressed smoothly and the investment projects were all under stable development, which will contribute to the increase of our profits as a whole in the future.

Results of Operation

The following is a summary of the results of our trust business:

For the six months ended June 30, (in RMB million)	2008	2007
Net fees and commission income	**241**	122
Investment income	**551**	322
Other income	**–**	4
Total operating income	**792**	448
Asset impairment losses	**9**	(5)
Foreign currency losses	**(1)**	(1)
General, administrative and other expenses	**(91)**	(106)
Total operating expenses	**(83)**	(112)
Income taxes	**(70)**	(61)
Net profit	**639**	275

(1) The above figures are presented at company's level, where interests in subsidiaries are accounted for at cost.

Net Fees and Commission Income

The following table sets forth the major components of net fees and commission income:

For the six months ended June 30, (in RMB million)	2008	2007
Fees and commission income		
Management fees of trust products	**269**	246
Commission income from custodian and other fiduciary services	**15**	–
Others	**21**	11
Total fees and commission income	**305**	257
Fees and commission expenses		
Handing charges of trust products	**(49)**	(125)
Others	**(15)**	(10)
Total fees and commission expenses	**(64)**	(135)
Net fees and commission income	**241**	122

Fees and commission income increased 18.7% to RMB305 million in the six months ended June 30, 2008 from RMB257 million in the same period in 2007. This increase was primarily due to the increase in the size of trust assets managed by the Company as compared to the same period of last year. As a result, management fees of trust products increase 9.3% to RMB269 million in the six months ended June 30, 2008 from RMB246 million in the same period in 2007. In addition, we received service fee income of RMB15 million from offering other fiduciary business in the first half of 2008.

Fees and commission expenses decreased 52.6% to RMB64 million in the six months ended June 30, 2008 from RMB135 million in the same period in 2007. This decrease was primarily due to the significant decrease in handling charges of equity trust products as a result of capital market fluctuations.

As a result of the foregoing, net fees and commission income increased 97.5% to RMB241 million in the six months ended June 30, 2008 from RMB122 million in the same period in 2007.

Investment Income

For the six months ended June 30, (in RMB million)	2008	2007
Net investment income	**285**	76
Net realized and unrealized gains	**266**	246
Total investment income	**551**	322

Total investment income from our trust business increased 71.1% to RMB551 million in the six months ended June 30, 2008 from RMB322 million in the same period in 2007. This increase was primarily due to the dividends received by Ping An Trust of RMB232 million from Ping An Securities, its subsidiary, and disposition of certain equity investments to lock-in profits accumulated in previous periods.

General, Administrative and Other Expenses

General, administrative and other expenses decreased 14.2% to RMB91 million in the six months ended June 30, 2008 from RMB106 million in the same period in 2007. This decrease was primarily due to the implementation of cost control initiatives.

Income Taxes

For the six months ended June 30,	2008	2007
Effective tax rate	**9.9%**	18.2%

Income taxes increased 14.8% to RMB70 million in the six months ended June 30, 2008 from RMB61 million in the same period in 2007. This increase was primarily due to the increase in taxable profits. The effective tax rate decreased to 9.9% in the six months ended June 30, 2008 from 18.2% in the same period in 2007. This decrease was mainly due to the dividends received from Ping An Security, its subsidiary, which was entitled to certain tax exemptions.

Net profit

As a result of the foregoing, the net profit from our trust business significantly increased to RMB639 million in the six months ended June 30, 2008 from RMB275 million in the same period in 2007.

SYNERGY OF INTEGRATED FINANCIAL BUSINESS

Nationwide Integrated Operating Center

As at June 30, 2008, we have fully completed the centralization of individual life insurance underwriting and claims functions, claims of automobile insurance and property and casualty insurance, accounting activities of various branches and a national call centre, which marked the accomplishment of its first-phase integration. Meanwhile, after two years of integrated operation, the nationwide integrated operating centre has gradually demonstrated its role in improving service efficiency, strengthening risk control and reducing operating costs.

In the future, leveraging on its advanced information platform and technological means as well as its extensive experiences in workflow optimization, standardization drive and operation management, we will gradually expand the application of these core operating capabilities, maximize the economy of scale generated from integrated operation and keep on refining the integrated financial service platform, so that we will be able to provide our customers with more services and products and facilitate the rapid business growth.

Cross Selling

After years of hard efforts, our cross-selling of financial products has been greatly strengthened in terms of sales amounts and product types with remarkable sales performance, while the synergy of integrated financial business has been increasingly demonstrated. The following table sets out the Company's cross-selling performance for the six months ended June 30, 2008:

New business acquired through cross-selling (in RMB million, except otherwise indicated)	Amount	Business contribution percentage (%)
Property and casualty insurance business		
Premium income	2,047	14.0
Corporate annuity business		
Entrusted assets	658	12.5
Assets under investment management	746	12.7
Trust business		
Trust plans	401	1.3
Banking		
Corporate deposits	486	9.1
Credit cards (in thousands)	270	55.8

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

(in RMB million)	As at June 30, 2008	As at December 31, 2007
Cash and cash equivalents	**67,514**	94,058
Held-for-trading investments	**31,614**	36,568
Total liquid assets	**99,128**	130,626

The Group utilizes short-term borrowings and assets sold under agreements to repurchase as part of the liquidity management for our daily operations. The following table summarizes the carrying amount of these arrangements:

(in RMB million)	As at June 30, 2008	As at December 31, 2007
Short-term borrowings	3,947	3,894
Assets sold under agreements to repurchase	16,356	13,556

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

Capital Structure

Total equity decreased to RMB90,420 million as at June 30, 2008 from RMB113,851 million as at December 31, 2007. This decrease was primarily due to the distribution of final dividends for 2007, as well as the net unrealized losses on our available-for-sale equity investments as a result of capital market fluctuations.

The Group had no material charges on its group assets.

Gearing Ratio

	As at June 30, 2008	As at December 31, 2007
Gearing ratio	87.2%	83.8%

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

Contractual Obligation and Other Commercial Commitments

The following table sets forth our aggregate contractual obligations and other commercial commitments for the periods specified:

(in RMB million)	**As at June 30, 2008**	As at December 31, 2007
Contractual commitments (contracted, but not provided for)	**33,033**	11,048
Operating lease commitments	**1,959**	1,160

FOREIGN CURRENCY RISK

Foreign currency denominated assets held by the Group are exposed to foreign currency risks. These assets include monetary assets such as deposits and bonds held in foreign currencies, and non-monetary assets measured at fair value such as our stocks and funds held in foreign currencies. The Group's foreign currency denominated liabilities are also exposed to fluctuations in exchange rates. These liabilities include monetary liabilities, such as loans, customer's deposits and claim reserves denominated in foreign currencies and non-monetary liabilities measured at fair value. The exposures to fluctuations in exchange rates from the above assets and liabilities offset each other.

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

As at June 30, 2008 (in RMB million)	Decrease in profit	Decrease in equity
Net exposure to fluctuations in exchange rates assuming a simultaneous and uniform 5% depreciation of all foreign currency denominated monetary assets and monetary liabilities as well as all non-monetary assets and non-monetary liabilities measured at fair value against the Renminbi	597	1,638

RECONCILIATION OF GAAP DIFFERENCES BETWEEN PRC ACCOUNTING STANDARDS AND IFRS

The material GAAP differences between PRC Accounting Standards and IFRS in preparing financial statements are as follows:

Reconciliation of GAAP Differences for Net Profit and Equity

For the six months ended June 30, (in RMB million) Consolidated net profit	Notes	2008	2007
Prepared in accordance with PRC Accounting Standards		**7,102**	8,063
Unearned premium reserves	*(i)*	**(199)**	(86)
Policyholders' reserves	*(ii)*	**(1,888)**	(2,106)
Deferred policy acquisition costs	*(iii)*	**5,316**	4,136
Deferred tax	*(iv)*	**(816)**	(301)
Minority interests and others		**(28)**	(16)
Prepared in accordance with IFRS		**9,487**	9,690

(in RMB million) Consolidated equity	Notes	June 30, 2008	December 31, 2007
Prepared in accordance with PRC Accounting Standards		**80,955**	107,234
Unearned premium reserves	*(i)*	–	199
Policyholders' reserves	*(ii)*	**(37,150)**	(35,262)
Deferred policy acquisition costs	*(iii)*	**46,621**	41,305
Deferred tax	*(iv)*	**(2,363)**	(1,547)
Minority interests and others		**(135)**	(107)
Prepared in accordance with IFRS		**87,928**	111,822

Minority interests have been deducted from the above amounts.

Notes:

(i) Under PRC Accounting Standards, unearned premium reserves of life insurance subsidiaries are provided using actuarial valuation results (1/365 method), and should be no less than 50% of the retained premium for the current period (1/2 method). Under IFRS, unearned premium reserves are provided using actuarial valuation results (1/365 method).

(ii) Under PRC Accounting Standards, policyholders' reserves are provided in accordance with related actuarial regulations promulgated by CIRC. Under IFRS, policyholders' reserves are provided in accordance with IFRS 4 Insurance Contracts and by reference to US GAAP.

(iii) Under PRC Accounting Standards, handling costs and commission expenses of acquiring new policies are recognized in the income statement when incurred. Under IFRS, handling costs and commission expenses of acquiring new policies are deferred and amortized over the expected life of the insurance contracts at a constant percentage of expected premiums or at a constant percentage of the present value of estimated gross profits expected to be realized over the life of the insurance contracts by product type, in accordance with IFRS 4 Insurance Contracts and by reference to US GAAP.

(iv) The above differences between PRC Accounting Standards and IFRS are temporary differences in accordance with IAS 12 Income Taxes. The Group recognizes deferred tax assets and liabilities on the basis of the above differences and the tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Reconciliation of GAAP Differences for Premium Income

For the six months ended June 30, (in RMB million)	2008	2007
Prepared in accordance with PRC Accounting Standards	**69,228**	53,885
Less: Premium deposits allocated to policyholder contract deposits (universal life)	**(10,272)**	(8,372)
Premium deposits allocated to policyholder accounts (investment-linked)	**(4,764)**	(1,673)
Prepared in accordance with IFRS	**54,192**	43,840

Reconciliation of GAAP Differences for Investment Income

For the six months ended June 30, (in RMB million)	2008	2007
Prepared in accordance with PRC Accounting Standards	**4,686**	32,202
Including: Investment income	**23,445**	29,108
Gains/(losses) from changes in fair value	**(18,759)**	3,094
Add: Rental income of investment properties	**139**	151
Impairment losses of investment assets	**(1,585)**	–
Less: Share of profits of associates	**(41)**	–
Policyholder account investment income in respect of insurance contracts (investment-linked)	**6,076**	(6,616)
Prepared in accordance with IFRS	**9,275**	25,737

Reconciliation of GAAP Differences for General and Administrative Expenses

For the six months ended June 30, (in RMB million)	2008	2007
Prepared in accordance with PRC Accounting Standards	**6,013**	6,571
Add: Business tax and surcharges	**1,702**	1,742
Impairment losses of assets other than investment assets and loans	**(62)**	143
Other operating expenses	**696**	195
Non-operating expenses	**80**	50
Less: Business tax and surcharges, general and administrative expenses of policyholder account in respect of insurance contracts (investment-linked)	**376**	(216)
Prepared in accordance with IFRS	**8,805**	8,485

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

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

(1) COMPONENTS OF ECONOMIC VALUE

(in RMB million)	**June 30, 2008**	December 31, 2007
Risk discount rate	**Earned Rate/ 11.5%**	Earned Rate/ 11.5%
Adjusted net asset value	**80,938**	107,032
Adjusted net asset value of life insurance business	**6,201**	30,128
Value of in-force insurance business written prior to June 1999	**(5,997)**	(9,058)
Value of in-force insurance business written since June 1999	**66,255**	61,921
Cost of holding the required solvency margin	**(11,207)**	(9,585)
Embedded value	**129,989**	150,311
Embedded value of life insurance business	**55,252**	73,407

(in RMB million)	**June 30, 2008**	December 31, 2007
Risk discount rate	**11.5%**	11.5%
Value of one year's new business	**9,465**	8,254
Cost of holding the required solvency margin	**(1,262)**	(1,067)
Value of one year's new business after cost of solvency	**8,202**	7,187
Value of first half year's new business after cost of solvency	**4,911**	3,896

Note: Figures may not be additive due to rounding.

The adjusted net asset value is based on the audited shareholders net assets of the Company and the relative life insurance business as measured on the PRC statutory basis. The relative life insurance business includes business conducted through Ping An Life, Ping An Annuity and Ping An Health. The values placed on certain assets have been adjusted to the market value.

(2) KEY ASSUMPTIONS

The key assumptions used in the embedded value calculation as at June 30, 2008 have been the same as those used in 2007 year-end valuation.

(3) NEW BUSINESS VOLUMES AND BUSINESS MIX

The volume of new business sold and modeled during the past 12 months prior to June 30, 2008 to calculate the value of one year's new business was RMB37,206 million in terms of first year premium, while that was RMB29,926 million during 2007. The mix of the new business measured by first year premium was:

Business Mix	June 30, 2008	December 31, 2007
Individual life	**47.9%**	50.7%
Long-term business	**46.4%**	49.0%
Short-term business	**1.5%**	1.7%
Group life	**25.5%**	26.0%
Long-term business	**17.3%**	16.9%
Short-term business	**8.2%**	9.1%
Bancassurance	**26.6%**	23.3%
Long-term business	**26.6%**	23.3%
Total	**100.0%**	100.0%

Note: Figures may not be additive due to rounding.

(4) SENSITIVITY ANALYSIS

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

- Risk discount rate
- Investment return increased by 50 basis points every year
- Investment return decreased by 50 basis points every year
- A 10% reduction in mortality and morbidity for assured lives
- A 10% reduction in policy discontinuance rates
- A 10% reduction in maintenance expenses
- A 5% increase in the policyholders' dividend payout ratio
- Solvency margin at 150% of the regulatory level

(in RMB million)	Risk Discount Rate			
	Earned Rate/11.0%	**Earned Rate/11.5%**	**Earned Rate/12.0%**	**11.5%**
Value of in-force business	51,074	49,051	47,128	50,262
	11.0%	**11.5%**	**12.0%**	**Earned Rate/11.5%**
Value of one year's new business	8,659	8,202	7,777	8,753

Assumptions (in RMB million)	**Value of in-force business**	**Value of one year's new business**
Central case	49,051	8,202
Investment return increased by 50bp every year	59,305	8,664
Investment return decreased by 50bp every year	37,007	7,750
10% reduction in mortality and morbidity rates	49,524	8,369
10% reduction in policy discontinuance rates	50,518	8,561
10% reduction in maintenance expense	49,923	8,348
5% increase in the policyholders' dividend payout ratio	47,161	8,000
Solvency margin at 150% of the regulatory level	43,250	7,571

Note: Risk discount rates were earned rate/11.5% and 11.5% for in-force business and new business respectively.

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

We have audited the consolidated financial statements of Ping An Insurance (Group) Company of China, Ltd. (the "Company") and its subsidiaries (collectively the "Group") set out on pages 47 to 177 which comprise the consolidated balance sheet as at June 30, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended June 30, 2008, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at June 30, 2008 and of the Group's profit and cash flows for the six months then ended in accordance with International Financial Reporting Standards.

Ernst & Young
Certified Public Accountants

Hong Kong
August 15, 2008

CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, (in RMB million)	*Notes*	**2008**	2007
Gross written premiums and policy fees	*7*	**54,192**	43,840
Less: Premiums ceded to reinsurers		**(3,344)**	(2,600)
Net written premiums and policy fees	*7*	**50,848**	41,240
Change in unearned premium reserves		**(2,734)**	(2,191)
Net earned premiums		**48,114**	39,049
Reinsurance commission income		**760**	675
Interest income of banking operations	*8*	**3,369**	2,257
Fees and commission income of non-insurance operations	*9*	**1,282**	1,357
Investment income	*10*	**9,275**	25,737
Share of profits of associates		**41**	–
Other income		**792**	744
Total income		**63,633**	69,819
Change in deferred policy acquisition costs	*25*	**5,316**	4,136
Claims and policyholders' benefits	*11*	**(40,619)**	(47,849)
Commission expenses of insurance operations		**(7,257)**	(5,673)
Interest expenses of banking operations	*8*	**(1,265)**	(689)
Fees and commission expenses of non-insurance operations	*9*	**(118)**	(213)
Loan loss provisions, net of reversals	*21*	**(16)**	105
Foreign exchange losses		**(525)**	(335)
General and administrative expenses		**(8,805)**	(8,485)
Total expenses		**(53,289)**	(59,003)
Profit before tax	*12*	**10,344**	10,816
Income taxes	*13*	**(625)**	(847)
Net profit		**9,719**	9,969
Attributable to:			
– Equity holders of the parent		**9,487**	9,690
– Minority interests		**232**	279
		9,719	9,969
		RMB	*RMB*
Earnings per share attributable to equity holders of the parent:			
– basic	*15*	**1.29**	1.39
– diluted	*15*	**1.29**	1.39

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at June 30, 2008

(in RMB million)	Notes	June 30, 2008	December 31, 2007
ASSETS			
Balances with central bank and statutory deposits	16	**19,781**	20,794
Cash and amounts due from banks and other financial institutions	17	**93,384**	87,859
Fixed maturity investments	18	**284,469**	274,241
Equity investments	19	**83,673**	128,931
Derivative financial assets	20	**121**	177
Loans and advances to customers	21	**70,806**	63,125
Investments in associates	22	**3,401**	1,472
Premium receivables	23	**6,172**	4,434
Reinsurers' share of insurance liabilities	24	**7,077**	4,880
Policyholder account assets in respect of insurance contracts		**32,554**	34,871
Policyholder account assets in respect of investment contracts		**4,120**	4,622
Deferred policy acquisition costs	25	**46,621**	41,305
Investment properties	26	**3,677**	3,882
Property and equipment	27	**8,516**	8,165
Intangible assets	28	**10,583**	4,400
Deferred tax assets	37	**1,985**	87
Other assets	29	**11,833**	8,977
Total assets		**688,773**	692,222

The accompanying notes form an integral part of these financial statements.

(in RMB million)	Notes	June 30, 2008	December 31, 2007
EQUITY AND LIABILITIES			
Equity			
Share capital	*30*	**7,345**	7,345
Reserves	*31*	**52,324**	81,322
Retained profits	*31*	**28,259**	23,155
Equity attributable to equity holders of the parent		**87,928**	111,822
Minority interests		**2,492**	2,029
Total equity		**90,420**	113,851
Liabilities			
Due to banks and other financial institutions	*32*	**13,784**	14,644
Assets sold under agreements to repurchase	*33*	**16,356**	13,556
Derivative financial liabilities	*20*	**120**	189
Customer deposits and payables to brokerage customers	*34*	**90,090**	91,925
Insurance contract liabilities	*35*	**433,658**	416,474
Investment contract liabilities for policyholders	*36*	**6,936**	5,421
Policyholder dividend payable		**10,635**	7,006
Income tax payable		**725**	807
Deferred tax liabilities	*37*	**967**	6,369
Other liabilities	*38*	**25,082**	21,980
Total liabilities		**598,353**	578,371
Total equity and liabilities		**688,773**	692,222

The accompanying notes form an integral part of these financial statements.

MA Mingzhe	**CHEUNG Chi Yan Louis**	**SUN Jianyi**
Director	*Director*	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2008

(in RMB million)	Notes	Share capital	Capital reserve	Surplus reserve fund	General reserve	Net unrealized gains/(losses)	Foreign currency translation differences	Retained profits	Minority interests	Total
		Equity attributable to equity holders of the parent								
			Reserves							
As at January 1, 2008		7,345	51,907	7,629	1,939	19,889	(42)	23,155	2,029	113,851
Net profit for the six months ended June 30, 2008		–	–	–	–	–	–	9,487	232	9,719
Net losses on available-for-sale investments		–	–	–	–	(39,362)	–	–	(395)	(39,757)
Net gains on available-for-sale investments removed from equity and reported in net profit		–	–	–	–	(9,140)	–	–	(91)	(9,231)
Impairment charges reclassified to the income statement	*10*	–	–	–	–	1,569	–	–	16	1,585
Deferred tax recognized, net		–	–	–	–	7,532	–	–	75	7,607
Dividends declared	*14*	–	–	–	–	–	–	(3,673)	–	(3,673)
Appropriations to statutory reserve	*31*	–	–	710	–	–	–	(710)	–	–
Changes in subsidiaries		–	–	–	–	–	–	–	577	577
Currency translation adjustments		–	–	–	–	–	(28)	–	–	(28)
Dividends for minority interests		–	–	–	–	–	–	–	(49)	(49)
Shadow accounting adjustment	*35*	–	–	–	–	9,721	–	–	98	9,819
As at June 30, 2008		7,345	51,907	8,339	1,939	(9,791)	(70)	28,259	2,492	90,420

The accompanying notes form an integral part of these financial statements.

(in RMB million)	Notes	Share capital	Capital reserve	Surplus reserve fund	General reserve	Net unrealized gains	Foreign currency translation differences	Retained profits	Minority interests	Total
		Equity attributable to equity holders of the parent								
			Reserves							
As at January 1, 2007		6,195	14,835	6,126	517	8,250	(25)	10,477	1,375	47,750
Issue of new shares in the PRC		1,150	37,720	–	–	–	–	–	–	38,870
Share issue expenses		–	(648)	–	–	–	–	–	–	(648)
Net profit for the six months ended June 30, 2007		–	–	–	–	–	–	9,690	279	9,969
Net gains on available-for-sale investments		–	–	–	–	15,397	–	–	154	15,551
Net gains on available-for-sale investments removed from equity and reported in net profit		–	–	–	–	(8,727)	–	–	(88)	(8,815)
Deferred tax recognized, net		–	–	–	–	(2,422)	–	–	(24)	(2,446)
Dividends declared	*14*	–	–	–	–	–	–	(1,616)	–	(1,616)
Appropriations to statutory reserve	*31*	–	–	808	–	–	–	(808)	–	–
Transfer of surplus reserve fund		–	–	(6)	–	–	–	6	–	–
Changes in subsidiaries		–	–	–	–	–	–	–	(113)	(113)
Currency translation adjustments		–	–	–	–	–	(23)	–	–	(23)
Dividends for minority interests		–	–	–	–	–	–	–	(34)	(34)
Shadow accounting adjustment	*25, 35*	–	–	–	–	(863)	–	–	(9)	(872)
As at June 30, 2007		7,345	51,907	6,928	517	11,635	(48)	17,749	1,540	97,573

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2008

For the six months ended June 30, (in RMB million)	Notes	2008	2007
Net cash from operating activities	43	**21,135**	19,851
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment properties, items of property and equipment, and intangible assets		**(2,407)**	(2,043)
Proceeds from disposal of investment properties, items of property and equipment, and intangible assets		**219**	92
Purchases of investments, net		**(41,884)**	(17,481)
Term deposits withdrawal/(placed), net		**(7,051)**	15,113
Acquisition of subsidiaries	5	**(529)**	(382)
Acquisition of minority interest in a subsidiary		**(436)**	(229)
Proceeds from assets purchased under agreements to resell		**168**	(131)
Interests received		**6,569**	6,123
Dividends received		**3,781**	4,470
Rentals received		**139**	151
Others		**(535)**	–
Net cash inflow/(outflow) from investing activities for policyholders' accounts		**(5,801)**	2,673
Net cash from/(used in) investing activities		**(47,767)**	8,356
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares issued		**–**	38,222
Proceeds from sales in assets sold under agreements to repurchase		**2,800**	9,369
Proceeds from borrowed funds		**100**	192
Interests paid		**(186)**	(361)
Dividends paid		**(3,666)**	(1,719)
Cash repayments of borrowings		**(122)**	–
Net cash inflow/(outflow) from financing activities for policyholders' accounts		**156**	(1,059)
Net cash from/(used in) financing activities		**(918)**	44,644
Net increase/(decrease) in cash and cash equivalents		**(27,550)**	72,851
Net foreign exchange differences		**(490)**	(74)
Cash and cash equivalents at beginning of the period		**96,296**	47,327
Cash and cash equivalents at end of the period	42	**68,256**	120,104

The accompanying notes form an integral part of these financial statements.

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's principal subsidiaries 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.

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.

(1) IAS 1 (amendment) *Presentation of Financial Statements*

The revised IAS 1 was issued in September 2007 and becomes effective for annual periods beginning on or after January 1, 2009. This standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements.

(2) IAS 23 (amendment) *Borrowing Costs*

The revised IAS 23 was issued in March 2007 and becomes effective for annual periods beginning on or after January 1, 2009. The main change is the removal of the option to immediately recognize as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset.

(3) IFRS 8 *Operating Segments*

IFRS 8 was issued in November 2006 and becomes effective for annual periods beginning on or after January 1, 2009 and will replace the existing IAS 14 *Segment Reporting*. IFRS 8 specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

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

(4) IFRIC 13 *Customer Loyalty Programmes*

IFRIC 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.

(5) Amendments to IFRS 2 *Vesting Conditions and Cancellations*

This amendment was published in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

(6) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3 (revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurred and future reported results. IAS 27 (revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. The revised standards also change the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

(7) Amendments to IAS 32 and IAS 1 *Puttable Financial Instruments*

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after January 1, 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

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

(8) Amendments to IFRS 1 and IAS 27 – *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

Amendments to IFRS 1 and IAS 27 were issued in May 2008 and become effective for annual periods beginning on or after January 1, 2009, with earlier application permitted. The amendment to IFRS 1 allows first-time adopters, in their separate financial statements, to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. The amendment to IAS 27 removes the definition of "cost method" from that standard and, additionally, when an entity reorganizes the structure of its group by establishing a new entity as its parent (subject to specific criteria), the amendment requires the new parent to measure cost as the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganization.

(9) IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC Interpretation 15 was issued in July 2008 and becomes effective for annual periods beginning on or after January 1, 2009. This interpretation addresses the divergence in construction of real estate accounting treatment and clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18.

(10) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRIC Interpretation 16 was issued in July 2008 and becomes effective for annual periods beginning on or after October 1, 2008. This interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment; where within the group the hedging instrument(s) can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

(11) Other improvements to IFRSs

On May 22, 2008, the International Accounting Standards Board ("IASB") issued its first omnibus of amendments to its standards. The improvement project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to standards, primarily with a view to removing inconsistencies and clarifying wording.

IASB has separated the amendments into two parts: Part I deals with changes IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact. The following table summarizes the amendments included in Part I, the related effective dates and transitional provisions.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*		
Plan to sell the controlling interest in a subsidiary	When a subsidiary is held for sale, all of its assets and liabilities shall be classified as held for sale under IFRS 5, even when the entity will retain a non-controlling interest in the subsidiary after the sale.	Applicable for annual periods beginning on or after July 1, 2009. To be applied prospectively from the date at which the company first applies IFRS 5. Therefore, any investments in subsidiaries classified as held for sale since IFRS 5 was applied will need to be re-evaluated.
IAS 1 *Presentation of Financial Statements*		
Current/non-current classification of derivatives	Assets and liabilities classified as held-for-trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the balance sheet.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.
IAS 16 *Property, Plant and Equipment*		
Recoverable amount	Replaces the term "net selling price" with "fair value less costs to sell", to be consistent with IFRS 5 and IAS 36 *Impairment of Assets.*	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IAS 16 *Property, Plant and Equipment* (continued)		
Sale of assets held for rental	Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds on sale are subsequently shown as revenue. IAS 7 *Statement of Cash Flows* is also revised, to require cash payments to manufacture or acquire such items to be classified as cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also shown as cash flows from operating activities.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.
IAS 19 *Employee Benefits*		
Curtailments and negative past service costs	Revises the definition of "past service costs" to include reductions in benefits related to past services and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.	Applicable for annual periods beginning on or after January 1, 2009. To be applied prospectively – to changes to benefits occurring on or after January 1, 2009. Early application is permitted.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IAS 19 *Employee Benefits* *(continued)*		
Plan administration costs	Revises the definition of "return on plan assets" to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.
Replacement of term "fall due"	Revises the definitions of "short term" and "other long term" employee benefits to focus on the point in time at which the liability is due to be settled.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.
Guidance on contingent liability	Deletes the reference to the recognition of contingent liabilities to ensure consistency with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. IAS 37 does not allow the recognition of contingent liabilities.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*		
Government loans with a below-market rate of interest	Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates, thereby being consistent with IAS 39. The difference between the amount received and the discounted amount is accounted for as a government grant.	Applicable for annual periods beginning on or after January 1, 2009. To be applied prospectively – to government loans received on or after January 1, 2009. However, IFRS 1 *First-time Adoption of IFRS* has not been revised for first-time adoptees; hence they will be required to impute interest on all such loans outstanding at the date of transition.
IAS 23 *Borrowing Costs*		
Components of borrowing costs	Revises the definition of borrowing costs to consolidate the types of items that are considered components of "borrowing costs" into one – the interest expense calculated using the effective interest rate method as described in IAS 39. This will emphasize the relationship between IAS 23 and IAS 39.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IAS 27 Consolidated and Separate Financial Statements		
Measurement of subsidiary held for sale in separate financial statements	When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.	Applicable for annual periods beginning on or after January 1, 2009. To be applied prospectively from the date at which the company first applied IFRS 5. Therefore, any subsidiaries classified as held for sale since IFRS 5 was adopted will need to be re-evaluated. Early application is permitted.
IAS 28 *Investments in Associates*		
Required disclosures when investments in associates are accounted for at fair value through profit or loss	If an associate is accounted for at fair value in accordance with IAS 39 (as it is exempt from the requirements of IAS 28), only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively, although an entity is permitted to apply it prospectively. Early application is permitted. If early adopted, an entity must also adopt the amendments to paragraph 3 of IFRS 7 *Financial Instruments: Disclosures,* Paragraph 1 of IAS 31 *Joint Ventures* and paragraph 4 of IAS 32 *Financial Instruments: Presentation* at the same time.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IAS 28 *Investments in Associates* *(continued)*		
Impairment of investment in associate	An investment in an associate is a single asset for the purpose of conducting the impairment test – including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance. Any impairment is reversed if the recoverable amount of the associate increases.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively, although an entity is permitted to apply it prospectively. Early application is permitted. If early adopted, an entity must also adopt the amendment above and the amendments to paragraph 3 of IFRS 7 *Financial Instruments: Disclosures*, paragraph 1 of IAS 31 *Joint Ventures* and paragraph 4 of IAS 32 *Financial Instruments: Presentation* at the same time.
IAS 29 *Financial Reporting in Hyperinflationary Economies*		
Description of measurement basis in financial statements	Revises the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.	No specific transition requirements have been stated as it is a clarification of the references rather than a change.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IAS 31 *Interests in Joint Ventures*		
Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit or loss	If a joint venture is accounted for at fair value, in accordance with IAS 39 (as it is exempt from the requirements of IAS 31), only the requirements of IAS 31 to disclose the commitments of the venture and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses will apply.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively, although an entity is permitted to apply it prospectively. Early application is permitted. If early adopted, an entity must also adopt the amendments to paragraph 3 of IFRS 7, IAS 28 and paragraph 4 of IAS 32 at the same time.
IAS 36 *Impairment of Assets*		
Disclosure of estimates used to determine recoverable amount	When discounted cash flows are used to estimate "fair value less costs to sell", the same disclosure is required as when discounted cash flows are used to estimate "value in use".	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.
IAS 38 *Intangible Assets*		
Advertising and promotional activities	Expenditure on advertising and promotional activities is recognized as an expense when the entity either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IAS 38 *Intangible Assets* *(continued)*		
Unit of production method of amortization	Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.
IAS 39 *Financial Instruments: Recognition and Measurement*		
Reclassification of derivatives into or out of the classification of at fair value through profit or loss	Clarifies that changes in circumstances relating to derivatives – specifically derivatives designated or de-designated as hedging instruments after initial recognition – are not reclassifications. Thus, a derivative may be either removed from, or included in, the "fair value through profit or loss" classification after initial recognition. Similarly, when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of IFRS 4 *Insurance Contracts*, this is a change in circumstance, not a reclassification.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IAS 39 *Financial Instruments: Recognition and Measurement* *(continued)*		
Designation and documentation of hedges at the segment level	Removes the reference in IAS 39 to a segment when determining whether an instrument qualifies as a hedge.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.
Applicable effective interest rate on cessation of fair value hedge accounting	Requires use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.	Applicable for annual periods beginning on or after January 1, 2009. To be applied retrospectively. Early application is permitted.
IAS 40 *Investment Property*		
Property under construction or development for future use as investment property	Revises the scope (and the scope of IAS 16) such that property that is being constructed or developed for future use as an investment property is classified as investment property. If an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.	Applicable for annual periods beginning on or after January 1, 2009. To be applied prospectively. Early application is permitted provided that the fair values of investment properties under construction were determined at those dates prior to January 1, 2009.

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

(11) Other improvements to IFRSs *(continued)*

Standards and subjects	Changes	Transitional provisions
IAS 41 *Agriculture*		
Discount rate for fair value calculations	Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.	Applicable for annual periods beginning on or after January 1, 2009. To be applied prospectively. Early application is permitted.
Additional biological transformations	Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Rather, cash flows that are expected to be generated in the most relevant market are taken into account.	Applicable for annual periods beginning on or after January 1, 2009. To be applied prospectively. Early application is permitted.

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

(11) Other improvements to IFRSs *(continued)*

Below is a list of the amendments included in Part II, which is effective for annual periods beginning on or after January 1, 2009. The IASB expects these to have minimal impact:

Standards	**Changes**
IFRS 7 *Financial Instruments: Disclosures*	Removes the reference to "total interest income" as a component of finance costs
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Clarifies that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
IAS 10 *Events after the Reporting Period*	Clarifies that dividends declared after the end of the reporting period are not obligations.
IAS 18 *Revenue*	Replaces the term "direct costs" with "transaction costs" as defined in IAS 39.
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	Revises various terms used to be consistent with other IFRSs.
IAS 29 *Financial Reporting in Hyperinflationary Economies*	Revises various terms used to be consistent with other IFRSs.
IAS 34 *Interim Financial Reporting*	Clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.
IAS 40 *Investment Property*	Revises the conditions for a voluntary change in accounting policy to be consistent with IAS 8. Clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.
IAS 41 *Agriculture*	Replaces the term "point-of-sale costs" with "costs to sell". Revises the example of produce from trees in a plantation forest from "logs" to "felled trees".

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 the adoption of the above new or 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 IASB and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. The financial statements have been prepared under the historical cost convention other than those financial instruments that have been measured at fair values and insurance contract liabilities that have been measured based on actuarial methods. 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 restating insurance contract liabilities and deferred policy acquisition costs, related deferred tax and others.

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 recognized amounts and there is an intention to settle on a net basis, or to realize 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 Nos. 60 and 97.

(2) Changes in accounting policies

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

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

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

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this interpretation did not have significant impact on the financial position or performance of the Group.

IFRIC 12 *Service Concession Arrangements*

This interpretation requires an operator under public-to-private service concession arrangements to recognize the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. This interpretation also addresses how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. The adoption of this interpretation did not have significant impact on the financial position or performance of the Group.

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. As the Group had no significant defined benefit schemes currently, this interpretation had no significant impact on the financial position or performance of the Group.

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 during the reporting period do not have significant impact on these financial statements either.

(3) Business combinations and goodwill

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

Goodwill acquired in a 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.

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

(3) Business combinations and goodwill *(continued)*

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

Where goodwill forms part of a 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.

(4) Principles of consolidation

The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at June 30, 2008. 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.

The acquisition of subsidiaries during the Period 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.

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

(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) Foreign currency translation

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

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

(7) Foreign currency translation *(continued)*

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.

(8) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise 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.

(9) Financial instruments

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

- 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; or

- the financial asset contains an embedded derivative that needs to be separately recorded.

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

(9) Financial instruments *(continued)*

These financial instruments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Fair value adjustments and realized gains and losses 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.

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

(10) 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.

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 method applicable to insurance contracts, and accordingly has elected to apply IFRS 4 to account for such contracts.

(11) Derivative financial instruments

The Group's derivative financial instruments mainly include swaps, derivatives embedded in certain insurance contracts, options embedded in convertible bonds purchased by the Group, forward currency contracts and credit related derivatives. 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.

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.

(12) 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.

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

(12) Fair value of financial instruments *(continued)*

For financial instruments where there is no 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 similar instruments. 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 cannot be measured reliably, 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), less impairment losses. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(13) 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 recognized in the income statement.

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. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

(a) significant financial difficulty of the issuer or debtor;

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

(13) Impairment of financial assets *(continued)*

(b) a breach of contract, such as a default or delinquency in payments;

(c) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;

(d) the disappearance of an active market for that financial asset because of financial difficulties; or

(e) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of issuers or debtors in the group; or

- national or local economic conditions that correlate with defaults on the assets in the group.

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 there is any objective evidence that an available-for-sale financial asset is impaired, the Group provides for such impairment losses. For an available-for-sale equity investment, one of the objective evidences of impairment is a significant or prolonged decline in fair value below its cost.

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

(13) Impairment of financial assets *(continued)*

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 as 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 cannot 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 is recognized in the income statement. Impairment for these assets is not reversed.

(14) Derecognition of financial instruments

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

(a) the rights to receive cash flows from the asset have expired;

(b) 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

(c) 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)*

(14) Derecognition of financial instruments *(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.

If the obligation of a financial liability has been fulfilled, cancelled or expired, the financial liability is derecognized. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising difference recognized in profit or loss.

(15) 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.

(16) Assets sold under repurchase agreements

Assets sold under repurchase agreements continue to be recognized but a liability is established for the consideration received. 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.

(17) 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 a premium deficiency occurs, in which case the deferred policy acquisition costs will be written down.

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

(17) Deferred policy acquisition costs *(continued)*

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

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.

(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.

(18) Investment properties

Investment properties are interests 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.

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

(19) 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 year 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.

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.

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

(20) Construction-in-progress

Construction-in-progress mainly represents costs incurred in the construction of building 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.

(21) Intangible assets

(a) 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.

(b) Expressway operating right

Expenditure on acquiring the expressway operating right is capitalized as intangible assets. Amortization of expressway operating right is provided on a reasonable basis.

(22) Settled assets

Settled assets are tangible assets or properties that borrowers, guarantors or other third parties use to exercise their debtors' or guarantors' rights. Settled assets are initially recognized at their fair value.

(23) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset other than deferred tax assets 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.

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

(23) 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.

(24) Insurance guarantee fund

According to "Administrative Regulations on the Insurance Guarantee Fund" (Baojianhuiling [2004] No.16), the Group accrues for the insurance guarantee fund as follows:

(a) For property insurance, accident insurance and short term health insurance, insurance guarantee fund is provided at 1% of net premiums.

(b) For long term life insurance and long term health insurance with guaranteed interest rate, insurance guarantee fund is provided at 0.15% of net premiums.

(c) For long term life insurance without guaranteed interest rate, insurance guarantee fund is provided at 0.05% of net premiums.

No additional provision is required when the accumulated insurance guarantee fund balances of Ping An Life Insurance Company of China. Ltd. ("Ping An Life"), Ping An Annuity Insurance Company of China, Ltd and Ping An Health Insurance Company of China, Ltd. reaches 1% of their respective total assets. For Ping An Property & Casualty Insurance Company of China Ltd. ("Ping An Property & Casualty"), no additional provision is required when the accumulated balance reaches 6% of its total assets.

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

(25) 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.

(26) 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.

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

(26) Insurance contract liabilities *(continued)*

(a) Long term life insurance policyholders' reserves *(continued)*

For participating life insurance policies, under current PRC insurance regulations, not less than 70% of the distributable surplus would be allocated for the benefit of policyholders (the exact percentage is estimated based on the Group's distribution basis, contract terms and prevailing regulations), and this obligation is provided for within total liabilities; after the respective amounts allocated to participating 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. Also included in liabilities is a reserve held for the future benefit of universal life policies, as allowed by PRC reserving regulations mainly to smooth the credit rate for such policyholders. Therefore, the Group's insurance contract liabilities include estimated policyholders' share of realized and unrealized gain on investments payable to participating and universal life policyholders in the future (shadow accounting will apply if part of the unrealized gain is captured within equity).

For applicable policies like 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.

(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.

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

(26) Insurance contract liabilities *(continued)*

(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.

(27) Investment contract liabilities

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

(28) 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. 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 and is not credited to the Group's income statement. The assets and liabilities of each investment-linked fund are carried at estimated market value based on applicable requirements and are segregated from each other and from the rest of the Group's invested assets for recording purposes.

Revenue from an 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.

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

(29) 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 surrender charges. 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.

(30) General reserve

The general reserve in the Group's consolidated financial statements consists of general reserve provisions made for the Group's insurance, banking, trust, securities and futures subsidiaries. The said provision is an appropriation of profit based on PRC regulatory requirements.

(31) 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. The Group's main revenue is recognized on the following bases:

(a) Premium 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 an 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

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

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

(31) Revenue recognition *(continued)*

(d) Interest income

Interest income for interest-bearing financial instruments, including financial instruments measured at fair value through profit or loss, is recognized in the income statement using the effective interest rate method. When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(e) Fees and commission income of non-insurance operations

The Group earns fees and commission income of non-insurance operations from a diverse range of services it provides to its customers. Fees income can be divided into the following main categories:

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

Fees earned from 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 may 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

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

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

(32) Reinsurance

The Group cedes insurance risk in the normal course of business for its insurance businesses. Reinsurers' share of insurance liabilities represents 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.

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.

Reinsurers' share of insurance liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

(33) Policyholder dividends

Policyholder dividends represent dividends paid by the Group to policyholders in accordance with the terms of direct insurance contracts. The dividends are calculated and provided based on the dividend allocation method and the results of actuarial valuation.

(34) 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.

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

(35) Employee benefits

(a) Pension obligations

The employees of the Group are mainly covered by various defined contribution pension plans. The Group makes and accrues contributions on a monthly basis 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.

(36) Share-based payment transactions

Certain 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.

(37) 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)*

(37) 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.

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

(38) 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 loan which is recognized ratably over the period in which the service is provided. The risk of loss is borne by those third-party lenders.

(39) 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 revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, in these financial statements. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(1) 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 have the most significant effect on the amounts recognized in the financial statements.

(a) Classification of financial assets

Management shall make significant judgments on classification of financial assets. Different classifications would affect the accounting treatment and the Group's financial position and operating results. If the Group's classification is subsequently proved to be wrong, reclassification may be required for certain categories as a whole.

(b) Classification of insurance contracts

Management shall make significant judgments on classification of insurance contracts. Different classifications would affect the accounting treatment and the Group's financial position and operating results.

(c) Impairment of available-for-sale equity investments

The Group considers that impairment provision is needed for an available-for-sale equity investments when there is significant or prolonged decline in fair value of that security below its cost. Management shall exercise judgment to determine "significant" and "prolonged". When making such judgment, the Group considers factors like equity price volatility, financial position of the investees, industry and segment performance, technology innovation, cash flows from financing activities, etc.

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

(2) 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 period are discussed below.

(a) Valuation of insurance contract liabilities

Life insurance contract liabilities

The liability for life insurance contracts (including investment contracts with DPF) 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.

The main assumptions used relate to mortality, morbidity, investment returns, expenses, lapse and surrender rates. The Group base mortality and morbidity tables on standard industry 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.

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.

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

(2) Estimates and assumptions *(continued)*

(a) Valuation of insurance contract liabilities *(continued)*

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 the 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 year, 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), so as 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.

(b) 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 investment-linked funds.

Non-unitized investment contract fair values are approximated by the account value held by the relevant policyholders.

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

(2) Estimates and assumptions *(continued)*

(c) Fair value of financial assets and derivative financial instruments determined 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, and by using the discounted cash flow analysis and/or option pricing model. For reference to similar instruments, instruments should have similar credit ratings.

For the 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.

(d) 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.

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

(2) Estimates and assumptions *(continued)*

(e) Deferred tax assets and liabilities

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 by the balance sheet date. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. Significant management judgment is required to estimate the amount and timing of future taxable profit as well as the applicable tax rates so as to determine, together with the tax planning strategies, the amount of deferred tax assets and liabilities to be recognized.

5. SCOPE OF CONSOLIDATION

The major changes in the subsidiaries of the Group during the six months ended June 30, 2008 (the "Period") are as follows:

(1) In March 2008, Ping An Life completed the acquisition of 60% equity interest in Shanxi Changjin Expressway Co., Ltd. ("Shanxi Changjin"). The share capital of Shanxi Changjin is RMB750 million.

The fair values and carrying values of the identifiable assets and liabilities acquired as at the date of acquisition were:

(in RMB million)	Fair value recognized on acquisition	Carrying value
Cash and amounts due from banks	181	181
Intangible assets	2,659	1,920
Other assets	147	147
Sub-total	2,987	2,248
Deferred tax liabilities	185	–
Other liabilities	1,582	1,582
Sub-total	1,767	1,582
Net identifiable assets and liabilities	1,220	666
Fair value of net assets acquired attributable to the Group	732	
Satisfied by cash	732	

5. SCOPE OF CONSOLIDATION *(continued)*

(1) *(continued)*

The fair values of the above identifiable assets and liabilities acquired as at the date of acquisition were determined by reference to book values and an independent appraisal report.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Shanxi Changjin is as follows:

(in RMB million)	
Cash consideration	(732)
Cash and bank balances acquired	181
Net outflow of cash and cash equivalents	(551)

The operating results and cash flow of Shanxi Changjin from the date of acquisition to current period end were as follows:

(in RMB million)	
Operating income	127
Net profit	41
Net cash flows	73

From the date of acquisition to current period end, the Group did not dispose of and did not intend to dispose of any assets or liabilities of Shanxi Changjin.

5. SCOPE OF CONSOLIDATION *(continued)*

(2) In March 2008, Ping An Life completed the acquisition of 60% equity interest in Shanxi Jinjiao Expressway Co., Ltd. ("Shanxi Jinjiao"). The share capital of Shanxi Jinjiao is RMB504 million.

The fair values and carrying values of the identifiable assets and liabilities acquired as at the date of acquisition were:

(in RMB million)	**Fair value recognized on acquisition**	**Carrying value**
Cash and amounts due from banks	166	166
Intangible assets	1,913	1,303
Other assets	20	20
Sub-total	2,099	1,489
Due to banks – long term borrowings	857	857
Deferred tax liabilities	152	–
Other liabilities	221	221
Sub-total	1,230	1,078
Net identifiable assets and liabilities	869	411
Fair value of net assets acquired attributable to the Group	521	
Satisfied by cash	521	

The fair values of the above identifiable assets and liabilities acquired as at the date of acquisition were determined by reference to book values and an independent appraisal report.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Shanxi Jinjiao is as follows:

(in RMB million)	
Cash consideration	(521)
Cash and bank balances acquired	166
Net outflow of cash and cash equivalents	(355)

5. SCOPE OF CONSOLIDATION *(continued)*

(2) *(continued)*

The operating results and cash flow of Shanxi Jinjiao, from the date of acquisition to current period end were as follows:

(in RMB million)	
Operating income	130
Net profit	64
Net cash flows	(92)

From the date of acquisition to the period end, the Group did not dispose of and did not intend to dispose of any assets or liabilities of Shanxi Jinjiao.

(3) Particulars of the Company's principal subsidiaries as at June 30, 2008 are set out below:

Name	Place of incorporation	Attributable equity interest Direct	Attributable equity interest Indirect	Registered/ authorized capital (RMB unless otherwise stated)	Paid-up capital (RMB unless otherwise stated)	Principal activities
Ping An Life Insurance Company of China, Ltd.	The PRC	99.00%	–	3,800,000,000	3,800,000,000	Life insurance
Ping An Property & Casualty Insurance Company of China, Ltd.	The PRC	99.06%	–	3,000,000,000	3,000,000,000	Property and casualty insurance
Shenzhen Ping An Bank Co., Ltd. *(i)*	The PRC	90.04%	–	5,502,000,000	5,460,940,138	Banking
China Ping An Trust & Investment Co., Ltd.	The PRC	99.88%	–	4,200,000,000	4,200,000,000	Investment and trust
Ping An Securities Company, Ltd.	The PRC	–	86.66%	1,800,000,000	1,800,000,000	Security investment and brokerage
Ping An Annuity Insurance Company of China, Ltd.	The PRC	97.00%	2.98%	500,000,000	500,000,000	Annuity insurance
Ping An Asset Management Co., Ltd.	The PRC	96.00%	3.96%	500,000,000	500,000,000	Asset management
Ping An Health Insurance Company of China, Ltd.	The PRC	95.00%	4.96%	500,000,000	500,000,000	Health insurance

5. SCOPE OF CONSOLIDATION *(continued)*

(3) *(continued)*

Name	Place of incorporation	Attributable equity interest Direct	Attributable equity interest Indirect	Registered/ authorized capital (RMB unless otherwise stated)	Paid-up capital (RMB unless otherwise stated)	Principal activities
China Ping An Insurance Overseas (Holdings) Limited	Hong Kong	100.00%	–	HKD4,000,000,000	HKD555,000,000	Investment holding
China Ping An Insurance (Hong Kong) Company Limited	Hong Kong	–	75.00%	HKD110,000,000	HKD110,000,000	Property and casualty insurance
Shenzhen Ping An Futures Brokerage Co., Ltd.	The PRC	–	89.47%	120,000,000	120,000,000	Futures brokerage
Ping An New Capital Co., Ltd. *(ii)*	The PRC	–	99.88%	2,000,000,000	2,000,000,000	Investment
Shenzhen Ping An Property and Facilities Management Co., Ltd.	The PRC	–	99.88%	20,000,000	20,000,000	Property management
Fuzhou Ping An Real Estate Development Co., Ltd.	The PRC	–	74.25%	USD5,000,000	USD5,000,000	Real estate investment
Shenzhen Ping An Real Estate Investment Co., Ltd.	The PRC	–	99.88%	800,000,000	800,000,000	Real estate investment
Shenzhen Xin An Investment Consultant Co., Ltd.	The PRC	–	99.88%	3,000,000	3,000,000	Investment consulting
Ping An of China Asset Management (Hong Kong) Company Limited	Hong Kong	–	100.00%	HKD65,000,000	HKD65,000,000	Asset management
Yuxi Ping An Real Estate Co., Ltd.	The PRC	–	79.90%	38,500,000	38,500,000	Property leasing
Yuxi Meijiahua Business Management, Co., Ltd.	The PRC	–	79.90%	500,000	500,000	Property management

5. SCOPE OF CONSOLIDATION *(continued)*

(3) *(continued)*

Name	Place of incorporation	Attributable equity interest Direct	Attributable equity interest Indirect	Registered/ authorized capital (RMB unless otherwise stated)	Paid-up capital (RMB unless otherwise stated)	Principal activities
Ping An Meijiahua (Jingzhou) Business Management Co., Ltd.	The PRC	–	50.94%	USD9,700,000	USD9,700,000	Real estate investment
Nanning Ping An Meijiahua Real Estate Co., Ltd.	The PRC	–	50.94%	100,000,000	55,000,000	Property leasing
Shenzhen CITIC City Plaza Investment Co., Ltd.	The PRC	–	98.88%	20,000,000	20,000,000	Real estate investment
Anseng Investment Company Limited	British Virgin Islands	–	100.00%	USD50,000	USD2	Project investment
Rich All Investments Company Limited	British Virgin Islands	–	100.00%	USD36,000,001	USD36,000,001	Project investment
Profaith International Investment Limited	British Virgin Islands	–	100.00%	USD50,000	USD1	Project investment
Portfield Limited	Hong Kong	–	100.00%	HKD10,000	HKD10	Project investment
Ningbo Beilun Port Expressway Co., Ltd.	The PRC	–	100.00%	USD77,800,000	USD77,800,000	Operating expressway
Shanxi Changjin Expressway Co., Ltd. *(iii)*	The PRC	–	59.40%	750,000,000	750,000,000	Operating expressway
Shanxi Jinjiao Expressway Co., Ltd. *(iii)*	The PRC	–	59.40%	504,000,000	504,000,000	Operating expressway
Shenzhen Ping An Cai Fu Tong Advisory Co., Ltd. *(iv)*	The PRC	–	99.88%	10,000,000	10,000,000	Financial services

5. SCOPE OF CONSOLIDATION *(continued)*

(3) *(continued)*

(i) Up to June 30, 2008, Shenzhen Ping An Bank Co., Ltd. ("Shenzhen Ping An Bank") has obtained the approval of capital reduction from the China Banking Regulatory Commission, but the update of its business registration was still in progress.

(ii) Shenzhen Ping An Industries Co., Ltd. was renamed as Ping An New Capital Co., Ltd. during the Period. Its paid-up capital was increased to RMB2 billion.

(iii) These subsidiaries were acquired during the Period through business combinations without involving entities under common control. Please refer to Notes 5 (1) and (2) for details.

(iv) The subsidiary is newly set up during the Period.

Except for new subsidiaries mentioned in remarks (iii) and (iv) above, there are no significant changes to the scope of consolidation as at June 30, 2008 from that as at December 31, 2007.

6. SEGMENT REPORTING

The Group's business segment information is currently divided into life insurance business, property and casualty insurance business, banking business, securities business, corporate 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 Period were mainly derived from the above activities in the PRC. Accordingly, no further segment analysis by geographical area is provided.

6. SEGMENT REPORTING *(continued)*

The segment analysis as at June 30, 2008 and for the six months ended June 30, 2008 is as follows:

(in RMB million)	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Income statement								
Gross written premiums and policy fees	39,521	14,671	–	–	–	–	–	54,192
Less: Premiums ceded to reinsurers	(605)	(2,739)	–	–	–	–	–	(3,344)
Change in unearned premium reserves	(421)	(2,313)	–	–	–	–	–	(2,734)
Net earned premiums	38,495	9,619	–	–	–	–	–	48,114
Reinsurance commission income	103	657	–	–	–	–	–	760
Interest income of banking operations	–	–	3,376	–	–	–	(7)	3,369
Fees and commission income of non-insurance operations	–	–	101	912	–	288	(19)	1,282
Investment income	8,768	990	(127)	103	(624)	345	(180)	9,275
Share of profits of associates	27	–	–	–	–	14	–	41
Other income	659	29	14	3	–	339	(252)	792
Total income	48,052	11,295	3,364	1,018	(624)	986	(458)	63,633
Change in deferred policy acquisition costs	4,966	350	–	–	–	–	–	5,316
Claims and policyholders' benefits	(33,922)	(6,697)	–	–	–	–	–	(40,619)
Commission expenses of insurance operations	(5,934)	(1,405)	–	–	–	–	82	(7,257)
Interest expenses of banking operations	–	–	(1,391)	–	–	–	126	(1,265)
Fees and commission expenses of non-insurance operations	–	–	(14)	(58)	–	(46)	–	(118)
Loan loss provisions, net of reversals	–	–	(9)	–	–	(7)	–	(16)
Foreign exchange losses	(403)	(37)	(1)	(4)	(62)	(18)	–	(525)
General and administrative expenses	(3,837)	(3,177)	(986)	(456)	48	(636)	239	(8,805)
Total expenses	(39,130)	(10,966)	(2,401)	(518)	(14)	(707)	447	(53,289)
Profit before tax	8,922	329	963	500	(638)	279	(11)	10,344
Income taxes	(597)	10	(168)	(99)	299	(70)	–	(625)
Net profit	8,325	339	795	401	(339)	209	(11)	9,719

6. SEGMENT REPORTING *(continued)*

The segment analysis as at June 30, 2008 and for the six months ended June 30, 2008 is as follows: *(continued)*

(in RMB million)	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Balance sheet								
Segment assets	**453,449**	**39,620**	**131,695**	**17,347**	**54,363**	**18,841**	**(26,542)**	**688,773**
Segment liabilities	**441,266**	**33,198**	**124,198**	**13,678**	**1,120**	**11,337**	**(26,444)**	**598,353**
Other segment information								
Capital expenditure	**1,911**	**110**	**82**	**24**	**39**	**241**	**–**	**2,407**
Depreciation and amortization (Excluding: amortization of deferred acquisition costs)	**291**	**60**	**50**	**15**	**17**	**128**	**–**	**561**
Total other non-cash expenses charged to consolidated results	**–**	**(25)**	**(14)**	**–**	**–**	**(7)**	**–**	**(46)**

6. SEGMENT REPORTING *(continued)*

The segment analysis as at December 31, 2007 and for the six months ended June 30, 2007 is as follows:

(in RMB million)	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Income statement								
Gross written premiums and policy fees	32,203	11,637	–	–	–	–	–	43,840
Less: Premiums ceded to reinsurers	(476)	(2,124)	–	–	–	–	–	(2,600)
Change in unearned premium reserves	(277)	(1,914)	–	–	–	–	–	(2,191)
Net earned premiums	31,450	7,599	–	–	–	–	–	39,049
Reinsurance commission income	111	564	–	–	–	–	–	675
Interest income of banking operations	–	–	2,257	–	–	–	–	2,257
Fees and commission income of non-insurance operations	–	–	68	1,046	–	258	(15)	1,357
Investment income	22,038	957	35	491	1,870	454	(108)	25,737
Other income	259	12	455	–	34	209	(225)	744
Total income	53,858	9,132	2,815	1,537	1,904	921	(348)	69,819
Change in deferred policy acquisition costs	3,727	409	–	–	–	–	–	4,136
Claims and policyholders' benefits	(43,045)	(4,804)	–	–	–	–	–	(47,849)
Commission expenses of insurance operations	(4,601)	(1,124)	–	–	–	–	52	(5,673)
Interest expenses of banking operations	–	–	(798)	–	–	–	109	(689)
Fees and commission expenses of non-insurance operations	–	–	(16)	(71)	–	(126)	–	(213)
Loan loss provisions, net of reversals	–	–	111	–	–	(6)	–	105
Foreign exchange losses	(316)	(11)	22	(2)	(25)	(3)	–	(335)
General and administrative expenses	(3,649)	(2,551)	(892)	(605)	(560)	(393)	165	(8,485)
Total expenses	(47,884)	(8,081)	(1,573)	(678)	(585)	(528)	326	(59,003)
Profit before tax	5,974	1,051	1,242	859	1,319	393	(22)	10,816
Income taxes	44	(291)	(156)	(183)	(179)	(82)	–	(847)
Net profit	6,018	760	1,086	676	1,140	311	(22)	9,969

6. SEGMENT REPORTING *(continued)*

The segment analysis as at December 31, 2007 and for the six months ended June 30, 2007 is as follows: *(continued)*

(in RMB million)	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Balance sheet								
Segment assets	459,388	33,351	141,976	23,516	55,404	21,155	(42,568)	692,222
Segment liabilities	426,102	26,102	135,351	19,786	1,924	11,587	(42,481)	578,371
Other segment information								
Capital expenditure	2,636	63	66	19	13	296	–	3,093
Depreciation and amortization (Excluding: amortization of deferred acquisition costs)	311	64	38	9	7	33	–	462
Total other non-cash expenses charged to consolidated results	–	73	(62)	1	–	5	–	17

7. GROSS AND NET WRITTEN PREMIUMS AND POLICY FEES

For the six months ended June 30, (in RMB million)	**2008**	2007
Gross written premiums, policy fees and premium deposits (as reported in accordance with PRC Accounting Standards)	**69,228**	53,885
Less: Premium deposits allocated to policyholder contract deposits	**(10,272)**	(8,372)
Premium deposits allocated to policyholder accounts	**(4,764)**	(1,673)
Gross written premiums and policy fees	**54,192**	43,840
Long term life business gross written premiums and policy fees	**36,540**	29,626
Short term life business gross written premiums	**2,981**	2,577
Property and casualty business gross written premiums	**14,671**	11,637
Gross written premiums and policy fees	**54,192**	43,840

7. GROSS AND NET WRITTEN PREMIUMS AND POLICY FEES *(continued)*

For the six months ended June 30, (in RMB million)	2008	2007
Gross		
Life Insurance		
Individual life insurance	**32,991**	27,705
Bancassurance	**1,112**	367
Group life insurance	**5,418**	4,131
	39,521	32,203
Property and casualty Insurance		
Automobile insurance	**10,225**	7,801
Non-automobile insurance	**3,650**	3,254
Accident and health insurance	**796**	582
	14,671	11,637
Gross written premiums and policy fees	**54,192**	43,840
Net of reinsurance premiums ceded		
Life Insurance		
Individual life insurance	**32,975**	27,686
Bancassurance	**1,111**	367
Group life insurance	**4,830**	3,674
	38,916	31,727
Property and casualty Insurance		
Automobile insurance	**9,275**	7,169
Non-automobile insurance	**1,879**	1,774
Accident and health insurance	**778**	570
	11,932	9,513
Net written premiums and policy fees	**50,848**	41,240

8. NET INTEREST INCOME OF BANKING OPERATIONS

For the six months ended June 30, (in RMB million)	2008	2007
Interest income of banking operations		
Loans and advances to customers	**2,274**	1,348
Balances with central bank	**146**	73
Bonds	**633**	541
Cash and amounts due from banks and other financial institutions	**316**	295
Total	**3,369**	2,257
Interest expenses of banking operations		
Customer deposits	**996**	532
Due to banks and other financial institutions	**269**	157
Total	**1,265**	689
Net interest income of banking operations	**2,104**	1,568

9. NET FEES AND COMMISSION INCOME OF NON-INSURANCE OPERATIONS

For the six months ended June 30, (in RMB million)	2008	2007
Fees and commission income of non-insurance operations		
Brokerage fees	**509**	790
Underwriting commission income	**392**	224
Trust service fees	**267**	246
Others	**114**	97
Total	**1,282**	1,357
Fees and commission expenses of non-insurance operations		
Brokerage fees paid	**58**	71
Other fees paid	**60**	142
Total	**118**	213
Net fees and commission income of non-insurance operations	**1,164**	1,144

10. INVESTMENT INCOME

(1) Net investment income

For the six months ended June 30, (in RMB million)	2008	2007
Interest income on fixed maturity investments		
Bonds		
– Held-to-maturity	**2,488**	2,526
– Available-for-sale	**1,929**	1,170
– Carried at fair value through profit or loss	**296**	205
Term deposits		
– Loans and receivables	**1,223**	1,277
Current accounts		
– Loans and receivables	**401**	397
Others		
– Loans and receivables	**184**	126
Dividend income on equity investments		
Equity investment funds		
– Available-for-sale	**2,250**	2,975
– Carried at fair value through profit or loss	**508**	1,364
Equity securities		
– Available-for-sale	**955**	96
– Carried at fair value through profit or loss	**68**	35
Operating lease income from investment properties	**139**	151
Interest expenses on assets sold under agreements to repurchase	**(182)**	(429)
Total	**10,259**	9,893

(2) Realized gains

For the six months ended June 30, (in RMB million)	2008	2007
Fixed maturity investments		
– Available-for-sale	**3**	98
– Carried at fair value through profit or loss	**18**	117
Equity investments		
– Available-for-sale	**9,228**	8,717
– Carried at fair value through profit or loss	**1,023**	6,303
Derivative financial instruments		
– Carried at fair value through profit or loss	**248**	3
Total	**10,520**	15,238

10. INVESTMENT INCOME *(continued)*

(3) Unrealized gains/(losses)

For the six months ended June 30, (in RMB million)	2008	2007
Fixed maturity investments		
– Carried at fair value through profit or loss	**(126)**	(188)
Equity investments		
– Carried at fair value through profit or loss	**(9,526)**	684
Derivative financial instruments		
– Carried at fair value through profit or loss	**(267)**	110
Total	**(9,919)**	606

(4) Impairment losses

For the six months ended June 30, (in RMB million)	2008	2007
Equity investments		
– Available-for-sale	**(1,585)**	–

(5) Total investment income

For the six months ended June 30, (in RMB million)	2008	2007
Net investment income	**10,259**	9,893
Realized gains	**10,520**	15,238
Unrealized gains/(losses)	**(9,919)**	606
Impairment losses	**(1,585)**	–
Total	**9,275**	25,737

11. CLAIMS AND POLICYHOLDERS' BENEFITS

(1)

For the six months ended June 30, (in RMB million)	2008 Gross	2008 Reinsurers' share	2008 Net
Claims and claim adjustment expenses	**11,092**	**(2,416)**	**8,676**
Surrenders	**4,588**	**–**	**4,588**
Annuities	**1,660**	**–**	**1,660**
Maturities and survival benefits	**7,217**	**–**	**7,217**
Policyholder dividends	**4,162**	**–**	**4,162**
Interest credited to policyholder contract deposits	**1,083**	**–**	**1,083**
Subtotal	**29,802**	**(2,416)**	**27,386**
Increase in policyholders' reserves	**13,234**	**(1)**	**13,233**
Total	**43,036**	**(2,417)**	**40,619**

For the six months ended June 30, (in RMB million)	2007 Gross	2007 Reinsurers' share	2007 Net
Claims and claim adjustment expenses	7,918	(1,510)	6,408
Surrenders	4,181	–	4,181
Annuities	1,427	–	1,427
Maturities and survival benefits	3,582	–	3,582
Policyholder dividends	897	–	897
Interest credited to policyholder contract deposits	451	–	451
Subtotal	18,456	(1,510)	16,946
Increase in policyholders' reserves	30,917	(14)	30,903
Total	49,373	(1,524)	47,849

11. CLAIMS AND POLICYHOLDERS' BENEFITS *(continued)*

(2)

For the six months ended June 30, (in RMB million)	2008 Gross	2008 Reinsurers' share	2008 Net
Long term life insurance contracts benefits	**32,914**	**(6)**	**32,908**
Short term life insurance claims	**1,350**	**(336)**	**1,014**
Property and casualty insurance claims	**8,772**	**(2,075)**	**6,697**
Total	**43,036**	**(2,417)**	**40,619**

For the six months ended June 30, (in RMB million)	2007 Gross	2007 Reinsurers' share	2007 Net
Long term life insurance contracts benefits	42,201	(19)	42,182
Short term life insurance claims	1,111	(248)	863
Property and casualty insurance claims	6,061	(1,257)	4,804
Total	49,373	(1,524)	47,849

12. PROFIT BEFORE TAX

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

For the six months ended June 30, (in RMB million)	2008	2007
Employee costs *(Note 12(2))*	**2,444**	4,301
Provision for insurance guarantee fund	**219**	176
Depreciation of investment properties	**77**	76
Depreciation of property and equipment	**273**	324
Amortization of intangible assets	**211**	81
Gains on disposal of non-performing assets	**–**	(284)
Loss on disposal of investment properties, property and equipment	**3**	1
Impairment losses on property and equipment, and intangible assets	**1**	9
Provision for doubtful debts, net	**(63)**	76
Auditor's remuneration-review and audit fee	**15**	12
Operating lease payments in respect of land and buildings	**398**	283

12. PROFIT BEFORE TAX *(continued)*

(2) Employee costs

For the six months ended June 30, (in RMB million)	2008	2007
Wages, salaries and bonuses	**1,722**	3,829
Retirement benefits, social security contributions and welfare benefits	**722**	472
Total	**2,444**	4,301

The employee costs reversed for the scheme of share appreciation rights during the Period are RMB1,068 million due to the decrease in stock price of the Company's H-share (Six months ended 30 June 2007: expense accrued of RMB777 million).

13. INCOME TAXES

For the six months ended June 30, (in RMB million)	2008	2007
Current income tax	**644**	666
Deferred income tax	**(19)**	181
Total	**625**	847

On March 16, 2007, the National People's Congress approved the *Corporate Income Tax Law of the People's Republic of China* (the new "CIT Law"). The new CIT Law unifies domestic corporate income tax rate to 25% with effect from January 1, 2008. For subsidiaries and branches of the Group located in Special Economic Zones that were entitled to preferential income tax, the applicable CIT rate will be transited to 25% in five years. During the transitional period, the applicable CIT rate for applicable subsidiaries and branches will be 18%, 20%, 22%, 24% and 25% for year 2008, 2009, 2010, 2011 and 2012, respectively. For other subsidiaries and branches of the Group, the CIT rates are reduced from 33% to 25% from January 1, 2008.

Subsidiaries of the Group located in the Hong Kong Special Administrative Region are subject to Hong Kong profits tax. The tax rate of Hong Kong profits tax is reduced from 17.5% to 16.5% for the period from April 1, 2008 to March 31, 2009.

13. INCOME TAXES *(continued)*

Reconciliation between tax expense and the product of accounting profit multiplied by the main applicable tax rate of 18% is as follows:

For the six months ended June 30, (in RMB million)	2008	2007
Profit before tax	**10,344**	10,816
Tax computed at the main applicable tax rate of 18% (2007: 15%)	**1,862**	1,622
Tax effect of expenses not deductible in determining taxable income	**225**	573
Tax effect of income not taxable in determining taxable income	**(1,435)**	(1,558)
Tax effect of changes in tax rate	**58**	5
Tax effect of higher tax rate on branches and entities (in the PRC) located outside Special Economic Zones	**18**	205
Tax refund	**(103)**	–
Income taxes per consolidated income statement	**625**	847

The Group's tax position is subject to assessment and inspection of the tax authorities.

14. DIVIDENDS

For the six months ended June 30, (in RMB million)	2008	2007
Final dividend on ordinary shares approved and paid for the previous year:		
Final dividend for 2007: RMB0.50 per share (2006: RMB0.22 per share)	**3,673**	1,616
Interim dividends on ordinary shares approved (not recognized as a liability as at June 30):		
Interim dividend for 2008: RMB0.20 per share (2007: RMB0.20 per share)	**1,469**	1,469

15. EARNINGS PER SHARE

Earnings per share is calculated by dividing the Company's net profit attributable to ordinary shareholders by the weighted average number of outstanding shares.

For the six months ended June 30,	2008	2007
Net profit attributable to ordinary shareholders (in RMB million)	**9,487**	9,690
Weighted average number of outstanding shares of the Company (million shares)	**7,345**	6,962
Basic earnings per share (in RMB)	**1.29**	1.39
Diluted earnings per share (in RMB)	**1.29**	1.39

16. BALANCES WITH CENTRAL BANK AND STATUTORY DEPOSITS

(in RMB million)	June 30, 2008	December 31, 2007
Mandatory deposits with central bank for banking operations	**16,228**	14,265
Other deposits with central bank	**1,993**	4,969
Statutory deposits for insurance operations	**1,560**	1,560
Total	**19,781**	20,794

In accordance with relevant regulations, Shenzhen Ping An Bank maintains mandatory deposits with The People's Bank of China in both RMB and foreign currencies. As at June 30, 2008 and December 31, 2007, the mandatory deposits are calculated at 17.5% and 14.5% for eligible RMB deposits, respectively, and 5% for foreign currencies deposits.

Statutory deposits for insurance operations are made with PRC banks in accordance with the PRC Insurance Law and related regulations based on not less than 20% of the respective registered capital of the insurance subsidiaries of the Group.

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

(in RMB million)	June 30, 2008	December 31, 2007
Cash on hand	**368**	382
Term deposits	**56,402**	57,384
Due from banks and other financial institutions	**36,082**	28,901
Loans and advances	**532**	1,192
Total	**93,384**	87,859

Due from banks and other financial institutions pledged by the Group as collateral for warrants issued by a subsidiary of the Group was nil as at June 30, 2008 (December 31, 2007: RMB687 million).

Of the above, none of the cash and amounts due from banks and other financial institutions has been designated at fair value.

18. FIXED MATURITY INVESTMENTS

(in RMB million)	June 30, 2008	December 31, 2007
Bonds	**272,744**	235,373
Policy loans	**2,946**	2,411
Assets purchased under agreements to resell	**8,779**	36,457
Total	**284,469**	274,241

18. FIXED MATURITY INVESTMENTS *(continued)*

Bonds

(in RMB million)	June 30, 2008	December 31, 2007
Held-to-maturity, at amortized cost	**126,397**	127,736
Available-for-sale, at fair value	**122,560**	83,411
Carried at fair value through profit or loss		
Held-for-trading	**23,787**	24,226
Total	**272,744**	235,373
Government bonds	**91,189**	88,365
Central bank bills	**31,082**	23,440
Finance bonds	**83,964**	69,657
Corporate bonds	**66,509**	53,911
Total	**272,744**	235,373
Listed	**54,059**	47,961
Unlisted	**218,685**	187,412
Total	**272,744**	235,373

As at June 30, 2008, bonds with par value of RMB13,268 million (December 31, 2007: RMB12,044 million) were pledged as assets sold under agreements to repurchase. Up to the approval date of these financial statements, approximately RMB12,833 million has been released from this pledge.

Assets purchased under agreements to resell

	June 30, 2008	December 31, 2007
Securities	**1,490**	27,173
Bills	**7,289**	7,959
Loans	**–**	1,325
Total	**8,779**	36,457
Less: Provision for impairment losses	**–**	–
Net	**8,779**	36,457

The fair value of the assets held as collateral for assets purchased under agreements to resell approximates their carrying value.

19. EQUITY INVESTMENTS

(in RMB million)	June 30, 2008	December 31, 2007
Equity investment funds	**31,663**	28,899
Equity securities	**52,010**	100,032
Total	**83,673**	128,931

(1) Equity investment funds

(in RMB million)	June 30, 2008	December 31, 2007
Available-for-sale, at fair value	**11,382**	9,481
Carried at fair value through profit or loss	**20,281**	19,418
Total	**31,663**	28,899
Listed	**1,228**	2,721
Unlisted	**30,435**	26,178
Total	**31,663**	28,899

(2) Equity securities

(in RMB million)	June 30, 2008	December 31, 2007
Available-for-sale, at fair value	**43,857**	86,381
Carried at fair value through profit or loss	**8,153**	13,651
Total	**52,010**	100,032
Listed	**51,338**	99,297
Unlisted	**672**	735
Total	**52,010**	100,032

20. DERIVATIVE FINANCIAL INSTRUMENTS

	June 30, 2008			December 31, 2007		
	Nominal	Fair Value		Nominal	Fair Value	
(in RMB million)	amount	Assets	Liabilities	amount	Assets	Liabilities
Interest rate related derivatives	957	5	20	4,261	14	27
Currency related derivatives	948	–	1	661	–	1
Equity related derivatives	379	110	–	670	159	99
Credit related derivatives	892	6	99	950	4	62
Total	3,176	121	120	6,542	177	189

None of the above derivatives has been designated as a hedging instrument.

21. LOANS AND ADVANCES TO CUSTOMERS

(1) Loans and advances by individual and corporate customers

(in RMB million)	June 30, 2008	December 31, 2007
Individual customers		
Credit card loans	1,091	389
Mortgage loans	16,838	16,259
Others	3,066	3,340
Corporate customers		
Loans	45,384	37,696
Discounted bills	4,956	5,977
Total	71,335	63,661
Loan loss provision		
Individually assessed	(251)	(302)
Collectively assessed	(278)	(234)
Net	70,806	63,125

As at June 30, 2008, loans of RMB375 million (December 31, 2007: Nil) were pledged as assets sold under agreements to repurchase. Up to the approval date of these financial statements, none of them has been released from this pledge.

21. LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(2) Loans and advances by industry

(in RMB million)	June 30, 2008	Percentage	December 31, 2007	Percentage
Agriculture, forestry and fishing	**81**	**0.11%**	96	0.15%
Mining	**761**	**1.07%**	175	0.27%
Manufacturing	**10,698**	**15.00%**	13,055	20.51%
Energy	**2,848**	**3.99%**	2,137	3.36%
Transportation and communications	**5,128**	**7.19%**	4,009	6.30%
Commercial	**9,114**	**12.78%**	6,440	10.12%
Real estate	**7,715**	**10.82%**	6,173	9.70%
Construction	**2,271**	**3.18%**	3,332	5.23%
Individual customers	**20,994**	**29.43%**	19,988	31.40%
Others	**11,725**	**16.43%**	8,256	12.96%
Total	**71,335**	**100.00%**	63,661	100.00%

(3) Loans and advances by region

(in RMB million)	June 30, 2008	Percentage	December 31, 2007	Percentage
Southern China region	**51,858**	**72.70%**	50,427	79.21%
Eastern China region	**18,820**	**26.38%**	12,026	18.89%
Other regions	**657**	**0.92%**	1,208	1.90%
Total	**71,335**	**100.00%**	63,661	100.00%

(4) Loans and advances by guarantee type

(in RMB million)	June 30, 2008	December 31, 2007
Unsecured loans	**17,613**	14,284
Guaranteed loans	**16,458**	12,972
Secured loans		
Loans secured by mortgages	**27,824**	25,273
Loans secured by other collaterals	**9,440**	11,132
Total	**71,335**	63,661

21. LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(5) Analysis of overdue loans

	June 30, 2008				
(in RMB million)	**Within 3 months**	**3 months to 1 year**	**1-3 years**	**More than 3 years**	**Total**
Unsecured loans	**394**	**46**	**10**	**87**	**537**
Guaranteed loans	**156**	**11**	**27**	**19**	**213**
Secured loans					
Loans secured by mortgages	**1,239**	**342**	**30**	**27**	**1,638**
Loans secured by other collaterals	**4**	**11**	**13**	**–**	**28**
Total	**1,793**	**410**	**80**	**133**	**2,416**

	December 31, 2007				
(in RMB million)	Within 3 months	3 months to 1 year	1-3 years	More than 3 years	Total
Unsecured loans	88	8	9	99	204
Guaranteed loans	46	3	130	11	190
Secured loans					
Loans secured by mortgages	895	102	57	26	1,080
Loans secured by other collaterals	72	200	56	–	328
Total	1,101	313	252	136	1,802

21. LOANS AND ADVANCES TO CUSTOMERS *(continued)*

(6) Loan loss provision

For the six months ended June 30, (in RMB million)	2008 Individually assessed	2008 Collectively assessed	2008 Total	2007 Individually assessed	2007 Collectively assessed	2007 Total
As at January 1,	**302**	**234**	**536**	2,263	168	2,431
Charge for the period	**20**	**44**	**64**	5	–	5
Transfer out during the period	**(16)**	**–**	**(16)**	(1,759)	(42)	(1,801)
Write-backs during the period						
Accreted interest on impaired loans	**(6)**	**–**	**(6)**	(20)	–	(20)
Write-backs due to other reasons	**(49)**	**–**	**(49)**	(72)	(38)	(110)
As at June 30,	**251**	**278**	**529**	417	88	505

22. INVESTMENTS IN ASSOCIATES

The Group's investments in principal associates as at June 30, 2008 are as follows:

(in RMB million) Name of the invested entity	June 30, 2008	December 31, 2007
Veolia Water (Kunming) Investment Co., Ltd. ("Veolia Kunming")	**164**	169
Veolia Water (Yellow River) Investment Co., Ltd. ("Veolia Yellow River")	**503**	541
Veolia Water (Liuzhou) Investment Co., Ltd. ("Veolia Liuzhou")	**98**	105
Shanxi Taichang Expressway Co., Ltd. ("Shanxi Taichang")	**1,071**	–
Hubei Shumyip Huayin Traffic Development Co., Ltd. ("Hubei Shumyip Huayin")	**598**	618
Beijing-Shanghai High-speed Railway Equity Investment Scheme	**423**	–
Hangzhou Sundy Real Estate Group Co., Ltd. ("Hangzhou Sundy")	**466**	–
Ciming Health and Body Examination Management Group Co., Ltd. ("Ciming Body Examination")	**78**	–
Others	**–**	39
Total	**3,401**	1,472

22. INVESTMENTS IN ASSOCIATES *(continued)*

Name of the invested entity	Place of incorporation	Registered (authorized) capital/ paid-up capital	Percentage of holding	Principal activities
Veolia Kunming	Hong Kong	USD95,000,000/ USD91,875,208	24%	Water investment
Veolia Yellow River	Hong Kong	USD250,000,000/ USD151,195,839	49%	Water investment
Veolia Liuzhou	Hong Kong	USD32,124,448/ USD32,124,448	45%	Water investment
Shanxi Taichang	The PRC	RMB2,600,190,000 RMB2,600,190,000	30%	Operating expressway
Hubei Shumyip Huayin	The PRC	RMB110,000,000/ RMB110,000,000	49%	Operating expressway
Beijing-Shanghai High-speed Railway Equity Investment Scheme *(i)*	Not applicable	RMB16,000,000,000/ RMB1,074,650,000	39.375%	Railway investment
Hangzhou Sundy	The PRC	RMB75,000,000/ RMB75,000,000	20%	Real estate development
Ciming Body Examination *(ii)*	The PRC	RMB70,426,829/ RMB70,426,829	15%	Health and body examination
Ping An Roosevelt Holding Ltd.	Hong Kong	USD10,000/ USD10,000	30%	Retail investment

Remarks:

(i): The Group's capital commitment in respect of Beijing-Shanghai High-speed Railway Equity Investment Scheme is included in 46 (1).

(ii): The Group's significant influence in Ciming Body Examination is established as a result of representation on the Board of Directors, and in accordance with the articles of association of Ciming Body Examination, the Group has the power to veto significant financial and operating decisions.

23. PREMIUM RECEIVABLES

(in RMB million)	June 30, 2008	December 31, 2007
Premium receivables	**6,349**	4,613
Less: Provision for doubtful receivables	**(177)**	(179)
Premium receivables, net	**6,172**	4,434
Life insurance	**3,508**	2,626
Property and casualty insurance	**2,664**	1,808
Premium receivables, net	**6,172**	4,434

Provision is made on a periodic basis for those amounts that are considered uncollectible. The credit terms are 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:

(in RMB million)	June 30, 2008	December 31, 2007
Within 3 months	**5,689**	4,263
Over 3 but within 6 months	**374**	142
Over 6 months	**109**	29
Total	**6,172**	4,434

24. REINSURERS' SHARE OF INSURANCE LIABILITIES

(in RMB million)	June 30, 2008	December 31, 2007
Reinsurers' share of unearned premium reserves	**3,450**	2,564
Reinsurers' share of claim reserves	**3,614**	2,304
Reinsurers' share of policyholders' reserves	**13**	12
Total	**7,077**	4,880

25. DEFERRED POLICY ACQUISITION COSTS

(in RMB million)	Life	Property and casualty	Total
As at January 1, 2008	**38,948**	**2,357**	**41,305**
Deferred	**6,941**	**2,523**	**9,464**
Amortized	**(1,975)**	**(2,173)**	**(4,148)**
As at June 30, 2008	**43,914**	**2,707**	**46,621**

(in RMB million)	Life	Property and casualty	Total
As at January 1, 2007	30,061	1,805	31,866
Deferred	5,176	2,082	7,258
Amortized	(1,449)	(1,673)	(3,122)
Effect of net unrealized gains on investments through equity (shadow accounting adjustment)	67	–	67
As at June 30, 2007	33,855	2,214	36,069

26. INVESTMENT PROPERTIES

(in RMB million)	2008	2007
Cost		
As at January 1,	4,506	1,918
Acquisition of subsidiaries	–	2,046
Additions	94	301
Transfer to property and equipment, net	(106)	(24)
Disposals	(141)	(66)
As at June 30,	4,353	4,175
Accumulated depreciation and impairment losses		
As at January 1,	624	390
Acquisition of subsidiaries	–	91
Charge for the period	77	76
Transfer to property and equipment, net	(23)	(3)
Disposals	(2)	(43)
Provision for impairment losses	–	8
As at June 30,	676	519
Net book value		
As at January 1,	3,882	1,528
As at June 30,	3,677	3,656
Fair value	5,982	4,031

The fair value of the investment properties as at June 30, 2008 was estimated by the directors of the Company having regard to valuations performed by independent valuers.

The rental income arising from investment properties during the Period amounted to RMB139 million (Six months ended June 30, 2007: RMB151 million), which is included in net investment income.

As at June 30, 2008, investment properties with a carrying amount of RMB1,648 million (December 31, 2007: RMB1,701 million) were used to secure long term borrowings with an aggregate carrying amount of RMB1,586 million (December 31, 2007: RMB1,612 million).

The Group was still in the process of applying for title certificates for investment properties with a net book value of RMB26 million as at June 30, 2008 (December 31, 2007: RMB192 million).

27. 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, 2008	**691**	**4,055**	**2,397**	**491**	**3,472**	**11,106**
Additions	**41**	**33**	**210**	**38**	**1,010**	**1,332**
Transfer of construction in progress	**20**	**–**	**–**	**–**	**(20)**	**–**
Transfer from investment properties, net	**–**	**106**	**–**	**–**	**–**	**106**
Disposals	**(141)**	**(27)**	**(219)**	**(14)**	**(729)**	**(1,130)**
As at June 30, 2008	**611**	**4,167**	**2,388**	**515**	**3,733**	**11,414**
Accumulated depreciation and impairment losses						
As at January 1, 2008	**405**	**946**	**1,305**	**274**	**11**	**2,941**
Charge for the period	**34**	**64**	**153**	**22**	**–**	**273**
Transfer from investment properties, net	**–**	**23**	**–**	**–**	**–**	**23**
Disposals	**(136)**	**(3)**	**(191)**	**(10)**	**–**	**(340)**
Impairment losses	**–**	**1**	**–**	**–**	**–**	**1**
As at June 30, 2008	**303**	**1,031**	**1,267**	**286**	**11**	**2,898**
Net book value						
As at June 30, 2008	**308**	**3,136**	**1,121**	**229**	**3,722**	**8,516**
As at December 31, 2007	**286**	**3,109**	**1,092**	**217**	**3,461**	**8,165**

27. PROPERTY AND EQUIPMENT *(continued)*

(in RMB million)	Leasehold improvements	Buildings	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
Cost						
As at January 1, 2007	568	3,594	1,950	413	644	7,169
Additions	54	40	139	29	2,397	2,659
Transfer of construction in progress	6	–	–	–	(6)	–
Transfer from investment properties, net	–	24	–	–	–	24
Disposals	(157)	(100)	(55)	(6)	(3)	(321)
As at June 30, 2007	471	3,558	2,034	436	3,032	9,531
Accumulated depreciation and impairment losses						
As at January 1, 2007	303	746	1,097	246	11	2,403
Charge for the period	55	94	150	25	–	324
Transfer from investment properties, net	–	3	–	–	–	3
Disposals	(143)	(80)	(39)	(6)	–	(268)
Impairment losses	–	22	–	–	–	22
As at June 30, 2007	215	785	1,208	265	11	2,484
Net book value						
As at June 30, 2007	256	2,773	826	171	3,021	7,047
As at December 31, 2006	265	2,848	853	167	633	4,766

The Group is still in the process of applying for the title certificates for its buildings with a net book value of RMB307 million as at June 30, 2008 (December 31, 2007: RMB212 million).

28. INTANGIBLE ASSETS

(in RMB million)	Goodwill	Expressway operating rights	Prepaid land premiums	Software and others	Total
Cost					
As at January 1, 2008	**610**	**2,754**	**1,026**	**450**	**4,840**
Additions	**74**	**–**	**1,665**	**45**	**1,784**
Acquisition of subsidiaries	**38**	**4,672**	**–**	**–**	**4,710**
Disposals	**–**	**–**	**–**	**(2)**	**(2)**
As at June 30, 2008	**722**	**7,426**	**2,691**	**493**	**11,332**
Accumulated amortization and impairment losses					
As at January 1, 2008	**–**	**104**	**136**	**200**	**440**
Amortization charge	**–**	**122**	**30**	**59**	**211**
Acquisition of subsidiaries	**–**	**100**	**–**	**–**	**100**
Disposals	**–**	**–**	**–**	**(2)**	**(2)**
As at June 30, 2008	**–**	**326**	**166**	**257**	**749**
Net book value					
As at June 30, 2008	**722**	**7,100**	**2,525**	**236**	**10,583**
As at December 31, 2007	**610**	**2,650**	**890**	**250**	**4,400**

28. INTANGIBLE ASSETS *(continued)*

(in RMB million)	Goodwill	Expressway operating rights	Prepaid land premiums	Software and others	Total
Cost					
As at January 1, 2007	409	–	1,026	384	1,819
Additions	66	–	–	69	135
Disposals	–	–	–	(11)	(11)
As at June 30, 2007	475	–	1,026	442	1,943
Accumulated amortization and impairment losses					
As at January 1, 2007	–	–	110	225	335
Amortization charge	–	–	21	60	81
Disposals	–	–	–	(3)	(3)
As at June 30, 2007	–	–	131	282	413
Net book value					
As at June 30, 2007	475	–	895	160	1,530
As at December 31, 2006	409	–	916	159	1,484

(1) Expressway operating right

Expressway operating right is amortized on a reasonable basis. As at June 30, 2008, all the expressway operating rights were used to secure long term borrowings with the carrying amount of RMB3,891 million (December 31, 2007: RMB1,606 million).

(2) Goodwill

The recoverable amount of goodwill has been estimated 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 are extrapolated using a steady growth rate. The projected cash flows are determined by future estimated profits based on management expectations for market development.

28. INTANGIBLE ASSETS *(continued)*

(3) Prepaid land premiums

Prepaid land premiums are acquired under PRC laws for fixed periods, and the related costs are amortized on the 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 June 30, 2008 is expected to be amortized over lease terms ranging from 50 to 70 years (2007: 50 to 70 years).

The Group is still in the process of applying for title certificates for prepaid land premiums with a net book value of RMB2,133 million as at June 30, 2008 (December 31, 2007: RMB483 million). This amount as at June 30, 2008 represents costs incurred to acquire lands in Shanghai and Shenzhen 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 June 30, 2008.

29. OTHER ASSETS

(in RMB million)	**June 30, 2008**	December 31, 2007
Prepayments	**889**	627
Due from reinsurers	**1,967**	2,452
Interest receivables	**5,575**	3,964
Settled assets	**408**	538
Interest rate swap deposits	**184**	147
Other assets	**2,810**	1,249
Total	**11,833**	8,977

30. SHARE CAPITAL

(in million)	**June 30, 2008**	December 31, 2007
Number of shares registered, issued and fully paid at RMB1 each	**7,345**	7,345

31. RESERVES AND RETAINED PROFITS

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 provided the appropriation is 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 such reserves.

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, general reserves should be set aside to cover catastrophic or other losses as incurred by companies operating in the insurance, banking, trust, securities and futures business. The Group's respective entities in such business would need to make appropriations for such reserve based on their respective year end profit or risk assets determined in accordance with PRC Accounting Standards, and based on the applicable PRC financial regulations, in the annual financial statements. Such reserve is not available for profit distribution or transfer to capital.

In accordance with the relevant regulations, the net profit after tax of the Company for 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, 2007 was approved in the shareholders' meeting held on May 13, 2008.

32. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

(in RMB million)	June 30, 2008	December 31, 2007
Deposits from other banks and financial institutions	**5,883**	7,532
Short term borrowings	**3,947**	3,894
Long term borrowings	**3,954**	3,218
Total	**13,784**	14,644

The Group has not had significant defaults of principal, interest or other significant breaches with respect to its liabilities during the Period.

33. ASSETS SOLD UNDER AGREEMENTS TO REPURCHASE

(in RMB million)	June 30, 2008	December 31, 2007
Bills	**1,262**	1,676
Securities	**14,719**	11,880
Loans	**375**	–
Total	**16,356**	13,556

34. CUSTOMER DEPOSITS AND PAYABLES TO BROKERAGE CUSTOMERS

(in RMB million)	June 30, 2008	December 31, 2007
Current and saving accounts		
– Corporate customers	**30,192**	32,769
– Individual customers	**6,559**	6,160
Term deposits		
– Corporate customers	**37,177**	34,297
– Individual customers	**5,341**	4,305
Payables to brokerage customers		
– Corporate customers	**2,789**	5,135
– Individual customers	**8,032**	9,259
Total	**90,090**	91,925

35. INSURANCE CONTRACT LIABILITIES

(in RMB million)	June 30, 2008	December 31, 2007
Policyholders' reserves	**327,158**	323,744
Policyholder contract deposits	**44,720**	34,734
Policyholder account liabilities in respect of insurance contracts	**32,554**	34,871
Unearned premium reserves	**19,100**	15,480
Claim reserves	**10,126**	7,645
Total	**433,658**	416,474

	June 30, 2008			December 31, 2007		
(in RMB million)	Insurance contract liabilities	Reinsurers' share	Net	Insurance contract liabilities	Reinsurers' share	Net
Long term life insurance contracts and investment contracts with DPF	**404,432**	**(13)**	**404,419**	393,349	(12)	393,337
Short term life insurance contracts	**3,492**	**(624)**	**2,868**	2,853	(445)	2,408
Property and casualty insurance contracts	**25,734**	**(6,440)**	**19,294**	20,272	(4,423)	15,849
Total	**433,658**	**(7,077)**	**426,581**	416,474	(4,880)	411,594

(in RMB million)	June 30, 2008	December 31, 2007
Current gross insurance contract liabilities*		
Long term life	**11,674**	14,726
Short term life	**3,445**	2,810
Property and casualty	**20,295**	15,189
Non-current gross insurance contract liabilities		
Long term life	**392,758**	378,623
Short term life	**47**	43
Property and casualty	**5,439**	5,083
Total	**433,658**	416,474

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

35. INSURANCE CONTRACT LIABILITIES *(continued)*

(1) Long term life insurance contracts and investment contracts with DPF

(in RMB million)	June 30, 2008	December 31, 2007
Policyholders' reserves	**327,158**	323,744
Policyholder contract deposits	**44,720**	34,734
Policyholder account liabilities in respect of insurance contracts	**32,554**	34,871
Total	**404,432**	393,349

The policyholders' reserves are analyzed as follows:

For the six months ended June 30, (in RMB million)	2008	2007
As at January 1,	**323,744**	268,436
New business	**9,174**	7,165
Inforce change	**4,059**	23,738
Effect of net unrealized gain/(losses) on investments through equity (shadow accounting adjustment)	**(9,819)**	939
As at June 30,	**327,158**	300,278

The Group did not have significant reinsurers' share of insurance liabilities in respect of the policyholders' reserves carried for long term life insurance contracts and investment contracts with DPF.

35. INSURANCE CONTRACT LIABILITIES *(continued)*

(2) Short term life insurance contracts

(in RMB million)	June 30, 2008	December 31, 2007
Unearned premium reserves	**2,676**	2,098
Claim reserves	**816**	755
Total	**3,492**	2,853

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

For the six months ended June 30, (in RMB million)	**2008**			2007		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
As at January 1,	**2,098**	**(262)**	**1,836**	1,890	(273)	1,617
Premiums written in the period	**2,981**	**(592)**	**2,389**	2,577	(460)	2,117
Premiums earned during the period	**(2,403)**	**435**	**(1,968)**	(2,187)	346	(1,841)
As at June 30,	**2,676**	**(419)**	**2,257**	2,280	(387)	1,893

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

For the six months ended June 30, (in RMB million)	**2008**			2007		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
As at January 1,	**755**	**(183)**	**572**	629	(193)	436
Claims incurred during the period	**1,350**	**(336)**	**1,014**	1,111	(248)	863
Claims paid during the period	**(1,289)**	**314**	**(975)**	(1,041)	253	(788)
As at June 30,	**816**	**(205)**	**611**	699	(188)	511

35. INSURANCE CONTRACT LIABILITIES *(continued)*

(3) Property and casualty insurance contracts

(in RMB million)	June 30, 2008	December 31, 2007
Unearned premium reserves	**16,424**	13,382
Claim reserves	**9,310**	6,890
Total	**25,734**	20,272

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

For the six months ended June 30, (in RMB million)	2008 Gross	2008 Reinsurers' share	2008 Net	2007 Gross	2007 Reinsurers' share	2007 Net
As at January 1,	**13,382**	**(2,302)**	**11,080**	10,930	(2,133)	8,797
Premiums written in the period	**14,671**	**(2,739)**	**11,932**	11,637	(2,124)	9,513
Premiums earned during the period	**(11,629)**	**2,010**	**(9,619)**	(9,195)	1,596	(7,599)
As at June 30,	**16,424**	**(3,031)**	**13,393**	13,372	(2,661)	10,711

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

For the six months ended June 30, (in RMB million)	2008 Gross	2008 Reinsurers' share	2008 Net	2007 Gross	2007 Reinsurers' share	2007 Net
As at January 1,	**6,890**	**(2,121)**	**4,769**	5,851	(1,531)	4,320
Claims incurred during the period	**8,772**	**(2,075)**	**6,697**	6,061	(1,257)	4,804
Claims paid during the period	**(6,352)**	**787**	**(5,565)**	(4,975)	918	(4,057)
Portfolio transfer	**–**	**–**	**–**	(200)	–	(200)
As at June 30,	**9,310**	**(3,409)**	**5,901**	6,737	(1,870)	4,867

36. INVESTMENT CONTRACT LIABILITIES FOR POLICYHOLDERS

(in RMB million)	June 30, 2008	December 31, 2007
Policyholder account liabilities in respect of investment contracts	**4,120**	4,622
Investment contract reserves	**2,816**	799
Total	**6,936**	5,421
Current portion*	**390**	471
Non-current portion	**6,546**	4,950
Total	**6,936**	5,421

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

The investment contract liabilities are analyzed as follows:

For the six months ended June 30, (in RMB million)	2008	2007
As at January 1,	**5,421**	4,233
Premiums received	**2,304**	693
Accretion of investment income	**(340)**	798
Liabilities released for benefits paid	**(344)**	(573)
Policy administration fees and surrender charges deducted	**(27)**	(24)
Others	**(78)**	(107)
As at June 30,	**6,936**	5,020

The benefits offered under the policyholders' investment contracts are based on the return of selected assets.

The liabilities originated from policyholders' investment contracts are measured by reference to their respective underlying assets of these contracts.

37. DEFERRED TAX ASSETS AND LIABILITIES

(in RMB million)	**June 30, 2008**	December 31, 2007
Deferred tax assets	**1,985**	87
Deferred tax liabilities	**(967)**	(6,369)
Net	**1,018**	(6,282)

(in RMB million)	As at January 1, 2008	Charged to profit and loss	Charged to equity	Others	As at June 30, 2008
Fair value adjustment on financial assets and liabilities carried at fair value through profit or loss	(1,067)	1,810	–	–	**743**
Fair value adjustment and impairment loss on available-for-sale investments	(5,942)	244	9,625	–	**3,927**
Insurance contract liabilities	10,714	(526)	(2,018)	–	**8,170**
Deferred policy acquisition costs	(10,326)	(1,324)	–	–	**(11,650)**
Others	339	(185)	–	(326)	**(172)**
Total	(6,282)	19	7,607	(326)	**1,018**

The Group considered it is probable that sufficient taxable profit will be available in the future to offset the deductible temporary differences and hence deferred tax assets are recognized.

As at June 30, 2008, the Group had no significant unrecognized deferred tax assets for deductible temporary differences and deductible tax losses.

38. OTHER LIABILITIES

(in RMB million)	June 30, 2008	December 31, 2007
Annuity and other insurance payable	**6,005**	5,161
Premiums received in advance	**996**	2,981
Salaries and welfare payable	**3,486**	4,732
Commission payable	**1,387**	1,104
Due to reinsurers	**3,392**	2,656
Insurance guarantee fund	**133**	126
Long term borrowings	**1,523**	–
Others	**8,160**	5,220
Total	**25,082**	21,980

39. FIDUCIARY ACTIVITIES

(in RMB million)	June 30, 2008	December 31, 2007
Assets under trust schemes	**40,470**	47,519
Assets under corporate annuity schemes	**9,115**	4,983
Entrusted loans	**1,560**	1,654
Assets under asset management schemes	**5,531**	1,317
Total	**56,676**	55,473

40. RISK AND CAPITAL MANAGEMENT

(1) Insurance risk

The risk under an insurance contract is the possibility of occurrence of an 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 strategies and guidelines.

The business of the Group comprises 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 continuing 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 DPF, 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, refuse to pay premiums or exercise annuity conversion option, 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 7.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(1) Insurance risk *(continued)*

(a) Long term life insurance contracts and investment contracts with DPF

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

Investment return for non-investment-linked life insurance contracts has been set to be 5.0% in 2008 and to increase by 0.1% every year to 5.5% by 2013 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 may lead to a decrease in policyholders' liabilities.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(1) Insurance risk *(continued)*

(a) Long term life insurance contracts and investment contracts with DPF *(continued)*

Assumptions *(continued)*

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.

The assumptions used to estimate the liabilities of the Group's long term life insurance contracts and investment contracts with DPF require judgment and are subject to uncertainty.

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 mainly comes from the potential reserve increase due to failing 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.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(1) Insurance risk *(continued)*

(a) Long term life insurance contracts and investment contracts with DPF *(continued)*

Sensitivities *(continued)*

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	(67)	(0.02%)
Investment return decreased by 25 basis points	94	0.03%
10% increase in maintenance expense rates	(2)	–
10% decrease in morbidity/mortality rates	22	0.01%
10% decrease in policy lapse rates	164	0.05%

* *Including investment contracts with DPF*

The above pre-tax impact on policyholders' reserves will be reflected in the Group's profit and equity.

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.

(b) 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 delays in settlement, etc.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(1) Insurance risk *(continued)*

(b) Property and casualty and short term life insurance contracts *(continued)*

Sensitivities

The property and casualty and short term life insurance claim 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 claim reserves:

	Property and casualty insurance (accident year) – gross					
(in RMB million)	**2004**	**2005**	**2006**	**2007**	**Six months ended June 30, 2008**	**Total**
Estimated cumulative claims paid as of:						
End of current year/period	5,955	7,171	9,317	10,700	**8,487**	
One year later	5,948	7,172	10,305	11,076	**–**	
Two years later	5,397	6,953	9,920	–	**–**	
Three years later	5,259	6,851	–	–	**–**	
Four years later	5,222	–	–	–	**–**	
Estimated cumulative claims	5,222	6,851	9,920	11,076	**8,487**	41,556
Cumulative claims paid	(5,144)	(6,661)	(8,671)	(8,881)	**(3,116)**	(32,473)
Sub-total						9,083
Prior period adjustments and unallocated loss adjustment expenses						227
Unpaid claim expenses						9,310

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(1) Insurance risk *(continued)*

(b) Property and casualty and short term life insurance contracts *(continued)*

Sensitivities *(continued)*

	Property and casualty insurance (accident year) – net					
(in RMB million)	**2004**	**2005**	**2006**	**2007**	**Six months ended June 30, 2008**	**Total**
Estimated cumulative claims paid as of:						
End of current year/period	4,181	5,266	7,219	8,875	**6,202**	
One year later	4,228	5,280	7,362	9,155	**–**	
Two years later	3,833	5,129	7,195	–	**–**	
Three years later	3,732	5,055	–	–	**–**	
Four years later	3,703		–	–	**–**	
Estimated cumulative claims	3,703	5,055	7,195	9,155	**6,202**	31,310
Cumulative claims paid	(3,642)	(4,915)	(6,752)	(7,537)	**(2,770)**	(25,616)
Sub-total						5,694
Prior period adjustments and unallocated loss adjustment expenses						207
Unpaid claim expenses						5,901

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(1) Insurance risk *(continued)*

(b) Property and casualty and short term life insurance contracts *(continued)*

Sensitivities *(continued)*

	Short term life insurance (accident year) – gross					
(in RMB million)	**2004**	**2005**	**2006**	**2007**	**Six months ended June 30, 2008**	**Total**
Estimated cumulative claims paid as of:						
End of current year/period	1,571	1,767	2,039	2,316	**1,226**	
One year later	1,577	1,960	1,983	2,355	**–**	
Two years later	1,582	1,935	1,990	–	**–**	
Three years later	1,582	1,935	–	–	**–**	
Four years later	1,582	–	–	–	**–**	
Estimated cumulative claims	1,582	1,935	1,990	2,355	**1,226**	9,088
Cumulative claims paid	(1,582)	(1,935)	(1,983)	(2,206)	**(587)**	(8,293)
Sub-total						795
Prior period adjustments and unallocated loss adjustment expenses						21
Unpaid claim expenses						816

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(1) Insurance risk *(continued)*

(b) Property and casualty and short term life insurance contracts *(continued)*

Sensitivities *(continued)*

	Short term life insurance (accident year) – net					
(in RMB million)	**2004**	**2005**	**2006**	**2007**	**Six months ended June 30, 2008**	**Total**
Estimated cumulative claims paid as of:						
End of current year/period	1,053	1,156	1,616	1,790	**934**	
One year later	1,057	1,482	1,555	1,797	**–**	
Two years later	1,086	1,538	1,544	–	**–**	
Three years later	1,086	1,538	–	–	**–**	
Four years later	1,086	–	–	–	**–**	
Estimated cumulative claims	1,086	1,538	1,544	1,797	**934**	6,899
Cumulative claims paid	(1,086)	(1,538)	(1,539)	(1,689)	**(458)**	(6,310)
Sub-total						589
Prior period adjustments and unallocated loss adjustment expenses						22
Unpaid claim expenses						611

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 June 30, 2008 by approximately RMB295 million and RMB31 million, respectively.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(1) Insurance risk *(continued)*

(c) 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 and surplus 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 reinsurers' share of insurance liabilities.

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.

(2) 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 RMB and other currencies in which the Group conducts business may affect its financial condition and results of operations. The foreign currency risk facing the Group mainly comes from the movements in the USD/RMB, HKD/RMB and EUR/RMB exchange rates. The Group seeks to limit its exposure to foreign currency risk by minimizing its net foreign currency position.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of foreign currency denominated non-monetary assets and liabilities measured at fair value, as well as monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

		June 30, 2008		December 31, 2007	
(in RMB million)	**Change in variables**	**Decrease in profit**	**Decrease in equity**	Decrease in profit	Decrease in equity
All foreign currencies	-5%	**597**	**1,638**	504	2,013

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(2) Market risk *(continued)*

(a) Foreign currency risk *(continued)*

The main monetary assets and liabilities of the Group (excluding balances of investment-linked contracts) and non-monetary assets and liabilities measured at fair value are analyzed as follows by currency:

	June 30, 2008					
(in million)	RMB	USD (Original)	HKD (Original)	EUR (Original)	Others (RMB equivalent)	RMB equivalent total
Balances with central bank and statutory deposits	19,658	11	55	–	–	19,781
Cash and amounts due from banks and other financial institutions	88,204	572	1,414	1	2	93,384
Fixed maturity investments	283,598	102	192	–	–	284,469
Equity investments	50,297	1,765	8,872	1,229	7	83,521
Loans and advances to customers	68,991	225	312	–	–	70,806
Premium receivables	5,713	63	26	–	1	6,172
Reinsurers' share of insurance liabilities	2,689	136	5	–	–	3,627
Other assets	9,389	118	114	–	–	10,295
Total	528,539	2,992	10,990	1,230	10	572,055

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(2) Market risk *(continued)*

(a) Foreign currency risk *(continued)*

	June 30, 2008					
(in million)	RMB	USD (Original)	HKD (Original)	EUR (Original)	Others (RMB equivalent)	RMB equivalent total
Due to banks and other financial institutions	8,965	99	4,709	–	–	13,784
Assets sold under agreements to repurchase	16,356	–	–	–	–	16,356
Customer deposits and payables to brokerage customers	87,952	282	229	–	–	90,090
Investment contract liabilities for policyholders	2,816	–	–	–	–	2,816
Policyholder dividend payable	10,635	–	–	–	–	10,635
Insurance contract liabilities	380,979	145	28	–	6	382,004
Income tax payable	685	4	10	–	–	725
Other liabilities	22,352	141	1,088	75	–	25,082
Total	530,740	671	6,064	75	6	541,492

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(2) Market risk *(continued)*

(a) Foreign currency risk *(continued)*

	December 31, 2007					
(in million)	RMB	USD (Original)	HKD (Original)	EUR (Original)	Others (RMB equivalent)	RMB equivalent total
Balances with central bank and statutory deposits	20,571	18	97	–	–	20,794
Cash and amounts due from banks and other financial institutions	84,252	235	2,000	1	5	87,859
Fixed maturity investments	272,522	209	205	–	–	274,241
Equity investments	87,345	1,340	10,539	1,987	3	128,197
Loans and advances to customers	61,206	243	156	–	–	63,125
Premium receivables	4,148	37	16	–	–	4,434
Reinsurers' share of insurance liabilities	1,230	148	5	–	–	2,316
Other assets	6,927	67	126	1	–	7,539
Total	538,201	2,297	13,144	1,989	8	588,505

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(2) Market risk *(continued)*

(a) Foreign currency risk *(continued)*

(in million)	December 31, 2007 RMB	USD (Original)	HKD (Original)	EUR (Original)	Others (RMB equivalent)	RMB equivalent total
Due to banks and other financial institutions	8,393	262	4,631	–	–	14,644
Assets sold under agreements to repurchase	13,556	–	–	–	–	13,556
Customer deposits and payables to brokerage customers	90,200	201	271	–	–	91,925
Investment contract liabilities for policyholders	799	–	–	–	–	799
Policyholder dividend payable	7,006	–	–	–	–	7,006
Insurance contract liabilities	364,940	157	34	–	4	366,123
Income tax payable	776	3	9	–	–	807
Other liabilities	21,128	73	341	–	–	21,980
Total	506,798	696	5,286	–	4	516,840

Major currencies' exchange rates as of respective balance sheet date are as follows:

	June 30, 2008			December 31, 2007		
	USD	**HKD**	**EUR**	USD	HKD	EUR
Exchange rate	**6.8591**	**0.8792**	**10.8302**	7.3046	0.9364	10.6669

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(2) Market risk *(continued)*

(b) Price risk

The Group's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk), principally listed equity securities and equity investment funds classified as available-for-sale financial assets and financial assets at fair value through profit or loss.

The above investments are exposed to price risk because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group managed price risks by diversification of investments, setting limits for investments in different securities, etc.

The Group uses the 10-day market price value-at-risk ("VaR") technique to estimate its risk exposure for listed equity securities and equity investments funds. The Group adopts 10-day as the holding period on the assumption that not all the investments can be sold in one day. Moreover, the VaR calculation is made based on normal market condition and a 99% confidence interval.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or over estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

In practice the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

The analysis below is the impact on equity for listed equity securities and equity investments funds with 10-day reasonable market fluctuation in using risk value module in the normal market.

(in RMB million)	**June 30, 2008**	December 31, 2007
Listed stocks and equity investment funds	**9,162**	14,495

The Group expected that the current trading and available-for-sale equity investments will not lose more than RMB9,162 million due to market price movements in a 10-trading-day holding period on 99% occasions.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(2) Market risk *(continued)*

(c) Interest rate risk

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

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 repriced 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 analysis below is performed for reasonably possible movements in key variables with all other variables held constant, for the following financial instruments showing the pre-tax impact on profit and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

		June 30, 2008		December 31, 2007	
(in RMB million)	**Change in interest rate**	**Decrease in profit**	**Decrease in equity**	Decrease in profit	Decrease in equity
Bonds held-for-trading and available-for-sale	+50 basis points	**248**	**3,825**	153	2,728

		Increase in interest income/(expense)	
For the six months ended June 30, (in RMB million)		**2008**	2007
Floating rate bonds	+50 basis points	**38**	17
Loans and advances to customers	+50 basis points	**155**	68
Customer deposits and payables to brokerage customers	+50 basis points	**(148)**	(161)

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(2) Market risk *(continued)*

(c) Interest rate risk *(continued)*

The following table sets out the Group's term deposits by maturity:

(in RMB million)	June 30, 2008	December 31, 2007
Fixed interest rate		
Less than 3 months (including 3 months)	**17,067**	25,036
3 months to 1 year (including 1 year)	**1,511**	381
1-2 years (including 2 years)	**–**	400
2-3 years (including 3 years)	**250**	250
3-4 years (including 4 years)	**6,070**	4,170
4-5 years (including 5 years)	**34**	1,900
More than 5 years	**2,043**	2,082
Floating interest rate	**29,427**	23,165
Total	**56,402**	57,384

The following table sets out the Group's bonds by maturity:

	June 30, 2008			
(in RMB million)	Held-to-maturity	Available-for-sale	Carried at fair value through profit or loss	Total
Fixed interest rate				
Less than 3 months (including 3 months)	457	3,928	4,453	8,838
3 months to 1 year (including 1 year)	3,052	5,544	9,935	18,531
1-2 years (including 2 years)	8,798	7,253	836	16,887
2-3 years (including 3 years)	6,354	18,266	971	25,591
3-4 years (including 4 years)	17,631	5,713	846	24,190
4-5 years (including 5 years)	6,071	5,312	770	12,153
More than 5 years	76,471	66,915	3,928	147,314
Floating interest rate	7,563	9,629	2,048	19,240
Total	126,397	122,560	23,787	272,744

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(2) Market risk *(continued)*

(c) Interest rate risk *(continued)*

(in RMB million)	December 31, 2007 Held-to-maturity	Available-for-sale	Carried at fair value through profit or loss	Total
Fixed interest rate				
Less than 3 months (including 3 months)	49	7,518	14,120	21,687
3 months to 1 year (including 1 year)	4,862	6,425	5,686	16,973
1-2 years (including 2 years)	7,804	5,140	393	13,337
2-3 years (including 3 years)	1,639	3,833	512	5,984
3-4 years (including 4 years)	19,621	3,286	188	23,095
4-5 years (including 5 years)	3,898	3,252	111	7,261
More than 5 years	82,336	47,068	1,912	131,316
Floating interest rate	7,527	6,889	1,304	15,720
Total	127,736	83,411	24,226	235,373

Interest rates on floating rate term deposits and floating rate bonds are repriced at intervals of less than one year. Interest rates on fixed rate term deposits and fixed rate bonds are fixed before maturity.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(3) Financial risk

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, loans and advances to customers, 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 counterparty exposure limits.

The Group's banking business carries out credit assessment before granting credit to 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.

Credit quality

The Group believes credit risk associated with balances with central bank and statutory deposits, cash and amounts due from banks and other financial institutions, term deposits and accrued investment income thereof are not material to the Group's consolidated financial statements as at June 30, 2008 and December 31, 2007.

The following table sets forth amounts due from banks and other financial institutions placed with major commercial banks in the PRC in terms of aggregates held by the Group.

(in RMB million)	June 30, 2008	December 31, 2007
Top five banks		
China Construction Bank Corporation	**26,192**	25,045
China Minsheng Banking Corp., Ltd.	**12,109**	11,243
Industrial Bank Co., Ltd.	**9,581**	4,131
Industrial and Commercial Bank of China Limited	**8,477**	10,859
Guangdong Development Bank	**4,208**	4,505
Other banks and financial institutions		
Bank of China Limited	**3,767**	5,137
Agricultural Bank of China	**2,428**	3,230
The Hongkong and Shanghai Banking Corporation Limited ("HSBC")	**77**	153
Others	**26,177**	23,174
Total	**93,016**	87,477

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(3) Financial risk *(continued)*

(a) Credit risk *(continued)*

Credit quality *(continued)*

The Group's debt securities investment mainly includes domestic government bonds, central bank bills, financial institution bonds and corporate bonds. As at June 30, 2008, 100% (December 31, 2007: 100%) of the financial institution bonds held by the Group either have credit rating of A or above, or were issued by national commercial banks. As at June 30, 2008, 94.34% (December 31, 2007: 89.14%) of the corporate bonds held by the Group have credit rating of AA or above. The bond credit ratings are assigned by qualified appraisal institutions in the PRC at the time of its issuance.

The credit risk associated with securities purchased under agreements to resell and policy loans will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collateral held and maturity term of no more than one year as at June 30, 2008 and December 31, 2007.

Credit exposure

The table below shows the maximum exposure to credit risk for the components of the balance sheet and items such as credit commitments. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancements.

(in RMB million)	**June 30, 2008**	December 31, 2007
Balances with central bank and statutory deposits	**19,781**	20,794
Cash and amounts due from banks and other financial institutions	**93,384**	87,859
Fixed maturity investments	**284,469**	274,241
Equity investments	**83,673**	128,931
Derivative financial assets	**121**	177
Loans and advances to customers	**70,806**	63,125
Premium receivables	**6,172**	4,434
Reinsurers' share of insurance liabilities	**7,077**	4,880
Other assets	**11,833**	8,977
Total	**577,316**	593,418
Credit Commitments *(Note 46(3))*	**48,919**	35,704
Total credit risk exposure	**626,235**	629,122

Where financial instruments are recorded at fair value (e.g. certain fixed maturity investments held-for-trading), the amounts shown above represent the current risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in fair values.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(3) Financial risk *(continued)*

(a) Credit risk *(continued)*

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters.

The main types of collateral obtained are as follows:

– for reverse repurchase transactions, cash or securities;

– for commercial lending, charges over real estate properties, inventories and trade receivables etc., and

– for retail lending, mortgages over residential properties, etc.

Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(3) Financial risk *(continued)*

(a) Credit risk *(continued)*

Aging analysis of financial assets past due

	June 30, 2008						
		Past due but not impaired					
(in RMB million)	In due	Less than 30 days	31 to 90 days	More than 90 days	Total past due but not impaired	Past due and impaired	Total
Cash and amounts due from banks and other financial institutions	93,384	–	–	–	–	19	93,403
Loans and advances to customers	68,919	1,244	436	304	1,984	432	71,335
Premium receivables	4,828	539	326	479	1,344	177	6,349
Due from reinsurers	1,618	85	88	176	349	32	1,999
Gross total	168,749	1,868	850	959	3,677	660	173,086
Less: Impairment provision	(261)	–	–	–	–	(496)	(757)
Net	168,488	1,868	850	959	3,677	164	172,329

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(3) Financial risk *(continued)*

(a) Credit risk *(continued)*

Aging analysis of financial assets past due *(continued)*

	December 31, 2007						
		Past due but not impaired					
(in RMB million)	In due	Less than 30 days	31 to 90 days	More than 90 days	Total past due but not impaired	Past due and impaired	Total
Cash and amounts due from banks and other financial institutions	87,858	–	–	–	–	45	87,903
Loans and advances to customers	61,859	769	256	78	1,103	699	63,661
Premium receivables	3,475	508	305	146	959	179	4,613
Due from reinsurers	1,861	102	81	408	591	49	2,501
Gross total	155,053	1,379	642	632	2,653	972	158,678
Less: Impairment provision	(185)	–	–	–	–	(624)	(809)
Net	154,868	1,379	642	632	2,653	348	157,869

Of the aggregate amount of gross past due but not impaired loans and advances to customers, the fair value of collateral that the Group held as at June 30, 2008 was RMB2,618 million (December 31, 2007: RMB1,295 million).

Of the aggregate amount of gross past due and impaired loans and advances to customers, the fair value of collateral that the Group held as at June 30, 2008 was RMB391 million (December 31, 2007: RMB1,057 million).

Financial assets of which terms have been renegotiated

(in RMB million)	**June 30, 2008**	December 31, 2007
Loans and advances to customers	**1,185**	2,444

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(3) Financial risk *(continued)*

(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. The banking business of the Group is exposed to potential liquidity risk. The Group seeks to mitigate the liquidity risk of the banking business by optimizing the assets and liabilities structure, maintaining stable deposits, etc.

The table below summarizes the remaining contractual maturity profile of the financial liabilities of the Group based on undiscounted contractual cashflows.

	June 30, 2008					
(in RMB million)	**Past due**	**Less than 3 months**	**3 to 12 months**	**Over 1 year**	**Investment-linked**	**Total**
Due to banks and other financial institutions	–	7,879	2,306	5,212	–	15,397
Assets sold under agreements to repurchase	–	14,952	1,463	–	–	16,415
Customer deposits and payables to brokerage customers	–	50,721	39,280	2,236	–	92,237
Investment contract liabilities for policyholders	–	–	806	2,010	4,120	6,936
Policyholder dividend payable	–	10,635	–	–	–	10,635
Other liabilities	–	17,882	1,959	3,792	–	23,633
Total	–	102,069	45,814	13,250	4,120	165,253

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(3) Financial risk *(continued)*

(b) Liquidity risk *(continued)*

	December 31, 2007					
(in RMB million)	Past due	Less than 3 months	3 to 12 months	Over 1 year	Investment-linked	Total
Due to banks and other financial institutions	–	8,102	3,486	4,115	–	15,703
Assets sold under agreements to repurchase	–	13,595	–	–	–	13,595
Customer deposits and payables to brokerage customers	–	68,741	16,999	7,709	–	93,449
Investment contract liabilities for policyholders	–	–	–	799	4,622	5,421
Policyholder dividend payable	–	7,006	–	–	–	7,006
Other liabilities	–	11,287	8,943	1,750	–	21,980
Total	–	108,731	29,428	14,373	4,622	157,154

The table below summarizes the maturity profile of the notional amount of derivative financial liabilities of the Group based on remaining contractual obligations.

(in RMB million)	**Less than 3 months**	**3 to 12 months**	**Over 1 year**	**Investment-linked**	**Total**
June 30, 2008	**287**	**332**	**1,077**	**–**	**1,696**
December 31, 2007	470	1,191	877	–	2,538

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(3) Financial risk *(continued)*

(b) Liquidity risk *(continued)*

The table below summarizes the expected recovery or settlement of assets.

	June 30, 2008			
(in RMB million)	Current*	Non-current	Investment-linked	Total
Balances with central bank and statutory deposits	1,993	17,788	–	19,781
Cash and amounts due from banks and other financial institutions	55,259	38,125	–	93,384
Fixed maturity investments	48,942	235,527	–	284,469
Equity investments	28,492	55,181	–	83,673
Derivative financial assets	18	103	–	121
Loans and advances to customers	38,040	32,766	–	70,806
Investments in associates	–	3,401	–	3,401
Premium receivables	6,122	50	–	6,172
Reinsurers' share of insurance liabilities	4,980	2,097	–	7,077
Policyholder account assets in respect of insurance contracts	–	–	32,554	32,554
Policyholder account assets in respect of investment contracts	–	–	4,120	4,120
Deferred policy acquisition costs	7,436	39,185	–	46,621
Investment properties	–	3,677	–	3,677
Property and equipment	–	8,516	–	8,516
Intangible assets	–	10,583	–	10,583
Deferred tax assets	–	1,985	–	1,985
Other assets	11,051	782	–	11,833
Total	202,333	449,766	36,674	688,773

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(3) Financial risk *(continued)*

(b) Liquidity risk *(continued)*

	December 31, 2007			
(in RMB million)	Current*	Non-current	Investment-linked	Total
Balances with central bank and statutory deposits	4,969	15,825	–	20,794
Cash and amounts due from banks and other financial institutions	66,198	21,661	–	87,859
Fixed maturity investments	82,183	192,058	–	274,241
Equity investments	33,069	95,862	–	128,931
Derivative financial assets	174	3	–	177
Loans and advances to customers	34,024	29,101	–	63,125
Investments in associates	–	1,472	–	1,472
Premium receivables	4,254	180	–	4,434
Reinsurers' share of insurance liabilities	3,106	1,774	–	4,880
Policyholder account assets in respect of insurance contracts	–	–	34,871	34,871
Policyholder account assets in respect of investment contracts	–	–	4,622	4,622
Deferred policy acquisition costs	6,555	34,750	–	41,305
Investment properties	–	3,882	–	3,882
Property and equipment	–	8,165	–	8,165
Intangible assets	–	4,400	–	4,400
Deferred tax assets	–	87	–	87
Other assets	8,447	530	–	8,977
Total	242,979	409,750	39,493	692,222

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

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(4) Mismatching risk of assets and liabilities

The objective of the Group's asset and liability management is to match assets with liabilities on the basis of both duration and interest rate. In the current regulatory and market environment, however, the Group is unable to invest in assets that have 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.

(5) 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.

(6) Capital management

The Group's capital requirements are primarily dependent on the scale and the type of business that it undertakes, as well as the industry and geographic location in which it operates. The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital requirements by assessing shortfalls, if any, between the reported and the required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid, return capital to ordinary shareholders or issue capital securities.

The Group fully complied with the externally imposed capital requirements during the Period and no changes were made to its capital base, objectives, policies and processes from the previous year.

40. RISK AND CAPITAL MANAGEMENT *(continued)*

(6) Capital management *(continued)*

The table below summarizes the minimum regulatory capital for major insurance subsidiaries of the Group and the regulatory capital held against each of them.

(in RMB million)	June 30, 2008 Regulatory capital held	June 30, 2008 Minimum regulatory capital	June 30, 2008 Solvency margin ratio	December 31, 2007 Regulatory capital held	December 31, 2007 Minimum regulatory capital	December 31, 2007 Solvency margin ratio
Ping An Life	**20,702**	**17,064**	**121.3%**	45,218	15,704	287.9%
Ping An Property & Casualty	**3,397**	**3,038**	**111.8%**	4,895	2,695	181.6%

The regulatory capital of the Shenzhen Ping An Bank is analyzed below.

(in RMB million)	June 30, 2008 Regulatory capital held	June 30, 2008 Minimum regulatory capital	December 31, 2007 Regulatory capital held	December 31, 2007 Minimum regulatory capital
Core capital	**7,181**	**2,828**	6,238	2,739
Capital	**7,152**	**5,656**	6,209	5,477
Risk weighted assets	**70,696**		68,466	
Core capital adequacy ratio	**10.2%**		9.1%	
Capital adequacy ratio	**10.1%**		9.1%	

Regulatory capital of Group's banking subsidiary consists of core capital and supplementary capital. Core capital comprises paid-in capital, capital reserve, surplus reserve fund, retained earnings and minority interests less goodwill and 50% of certain long term investments, etc. Supplementary capital includes subordinated long term debts, convertible bonds, hybrid debt capital instruments, preference shares, general reserves and revaluation reserves.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the financial instrument held by the Group (excluding the held-to-maturity investment) approximates its estimated fair value.

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 price 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.

42. CASH AND CASH EQUIVALENTS

(in RMB million)	June 30, 2008	December 31, 2007
Balances with central bank	**1,993**	4,969
Cash and amounts due from banks and other financial institutions		
– Cash on hand	**368**	382
– Term deposits	**17,067**	25,036
– Due from banks and other financial institutions	**25,828**	13,760
– Placements with banks and other financial institutions	**31**	54
Equity investments		
– Money market funds	**16,284**	13,107
Fixed maturity investments		
– Bonds due within 3 months	**4,323**	7,620
– Assets purchased under agreements to resell	**1,620**	29,130
Sub-total	**67,514**	94,058
Investment-linked	**742**	2,238
Total	**68,256**	96,296

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

43. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

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

For the six months ended June 30, (in RMB million)	2008	2007
Profit before tax	**10,344**	10,816
Adjustments for:		
Charge of impairment losses on investment properties, property and equipment, and intangible assets	**1**	9
Depreciation	**350**	400
Amortization of intangible assets	**211**	81
Loss on disposal of investment properties, property and equipment, and intangible assets	**3**	1
Investment income	**(9,323)**	(25,765)
Foreign exchange losses	**525**	335
Provision for doubtful debts, net	**(63)**	76
Loan loss provisions, net of reversals	**16**	(105)
Operating profit/(loss) before working capital changes	**2,064**	(14,152)

43. NOTE TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

Reconciliation of profit before tax to net cash from operating activities: *(continued)*

For the six months ended June 30, (in RMB million)	2008	2007
Operating profit/(loss) before working capital changes	**2,064**	(14,152)
Changes in operational assets and liabilities:		
Increase in balances with central bank and statutory deposits	**(1,963)**	(1,771)
Decrease in amounts due from banks and other financial institutions	**5,984**	490
Increase in premium receivables	**(1,738)**	(2,184)
Increase in reinsurers' share of insurance liabilities	**(2,197)**	(990)
Increase in loans and advances to customers	**(7,681)**	(9,275)
Increase in deferred policy acquisition costs	**(5,316)**	(4,136)
Decrease/(increase) in policyholder account assets in respect of insurance contracts	**2,317**	(6,379)
Decrease/(increase) in policyholder account assets in respect of investment contracts	**502**	(579)
Increase in other assets	**(1,318)**	(1,706)
Increase in insurance contract liabilities	**26,996**	48,835
Increase in investment contract liabilities for policyholders	**1,801**	787
Increase/(decrease) in due to banks and other financial institutions	**(1,695)**	4,244
Increase in customer deposits and payables to brokerage customers	**1,738**	1,970
Increase/(decrease) in derivative financial liabilities	**(69)**	178
Increase in policyholder dividend payable	**3,629**	664
Increase/(decrease) in other liabilities	**(5,342)**	3,256
Net cash inflow from operating activities for policyholders' accounts	**4,149**	1,275
Cash generated from operations	**21,861**	20,527
Income taxes paid	**(726)**	(676)
Net cash from operating activities	**21,135**	19,851

44. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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 Period is as follows:

For the six months ended June 30, (in RMB million)	2008	2007
Salaries and other short term employee benefits	**35**	53

The unpaid portion of the compensation expenses for share appreciation rights granted to key management personnel are not included in the above analysis. The expense in respect of cumulative share appreciation right units granted to key management personnel reversed in the income statement during the Period is RMB320 million (Six months ended June 30, 2007: accrued expense of RMB226 million).

45. SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) The Company's related parties where control exists are mainly subsidiaries of the Company. For details, please refer to Note 5.

(2) The Company's related parties where significant influence exists include associates (refer to Note 22) and certain shareholders set out below:

Name of related parties	Relationship with the Company
HSBC Holdings plc ("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.

As at June 30, 2008, HSBC Holdings held, through its subsidiaries, over 16% equity interest in the Company.

As at June 30, 2008, the Group's aggregate bank balances with HSBC were approximately RMB77 million (December 31, 2007: RMB153 million). Interest income earned by the Group on such bank balances for the Period was approximately RMB1 million (Six months ended June 30, 2007: RMB6 million).

(3) Please refer to Note 44 for compensation of key management personnel.

46. COMMITMENTS

(1) Capital commitments

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

(in RMB million)	**June 30, 2008**	December 31, 2007
Contracted but not provided for	**33,033**	11,048
Including: Fortis Investment Management NV/SA *(Note (a))*	**23,285**	–
Xuji Group Corporation *(Note (b))*	**672**	–
Beijing-Shanghai High-speed Railway *(Note (c))*	**5,877**	–
Authorized but not contracted for	**1,766**	456
Total	**34,799**	11,504

(a) On April 2, 2008, the Group entered into the Sale and Purchase Agreement to acquire, at a consideration of EUR2.15 billion, equity interest of 1,000,000 shares in Fortis Investment Management NV/SA ("FIM") and which at completion will constitute approximately 50% of the issued and fully diluted share capital of FIM. The remaining 1,000,001 shares are indirectly owned by Fortis SA/NV & Fortis N.V. through its wholly owned subsidiaries Fortis Bank NV/SA and Fortis Banque Luxembourg S.A.

The acquisition is conditional upon, amongst others:

– the Group having obtained approval from CIRC in respect of the transactions referred to in the Sale and Purchase Agreement;

– all necessary approvals from or necessary filings with relevant regulatory authorities having been obtained or made, as the case may be.

46. COMMITMENTS *(continued)*

(1) Capital commitments *(continued)*

(b) On April 21, 2008, the Ping An Trust entered into a Stock Transfer Agreement to acquire 100% equity interest in Xuji Group Corporation ("Xuji Group") at a consideration of RMB960 million.

The acquisition is conditional upon:

– obtaining approval from the State-Owned Assets Supervision Administration Commission in respect of the transaction referred to in the Stock Transfer Agreement;

– the Group's payment of the consideration; and

– the issuance of "assets and equity transaction identification certificate" by the equity exchange.

Upon the completion of equity transfer, Ping An Trust would provide Xuji Group with fund support and financial services, while promising to provide Xuji Group with a 5-year interest-free loan amounting to RMB4 billion.

(c) In June 2008, the CIRC approved Ping An Asset Management, Pacific Asset Management Co., Ltd., Taikang Asset Management Co., Ltd. and Taipin Asset Management Co., Ltd. to jointly establish "Beijing-Shanghai High-speed Railway Equity Investment Scheme" and to raise RMB16 billion for acquisition of 13.913% equity interest in Beijing-Shanghai High-speed Railway Corporation Limited. Ping An Life subscribed for 39.375% of this investment scheme which amounted to RMB6.3 billion. As at June 30, 2008, the cumulative subscription amount paid by Ping An Life was RMB423 million and the unpaid portion amounting to RMB5,877 million was presented as a capital commitment.

(2) Operating lease commitments

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

(in RMB million)	June 30, 2008	December 31, 2007
Within 1 year	**733**	420
1-5 years	**1,095**	708
More than 5 years	**131**	32
Total	**1,959**	1,160

46. COMMITMENTS *(continued)*

(3) Credit commitments

(in RMB million)	June 30, 2008	December 31, 2007
Letters of credit issued	**803**	621
Acceptances issued	**8,851**	8,453
Guarantees issued	**8,575**	7,953
Loan commitments (including loan commitment in Note 46(1)(b))	**19,898**	14,811
Others	**10,792**	3,866
Total	**48,919**	35,704

(4) Operating lease rental receivables

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

(in RMB million)	June 30, 2008	December 31, 2007
Within 1 year	**151**	199
1-5 years	**557**	564
More than 5 years	**656**	595
Total	**1,364**	1,358

47. 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.

47. EMPLOYEE BENEFITS *(continued)*

(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 are issued from 2004 to 2008. Upon exercise of these 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 employee costs reversed for the scheme of share appreciation rights during the Period are RMB1,068 million due to decrease in stock price of the Company's H-share (Six months ended 30 June 2007: expense accrued of RMB777 million).

The fair value of share appreciation rights is measured using the Black-Scholes option pricing model. The following table lists the inputs to the model used for the Period.

	June 30, 2008	December 31, 2007
Risk-free interest rate (%)	**2.6%**	2.6%
Expected dividend yield (%)	**1.0%**	1.0%
Expected volatility (%)	**40.6%**	36.1%
Expected residual life (in years)	**1-2**	1-2

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 June 30, 2008 is RMB1,675 million (December 31, 2007: RMB2,743 million).

48. CONTINGENT LIABILITIES

(1) Litigation

Owing to the nature of the insurance and financial service business, the Group is involved in estimates, contingencies and legal proceedings in the ordinary course of business, including but not limited to being the plaintiff or the defendant in litigation and arbitration. Legal proceedings mostly involve claims on the Group's insurance policies and other claims. 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 assessments, 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.

(2) Tax inspection

In March 2008, the State Tax Bureau commenced regular inspection of the Group's tax filing positions for fiscal years ended December 31, 2004, 2005 and 2006. The Group has made relevant tax provision based on the understanding of the current tax laws. However, the inspection results would not be finalized in a short period of time and, currently, it is not feasible to make a reliable estimate of all under-provisions for the said fiscal years.

49. POST BALANCE SHEET EVENT

On August 15, 2008, the directors approved 2008 interim dividend distribution of RMB0.20 per ordinary share totaling RMB1,469 million.

50. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period's presentation.

51. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved and authorized for issue by the Company's directors on August 15, 2008.

Ernst & Young Hua Ming (2008) Shen Zi No.60468101-B25

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

We have audited the accompanying financial statements of Ping An Insurance (Group) Company of China, Ltd. (collectively the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated and company balance sheets as at June 30, 2008, the consolidated and company income statements, statements of changes in equity and cash flow statements for the six months ended June 30, 2008 and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining internal controls relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal controls relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the accounting polices used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material aspects, the financial position of the Group and the Company as at June 30, 2008 and the results of their operations and their cash flows for the six months ended June 30, 2008.

Ernst & Young Hua Min *Chinese Certified Public Accountant* **Wu Zhiqiang**

Chinese Certified Public Accountant **Huang Yuedong**

Beijing, The People's Republic of China

August 15, 2008

CONSOLIDATED BALANCE SHEET

As at June 30, 2008
(in RMB million)

	Notes VII	June 30, 2008	December 31, 2007
ASSETS			
Cash on hand and at bank	1	**69,127**	72,740
Balances with clearing companies	2	**3,648**	2,027
Placements with banks and other financial institutions	3	**532**	1,192
Held-for-trading financial assets	4	**76,070**	84,938
Derivative financial assets	5	**127**	177
Financial assets purchased under agreements to resell	6	**8,911**	36,457
Interest receivables	7	**6,011**	4,187
Premium receivables	8	**6,377**	4,568
Due from reinsurers	9	**1,967**	2,452
Reinsurers' share of insurance liabilities	10	**7,077**	4,931
Policy loans		**2,946**	2,411
Loans and advances to customers	11	**70,806**	63,125
Refundable deposits	12	**167**	887
Term deposits		**49,178**	41,731
Available-for-sale financial assets	13	**177,647**	178,539
Held-to-maturity investments	14	**126,397**	127,736
Long-term equity investments	15	**3,554**	2,207
Goodwill	16	**722**	610
Statutory deposits	17	**1,560**	1,560
Investment properties	18	**3,843**	4,051
Fixed assets	19	**8,223**	7,894
Intangible assets	20	**9,695**	3,621
Deferred tax assets	21	**4,022**	87
Other assets	22	**4,999**	3,216
Total assets		**643,606**	651,344

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

	Notes VII	**June 30, 2008**	December 31, 2007
LIABILITIES AND EQUITY			
LIABILITIES			
Short-term borrowings	*24*	**3,819**	3,719
Due to banks and other financial institutions	*25*	**5,883**	7,532
Guarantee deposits	*26*	**6,320**	5,398
Placements from banks and other financial institutions	*27*	**128**	175
Derivative financial liabilities	*5*	**120**	189
Financial assets sold under agreements to repurchase	*28*	**16,936**	13,980
Customer deposits	*29*	**72,949**	72,133
Payables to brokerage customers	*30*	**10,821**	14,394
Premiums received in advance		**996**	2,981
Commission payable		**1,387**	1,104
Due to reinsurers	*31*	**3,392**	2,656
Salaries and welfare payable	*32*	**3,486**	4,732
Taxes payable	*33*	**1,431**	1,907
Interest payable		**644**	574
Claims payable		**6,005**	5,161
Policyholder dividends payable		**10,635**	7,006
Investment contract liabilities for policyholders	*34*	**6,856**	5,287
Insurance contract liabilities	*35*	**396,274**	380,947
Long-term borrowings	*36*	**3,954**	3,218
Deferred tax liabilities	*21*	**641**	4,822
Other liabilities	*37*	**7,551**	4,211
Total liabilities		**560,228**	542,126

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

(in RMB million)

	Notes VII	June 30, 2008	December 31, 2007
LIABILITIES AND EQUITY *(continued)*			
EQUITY			
Share capital	*38*	**7,345**	7,345
Capital reserve	*39*	**42,431**	72,111
Surplus reserve fund		**8,339**	7,629
General reserve	*40*	**1,939**	1,939
Retained profits		**20,971**	18,252
Foreign currency translation differences		**(70)**	(42)
Equity attributable to equityholders of the parent		**80,955**	107,234
Minority interests		**2,423**	1,984
Total equity		**83,378**	109,218
Total liabilities and equity		**643,606**	651,344

The financial statements on pages 180 to 324 have been signed by:

MA Mingzhe	**YAO Jason Bo**	**MAK, Wai Lam William**
Legal Representative	*Chief Financial Officer*	*Deputy Chief Financial Officer*

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2008
(in RMB million)

	Notes VII	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Operating income			
Premium income	42	**69,228**	53,885
Including: reinsurance premium income	42	**59**	47
Less: Premium ceded to reinsurers		**(3,344)**	(2,600)
Change in unearned premium reserves	43	**(2,535)**	(2,105)
Net earned premiums		**63,349**	49,180
Interest income of banking operations	44	**3,369**	2,257
Interest expense of banking operations	44	**(1,265)**	(689)
Net interest income from banking operations	44	**2,104**	1,568
Fees and commission income of non-insurance operations	45	**1,282**	1,357
Fees and commission expense of non-insurance operations	45	**(118)**	(213)
Net fees and commission income of non-insurance operations	45	**1,164**	1,144
Investment income	46	**23,445**	29,108
Fair value gains and losses	47	**(18,759)**	3,094
Foreign exchange losses		**(525)**	(335)
Other income		**707**	292
Total operating income		**71,485**	84,051
Operating expenses			
Surrenders		**(6,840)**	(5,919)
Claims paid	48	**(17,505)**	(11,791)
Less: Reinsurers' share of claims paid		**1,106**	1,167
Change in insurance contract liabilities	49	**(21,776)**	(44,949)
Less: Reinsurers' share of insurance contract liabilities	50	**1,311**	348
Policyholder dividends		**(4,162)**	(897)
Expenses for reinsurance accepted		**(11)**	(7)
Commission expenses of insurance operations		**(7,246)**	(5,666)
Business tax and surcharges		**(1,702)**	(1,742)
General and administrative expenses	51	**(6,013)**	(6,571)
Less: Reinsurers' share of expenses		**760**	675
Other expenses		**(696)**	(195)
Impairment losses	52	**(1,539)**	(17)
Total operating expenses		**(64,313)**	(75,564)

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2008
(in RMB million)

	Notes VII	**For the six months ended June 30, 2008**	For the six months ended June 30, 2007
Operating profit		**7,172**	8,487
Add: Non-operating income		**27**	435
Less: Non-operating expenses		**(80)**	(50)
Profit before tax		**7,119**	8,872
Less: Income taxes	*53*	**191**	(546)
Net profit		**7,310**	8,326
Attributable to:			
Equityholders of the parent		**7,102**	8,063
Minority interests		**208**	263
		7,310	8,326
		RMB	*RMB*
Earnings per share			
Basic earnings per share	*54*	**0.97**	1.16
Diluted earnings per share	*54*	**0.97**	1.16

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

(in RMB million)

		Notes VII	For the six months ended June 30, 2008	For the six months ended June 30, 2007
I.	**Cash flows from operating activities:**			
	Premiums received from direct insurance		**65,365**	50,918
	Increase in investment contract liabilities for policyholders		**1,855**	896
	Cash received from interest, fees and commission income		**4,018**	3,073
	Net increase/(decrease) in placements from banks and other financial institutions		**(47)**	879
	Cash received from other operating activities		**2,422**	8,484
	Sub-total of cash inflows		**73,613**	64,250
	Claims paid for direct insurance		**(17,009)**	(11,366)
	Net cash paid for reinsurance business		**(187)**	(88)
	Policyholder dividends paid		**(533)**	(232)
	Net increase in loans and advances to customers		**(7,695)**	(9,196)
	Net decrease in customer bank deposits and due to banks and other financial institutions		**(833)**	(2,653)
	Net decrease in deposits with central bank and other financial institutions		**(2,142)**	(1,577)
	Interest, handling charges and commission paid		**(8,276)**	(6,035)
	Cash paid to and for employees		**(3,690)**	(2,115)
	Cash paid for taxes and surcharges		**(2,864)**	(2,065)
	Cash paid relating to other operating activities		**(9,110)**	(8,921)
	Sub-total of cash outflows		**(52,339)**	(44,248)
	Net cash flows from operating activities	*57*	**21,274**	20,002

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2008
(in RMB million)

		Notes VII	For the six months ended June 30, 2008	For the six months ended June 30, 2007
II.	**Cash flows from investing activities:**			
	Cash received from sales and redemption of investments		**126,783**	116,021
	Cash received from returns on investments		**11,444**	12,117
	Net cash received from disposals of fixed assets, intangible assets and other long-term assets		**219**	92
	Sub-total of cash inflows		**138,446**	128,230
	Cash paid for acquisition of investments		**(182,445)**	(116,953)
	Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		**(2,407)**	(2,043)
	Policy loans drawn		**(535)**	(418)
	Net cash paid for acquisition of subsidiaries		**(529)**	(382)
	Net cash paid for acquisition of equities in subsidiaries		**(436)**	(229)
	Sub-total of cash outflows		**(186,352)**	(120,025)
	Net cash flows from investing activities		**(47,906)**	8,205
III.	**Cash flows from financing activities:**			
	Cash received from capital contributions		**–**	38,222
	Cash received from borrowings		**100**	192
	Cash received from other financing activities		**2,956**	8,310
	Sub-total of cash inflows		**3,056**	46,724
	Cash paid for distribution of dividends and interest		**(3,852)**	(2,080)
	Including: dividends paid to minority equityholders		**(49)**	(34)
	Repayments of borrowings		**(122)**	–
	Sub-total of cash outflows		**(3,974)**	(2,080)
	Net cash flows from financing activities		**(918)**	44,644

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

		Notes VII	**For the six months ended June 30, 2008**	For the six months ended June 30, 2007
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(490)**	(74)
V.	**Net increase/(decrease) in cash and cash equivalents**	57	**(28,040)**	72,777
	Add: Beginning balance of cash and cash equivalents	57	**96,296**	47,327
VI.	**Ending balance of cash and cash equivalents**	57	**68,256**	120,104

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2008
(in RMB million)

Item			Notes VII	Share capital	Capital reserve	Surplus reserve fund	General reserve fund	Retained profits	Foreign currency translation difference	Minority interests	Total
				For the six months ended June 30, 2008							
				Equity attributable to equityholders of the parent							
I.	**Beginning of the period**			**7,345**	**72,111**	**7,629**	**1,939**	**18,252**	**(42)**	**1,984**	**109,218**
II.	**Changes during the period**										
	1.	Net profit		**–**	**–**	**–**	**–**	**7,102**	**–**	**208**	**7,310**
	2.	Gains and losses recognized directly in equity									
		(1) Net fair value gains and losses of available-for-sale financial assets									
		Recognized directly in equity		**–**	**(39,362)**	**–**	**–**	**–**	**–**	**(395)**	**(39,757)**
		Transferred to income statement	*46*	**–**	**(9,140)**	**–**	**–**	**–**	**–**	**(91)**	**(9,231)**
		(2) Impairment losses on available-for-sale assets	*52*	**–**	**1,569**	**–**	**–**	**–**	**–**	**16**	**1,585**
		(3) Related tax effect of items recognized directly in equity	*21*	**–**	**7,532**	**–**	**–**	**–**	**–**	**75**	**7,607**
		(4) Others		**–**	**9,721**	**–**	**–**	**–**	**(28)**	**98**	**9,791**
		Sub-total of 1 and 2		**–**	**(29,680)**	**–**	**–**	**7,102**	**(28)**	**(89)**	**(22,695)**
	3.	Profit appropriation									
		(1) Appropriation to surplus reserve fund		**–**	**–**	**710**	**–**	**(710)**	**–**	**–**	**–**
		(2) Distribution to equityholders		**–**	**–**	**–**	**–**	**(3,673)**	**–**	**(49)**	**(3,722)**
	4.	Others		**–**	**–**	**–**	**–**	**–**	**–**	**577**	**577**
III.	**End of the period**			**7,345**	**42,431**	**8,339**	**1,939**	**20,971**	**(70)**	**2,423**	**83,378**

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

Item				Notes VII	Share capital	Capital reserve	Surplus reserve fund	General reserve fund	Retained profits	Foreign currency translation difference	Minority interests	Total
					For the six months ended June 30, 2007							
					Equity attributable to equityholders of the parent							
I.	**Beginning of the period**				6,195	23,246	6,120	517	9,182	–	1,366	46,626
II.	**Changes during the period**											
	1.	Net profit			–	–	–	–	8,063	–	263	8,326
	2.	Gains and losses recognized directly in equity										
		(1)	Net fair value gains and losses of available-for-sale financial assets									
			Recognized directly in equity		–	15,367	–	–	–	–	154	15,521
			Transferred to income statement	*46*	–	(8,727)	–	–	–	–	(88)	(8,815)
		(2)	Related tax effect of items recognized directly in equity		–	(2,443)	–	–	–	-	(25)	(2,468)
		(3)	Others		–	(682)	–	–	–	(48)	(121)	(851)
			Sub-total of 1 and 2		–	3,515	–	–	8,063	(48)	183	11,713
	3.	Capital injection from equityholders			1,150	37,072	–	–	–	–	–	38,222
	4.	Profit appropriation										
		(1)	Appropriation to surplus reserve fund		–	–	808	–	(808)	–	–	–
		(2)	Distribution to equityholders		–	–	–	–	(1,616)	–	(34)	(1,650)
III.	**End of the period**				7,345	63,833	6,928	517	14,821	(48)	1,515	94,911

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

BALANCE SHEET

As at June 30, 2008
(in RMB million)

	Notes XIV	June 30, 2008	December 31, 2007
ASSETS			
Cash on hand and at bank	1	**14,058**	40,858
Held-for-trading financial assets	2	**19,655**	8,176
Derivative financial assets		**1**	–
Financial assets purchased under agreements to resell		**200**	1,700
Interest receivables		**349**	75
Refundable deposits		**2**	–
Term deposits		**287**	289
Available-for-sale financial assets	3	**18,637**	4,311
Long-term equity investments	4	**17,868**	17,868
Fixed assets		**94**	85
Intangible assets		**33**	24
Deferred tax assets	5	**603**	10
Other assets		**561**	16
Total assets		**72,348**	73,412
LIABILITIES AND EQUITY			
LIABILITIES			
Salaries and welfare payable	6	**914**	1,325
Taxes payable	7	**131**	380
Other liabilities		**75**	219
Total liabilities		**1,120**	1,924
EQUITY			
Share capital		**7,345**	7,345
Capital reserve		**51,368**	52,506
Surplus reserve fund		**6,110**	5,655
General reserve		**395**	395
Retained profits		**6,010**	5,587
Total equity		**71,228**	71,488
Total liabilities and equity		**72,348**	73,412

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

(in RMB million)

INCOME STATEMENT

	Notes XIV	**For the six months ended June 30, 2008**	For the six months ended June 30, 2007
Operating income			
Investment income	*8*	**6,584**	4,974
Fair value gains and losses	*9*	**(2,090)**	359
Foreign exchange losses		**(62)**	(25)
Other income		**–**	34
Total operating income		**4,432**	5,342
Operating expenses			
Business tax and surcharges		**(18)**	(54)
General and administrative expenses	*10*	**109**	(504)
Impairment losses		**(228)**	–
Total operating expenses		**(137)**	(558)
Operating profit		**4,295**	4,784
Less: Non-operating expenses		**(43)**	(1)
Profit before tax		**4,252**	4,783
Less: Income taxes	*11*	**299**	(179)
Net profit		**4,551**	4,604

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

CASH FLOW STATEMENT

For the six months ended June 30, 2008
(in RMB million)

		For the six months ended June 30, 2008	For the six months ended June 30, 2007
I.	**Cash flows from operating activities:**		
	Cash received from other operating activities	–	129
	Sub-total of cash inflows	–	129
	Cash paid to and for employees	**(166)**	(124)
	Cash paid for taxes and surcharges	**(308)**	(90)
	Cash paid for other operating activities	**(361)**	(150)
	Sub-total of cash outflows	**(835)**	(364)
	Net cash flows from operating activities	**(835)**	(235)
II.	**Cash flows from investing activities:**		
	Cash received from sales and redemption of investments	**17,356**	7,443
	Cash received from return on investments	**5,834**	3,897
	Net cash received from disposals of fixed assets and intangible assets	–	14
	Sub-total of cash inflows	**23,190**	11,354
	Cash paid for acquisition of investments	**(39,163)**	(6,359)
	Cash paid for acquisition of fixed assets	**(27)**	(11)
	Sub-total of cash outflows	**(39,190)**	(6,370)
	Net cash flows from investing activities	**(16,000)**	4,984

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

		For the six months ended June 30, 2008	For the six months ended June 30, 2007
III.	**Cash flows from financing activities:**		
	Cash received from capital contributions	**–**	38,222
	Cash received from borrowings	**–**	931
	Sub-total of cash inflows	**–**	39,153
	Cash paid for distribution of dividends and interests	**(3,673)**	(1,571)
	Cash paid for other financing activities	**(5)**	–
	Sub-total of cash outflows	**(3,678)**	(1,571)
	Net cash flows from financing activities	**(3,678)**	37,582
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	**(67)**	(16)
V.	**Net increase/(decrease) in cash and cash equivalents**	**(20,580)**	42,315
	Add: Beginning balance of cash and cash equivalents	**43,702**	3,448
VI.	**Ending balance of cash and cash equivalents**	**23,122**	45,763

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2008
(in RMB million)

Item				Share capital	Capital reserve	Surplus reserve fund	General reserve	Retained profits	Total
				For the six months ended June 30, 2008					
I.	**Beginning of the period**			**7,345**	**52,506**	**5,655**	**395**	**5,587**	**71,488**
II.	**Changes during the period**								
	1.	Net profit		–	–	–	–	**4,551**	**4,551**
	2.	Gains and losses recognized directly in equity		–	–	–	–	–	–
		(1)	Net fair value gains and losses of available-for-sale financial assets						
			Recognized directly in equity	–	**(1,707)**	–	–	–	**(1,707)**
			Transferred to the income statement	–	**89**	–	–	–	**89**
		(2)	Impairment losses on available-for-sale assets	–	**228**	–	–	–	**228**
		(3)	Related tax effect of items recognized directly in equity	–	**252**	–	–	–	**252**
			Sub-total of 1 and 2	–	**(1,138)**	–	–	**4,551**	**3,413**
	3.	Profit appropriation							
		(1)	Appropriation to surplus reserve fund	–	–	**455**	–	**(455)**	–
		(2)	Distribution to equityholders	–	–	–	–	**(3,673)**	**(3,673)**
III.	**End of the period**			**7,345**	**51,368**	**6,110**	**395**	**6,010**	**71,228**

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

Item			Share capital	Capital reserve	Surplus reserve fund	General reserve	Retained profits	Total
			For the six months ended June 30, 2007					
I.	**Beginning of the period**		6,195	15,731	4,969	395	2,496	29,786
II.	**Changes during the period**							
	1.	Net profit	–	–	–	–	4,604	4,604
	2.	Gains and losses recognized directly in equity						
		(1) Net fair value gains and losses of available-for-sale financial assets						
		Recognized directly in equity	–	(379)	–	–	–	(379)
		Transferred to the income statement	–	(125)	–	–	–	(125)
		(2) Related tax effect of items recognized directly in equity	–	126	–	–	–	126
		Sub-total of 1 and 2	–	(378)	–	–	4,604	4,226
	3.	Capital injection from equityholders	1,150	37,072	–	–	–	38,222
	4.	Profit appropriation						
		(1) Appropriation to surplus reserve fund	–	–	460	–	(460)	–
		(2) Distribution to equityholders	–	–	–	–	(1,616)	(1,616)
III.	**End of the period**		7,345	52,425	5,429	395	5,024	70,618

The accompanying notes on pages 196 to 324 form an integral part of these financial statements.

I. 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 as Shenzhen Ping An Insurance Company, and was engaged primarily in property and casualty insurance business in Shenzhen. With the expansion of business, the Company was renamed as Ping An Insurance Company of China in 1992. The Company started to be engaged in life insurance business from July 1994 and subsequently changed its name to Ping An Insurance Company of China, Ltd. in January 1997.

China Insurance Regulatory Commission (the "CIRC") issued the "Approval of Separation of Business Operations of Ping An Insurance Company of China, Ltd." (Baojianfu [2002] No.32) on April 2, 2002 and agreed with the Company's proposal on the "Separation of Business Operations of Ping An Insurance Company of China, Ltd.". According to the proposal, the Company would be renamed as Ping An Insurance (Group) Company of China, Ltd.. The Company would also establish Ping An Property and Casualty Insurance Company of China, Ltd. ("Ping An Property & Casualty") and Ping An Life Insurance Company of China, Ltd. ("Ping An Life"), and control China Ping An Trust & Investment Co., Ltd. ("Ping An Trust") which holds shares of Ping An Securities Company, Ltd. ("Ping An Securities").

Based on "Approval of Changes in Ping An Insurance Company of China, Ltd." (Baojianbianshen [2002] No.98), "Approval of Establishment of Ping An Property & Casualty Insurance Company of China, Ltd." (Baojianjishen [2002] No.350) and "Approval of Establishment of Ping An Life Insurance Company of China, Ltd." (Baojianjishen [2002] No.351) issued by the CIRC on October 28, 2002, the Company was renamed as Ping An Insurance (Group) Company of China, Ltd., and Ping An Property & Casualty and Ping An Life were established. The Company obtained its revised business license on January 24, 2003 while Ping An Property & Casualty and Ping An Life obtained their revised business licenses on December 24, 2002 and December 17, 2002, respectively.

Based on "Approval of Ping An Insurance (Group) Company of China, Ltd. to List Overseas and Issue H Shares," (Baojianfu [2003] No.228) issued by the CIRC and "Approval of Overseas Share Issuance by Ping An Insurance (Group) Company of China, Ltd." (Zhengjianguohezi [2004] No.18) issued by the China Securities Regulatory Commission (the "CSRC"), the Company was allowed to issue 1,261,720,000 H shares. The H shares were listed on the Hong Kong Stock Exchange on June 24, 2004.

Based on "Approval of Ping An Insurance (Group) Company of China, Ltd. to Issue A Shares" (Zhengjianfaxingzi [2007] No.29) issued by the CSRC, the Company was allowed to issue 1,150,000,000 A shares. The A shares were listed on the Shanghai Stock Exchange on March 1, 2007.

The business scope of the Company includes investing in insurance and authorized financial enterprises, supervising and managing domestic and overseas business of subsidiaries and utilizing insurance funds. The Company is also approved to carry out domestic and overseas insurance and other businesses. The Group mainly provides integrated financial products and services, including life insurance, property and casualty insurance, trust business, securities business, banking business and other services.

II. STATEMENT OF COMPLIANCE

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises (referred to as "ASBE", including basic standard, specific standards, implementation guidelines and other relevant regulations) which were promulgated by the Ministry of Finance of the PRC (the "MOF") in 2006.

In accordance with "Issuance of 'ASBE No. 1 – Inventory' and Other 38 Specific Standards" (Caikuai [2006] No. 3) issued by the MOF, since January 1, 2007 the Company adopted ASBE issued by the MOF in 2006.

The financial statements truly and completely reflect the Company's and the Group's financial position as at June 30, 2008 and operating results and cash flows for the six months ended June 30, 2008 (the "Period").

The financial statements are prepared on a going concern basis.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting year

The accounting year of the Group is from January 1 to December 31 of each calendar year.

2. Functional currency

The functional currency of the Company's domestic subsidiaries is Renminbi ("RMB"), and the functional currency of its overseas subsidiaries is Hong Kong dollars ("HKD"). The financial statements adopt RMB as the presentation currency and are expressed in RMB million unless otherwise stated.

3. Basis of accounting and measurement basis

The Group's accounts have been prepared on an accrual basis. Assets and liabilities are recorded using historical cost as the basis of measurement except for those financial instruments measured at fair value and certain insurance contract liabilities. Impairment provision is made according to the relevant regulations if the assets are impaired.

4. Business combinations

Business combinations represent transactions which combine two or more separate businesses into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

4. Business combinations *(continued)*

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The absorbing party is the entity that obtains control of the other entities participating in the combination at the combination date, and the other entities participating in the combination are the parties being absorbed. The combination date is the date on which the absorbing party effectively obtains control of the parties being absorbed.

Assets and liabilities obtained by absorbing party in the business combination are recognized at their carrying amounts at the combination date as recorded by the party being absorbed. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained earnings.

Any costs directly attributable to the combination are recognized as expenses when incurred by the absorbing party.

Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The cost of acquisition is measured as the aggregate of the fair values of the assets given, liabilities incurred or assumed, equity instruments issued by the acquirer at the acquisition date, and all the costs incurred directly attributable to the acquisition, in exchange for control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date.

Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer reassesses the measurement of the fair values of the acquiree's identifiable net assets, liabilities and contingent liabilities and the measurement of the cost of combinations. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the remaining difference is recognized in the profit or loss for the current period.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

5. Consolidated financial statements

The consolidation scope for consolidated financial statements is determined based on concept of control, including the Company and all subsidiaries' financial statements for the six months ended June 30, 2008. Subsidiaries are those entities which the Company has control over.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All significant intra-group transactions and balances are eliminated in consolidation.

The consolidated portion of shareholders' equity of the subsidiaries not held by the Group is presented separately as minority interests in the consolidated financial statements.

For subsidiaries obtained through a business combination not involving entities under common control, the operating results and cash flows of the acquiree will be recognized in consolidated financial statements from the date the Group effectively obtains the control until the date that control is terminated. When consolidated financial statements are prepared, the subsidiaries' financial statements will be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries obtained through a business combination involving entities under common control, the operating results and cash flows of the party being absorbed will be recognized in consolidated financial statements from the beginning of the period during which the combination occurs.

6. Long-term equity investments

Long-term equity investments include investments in subsidiaries, joint ventures and associates, long-term equity investments that the Group does not jointly control or have significant influence over the invested enterprises, and long-term equity investments without quotation in active markets. Long-term equity investments are initially accounted for at cost on acquisition.

The cost method is used when the Group controls the invested enterprise or when the Group does not jointly control or have significant influence over the invested enterprise, and the long-term equity investments are not quoted in active markets, and have no reliably measurable fair values.

When the cost method is used, long-term equity investments are initially accounted for at cost upon acquisition, profit distributions or cash dividends declared by the invested enterprise are recognized as investment income in the current period. The amount of investment income recognized is limited to the amount distributed out of accumulated net profit of the invested enterprise that arises after the investment was made. The amount of profit distributions or cash dividends declared by the invested enterprise in excess of the above threshold is treated as a recovery of initial investment cost.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

6. Long-term equity investments *(continued)*

The equity method is used to account for long-term equity investments when the Company can jointly control or has significant influence over the invested entity.

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and recognized in profit and loss for the current period.

Under the equity method, after a long-term equity investment is acquired, investment gains or losses are recognized and the carrying amount of the long-term equity investment is adjusted to reflect the Company's share of the investee's net profit or loss. When recognizing the Company's share of the net profit or loss of the investee, the Group makes adjustments based on fair values of the investee's identifiable assets and liabilities at the acquisition date and in accordance with the Group's accounting policy and accounting period to investee's net profits which also eliminates profit or loss from inter-transactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (for loss from inter-transactions belonging to impairment loss, it shall be wholly recognized). When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Company's share of the profit appropriations and dividends. The Company shall discontinue recognizing its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Company's net investment in the investee are reduced to zero, except to the extent that the Company has incurred obligations to assume additional losses. The Company also adjusts the carrying amount of the long-term equity investment for other changes in owner's equity of the investee (other than net profits or losses), and include the corresponding adjustment in equity.

On disposal of the long-term equity investment, the difference between book value and the consideration received is recognized in profit or loss for the current period.

7. Foreign currency translation

For foreign currency transactions, the Group translates the foreign currency into its functional currency.

Upon initial recognition, foreign currency transactions are translated into the functional currency using the average exchange rate for the period when transactions occur. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The exchange differences arising from the above translation, except the ones relating to foreign currency borrowings for acquisition, construction or production of assets eligible for capitalization which shall be dealt with according to the principle of borrowing cost capitalization, are recognized in profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in functional currency. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The resulting foreign exchange differences are taken to the income statement or capital reserve.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

7. Foreign currency translation *(continued)*

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained earnings, are translated at the spot exchange rates at the date when such items arise. Income and expense items in the income statement are translated using the average exchange rate for the period when transactions occur. Translation differences arising from the above translation are presented as a separate line item under shareholders' equity in the balance sheet. When a foreign operation is disposed of, the translation differences relating to translation of the financial statements of that foreign operation are transferred to profit or loss in the period in which the disposal occurs, or are calculated based on disposal ratio in case of a partial disposal.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur. The impact on cash caused by the fluctuation of exchange rates is presented as a separate line item in the cash flow statement.

8. Cash equivalents

Cash equivalents are short-term, highly liquid investments held by the Group which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

9. Deposits held for brokerage customers

(1) Deposits held for brokerage customers are placed in bank accounts designated by the Group. These deposits are recognized as a liability when received for the purpose of settlement with customers.

(2) The Group acts on behalf of customers to purchase and sell securities through stock exchanges. If the total amount of securities purchased is greater than that of securities sold on each settlement date, customer deposits are reduced for the net purchases of securities on the settlement day plus withholding stamp duty and commission expenses due from customers. If the total amount of securities purchased is less than that of securities sold, customer deposits are increased for the net sales of securities less withholding stamp duty and commission expenses due from customers.

(3) The customers' futures margin deposits are placed in segregated accounts and booked by individual customers. The standard warehouse receipts collateralized by customers are managed and calculated as customer margin. Daily unrealized profit and loss is calculated based on customers' initial price and closing price on that day; customers' realised profit or loss, calculated based on the initial price and settlement price, and the transaction commission fees on that day are transferred in or out of the margin deposits according to the relevant regulations.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

10. Securities underwriting business

The Group accounts for securities underwriting business on the following basis according to the underwriting methods agreed with the issuers:

(1) Where the Group undertakes to purchase all underwritten securities unsold to investors by the end of the underwriting period, the Group keeps a specific record of the underwritten securities on the issue date in accordance with the issued amount and price determined in the underwriting contract. The unsold securities if any by the end of the underwriting period are recognized as the Group's financial assets according to the financial instruments classification stated in Note III (11).

(2) Where the Group does not undertake to purchase any underwritten securities unsold at the end of the underwriting period, the Group keeps a specific record of the underwritten securities on the issue date in accordance with the issued amount and price determined in the underwriting contract. By the end of the underwriting period, the Group returns the unsold underwritten securities if any to the issuer.

11. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

The Group classifies its financial assets into four categories at initial recognition: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The Group classifies its financial liabilities into two categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. Financial assets and financial liabilities are initially recognized at fair value. For financial assets or liabilities at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets or financial liabilities, relevant transaction costs are recognized in their initial recognition amount.

Financial assets or financial liabilities at fair value through profit or loss comprise held-for-trading financial assets or financial liabilities and those designated at fair value through profit or loss at inception. Financial assets or financial liabilities are classified as held-for-trading if they satisfy one of the following conditions: (1) they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; (2) they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; (3) they are derivative financial instruments. These financial assets or financial liabilities are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognized in current period's profit and loss.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

11. Financial instruments *(continued)*

For financial assets or financial liabilities designated as at fair value through profit or loss at inception, one of the following criteria must be met:

(1) the designation eliminates or significantly reduces recognition or measurement inconsistency of the related gains or losses that would otherwise arise from measuring the assets or liabilities on a different basis; or

(2) the group of financial instruments are managed and their performance is evaluated on a fair value basis, in accordance with the formal documented risk management or investment strategy, and information about the group is provided internally on that basis to the Group's key management personnel; or

(3) the financial assets or liabilities are hybrid instruments containing one or multiple embedded derivatives, except the embedded derivatives will not cause significant changes to the cash flow of the hybrid instruments, or it is obvious that separation of the embedded derivatives from the related hybrid instruments is prohibited; or

(4) the financial assets or liabilities are hybrid instruments containing embedded derivatives which need separation but cannot be measured separately either at acquisition or at a subsequent balance sheet date.

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured cannot be designated as financial assets at fair value through profit or loss.

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, these financial assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when such financial assets 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. Subsequent to initial recognition, these financial assets are carried at amortized cost using the effective interest method. Gains and losses arising from derecognizing, impairment and amortization are recognized in profit or loss.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

11. Financial instruments *(continued)*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Gains and losses arising from fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognized in profit or loss, are recognized as a separate part of capital reserve until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserve to profit or loss. Dividend or interest income derived from available-for-sale financial assets is recognized in profit or loss. Gains and losses arising from its derecognition are recognized in current period's profit or loss.

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Other financial liabilities are carried at amortized cost using the effective interest rate method.

12. Financial guarantee contracts

The Group's banking operation issues letters of credit and letters of guarantee. These financial guarantee contracts provide 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.

13. Derivative financial instruments

The Group's derivative financial instruments include options embedded in convertible bonds purchased by the Group, embedded derivatives separated from insurance contracts, interest rate swaps and futures, credit default swaps, cross currency swaps, forward currency contracts, and stock options, etc. Derivative financial instruments are initially measured at fair value as at the date when the derivative contracts are signed, and subsequently measured at fair value. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Any gains or losses due to the change in fair value which do not qualify as hedging accounting are directly recognized into current period's profit and loss.

14. Fair value of financial instruments

If there is an active market for a financial asset or financial liability, the Group uses quoted prices in the active market to establish its fair value. For financial instruments where there is no active market, the fair value is established by using valuation techniques. Valuation techniques include reference to most recent market prices used by knowledgeable and willingness parties, reference to current fair value of other financial instrument with similar nature, discounted cash flow method and option valuation models.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

15. Impairment of financial assets

The Group assesses at the balance sheet date the carrying amount of financial assets. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence which indicates impairment of financial assets represents events actually occurring after initial recognition of financial assets which have an impact on financial assets' estimated future cash flows, and such impact can be reliably measured. For an investment in an equity instrument, a significant or prolonged decline in its fair value is one of the objective evidences of impairment.

If financial assets carried at amortized cost are impaired, the carrying amount of the financial assets is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) and the reduction is recognized as an impairment loss in the income statement. The present value of estimated future cash flows shall be calculated with the financial asset's original effective interest rate and the related collateral value shall also be taken into account.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment, and recognizes the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Group assess the asset individually for impairment or include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognized are not included in the collective assessment for impairment.

After the Group recognizes impairment loss of financial assets carried at amortized cost, if there is objective evidence that the financial assets' value restores and the restoration can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed and recognized in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

If financial assets carried at cost are impaired, the impairment loss will be recognized in profit or loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed. For long-term equity investments which are measured with the cost method according to "ASBE No. 2 – Long-term Equity Investments" and have neither active market quotation nor reliably measurable fair values, their impairment also follows the aforementioned principle.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

15. Impairment of financial assets *(continued)*

If an available-for-sale financial asset is impaired and if there is any objective evidence that the financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in capital reserve is removed from capital reserve and recognized in profit or loss. The cumulative loss that is removed from capital reserve is the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit and loss.

If after an impairment loss has been recognized on an available-for-sale debt instrument, and the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognized, the impairment loss is reversed which is recognized in profit or loss. Impairment losses recognized for equity instruments classified as available-for-sale are not reversed through profit or loss.

16. Derecognition of financial instruments

A financial asset is derecognized when one of the following criteria is met:

(1) The contractual right of receiving the cash flows generated from the financial asset is terminated;

(2) The financial asset has been transferred, and met the following derecognition criteria for financial asset transfer.

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognized. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognized.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, the situation is divided into the following: if the Group has relinquished control of the financial asset, the financial asset is derecognized, and any associated assets and liabilities are recognized. If the Group has control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is extinguished. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability, any difference arising therefrom is recognized in profit or loss.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

17. Financial assets purchased under agreements to resell

Financial assets purchased under agreements to resell are recorded as the amount actually paid when the transactions occur, and are recognized in the balance sheet. The underlying assets of the agreements to resell are recorded off balance sheet. The differences between purchase and sale considerations of the financial assets purchased under agreements to resell are recognized using effective interest rate method as interest income in the reselling period.

18. Financial assets sold under repurchase agreements

Financial assets sold under agreements to repurchase are recorded as the amount actually received when the transactions occur, and are recognized in the balance sheet. The underlying assets of the repurchase agreements continue to be recorded in the balance sheet. The differences between purchase and sale considerations of the financial assets sold under agreements to repurchase are recognized using effective interest rate method as interest expenses in the repurchasing period.

19. Investment properties

Investment properties are properties that are held to earn rental income or capital gain or both, including land-use-rights that are for leased out, buildings that are for leased out and etc.

Investment properties are initially measured at cost. As to their subsequent expenditures, if the future economic benefits associated with them will probably flow into the Group and the cost can be measured reliably, it is recognized as the cost of investment properties, otherwise it is recognized in profit or loss as incurred.

The Group's investment properties are subsequently measured by using the cost model. Investment properties are depreciated on a straight-line basis. For details, please refer to Note III, 20 Fixed assets for depreciation method of properties and Note III, 22 Intangible assets for amortization of land-use-rights.

20. Fixed assets

Fixed assets are tangible assets held for service provision, rental or administrative purposes that are used for more than one accounting year.

A fixed asset is recognized when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognized in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of replaced part is derecognized; otherwise, those expenditures are recognized in profit or loss as incurred.

Fixed assets are initially recognized at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

(in RMB million)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

20. Fixed assets *(continued)*

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rate are as follows:

	Estimated useful lives	Estimated residual values	Annual depreciation rate
Buildings	30-35 years	5%	2.71%-3.16%
Office equipments, furnitures and fixtures	5 years	5%	19%
Motor vehicles	5-8 years	5%	11.88%-19%

The Group reviews, at least at each year end, the useful lives and the estimated residual values and the depreciation methods of fixed assets, with changes made accordingly if necessary.

21. Construction-in-progress

Construction-in-progress is measured at the actual construction expenditure, including the necessary costs incurred for fixed assets before they can be put into use and other related costs. Construction-in-progress is transferred into fixed assets when put in use.

22. Intangible assets

The Group's intangible assets are initially measured at actual cost.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For the intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as intangible assets with indefinite life.

Expenditures on acquiring expressway operating right are capitalized as intangible asset and amortized on a reasonable basis.

Amortisation of expressway operating right is provided on a reasonable basis.

Except the expressway operating right mentioned above, the useful life of respective intangible asset is as follows:

	Estimated useful lives
Land-use-rights	50-70 years
Computer software system	3-5 years

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

22. Intangible assets *(continued)*

The Group classifies the land-use-rights obtained through purchases or transfers by paying the land use fees and those reasonably allocated to land-use-rights from the price of the purchased properties as intangible assets.

Straight line amortization method is used over the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, the useful life and amortization method for intangible assets with definite lives and makes adjustment when necessary.

Impairment test should be performed each year for intangible assets with indefinite useful lives, no matter whether there is evidence indicating impairment or not. This kind of intangible assets are not amortized. Their useful lives are reviewed in every accounting period and if any evidence indicates that useful lives are limited, they shall be dealt with as the aforementioned intangible assets with definite useful lives.

23. Settled assets

Settled assets are tangible assets or properties that borrowers, guarantors or other third parties use to discharge their debtors' or guarantors' obligations. Settled assets are initially recognized at their fair value.

24. Impairment of assets

The Group assesses impairment of assets other than deferred tax assets and financial assets using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business combinations and intangible assets with indefinite useful lives, impairment test is performed annually regardless whether there are indications of impairment.

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable amount of the cash generating unit which the asset belongs to will be estimated. Cash generating unit is determined on the basis of whether the cash generating unit generates cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized in the current period's profit or loss and provision for impairment is made accordingly.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

24. Impairment of assets *(continued)*

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the related cash-generating units on a reasonable basis; if it is difficult to be allocated to a related cash-generating unit, it will be allocated to the related groups of cash-generating units. The related groups of cash-generating units refer to the ones that are expected to benefit from the synergies of the combination and also not greater than the segment determined by the Group.

When impairment is tested, if there is indication that a cash generating unit or a group of cash generating units with related goodwill may be impaired, the unit without goodwill allocated is first tested for impairment by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount and any related impairment loss is recognized accordingly. Then, the unit to which goodwill has been allocated is tested for impairment by comparing the carrying amount of the unit, including goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units, the impairment loss shall first reduce the carrying amount of any goodwill allocated to the unit or group of units; and then to the other assets of the unit or group of units on a pro rata basis according to the carrying amount of each asset in the unit or group of units.

Previously recorded impairment losses for goodwill are not reversed in future periods.

25. Insurance guarantee fund

According to "Administrative Regulations on the Insurance Guarantee Fund" (Baojianhuiling [2004] No.16), the Group calculates the insurance guarantee fund as follows:

(1) For property insurance, accident insurance and short-term health insurance, insurance guarantee fund is provided at 1% of net premiums respectively.

(2) For long-term life insurance and long-term health insurance with guaranteed interest rate, insurance guarantee fund is provided at 0.15% of net premiums respectively.

(3) For long-term life insurance without guaranteed interest rate, insurance guarantee fund is provided at 0.05% of net premiums.

No additional provision is required when the accumulated insurance guarantee fund balances of Ping An Life, Ping An Annuity Insurance Company of China, Ltd. ("Ping An Annuity") and Ping An Health Insurance Company of China, Ltd. ("Ping An Health") reaches 1% of their respective total assets. For Ping An Property & Casualty, no additional provision is required when the accumulated balance reaches 6% of its total assets.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

26. Direct insurance contracts

Direct insurance contracts are contracts entered into by the Group and policyholders where the Group undertakes insurance risks. The Group undertakes insurance risks when the occurrence of an accident within the scope of an insurance contract is likely to cause the Group to undertake the insurance claim liability. Contracts entered into by the Group and policyholders that cause the Group to accept both insurance risk and other risks are insurance contracts in their entirety with no separation of insurance risk and other risks.

When direct insurance contracts are terminated prior to their expiration dates, the Group transfers the balance of unearned premium reserves, policyholders' reserves for life insurance, and long-term reserves for health insurance to current period's profit or loss together with the corresponding surrenders.

27. Unearned premium reserves

Unearned premium reserves are reserves made for the unexpired portion of in-force non-life insurance policies. Unearned premium reserves are provided based on actuarial valuation results (1/365 method). Besides, unearned premium reserves provided by life insurance subsidiaries should not be less than 50% of net premiums for the current period.

The Group performs the following tests on the balance sheet date, and makes additional provision for unearned premium reserves for the difference between the unearned premium reserves provided and the greater of the following two bases:

(1) Balance of estimated future claims and expenses after deduction of relevant investment income;

(2) Surrender amount on the date of premium reserve valuation assuming all insurance policies were surrendered.

28. Claim reserves

The Group, as the insurer, provides claim reserves for non-life insurance accidents claims incurred but not settled, which include reserves for claims reported but not settled, claims incurred but not reported, and claim adjustment expenses.

Reserves for claims incurred and reported are reserves for which the non-life insurance accidents have occurred and the claims have been reported to the Group but are not yet settled. Reserves for claims reported are prudently provided on the basis of the estimated claim not more than the maximum insured amount of the insurance policy using the Average Incurred Claim Projection, Average Paid Claim Projection and other methods on a reasonable basis.

Reserves for claims incurred but not reported are reserves for non-life insurance accidents incurred but not yet reported to the Group. Reserves for claims incurred but not reported are prudently provided using at least two of the following methods: the Chain-ladder method, the Average Paid Claim Projection, Loss Development method and the Bornhuetter-Ferguson method.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

28. Claim reserves *(continued)*

Reserves for claim adjustment expenses are reserves for expenses incurred for claims reported but not yet settled such as lawyer fees, litigation fees, loss inspection expenses and salaries of related claims handling staff. The Group uses the Average Case Projection method and Proportional Allocation method to provide for this reserve.

29. Policyholders' reserves for life insurance

Policyholders' reserves for life insurance are reserves provided to meet future insurance obligations arising from life insurance business and are provided using actuarial valuation methods. In accordance with the CIRC's regulations, policyholders' reserves for life insurance provided by the Group are no lower than the statutory minimum reserve. The statutory policyholders' reserves are calculated in accordance with "Actuarial Regulations on Life Products", "Actuarial Regulations on Interest-Dividend-Only Products" (Baojianfa [1999] No.90), "Actuarial Regulations on Individual Participating Products" (Baojianfa [2003] No.67), "Actuarial Regulations for Universal Life Products", "Actuarial Regulations for Investment-linked Products" (Baojianfa [2007] No.335), "Notice on Actuarial report" (Baojianshouxian [2005] No.8), "Notice on Usage of Mortality Table in Actuarial Regulations" (Baojianfa [2005] No. 118) and other regulations and approvals of the CIRC.

The main basis of measuring the policyholders' reserves for life insurance of the Group is as follows:

(1) Use the prospective method on a seriatim basis or use the retrospective method on a seriatim basis if it has obtained the approval of the CIRC;

(2) The valuation interest rate used for life insurance should be capped at the lower of:

- 7.5% set by the CIRC; or

- Pricing interest rate that is used in determining the insurance premium of the product.

(3) The mortality rates used for life insurance valuation are based on the China Life Insurance Mortality Table (2000-2003);

(4) The policyholders' reserves for life insurance valuation method (excluding universal life insurance and investment-linked life insurance) are as follows:

- The one-year term Full Preliminary Term is adopted for traditional non-participating life insurance contracts, other than whole life annuities, while participating life insurance products are calculated according to "Amendment for the Actuarial Regulation on Individual Participating Life Insurance";

- For whole life annuities, a modified net level premium method is adopted;

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

29. Policyholders' reserves for life insurance *(continued)*

- Premium deficiency reserve is required if the renewal year valuation premium, calculated by modified method, is higher than the gross premium;

- Amount of policyholders' reserves for life insurance should be no less than the cash value of policies at valuation date.

(5) The reserve valuation method for universal life insurance, which includes account reserve and non-account reserve, is as follows:

- Account reserve is calculated on a seriatim basis and equals to the policy's account value at the valuation date;

- Non-account reserve is calculated by using discounted cash flow method on the basis of generally accepted actuarial principles and the discount rate used is based on expected rate of return and should not exceed 5%;

- The Group makes provision for non-account reserve for guaranteed benefits of universal insurance according to the related rules;

- The Group sets up smoothing reserves for universal account in order to smooth settlement interest rates of different settlement periods; smoothing reserves should not be negative and should only be derived from the accumulated difference between the actual investment return and the settlement interest; the Group will maintain the smoothness nature of the settlement interest rates;

(6) The reserves for investment-linked life insurance are the sum of unit reserve and non-unit reserve. The calculation method is as below:

- Unit reserve is calculated on a seriatim basis and should be equal to the value of the unit investment account as at valuation date;

- Non-unit reserve is calculated by using discounted cash flow method on the basis of generally accepted actuarial principles and the discount rate used is based on expected rate of return and should not exceed 5%;

- The Group makes provision for non-unit reserve for guaranteed benefits of investment-linked insurance according to the related rules;

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

29. Policyholders' reserves for life insurance *(continued)*

(7) The changes in fair values of financial assets at fair value through profit and loss for both participating insurance and universal life insurance are recorded in policyholders' reserves for life insurance for those portions reasonably attributable to the policyholders and in profit and loss for the period for those that are attributable to the shareholders. For available-for-sale financial assets, fair value changes are recorded in policyholders' reserves for insurance for those portions reasonably attributable to the policyholders and in capital reserve for those attributable to the shareholders.

30. Reserves for long-term health insurance

Reserves for long-term health insurance are provided to meet future obligations arising from long-term health insurance business and is recorded based on actuarial valuation results. According to the CIRC's regulations, reserves for long-term health insurance are provided at a level not less than the statutory minimum reserve. The statutory reserve is calculated in accordance with "Actuarial Regulations on Health Products" (Baojianfa [1999] No.90), other regulations and approvals promulgated by the CIRC. The expected loss rates and expected morbidity rates that are used to calculate reserves for long-term health insurance are based on the exiting experience tables of the reinsurance companies as well as the experience data of the Company. Others are by reference to the requirements on death insurance in Actuarial Regulation on Life Products (Baojianfa [1999] No.90).

31. Liability adequacy test

The Group performs adequacy tests on claim reserves, policyholders' reserves for life insurance and reserves for long-term health insurance on each balance sheet date. If the reserves recalculated by using actuarial methods exceed the balance of the relevant reserves on the date of adequacy test, the Group will provide for additional reserves to top up the reserve deficiency and recognize it in current profit and loss, if any, and if the related reserve is adequate, no adjustment is made.

When performing liability adequacy tests on policyholders' reserves for life insurance and long-term reserves for health insurance, the Group applies actuarial models on the basis of best estimate hypothesis in order to estimate the future cash flows of the policies. The actuarial hypothesis parameters includes premium receipts, benefit expenditure, surrender expenditures, commission and handling fees, operating expenses, policyholder dividends and other non-beneficial expenditures. The discount rates used for discounting future cash flows takes into account those assets related to reserves and the yield rates of expected future cash flows for investments.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

32. General reserves

The general reserve in the Group's consolidated financial statements consists of general reserve provisions made for the Group's insurance, banking, trust, securities and futures subsidiaries. The said provision is an appropriation of profit based on PRC regulatory requirements.

33. Revenue recognition

Revenue is recognized only when economic benefits associated with the transaction will flow to the Group, so that the Group's assets will increase or its liabilities will decrease, and the relevant amount of revenue can be measured reliably.

Premium income

Premium income and reinsurance premium income is recognized when the insurance contracts are issued, related insurance risk is undertaken by the Group, related economic benefits will most likely flow to the Group and related net income can be reliably measured. Premiums from direct non-life insurance contracts are recognized as revenue based on the amount of total premium stated in the contracts. Premiums from direct life insurance contracts with installment or single payments are recognized as revenue when due. Reinsurance premiums are recognized as revenue in accordance with the terms of the related reinsurance contracts.

Interest income

Interest income is recognized in income statement as it accrues and is calculated by using the effective interest rate method.

Other income

Fee income comprises of commission income from securities and futures brokerage business and is recognized when the services are provided. The Group recognizes securities underwriting labor cost in current profit and loss, and recognizes the premium income upon completion of securities underwriting service.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

34. Reinsurance

Reinsurance outwards

The Group cedes insurance risk in the normal course of business for its insurance businesses. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group calculates, in accordance with the terms of relevant reinsurance contracts, premiums ceded to reinsurers and expenses recoverable from reinsurers and recognizes them in income statement. The Group determines, in accordance with the terms of the relevant reinsurance contracts, and recognizes as assets the reserves to be recovered from reinsurers in the period in which the Group recognizes the outstanding claims reserves, policyholders' reserves for life insurance and reserves for long-term health insurance of the direct insurance contracts. When the Group reduces the balance of the corresponding reserves as the amounts of claims and benefits payments are ascertained or actual claim handling expenses are incurred for the direct insurance contracts, it also reduces the balance of the corresponding reserves attributable to the outward reinsurance contracts. At the same time, the Group also determines the costs of claims and benefits recoverable from reinsurers according to the terms of the reinsurance contracts and recognizes the amount in income statement for the period. When early termination of the direct insurance contracts occurs, the Group determines the adjustments required for the premium ceded to reinsurers and commissions recoverable in accordance with the terms of the related reinsurance contracts and recognizes these amounts in income statement for the period. At the same time, the Group adjusts the relevant reserves attributable to the outward reinsurance contracts.

As the cedant, the Group does not offset but presents separately in the balance sheet the assets and liabilities, as well as in the income statement the income and expenses arising from the reinsurance contracts and their related direct insurance contracts.

Reinsurance inwards

The Group calculates and recognizes reinsurance expenses in current period's income statement in the same period the reinsurance premium income is recognized according to the terms of the related reinsurance contracts. Profit commission expenses are recognized in current period's income statement when the Group is able to calculate and determine the expenses according to the terms of the reinsurance contracts.

The Group adjusts and recognizes in current period's income statement the related reinsurance premium income and expenses according to the actual amounts stated on the reinsurance statement of accounts when received.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

35. Policyholder dividends

Policyholder dividends represent dividends paid by the Group to policyholders in accordance with the terms of direct insurance contracts. The dividends are calculated and provided based on dividends allocation method and results of actuarial valuation.

36. Operating lease

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rental income and expenses applicable to such operating leases are charged to profit or loss on a straight-line basis over the lease terms.

37. Employee benefits

Employee benefits represent all kinds of benefits and other relevant expenditure offered by the Group to obtain employees' services. During the accounting period when employees provide services, employee benefit payable is recognized as liability. If it will expire after one year or more from the balance sheet date and the discounting effect is significant, it is presented at its present value.

The employees of the Group are entitled to participate in government-managed social insurance schemes, including pension plans, medical benefits, unemployment benefits, housing funds and other social insurance schemes. The associated expenditure is recognized as the costs of the related assets or expenses when incurred. Certain employees are also provided with group life insurance, but the amount involved is insignificant. The Group has no other significant legal or constructive obligations for employee benefits beyond the said contributions.

38. Share-based payment transactions

Senior management and some of the key employees of the Group receive remuneration in the form of share-based payment transactions (i.e. share appreciation rights) whereby the above mentioned employees render services as consideration for share appreciation rights which are settled in cash.

Share appreciation rights are settled in cash after completion of services by the above mentioned employees in the vesting period. At each balance sheet date during the vesting period, on the basis of the best estimate of future settlement the fair value of share appreciation rights is expensed over the period until vesting with recognition of a corresponding liability. The fair value of share appreciation rights is measured using the Black-Scholes formula.

The liability is re-measured at each balance sheet date up to and including the settlement date with changes in fair value recognized in the income statement.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

39. Accounting for income tax

Income taxes include current and deferred tax. Income tax are recognized in current period's profit and loss as income tax expense or income except for the adjustment made for goodwill in a business consolidation and income tax from transactions or items that directly related to equity.

Current tax represents current income tax payable calculated on current taxable income. Taxable income is current period's accounting profit before tax as adjusted according to the related tax regulations.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them using the expected payment or refund amount according to the relevant tax regulations.

The Group recognizes deferred tax liabilities or assets based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base. Temporary differences also include the differences between the book values and tax bases of items not recognized as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

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 losses and unused tax credits, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry-forward of unused tax losses and unused tax credits can be utilized except where the transaction is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax asset is recognized where the temporary differences are likely to be reversed in the foreseeable future and taxable income will be available in the future to utilise the temporary differences.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

39. Accounting for income tax *(continued)*

As at balance sheet date, 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, and reflect the tax consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The Group re-assesses book value of deferred tax assets at each balance sheet date. The Group reduces the book value of deferred tax assets if future taxable profit may not be sufficient to offset the benefits from the assets. When future taxable profit is sufficient, the reduction is reversed.

40. Fiduciary business

The Group acts as a trustee, custodian or agent in fiduciary business. Assets held under trust on behalf of third parties arising from fiduciary business and the corresponding obligation to return such assets are not shown in the balance sheet because the risk and return are borne by the customers.

41. Related parties

Parties are considered to be related if the Group has the ability to control the other party or to exercise joint control or significant influence over the other party. Two or more parties are also regarded as related parties if they are subject to control, joint control or significant influence from the same party.

42. Critical accounting estimates and judgments in applying accounting policies

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

42. Critical accounting estimates and judgments in applying accounting policies *(continued)*

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.

(1) Classification of financial assets

Management shall make significant judgments on classification of financial assets. Different classifications would affect the accounting treatment and the Group's financial position and operating results. If the Group's classification is subsequently proved to be wrong, reclassification may be required for certain categories as a whole.

(2) Classification of insurance contracts

Management shall make significant judgments on classification of insurance contracts. Different classifications would affect the accounting treatment and the Group's financial position and operating results.

(3) Provision for Impairment of available-for-sales equity investments

The Group considers that impairment provision is needed for an available-for-sale equity investment when there is significant or prolonged decline in fair value of that security below its cost. Management shall exercise judgment to determine "significant" and "prolonged". When making such judgment, the Group considers factors like equity price volatility, financial position of the investees, industry and segment performance, technology innovation, cash flows from financing activities, etc.

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

Policyholders' reserves for life insurance and reserves for long-term health insurance

Policyholders' reserves for life insurance and reserves for long-term health insurance are valued according to the regulations of the CIRC, using the main assumptions which include interest rates and mortality rates.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

42. Critical accounting estimates and judgments in applying accounting policies *(continued)*

***Estimates and assumptions** (continued)*

(1) Valuation of insurance contract liabilities (continued)

Policyholders' reserves for life insurance and reserves for long-term health insurance *(continued)*

Every year the Group performs a liability adequacy test on the aforementioned reserves, which reflects management's current best estimate of future cash flows. The main assumptions used are mortality, morbidity, investment returns, expenses, lapse and surrender rates. The Group base their 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. The Group's assumptions of investment returns are based on current and expected future investment portfolio, 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 when appropriate. As lapse and surrender rates depend on product features, policy duration and etc, historical experience is used in choosing these assumptions.

The reserves for investment-linked policies, where the Group undertakes both insurance risks and other risks, are determined with reference to the fair values of the assets supporting such liabilities.

Claims reserves

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"). The ultimate cost of outstanding claims is estimated by using at least two of the actuarial claims projection techniques, such as Chain Ladder Method, Average Claim Method, Reserve Development Method and Bornhuetter-Ferguson methods.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

42. Critical accounting estimates and judgments in applying accounting policies *(continued)*

Estimates and assumptions *(continued)*

(1) Valuation of insurance contract liabilities (continued)

Claims reserves *(continued)*

The main assumption underlying these techniques is that the Group'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 and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the most likely outcome from the range of possible outcomes, taking into account all the uncertainties involved. Every year the Group performs a liability adequacy test on claim reserves.

(2) Fair value of financial instruments determined using valuation techniques

Fair value of financial instruments, in the absence of an active market, is estimated by using valuation techniques, such as the price used in recent arm's length transactions, reference to the current fair value of another instrument which is substantially the same, discounted cash flow analysis and option pricing model.

When using valuation techniques to determine the fair value of financial instruments, the Group makes use of all factors, whenever possible, considered by market participants in pricing technique instruments including risk-free rates, credit risk, foreign currency exchange rates, commodity prices, stock price or stock index, magnitude of future changes in price of the financial instruments and prepayment and surrender risk.

Using different valuation techniques or reference assumptions may result in the existence of relatively significant differences in fair value estimations.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(continued)*

42. Critical accounting estimates and judgments in applying accounting policies *(continued)*

Estimates and assumptions *(continued)*

(3) 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 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.

(4) Deferred tax assets and liabilities

Deferred tax assets and liabilities are measured, based on tax laws, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax assets are recognized for all unused tax losses, to the extent that it is likely that taxable profit will be available to offset these unused tax losses. Many judgments are needed from the management to estimate the timing and amount of taxable profit as well as applicable tax rate in the future, with tax planning strategies, to determine the amount of the deferred tax assets and liabilities that should be recognized.

43. Changes in significant accounting estimates

Changes in accounting estimates are applied prospectively.

In compliance with Baojianfa [1999] No.90 that reserves provided for the year should not be less than the statutory minimum reserves, and valuation interest rate should not be higher than the pricing interest rate or the determined rate of 7.5%, the Group uses a more prudent valuation interest rate for insurance products with pricing interest rate equal to or higher than 7.5%. In the six months ended June 30, 2008, the valuation interest rate of the above high interest rate insurance products of the Group was reduced to 6% from 6%-6.5%. This change in accounting estimate results in a decrease in profit before tax for the period ended June 30, 2008 of approximately RMB3,811 million.

IV. TAXATION

The major types of taxes and related tax rates applicable to the Group are as follows:

Business tax and surcharges

Business tax is levied on 5% of taxable premium income, other income and investment income. Business tax surcharges, comprising city maintenance and construction tax and education surcharges are calculated at a pre-determined percentage of business tax.

IV. TAXATION *(continued)*

Business tax and surcharges *(continued)*

According to "Circular on exempting from the business tax on certain items" (Caishui [1994] No.2), "Circular on exempting Ping An Insurance Company of China, Ltd. from the business tax on refundable life insurance businesses with a term of more than one year" (Caishui [1998] No.95), "Circular on exempting Ping An Insurance Company of China, Ltd. from the business tax on new refundable life insurance products with a term of more than one year" (Guoshuihan [1999] No.181), "Approval regarding exempting Ping An Insurance Company of China, Ltd. Urumqi Branch from the business tax on specific insurance products" (Guoshuihan [1998] No.746), "Circular on exempting insurance companies from the business tax on refundable life insurance products with a term of more than one year" (Caishui [2000] No.59), "Circular on certain issues concerning exempting from the business tax on life insurance businesses" (Caishui [2001] No.118), "Circular on exempting insurance companies from the business tax on refundable life insurance products with a term of more than one year" (Caishui [2002] No.94), "Circular on exempting insurance companies from the business tax on refundable life insurance products with a term of more than one year" (Caishui [2002] No.156), "Circular on exempting insurance companies from the business tax on refundable life insurance businesses with a term of more than one year" (Caishui [2004] No.71), "Circular on exempting insurance companies from the business tax on refundable life insurance businesses with a term of more than one year" (Caishui [2005] No.21), "Circular on exempting insurance companies from the business tax on refundable life insurance businesses with a term of more than one year" (Caishui [2005] No.76), "Circular on publishing refundable life insurance products' list (16th batch) with more than one year term exempted from business tax" (Caishui [2006] No.115), "Circular of the Ministry of Finance and the State Administration of Taxation on publishing the list (17th batch) of refundable life insurance products with a term of more than one year exempted from the business tax" (Caishui [2007] No.43), "Circular of the Ministry of Finance and the State Administration of Taxation on publishing the list (18th batch) of refundable life insurance products with a term of more than one year exempted from the business tax" (Caishui [2007] No.117), "Circular of the Ministry of Finance and the State Administration of Taxation on publishing the list (19th batch) of refundable life insurance products with a term of more than one year exempted from the business tax" (Caishui [2007] No.158) etc., common life insurance with principal and interest refundable and a term of more than one year (one year is included), pension annuity insurance, health insurance products with a term of more than one year (one year is included) of Ping An Life, pension annuity insurance with a term of more than one year (one year is included) of Ping An Annuity, health insurance products with a term of more than one year (one year is included) of Ping An Health, and health insurance products with a term of more than one year (one year is included) of Ping An Property & Casualty are exempted from the business tax since the aforementioned documents were published.

IV. TAXATION *(continued)*

Income tax

On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law unifies the domestic corporate income tax rate to 25% with effect from January 1, 2008. Therefore, for subsidiaries and branches of the Group located in Special Economic Zones that were entitled to preferential income tax, the applicable CIT rate will be transited to 25% in 5 years. During the transitional period, the applicable CIT rate for those subsidiaries and branches will be 18%, 20%, 22%, 24% and 25% for year 2008, 2009, 2010, 2011 and 2012 respectively. For other subsidiaries and branches of the Group, the CIT rates are reduced from 33% to 25% from January 1, 2008.

Subsidiaries of the Group located in Hong Kong Special Administrative Region are subject to Hong Kong profits tax. The tax rate of Hong Kong profits tax is reduced from 17.5% to 16.5% for the period from April 1, 2008 to March 31, 2009.

V. SCOPE OF CONSOLIDATION

The major changes in the subsidiaries of the Group during the Period are as follows:

1. In March 2008, Ping An Life completed the acquisition of 60% equity interest in Shanxi Changjin Expressway Co., Ltd. ("Shanxi Changjin"). The share capital of Shanxi Changjin is RMB750 million.

   The fair values and carrying values of the identifiable assets and liabilities acquired as at the date of acquisition were:

	Fair value recognized on acquisition	**Carrying value**
Cash on hand and at bank	181	181
Intangible assets	2,659	1,920
Other assets	147	147
Sub-total	2,987	2,248
Deferred tax liabilities	185	–
Other liabilities	1,582	1,582
Sub-total	1,767	1,582
Net identifiable assets	1,220	666
Fair value of net assets acquired attributable to the Group	732	
Satisfied by cash	732	

V. SCOPE OF CONSOLIDATION *(continued)*

1. *(continued)*

The fair values of the above identifiable assets and liabilities acquired as at the date of acquisition were determined by reference to book values and an independent appraisal report.

The net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary:

Cash consideration	(732)
Cash and bank balances acquired	181
Net outflow of cash and cash equivalents	(551)

The operating results and cash flow of Shanxi Changjin from the date of acquisition to current period end were as follows:

Operating income	127
Net profit	41
Net cash flows	73

From the date of acquisition to current period end, the Group did not dispose of and did not intend to dispose of any assets or liabilities of Shanxi Changjin.

2. In March 2008, Ping An Life completed the acquisition of 60% equity interest in Shanxi Jinjiao Expressway Co., Ltd. ("Shanxi Jinjiao"). The share capital of Shanxi Jinjiao is RMB504 million.

V. SCOPE OF CONSOLIDATION *(continued)*

2. *(continued)*

The fair values and carrying values of the identifiable assets and liabilities acquired as at the date of acquisition were:

	Fair value recognized on acquisition	Carrying value
Cash on hand and at bank	166	166
Intangible assets	1,913	1,303
Other assets	20	20
Sub-total	2,099	1,489
Long-term loans	857	857
Deferred tax liabilities	152	–
Other liabilities	221	221
Sub-total	1,230	1,078
Net identifiable assets	869	411
Fair value of net assets acquired attributable to the Group	521	
Satisfied by cash	521	

The fair values of the above identifiable assets and liabilities acquired as at the date of acquisition were determined by reference to book values and an independent appraisal report.

The net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary:

Cash consideration	(521)
Cash and bank balances acquired	166
Net outflow of cash and cash equivalents	(355)

The operating results and cash flow of Shanxi Jinjiao, from the date of acquisition to current period end were as follows:

Operating income	130
Net profit	64
Net cash flows	(92)

From the date of acquisition to the period end, the Group did not dispose of and did not intend to dispose of any assets or liabilities of Shanxi Jinjiao.

(in RMB million)

V. SCOPE OF CONSOLIDATION *(continued)*

3. Particulars of the Company's principal subsidiaries as at June 30, 2008 are set out below:

Name	Place of incorporation	Organizational code	Attributable equity interest Direct	Attributable equity interest Indirect	Proportion of voting right	Registered/ authorized capital (RMB Unless otherwise stated)	Paid-up capital (RMB Unless otherwise stated)	Principal activities
Ping An Life Insurance Company of China, Ltd.	Shenzhen	71093073-9	99.00%	–	99.00%	3,800,000,000	3,800,000,000	Life insurance
Ping An Property & Casualty Insurance Company of China, Ltd.	Shenzhen	71093072-0	99.06%	–	99.06%	3,000,000,000	3,000,000,000	Property and casualty insurance
Shenzhen Ping An Bank Co., Ltd. *(i)*	Shenzhen	19236558-0	90.04%	–	90.04%	5,502,000,000	5,460,940,138	Banking
China Ping An Trust & Investment Co., Ltd.	Shenzhen	10002000-9	99.88%	–	99.88%	4,200,000,000	4,200,000,000	Investment and trust
Ping An Securities Company, Ltd.	Shenzhen	100323453	–	86.66%	86.66%	1,800,000,000	1,800,000,000	Security investment and brokerage
Ping An Annuity Insurance Company of China, Ltd.	Shanghai	77021249-9	97.00%	2.98%	99.98%	500,000,000	500,000,000	Annuity insurance
Ping An Asset Management Co., Ltd.	Shanghai	71093344-6	96.00%	3.96%	99.96%	500,000,000	500,000,000	Asset management
Ping An Health Insurance Company of China, Ltd.	Shanghai	71093349-7	95.00%	4.96%	99.96%	500,000,000	500,000,000	Health insurance
China Ping An Insurance Overseas (Holdings) Limited	Hong Kong	Not applicable	100.00%	–	100.00%	HKD4,000,000,000	HKD555,000,000	Investment holding

V. SCOPE OF CONSOLIDATION *(continued)*

3. *(continued)*

Name	Place of incorporation	Organizational code	Attributable equity interest Direct	Attributable equity interest Indirect	Proportion of voting right	Registered/ authorized capital (RMB Unless otherwise stated)	Paid-up capital (RMB Unless otherwise stated)	Principal activities
China Ping An Insurance (Hong Kong) Company Limited	Hong Kong	Not applicable	–	75.00%	75.00%	HKD110,000,000	HKD110,000,000	Property and casualty insurance
Shenzhen Ping An Futures Brokerage Co, Ltd.	Shenzhen	10002318-8	–	89.47%	89.47%	120,000,000	120,000,000	Futures brokerage
Ping An New Capital Co., Ltd. *(ii)*	Shenzhen	19221023-9	–	99.88%	99.88%	2,000,000,000	2,000,000,000	Investment
Shenzhen Ping An Property and Facilities Management Co, Ltd.	Shenzhen	19230555-3	–	99.88%	99.88%	20,000,000	20,000,000	Property management
Fuzhou Ping An Real Estate Development Co., Ltd.	Fuzhou	61132267-4	–	74.25%	74.25%	USD5,000,000	USD5,000,000	Real estate investment
Shenzhen Ping An Real Estate investment Co., Ltd.	Shenzhen	77270613-4	–	99.88%	99.88%	800,000,000	800,000,000	Real estate investment
Shenzhen Xin An Investment Consultant Co., Ltd.	Shenzhen	77985608-X	–	99.88%	99.88%	3,000,000	3,000,000	Investment consulting
Ping An of China Asset Management (Hong Kong) Company Limited	Hong Kong	Not applicable	–	100.00%	100.00%	HKD65,000,000	HKD65,000,000	Asset management
Yuxi Ping An Real Estate Co., Ltd.	Yuxi	79028553-X	–	79.90%	79.90%	38,500,000	38,500,000	Property leasing
Yuxi Meijiahua Business Management, Co., Ltd.	Yuxi	78735955-0	–	79.90%	79.90%	500,000	500,000	Property management

(in RMB million)

V. SCOPE OF CONSOLIDATION *(continued)*

3. *(continued)*

Name	Place of incorporation	Organizational code	Attributable equity interest Direct	Attributable equity interest Indirect	Proportion of voting right	Registered/ authorized capital (RMB Unless otherwise stated)	Paid-up capital (RMB Unless otherwise stated)	Principal activities
Ping An Meijiahua (Jingzhou) Business Management Co., Ltd.	Jingzhou	77076569-1	–	50.94%	50.94%	USD9,700,000	USD9,700,000	Real estate investment
Nanning Ping An Meijiahua Real Estate Co., Ltd.	Nanning	79974132-7	–	50.94%	50.94%	100,000,000	55,000,000	Property leasing
Shenzhen CITIC City Plaza Investment Co., Ltd.	Shenzhen	73207232-5	–	98.88%	98.88%	20,000,000	20,000,000	Real estate investment
Anseng Investment Company Limited	British Virgin Islands	Not applicable	–	100.00%	100.00%	USD50,000	USD2	Project investment
Rich All Investment Company Limited	British Virgin Islands	Not applicable	–	100.00%	100.00%	USD36,000,001	USD36,000,001	Project investment
Profaith International Investment Limited	British Virgin Islands	Not applicable	–	100.00%	100.00%	USD50,000	USD1	Project investment
Profield Limited	Hong Kong	Not applicable	–	100.00%	100.00%	HKD10,000	HKD10	Project investment
Ningbo Beilun Port Expressway Co., Ltd.	Ningbo	739490888	–	100.00%	100.00%	USD77,800,000	USD77,800,000	Operating expressway
ShanXi Changjin Expressway Co, Ltd. *(iii)*	Taiyuan	73190971-X	–	59.40%	59.40%	750,000,000	750,000,000	Operating expressway
ShanXi Jinjiao Expressway Co, Ltd. *(iii)*	Taiyuan	780101033-2	–	59.40%	59.40%	504,000,000	504,000,000	Operating expressway
Shenzhen Ping An Cai Fu Tong Advisory Co., Ltd. *(iv)*	Shenzhen	67299862-7	–	99.88%	99.88%	10,000,000	10,000,000	Financial services

V. SCOPE OF CONSOLIDATION *(continued)*

3. *(continued)*

Remarks:

(i) Up to June 30, 2008, Shenzhen Ping An Bank Co., Ltd. ("Shenzhen Ping An Bank") has obtained the approval of capital reduction from the China Banking Regulatory Commission, but the update of its business registration was still in progress.

(ii) Shenzhen Ping An Industries Co., Ltd. was renamed as Ping An New Capital Co., Ltd. during the Period. Its paid-up capital was increased to RMB2 billion.

(iii) These subsidiaries were acquired during the Period through business combinations without involving entities under common control. Please refer to Notes V.1 and 2 for details.

(iv) The subsidiary is newly set up during the Period.

Except for the new subsidiaries mentioned in remarks (iii) and (iv) above, the scope of consolidation for the six months ended June 30, 2008 is consistent with that for the year ended December 31, 2007.

(in RMB million)

VI. SEGMENT REPORT

The Group's business segment is divided into five business segments: life insurance business, property and casualty insurance business, banking business, security 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 this year are mainly derived from the above activities in the PRC. Accordingly, no further segment analysis by geographical area is provided.

	For the six months ended June 30, 2008							
	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Income statement								
Premium income	54,557	14,671	–	–	–	–	–	69,228
Less: Premiums ceded to reinsurers	(605)	(2,739)	–	–	–	–	–	(3,344)
Change in unearned premium reserves	(222)	(2,313)	–	–	–	–	–	(2,535)
Net earned premiums	53,730	9,619	–	–	–	–	–	63,349
Net interest income from banking operations	–	–	1,985	–	–	–	119	2,104
Including: inter-segmental interest income of banking operations	–	–	(119)	–	–	–	–	(119)
Net fees and commission income of non-insurance operations	–	–	87	854	–	242	(19)	1,164
Including: Inter-segmental fees and commission income of non-insurance operations	–	–	–	5	–	14	–	19
Investment income	19,948	1,033	(16)	314	1,694	591	(119)	23,445
Including: Inter-segmental investment income	175	7	–	(19)	79	(123)	–	119
Fair value losses	(16,030)	(43)	(36)	(211)	(2,090)	(349)	–	(18,759)
Foreign exchange losses	(403)	(37)	(1)	(4)	(62)	(18)	–	(525)
Other income	524	27	10	2	–	457	(313)	707
Including: Inter-segmental other operating income	118	1	–	–	–	194	–	313
Total operating income	57,769	10,599	2,029	955	(458)	923	(332)	71,485

VI. SEGMENT REPORT *(continued)*

	For the six months ended June 30, 2008							
	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Income statement *(continued)*								
Surrenders	(6,840)	–	–	–	–	–	–	(6,840)
Claims paid	(11,152)	(6,353)	–	–	–	–	–	(17,505)
Less: Reinsurers' share of claims paid	318	788	–	–	–	–	–	1,106
Change in insurance contract liabilities	(19,356)	(2,420)	–	–	–	–	–	(21,776)
Less: Reinsurers' share of insurance contract liabilities	23	1,288	–	–	–	–	–	1,311
Policyholder dividends	(4,162)	–	–	–	–	–	–	(4,162)
Expenses for reinsurance accepted	–	(11)	–	–	–	–	–	(11)
Commission expenses of insurance operations	(5,934)	(1,394)	–	–	–	–	82	(7,246)
Including: Inter-segmental commission expenses of insurance operations	(1)	(81)	–	–	–	–	–	(82)
Business tax and surcharges	(601)	(834)	(126)	(59)	(18)	(64)	–	(1,702)
General and administrative expenses	(2,471)	(2,354)	(864)	(391)	109	(279)	237	(6,013)
Including: Inter-segmental general and administrative expenses	(161)	(19)	(6)	(3)	(43)	(5)	–	(237)
Less: Reinsurers' share of expenses	103	657	–	–	–	–	–	760
Other expenses	(379)	(8)	(1)	–	–	(310)	2	(696)
Including: Inter-segmental other operating expenses	(1)	–	–	–	–	(1)	–	(2)
Impairment losses	(1,282)	24	(61)	(2)	(228)	10	–	(1,539)
Total operating expenses	(51,733)	(10,617)	(1,052)	(452)	(137)	(643)	321	(64,313)
Operating profit	6,036	(18)	977	503	(595)	280	(11)	7,172
Add: Non-operating income	20	2	4	1	–	–	–	27
Less: Non-operating expenses	(10)	(4)	(18)	(4)	(43)	(1)	–	(80)
Profit before tax	6,046	(20)	963	500	(638)	279	(11)	7,119
Less: Income taxes	135	94	(168)	(99)	299	(70)	–	191
Net profit	6,181	74	795	401	(339)	209	(11)	7,310

(in RMB million)

VI. SEGMENT REPORT *(continued)*

	For the six months ended June 30, 2008							
	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Other segment information								
Capital expenditure	1,911	110	82	24	39	241	–	2,407
Depreciation and amortization expense	286	60	50	15	17	128	–	556
Non-cash expenses other than depreciation and amortization	–	(25)	(14)	–	–	(7)	–	(46)

	June 30, 2008							
	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Balance sheet								
Segment assets	410,560	37,375	131,695	17,347	54,330	18,841	(26,542)	643,606
Segment liabilities	403,471	32,872	124,198	13,678	1,120	11,333	(26,444)	560,228

VI. SEGMENT REPORT *(continued)*

	For the six months ended June 30, 2007							
	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Income statement								
Premium income	42,248	11,637	–	–	–	–	–	53,885
Less: Premiums ceded to reinsurers	(476)	(2,124)	–	–	–	–	–	(2,600)
Change in unearned premium reserves	(191)	(1,914)	–	–	–	–	–	(2,105)
Net earned premiums	41,581	7,599	–	–	–	–	–	49,180
Net interest income from banking operations	–	–	1,459	–	–	–	109	1,568
Including: inter-segmental interest income of banking operations	–	–	(109)	–	–	–	–	(109)
Net fees and commission income of non-insurance operations	–	–	52	975	–	132	(15)	1,144
Including: Inter-segmental fees and commission income of non-insurance operations	–	–	–	15	–	–	–	15
Investment income	26,040	944	42	384	1,510	296	(108)	29,108
Including: Inter-segmental investment income	(11)	16	–	–	16	87	–	108
Fair value gains	2,530	10	1	107	359	87	–	3,094
Foreign exchange gains/(losses)	(316)	(11)	22	(2)	(25)	(3)	–	(335)
Other income	156	12	9	–	34	284	(203)	292
Including: Inter-segmental other operating income	153	8	–	–	2	40	–	203
Total operating income	69,991	8,554	1,585	1,464	1,878	796	(217)	84,051

(in RMB million)

VI. SEGMENT REPORT *(continued)*

	For the six months ended June 30, 2007							
	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Income statement *(continued)*								
Surrenders	(5,919)	–	–	–	–	–	–	(5,919)
Claims paid	(6,825)	(4,966)	–	–	–	–	–	(11,791)
Less: Reinsurers' share of claims paid	258	909	–	–	–	–	–	1,167
Change in insurance contract liabilities	(43,862)	(1,087)	–	–	–	–	–	(44,949)
Less: Reinsurers' share of insurance contract liabilities	8	340	–	–	–	–	–	348
Policyholder dividends	(897)	–	–	–	–	–	–	(897)
Expenses for reinsurance accepted	–	(7)	–	–	–	–	–	(7)
Commission expenses of insurance operations	(4,601)	(1,117)	–	–	–	–	52	(5,666)
Including: Inter-segmental commission expenses of insurance operations	–	(52)	–	–	–	–	–	(52)
Business tax and surcharges	(841)	(661)	(77)	(72)	(54)	(37)	–	(1,742)
General and administrative expenses	(2,900)	(1,805)	(733)	(531)	(504)	(213)	115	(6,571)
Including: Inter-segmental general and administrative expenses	(80)	(10)	–	–	(23)	(2)	–	(115)
Less: Reinsurers' share of expenses	111	564	–	–	–	–	–	675
Other expenses	(87)	(5)	(4)	–	–	(149)	50	(195)
Including: Inter-segmental other expenses	–	–	–	–	–	(50)	–	(50)
Impairment losses	–	(73)	62	(1)	–	(5)	–	(17)
Total operating expenses	(65,555)	(7,908)	(752)	(604)	(558)	(404)	217	(75,564)
Operating profit	4,436	646	833	860	1,320	392	–	8,487
Add: Non-operating income	8	2	446	–	–	1	(22)	435
Less: Non-operating expense	(5)	(6)	(37)	(1)	(1)	–	–	(50)
Profit before tax	4,439	642	1,242	859	1,319	393	(22)	8,872
Less: Income taxes	374	(320)	(156)	(183)	(179)	(82)	–	(546)
Net profit	4,813	322	1,086	676	1,140	311	(22)	8,326

VI. SEGMENT REPORT *(continued)*

	For the six months ended June 30, 2007							
	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Other segment information								
Capital expenditure	2,636	63	66	19	13	296	–	3,093
Depreciation and amortization expense	311	64	38	9	7	33	–	462
Non-cash expenses other than depreciation and amortization	–	73	(62)	1	–	5	–	17

	December 31, 2007							
	Life insurance	Property and casualty insurance	Banking	Securities	Corporate	Others	Elimination	Total
Balance sheet								
Segment assets	420,566	31,331	141,976	23,516	55,368	21,155	(42,568)	651,344
Segment liabilities	390,247	25,733	135,351	19,786	1,924	11,566	(42,481)	542,126

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash on hand and at bank

	June 30, 2008	December 31, 2007
Cash on hand	**368**	382
Cash at bank	**42,082**	51,701
Including: Brokerage customers	**7,073**	12,845
Balances with central bank		
Including: Mandatory reserve deposits	**16,228**	14,265
Surplus reserve deposits	**1,993**	4,969
Due from banks and other financial institutions	**579**	884
Other monetary assets	**7,877**	539
Total	**69,127**	72,740

In accordance with relevant regulations, the Group's subsidiaries in the banking business maintain mandatory deposits with the People's Bank of China in both RMB and foreign currencies. As at June 30, 2008 and December 31, 2007, the mandatory deposits are calculated at 17.5% and 14.5% for eligible RMB deposits respectively and 5% for foreign currencies deposits for both periods.

2. Balances with clearing companies

	June 30, 2008	December 31, 2007
Company-owned	**48**	668
Brokerage customers	**3,600**	1,359
Total	**3,648**	2,027

On June 30, 2008, balances with clearing companies of the Group are mainly deposits placed by Ping An Securities with China Securities Depository and Clearing Corporation.

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Placements with banks and other financial institutions

	June 30, 2008	December 31, 2007
Placements with banks	**31**	591
Placements with other financial institutions	**520**	646
Total	**551**	1,237
Less: Provision for loan losses	**(19)**	(45)
Placements with banks and other financial institutions, net value	**532**	1,192

4. Held-for-trading financial assets

	June 30, 2008	December 31, 2007
Bonds		
Government bonds	**3,887**	1,330
Central bank bills	**15,217**	15,295
Financial bonds	**5,377**	3,151
Corporate bonds	**8,675**	9,772
Equity instruments		
Equity investment funds	**33,704**	39,825
Equity securities	**9,210**	15,565
Total	**76,070**	84,938
Listed	**14,611**	23,957
Unlisted	**61,459**	60,981
Total	**76,070**	84,938

As at June 30, 2008, bond investments classified as held-for-trading financial assets with par value of RMB2,958 million (December 31, 2007: RMB1,824 million) were pledged as collateral for assets sold under agreements to repurchase by the Group. Up to the approval date of the financial statements, assets amounted to RMB2,923 million sold under agreements to repurchase stated above have been redeemed.

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Derivative financial instruments

	June 30, 2008			December 31, 2007		
	Nominal amount	**Fair value Assets**	**Fair value Liabilities**	Nominal amount	Fair value Assets	Fair value Liabilities
Interest rate related derivatives	**957**	**5**	**20**	4,261	14	27
Currency related derivatives	**948**	**–**	**1**	661	–	1
Equity related derivatives	**410**	**116**	**–**	670	159	99
Credit related derivatives	**892**	**6**	**99**	950	4	62
Total	**3,207**	**127**	**120**	6,542	177	189

6. Financial assets purchased under agreements to resell

	June 30, 2008	December 31, 2007
Securities	**1,622**	27,173
Bills	**7,289**	7,959
Loans	**–**	1,325
Total	**8,911**	36,457
Less: Bad debt provision	**–**	–
Net	**8,911**	36,457

The fair value of the assets held as collateral for financial assets purchased under agreements to resell approximates the carrying value of the collateral.

7. Interest receivables

	June 30, 2008	December 31, 2007
Interest receivables from banking operations	**1,321**	757
Interest receivables from loans	**319**	232
Interest receivables from bonds	**4,415**	3,223
Others	**5**	24
Total	**6,060**	4,236
Less: Bad debt provision	**(49)**	(49)
Net	**6,011**	4,187

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

8. Premium receivables

	June 30, 2008	December 31, 2007
Premium receivables	**6,554**	4,747
Less: Provision for doubtful receivables	**(177)**	(179)
Premium receivables, net	**6,377**	4,568
Life insurance	**3,713**	2,760
Property and casualty insurance	**2,664**	1,808
Total	**6,377**	4,568

Aging analysis is set out below:

	June 30, 2008	December 31, 2007
Within 3 months (including 3 months)	**5,894**	4,397
3 months to 1 year (including 1 year)	**379**	168
More than 1 year	**104**	3
Total	**6,377**	4,568

Provision is made on a periodic basis for those amounts that are considered uncollectible. The credit terms is generally for a period of one to two months, extending up to five months for major customers. Overdue balances are reviewed regularly by management.

There are no premium receivables from shareholders who individually hold no less than 5% of the Company's voting share capital.

9. Due from reinsurers

	June 30, 2008	December 31, 2007
Within 9 months (including 9 months)	**1,709**	2,359
More than 9 months	**258**	93
Total	**1,967**	2,452

There are no due from reinsurers from shareholders who individually hold no less than 5% of the Company's voting share capital.

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Due from reinsurers *(continued)*

Top 5 due from reinsurers/brokers are set as follows:

Reinsurers/Brokers	June 30, 2008	December 31, 2007
China Life Reinsurance Company Ltd.	**534**	303
China P&C Reinsurance Co., Ltd.	**487**	324
Aon Limited	**117**	151
Allianz SE Reinsurance	**117**	4
Guy Carpenter & Company Ltd.	**68**	12

10. Reinsurers' share of Insurance liabilities

	June 30, 2008	December 31, 2007
Reinsurers' share of unearned premium reserves	**3,450**	2,615
Reinsurers' share of claim reserves	**3,614**	2,304
Reinsurers' share of policyholders' reserves	**7**	6
Reinsurers' share of long-term health reserves	**6**	6
Total	**7,077**	4,931

11. Loans and advances to customers

(1) Loans and advances by individual and corporate customers:

	June 30, 2008	December 31, 2007
Individual customers		
Credit card loans	**1,091**	389
Mortgages loans	**16,838**	16,259
Others	**3,066**	3,340
Corporate customers		
Loans	**45,384**	37,696
Discounted bills	**4,956**	5,977
Total	**71,335**	63,661
Less: Loan loss provision		
Including: Individually assessed	**(251)**	(302)
Collectively assessed	**(278)**	(234)
Net	**70,806**	63,125

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11. Loans and advances to customers *(continued)*

(1) ***Loans and advances by individual and corporate customers:*** *(continued)*

As at June 30, 2008, loans of RMB375 million (December 31, 2007: Nil) were pledged as financial assets sold under agreements to repurchase. Up to the approval date of the financial statements, none of them has been released from the said pledge.

(2) ***Loans and advances by industry:***

Industry	**June 30, 2008**	**Percentage**	December 31, 2007	Percentage
Agriculture, forestry and fishing	**81**	**0.11%**	96	0.15%
Mining	**761**	**1.07%**	175	0.27%
Manufacturing	**10,698**	**15.00%**	13,055	20.51%
Energy	**2,848**	**3.99%**	2,137	3.36%
Transportation and communications	**5,128**	**7.19%**	4,009	6.30%
Commercial	**9,114**	**12.78%**	6,440	10.12%
Real estate	**7,715**	**10.82%**	6,173	9.70%
Construction	**2,271**	**3.18%**	3,332	5.23%
Individual customers	**20,994**	**29.43%**	19,988	31.40%
Others	**11,725**	**16.43%**	8,256	12.96%
Total	**71,335**	**100.00%**	63,661	100.00%

(3) ***Loans and advances by region:***

Region	**June 30, 2008**	**Percentage**	December 31, 2007	Percentage
Southern China region	**51,858**	**72.70%**	50,427	79.21%
Eastern China region	**18,820**	**26.38%**	12,026	18.89%
Other regions	**657**	**0.92%**	1,208	1.90%
Total	**71,335**	**100%**	63,661	100%

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11. Loans and advances to customers *(continued)*

(4) Loans and advances by guarantee type:

	June 30, 2008	December 31, 2007
Unsecured loans	**17,613**	14,284
Guaranteed loans	**16,458**	12,972
Secured loans		
Including: Loans secured by mortgages	**27,824**	25,273
Loans secured by other collaterals	**9,440**	11,132
Total	**71,335**	63,661

(5) Analysis of overdue loans:

	June 30, 2008				
	Within 3 months	**3 months to 1 year**	**1-3 years**	**More than 3 years**	**Total**
Unsecured loans	**394**	**46**	**10**	**87**	**537**
Guaranteed loans	**156**	**11**	**27**	**19**	**213**
Secured loans					
Including: Loans secured by mortgages	**1,239**	**342**	**30**	**27**	**1,638**
Loans secured by other collaterals	**4**	**11**	**13**	**–**	**28**
Total	**1,793**	**410**	**80**	**133**	**2,416**

	December 31, 2007				
	Within 3 months	3 months to 1 year	1-3 years	More than 3 years	Total
Unsecured loans	88	8	9	99	204
Guaranteed loans	46	3	130	11	190
Secured loans					
Including: Loans secured by mortgages	895	102	57	26	1,080
Loans secured by other collaterals	72	200	56	–	328
Total	1,101	313	252	136	1,802

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11. Loans and advances to customers *(continued)*

(6) Loan loss provision:

	For the six months ended June 30, 2008			For the six months ended June 30, 2007		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
Beginning of the period	302	234	536	2,263	168	2,431
Charge for the period	20	44	64	5	–	5
Transfer out during the period	(16)	–	(16)	(1,759)	(42)	(1,801)
Write-backs during the period						
Accredited interest on impaired loans	(6)	–	(6)	(20)	–	(20)
Write-backs due to other reasons	(49)	–	(49)	(72)	(38)	(110)
End of the period	251	278	529	417	88	505

12. Refundable deposits

As at June 30, 2008, the Group does not have any collateral for warrants (December 31, 2007: RMB687 million).

13. Available-for-sale financial assets

	June 30, 2008	December 31, 2007
Bonds		
Government bonds	12,145	10,427
Central bank bills	21,210	9,257
Financial bonds	41,732	30,541
Corporate bonds	47,473	33,186
Equity investment		
Equity instrument funds	11,382	9,481
Equity securities	43,705	85,647
Total	177,647	178,539
Listed	63,319	100,704
Unlisted	114,328	77,835
Total	177,647	178,539

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Available-for-sale financial assets *(continued)*

As at June 30, 2008, bond investments classified as available-for-sale financial assets with par value of RMB9,170 million (December 31, 2007: RMB8,830 million) were pledged for financial assets sold under agreements to repurchase. Up to the approval date of the financial statements, all of them have been redeemed.

14. Held-to-maturity investments

	June 30, 2008	December 31, 2007
Bonds		
Government bonds	**76,275**	77,707
Central bank bills	**440**	440
Financial bonds	**37,469**	36,367
Corporate bonds	**12,213**	13,222
Total	**126,397**	127,736
Listed	**33,951**	35,149
Unlisted	**92,446**	92,587
Total	**126,397**	127,736
Fair value	**122,992**	122,378

The Group reviewed the intention and capability for holding the investment asset and did not note any change.

As at June 30, 2008, bond investments classified as held-to-maturity financial assets with par value of RMB1,720 million (December 31, 2007: RMB1,814 million) were pledged for financial assets sold under agreements to repurchase. Up to the approval date of the financial statements about RMB1,320 million financial assets sold under agreements to repurchase stated above have been redeemed.

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

15. Long-term equity investments

Name of the invested entity	June 30, 2008	December 31, 2007
Cost method:		
Shanxi Changjin	–	220
Shanxi Taichang Expressway Co., Ltd. ("Shanxi Taichang")	–	308
Shanxi Jinjiao	–	157
Yunnan Luqiao Co., Ltd.	86	–
Others	67	50
Equity method:		
Veolia Water (Kunming) Investment Co., Ltd. ("Veolia Kunming")	164	169
Veolia Water (Yellow river) Investment Co., Ltd. ("Veolia Yellow river")	503	541
Veolia Water (Liuzhou) Investment Co., Ltd. ("Veolia Liuzhou")	98	105
Shanxi Taichang	1,071	–
Hubei. Shumyip Huayin Traffic Development Co., Ltd. ("Hubei Shumyip Huayin")	598	618
Beijing-Shanghai High-speed Railway Equity Investment Scheme	423	–
Hangzhou Sundy Real Estate Group Co., Ltd. ("Hangzhou Sundy")	466	–
Ciming Health and Body Examination Management Group Co., Ltd. ("Ciming Body Examination")	78	–
Others	–	39
Total	3,554	2,207

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

15. Long-term equity investments *(continued)*

The Group's investment in associates and its long-term investments in equity method as at June 30, 2008 are as follows:

Name of the invested entity	Place of incorporation	Registered (authorized) capital/ paid-up capital	Percentage of holding and voting rights	Business scope
Veolia Kunming	Hong Kong	USD95,000,000/ USD91,875,208	24%	Water investment
Veolia Yellow River	Hong Kong	USD250,000,000/ USD151,195,839	49%	Water investment
Veolia Liuzhou	Hong Kong	USD32,124,448/ USD32,124,448	45%	Water investment
Shanxi Taichang	Taiyuan	RMB2,600,190,000/ RMB2,600,190,000	30%	Operating expressway
Hubei Shumyip Huayin	Wuhan	RMB110,000,000/ RMB110,000,000	49%	Expressway investment
Beijing-Shanghai High-speed Railway Equity Investment Scheme *(i)*	Not applicable	RMB16,000,000,000/ RMB1,074,650,000	39.375%	Railway investment
Hangzhou Sundy	Hangzhou	RMB75,000,000/ RMB75,000,000	20%	Real estate development
Ciming Body Examination *(ii)*	Beijing	RMB70,426,829/ RMB70,426,829	15%	Health and body examination
Ping An Roosevelt Holding Ltd.	Hong Kong	USD10,000/ USD10,000	30%	Retail investment

(i) The Group's capital commitment in respect of Beijing-Shanghai High-speed Railway Equity Investment Scheme is included in XII.1.

(ii) The Group's significant influence in Ciming Body Examination is established as a result of representation on the Board of Directors, and in accordance with the articles of association of Ciming Body Examination, the Group has the power to veto significant financial and operating decisions.

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

16. Goodwill

	For the six months ended June 30, 2008		
	Beginning of the period	**Increase during the period**	**End of the period**
Ping An Securities	**313**	**15**	**328**
Shenzhen Ping An Bank	**137**	**–**	**137**
Shenzhen CITIC City Plaza Investment Co., Ltd.	**66**	**–**	**66**
Portfield Limited	**94**	**59**	**153**
Others	**–**	**38**	**38**
Total	**610**	**112**	**722**
Less: Impairment provision	**–**	**–**	**–**
Net	**610**	**112**	**772**

The recoverable amount of goodwill has been estimated 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 are extrapolated using a steady growth rate. The projected cash flows are determined by future estimated profits based on management expectations for market development.

17. Statutory Deposits

According to related regulations of the "Insurance Law", subsidiaries operating insurance business should propose 20% of registered capital as statutory deposits, which must be deposited in a Chinese invested commercial bank approved by the CIRC. The statutory deposit is only used for debt discharge upon liquidation of the Company.

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18. Investment properties

	For the six months ended June 30, 2008		
	Buildings	Land use rights	Total
Cost			
Beginning of the period	4,506	205	4,711
Additions	94	–	94
Transfer to fixed assets	(106)	–	(106)
Disposals	(141)	–	(141)
End of the period	4,353	205	4,558
Accumulated depreciation			
Beginning of the period	593	36	629
Charges for the period	77	3	80
Transfer to fixed assets	(18)	–	(18)
Disposals	(2)	–	(2)
End of the period	650	39	689
Impairment losses			
Beginning of the period	31	–	31
Disposals	(5)	–	(5)
End of the period	26	–	26
Net value			
End of the period	3,677	166	3,843
Beginning of the period	3,882	169	4,051

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18. Investment properties *(continued)*

	For the six months ended June 30, 2007		
	Buildings	Land use rights	Total
Cost			
Beginning of the period	1,918	154	2,072
Acquisition of subsidiaries	2,046	–	2,046
Additions	301	6	307
Transfer to fixed assets	(24)	–	(24)
Disposals	(66)	–	(66)
End of the period	4,175	160	4,335
Accumulated depreciation			
Beginning of the period	339	22	361
Acquisition of subsidiaries	91	–	91
Charge for the period	76	5	81
Transfer to fixed assets	(3)	–	(3)
Disposals	(7)	–	(7)
End of the period	496	27	523
Impairment losses			
Beginning of the period	51	–	51
Additions	19	–	19
Disposals	(47)	–	(47)
End of the period	23	–	23
Net			
End of the period	3,656	133	3,789
Beginning of the period	1,528	132	1,660

The rental income arise from investment properties during the Period amounted to RMB139 million (Six months ended June 30, 2007: RMB151 million).

As at June 30, 2008, investment properties with carrying amount of RMB1,648 million (December 31, 2007: RMB1,701 million) was used to secure long-term bank loans with aggregate carrying amount of RMB1,586 million (December 31, 2007: RMB1,612 million).

The Group is in the process of applying for property certificates in respect of certain buildings with a net book value of RMB26 million as at June 30, 2008 (December 31, 2007: RMB192 million).

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Fixed assets

	For the six months ended June 30, 2008				
	Buildings	Office equipments	Motor vehicles	Construction in progress	Total
Cost					
Beginning of the period	4,055	2,412	491	3,472	10,430
Additions	33	210	38	1,010	1,291
Transfer to construction in progress	–	–	–	(20)	(20)
Transfer from investment properties	106	–	–	–	106
Disposals	(27)	(219)	(14)	(729)	(989)
End of the period	4,167	2,403	515	3,733	10,818
Accumulated depreciation					
Beginning of the period	798	1,305	274	–	2,377
Charge for the period	64	153	22	–	239
Transfer from investment properties	18	–	–	–	18
Disposals	(1)	(191)	(10)	–	(202)
End of the period	879	1,267	286	–	2,432
Impairment losses					
Beginning of the period	148	–	–	11	159
Additions	1	–	–	–	1
Transfer from investment properties	5	–	–	–	5
Disposals	(2)	–	–	–	(2)
End of the period	152	–	–	11	163
Net value					
End of the period	3,136	1,136	229	3,722	8,223
Beginning of the period	3,109	1,107	217	3,461	7,894

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19. Fixed assets *(continued)*

	For the six months ended June 30, 2007				
	Buildings	Office equipments	Motor vehicles	Construction in progress	Total
Cost					
Beginning of the period	3,777	2,131	421	644	6,973
Acquisition of subsidiaries	–	1	2	–	3
Additions	20	159	27	2,396	2,602
Transfer from investment properties	24	–	–	–	24
Disposals	(137)	(50)	(7)	(9)	(203)
End of the period	3,684	2,241	443	3,031	9,399
Accumulated depreciation					
Beginning of the period	752	1,263	254	–	2,269
Charge for the period	85	131	22	–	238
Acquisition of subsidiaries	–	1	2	–	3
Transfer from investment properties	3	–	–	–	3
Disposals	(106)	(6)	(3)	–	(115)
End of the period	734	1,389	275	–	2,398
Impairment losses					
Beginning of the period	141	–	–	11	152
Additions	41	–	–	–	41
Disposals	(31)	–	–	–	(31)
End of the period	151	–	–	11	162
Net value					
End of the period	2,799	852	168	3,020	6,839
Beginning of the period	2,884	868	167	633	4,552

The Group is in the process of applying for property certificates in respect of certain buildings with a net book value of RMB307 million as at June 30, 2008 (December 31, 2007: RMB212 million).

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20. Intangible assets

	For the six months ended June 30, 2008			
	Expressway operating rights	Land-use-rights	Computer software and others	Total
Cost				
Beginning of the period	2,754	818	453	4,025
Acquisition of subsidiaries	4,672	–	–	4,672
Additions	–	1,665	45	1,710
Disposals	–	–	(7)	(7)
End of the period	7,426	2,483	491	10,400
Accumulated amortization				
Beginning of the period	104	104	193	401
Acquisition of subsidiaries	100	–	–	100
Additions	122	17	64	203
Disposals	–	–	(2)	(2)
End of the period	326	121	255	702
Provision for impairments				
End of the period	–	3	–	3
Beginning of the period	–	3	–	3
Net value				
End of the period	7,100	2,359	236	9,695
Beginning of the period	2,650	711	260	3,621

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20. Intangible assets *(continued)*

	For the six months ended June 30, 2007		
	Land-use-rights	Computer software and others	Total
Cost			
Beginning of the period	871	382	1,253
Additions	1	65	66
Disposals	–	(11)	(11)
End of the period	872	436	1,308
Accumulated amortization			
Beginning of the period	85	225	310
Additions	16	61	77
Disposals	–	(4)	(4)
End of the period	101	282	383
Provision for impairments			
End of the period	3	–	3
Beginning of the period	3	–	3
Net value			
End of the period	768	154	922
Beginning of the period	783	157	940

As at June 30, 2008, the Group's expressway operating rights were used to secure long-term borrowings and long term payables with the carrying amount of RMB3,891 million (December 31, 2007: RMB1,606 million).

The Group is in the process of applying for title certificates of the land-use-rights with a net book value of RMB2,133 million as at June 30, 2008 (December 31, 2007: RMB483 million).

This amount as at June 30, 2008 represents costs incurred to acquire lands in Shanghai and Shenzhen for the construction of new properties.

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

21. Deferred tax assets/liabilities

Details of deferred tax assets/liabilities of the Group are as follows:

	June 30, 2008	December 31, 2007
Deferred tax assets	**4,022**	87
Deferred tax liabilities	**(641)**	(4,822)
Net	**3,381**	(4,735)

	For the six months ended June 30, 2008					
	Beginning of the period	Charged to the profit and loss	Charged to equity	Others	End of the period	Temporary difference as at June 30, 2008
Fair value adjustment on financial assets and liabilities carried at fair value through profit or loss	(1,046)	1,789	–	–	743	4,128
Fair value adjustment and impairment loss on available-for-sale investments	(6,002)	304	9,625	–	3,927	18,743
Policyholders' reserves	1,935	(1,033)	(2,018)	–	(1,116)	(4,993)
Others	378	(225)	–	(326)	(173)	(344)
Total	(4,735)	835	7,607	(326)	3,381	17,534

The Group considers it is probable that sufficient taxable profit will be available in the future to offset aforementioned temporary differences, hence the above mentioned deferred tax assets are recognized.

As at June 30, 2008, the group has no significant unrecognized deferred tax assets based on deductible temporary differences and deductible losses.

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

22. Other assets

	June 30, 2008	December 31, 2007
Other receivables		
– Prepayment for investment projects	**889**	627
– External parties receivables	**1,262**	304
– Interest rate swap guarantee receivables	**184**	147
– Others	**848**	627
Dividend receivable	**80**	73
Settled assets	**743**	906
Long-term deferred expense	**425**	412
Others	**998**	571
Total	**5,429**	3,667
Less: Provision for impairment losses	**(430)**	(451)
Net	**4,999**	3,216

There are no balance of these accounts from shareholders who individually hold no less than 5% of the Company's voting share capital.

The aging analysis of net other receivables are shown as below:

Aging	**June 30, 2008**	December 31, 2007
Within 1 year (including 1 year)	**2,709**	1,299
1-2 years (including 2 years)	**152**	178
2-3 years (including 3 years)	**85**	78
More than 3 years	**142**	72
Total	**3,088**	1,627

The aging of dividend receivable is show as below:

Aging	**June 30, 2008**	December 31, 2007
Within 1 year	**80**	73

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

22. Other assets *(continued)*

Details of settled assets held by the Group are as follows:

	June 30, 2008	December 31, 2007
Buildings	**656**	778
Others	**87**	128
Total	**743**	906
Less: provision for impairment losses	**(335)**	(368)
Net	**408**	538

Gains on disposal of settled assets during the Period are RMB48 million (2007: RMB71 million).

The Group has no significant salvage assets for both the six months ended June 30, 2008 and the year 2007.

23. Provision for impairment losses

Movement of provision for impairment losses is as follows:

	For the six months ended June 30, 2008					
			Reversal during the Period			
Item	Opening balance	Addition during the period	Write-back	Write-off and others	Total	Ending balance
Provision for bad debts	322	–	(67)	–	(67)	255
Provision for impairment on available-for-sale financial assets	98	1,585	–	–	–	1,683
Provision for impairment on long-term investments	119	–	–	(19)	(19)	100
Loan loss provision	536	64	(48)	(23)	(71)	529
Provision for impairment on investment properties	31	–	–	(5)	(5)	26
Provision for impairment on fixed assets	159	1	–	3	3	163
Provision for impairment on intangible assets	3	–	–	–	–	3
Provision for impairment on other assets	451	4	–	(25)	(25)	430
Total	1,719	1,654	(115)	(69)	(184)	3,189

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

23. Provision for impairment losses *(continued)*

	For the six months ended June 30, 2007					
			Reversal during the Period			
Item	Balance as at January 1, 2007	Addition during the period	Write-back	Write-off and others	Total	Balance as at June 30, 2007
Provision for bad debts	586	51	(10)	(278)	(288)	349
Provision for impairment on long-term investments	154	–	–	(30)	(30)	124
Loan loss provision	2,431	5	(131)	(1,800)	(1,931)	505
Provision for impairment on investment properties	51	19	(11)	(36)	(47)	23
Provision for impairment on fixed assets	152	41	(4)	(27)	(31)	162
Provision for impairment on intangible assets	3	–	–	–	–	3
Provision for impairment on other assets	529	57	–	(247)	(247)	339
Total	3,906	173	(156)	(2,418)	(2,574)	1,505

24. Short-term borrowings

All short-term borrowings of the Group are guaranteed borrowings.

25. Due to banks and other financial institutions

	June 30, 2008	December 31, 2007
Amounts due to banks	**1,049**	2,470
Amounts due to other financial institutions	**4,834**	5,062
Total	**5,883**	7,532

Due to banks and other financial institutions are all placed domestically.

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

26. Guarantee deposits

	June 30, 2008	December 31, 2007
Guaranteed deposits for acceptances	**4,284**	3,517
Guarantee deposits	**792**	656
Guaranteed deposits for letter of guarantee	**544**	531
Guaranteed deposits for letter of credit	**296**	254
Others	**404**	440
Total	**6,320**	5,398
Individual client	**4**	281
Corporate client	**6,316**	5,117
Total	**6,320**	5,398

27. Placements from banks and other financial institutions

	June 30, 2008	December 31, 2007
From banks	**102**	175
From other financial institutions	**26**	–
Total	**128**	175

28. Financial assets sold under agreements to repurchase

	June 30, 2008	December 31, 2007
Bills	**1,262**	1,676
Securities	**15,299**	12,304
Loans	**375**	–
Total	**16,936**	13,980

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

29. Customer deposits

	June 30, 2008	December 31, 2007
Current deposits		
Corporate client	**28,941**	31,696
Individual client	**6,555**	5,879
Term deposits (including call deposits)		
Corporate client	**32,112**	30,253
Individual client	**5,341**	4,305
Total	**72,949**	72,133

30. Payables to brokerage customers

	June 30, 2008	December 31, 2007
Individual client	**8,032**	9,259
Corporate client	**2,789**	5,135
Total	**10,821**	14,394

31. Due to reinsurers

Details of top 5 due to reinsurers/brokers of the Group are as follows:

Reinsurance company/Brokers	June 30, 2008	December 31, 2007
China Life Reinsurance Company Ltd.	**652**	206
China P&C Reinsurance Co., Ltd.	**649**	346
Aon Limited	**197**	136
Allianz SE Reinsurance	**171**	20
Guy Carpenter & Company Ltd.	**114**	23

There are no balances due to reinsurers/brokers from shareholders who individually hold no less than 5% of the Company's voting share capital.

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

32. Salaries and welfare payable

Details of salaries and welfare payable of the Group are as follows:

	For the six months ended June 30, 2008			
	Beginning of the period	**Accruals**	**Payments**	**End of the period**
Salary, bonus and allowance	**1,378**	**2,790**	**(2,955)**	**1,213**
Staff welfare	**271**	**–**	**(32)**	**239**
Social insurance	**34**	**445**	**(456)**	**23**
Labor union fund and employee education fund	**288**	**89**	**(58)**	**319**
Compensation on termination of contracts	**18**	**2**	**(3)**	**17**
Cash-settled share-based payments	**2,743**	**(1,068)**	**–**	**1,675**
Total	**4,732**	**2,258**	**(3,504)**	**3,486**

	For the six months ended June 30, 2007			
	Beginning of the period	Accruals	Payments	End of the period
Salary, bonus and allowance	608	3,052	(2,583)	1,077
Staff welfare	295	–	(181)	114
Social insurance	4	305	(256)	53
Labor union fund and employee education fund	117	147	(32)	232
Compensation on termination of contracts	–	20	(1)	19
Cash-settled share-based payments	1,109	777	–	1,886
Total	2,133	4,301	(3,053)	3,381

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

33. Taxes payable

	June 30, 2008	December 31, 2007
Corporate income tax	**725**	807
Business tax	**301**	581
Others	**405**	519
Total	**1,431**	1,907

34. Investment contract liabilities for policyholders

	June 30, 2008	December 31, 2007
Within 1 year (including 1 year)	**312**	230
More than 1 year	**6,544**	5,057
Total	**6,856**	5,287

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

35. Insurance contract liabilities

	For the six months ended June 30, 2008					
			Reduction during current period			
	Beginning of the period	Addition	Claim payments	Terminated prior to expiration dates	Others	End of the period
Unearned premium reserves						
Direct insurance contracts	15,696	17,522	–	–	(14,182)	19,036
Reinsurance contracts	34	59	–	–	(29)	64
Claim reserves						
Direct insurance contracts	7,602	10,122	(7,658)	–	–	10,066
Reinsurance contracts	43	18	(1)	–	–	60
Policyholders' reserves for life insurance						
Direct insurance contracts	320,359	22,130	(9,305)	(7,157)	112	326,139
Reserves for long-term health insurance						
Direct insurance contracts	37,213	6,150	(695)	(365)	(1,394)	40,909
Total	380,947	56,001	(17,659)	(7,522)	(15,493)	396,274

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

35. Insurance contract liabilities *(continued)*

	For the six months ended June 30, 2007					
			Reduction during current period			
	Beginning of the period	Addition	Claim payments	Terminated prior to expiration dates	Others	End of the period
Unearned premium reserves						
Direct insurance contracts	12,927	14,168	–	–	(11,465)	15,630
Reinsurance contracts	10	46	–	–	(33)	23
Claim reserves						
Direct insurance contracts	6,465	7,156	(6,016)	–	(200)	7,405
Reinsurance contracts	15	18	(2)	–	–	31
Policyholders' reserves for life insurance						
Direct insurance contracts	248,574	52,619	(5,427)	(5,934)	(481)	289,351
Reserves for long-term health insurance						
Direct insurance contracts	30,694	5,747	(516)	(309)	(1,217)	34,399
Total	298,685	79,754	(11,961)	(6,243)	(13,396)	346,839

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

35. Insurance contract liabilities *(continued)*

Due terms of insurance contract liabilities are as follows:

	June 30, 2008		December 31, 2007	
	Within 1 year (Including 1 year)	**More than 1 year**	Within 1 year (Including 1 year)	More than 1 year
Unearned premium reserves				
Direct insurance contracts	**15,348**	**3,688**	12,133	3,563
Reinsurance contracts	**17**	**47**	6	28
Claim reserves				
Direct insurance contracts	**8,325**	**1,741**	6,077	1,525
Reinsurance contracts	**50**	**10**	34	9
Policyholders' reserves for life insurance				
Direct insurance contracts	**10,647**	**315,492**	13,962	306,397
Reserves for long-term health insurance				
Direct insurance contracts	**1,028**	**39,881**	763	36,450
Total	**35,415**	**360,859**	32,975	347,972

Details of claim reserves of direct insurance contracts of the Group are as follows:

	June 30, 2008	December 31, 2007
Incurred and reported claim reserves	**6,487**	5,522
Incurred but not reported claim reserves	**3,067**	1,549
Loss adjustment expenses reserve	**512**	531
Total	**10,066**	7,602

36. Long-term borrowings

	June 30, 2008	December 31, 2007
Mortgage borrowings	**1,586**	1,612
Pledged borrowings	**2,368**	1,606
Total	**3,954**	3,218

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

37. Other liabilities

	June 30, 2008	December 31, 2007
Insurance guarantee fund	**133**	126
Dividend payable	**93**	86
Other payable	**5,312**	1,391
Long-term payable	**1,523**	–
Others	**490**	2,608
Total	**7,551**	4,211

38. Share capital

The registered and paid-up share capital of the Company is RMB7,345,053,334 (with a par value of RMB1 per share). Details of share capital are as follows:

	June 30, 2008		December 31, 2007	
(In millions)	**No. of shares**	**Percentage holding**	No. of shares	Percentage holding
Shares subject to trading moratorium:				
State-owned shares	**–**	**0.00%**	589	8.02%
State-owned legal-person shares	**–**	**0.00%**	367	5.00%
Domestic non state-owned legal-person shares	**860**	**11.71%**	3,025	41.19%
Sub-total	**860**	**11.71%**	3,981	54.21%
Shares not subject to trading moratorium:				
A shares	**3,926**	**53.46%**	805	10.96%
H shares	**2,559**	**34.83%**	2,559	34.83%
Sub-total	**6,485**	**88.29%**	3,364	45.79%
Total	**7,345**	**100.00%**	7,345	100.00%

The registered share capital mentioned above has been verified by Certified Public Accountant of China.

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

39. Capital reserve

		June 30, 2008	December 31, 2007
Share premium	(1)	**51,907**	51,907
Fair value gains and losses of available-for-sale financial assets		**(9,787)**	19,893
Other capital reserve	(2)	**311**	311
Total		**42,431**	72,111

(1) The share premium was due to the initial public offering of A shares and H shares.

(2) The Company arranged revaluation on its life insurance and property and casualty insurance business prior to its capital injections into Ping An Life and Ping An Property & Casualty. In accordance with asset valuation reports Zhonghuapingbaozi [2002] No.039 and [2002] No.038 issued by Chinese Finance Appraisal Co., Ltd., the net valuation surplus amounted to RMB311 million.

40. General reserves

In accordance with relevant regulations of the PRC, insurance companies, banking companies, trust companies, securities companies and futures companies need to set aside general reserves to provide for major catastrophes or losses. The Group's subsidiaries, in accordance with the relevant regulations of the PRC, individually provided for general reserves in their annual financial statements based on their current year profit or risk based assets as profit appropriation. The above mentioned general reserves cannot be used for dividends or appropriation to capital.

41. Profits appropriation

Pursuant to the articles of the Company and the relevant regulations, the Company makes appropriations from net profit according to the following order:

(1) offset accumulated losses brought forward from prior years;

(2) allocate 10% of profit after tax, after offsetting accumulated losses, to statutory surplus reserve fund;

(3) provide for discretionary surplus reserve fund in accordance with the resolutions of the shareholders' meeting. The usage of the discretionary surplus reserve fund is determined in accordance with the articles of the Company or the resolutions of the shareholders' meeting;

(4) distribute dividends to shareholders.

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

41. Profits appropriation *(continued)*

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Final dividend on ordinary shares approved and paid for the previous year: Final dividend for 2007: RMB0.50 (Final dividend for 2006: RMB0.22)	**3,673**	1,616
Interim dividend on ordinary shares approved (not recognized as a liability as at June 30): Interim dividend for 2008: RMB0.20 (Interim dividend for 2007: RMB0.20)	**1,469**	1,469

42. Premium income

(1) Details of premium income by insurance contracts of the Group are as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Direct insurance contracts	**69,169**	53,838
Reinsurance contracts	**59**	47
Total	**69,228**	53,885

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

42. Premium income *(continued)*

(2) Details of premium income by products of the Group are as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Life insurance		
Individual	**42,284**	34,233
Bancassurance	**6,855**	3,884
Group insurance	**5,418**	4,131
Sub-total of life insurance	**54,557**	42,248
Property and casualty insurance		
Automobile insurance	**10,225**	7,801
Non-automobile insurance	**3,650**	3,254
Accident and health insurance	**796**	582
Sub-total of property and casualty insurance	**14,671**	11,637
Total	**69,228**	53,885

43. Change in unearned premium reserves

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Direct insurance contracts	**2,512**	2,092
Reinsurance contracts	**23**	13
Total	**2,535**	2,105

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

44. Net interest income of banking operations

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Interest income of banking operations		
Due from banks and other financial institutions	**8**	66
Balances with central bank	**146**	73
Placements with banks and other financial institutions	**51**	29
Loans and advances to customers		
Including: Individual loans	**679**	456
Corporate loans	**1,407**	713
Discounted bills	**188**	179
Financial assets purchased under agreements to resell	**257**	200
Bond investments	**633**	541
Including: Interest income from impaired financial assets	**6**	20
Total	**3,369**	2,257
Interest expenses of banking operations		
Due to banks and other financial institutions	**102**	99
Placements from banks and other financial institutions	**7**	7
Customer deposits	**996**	532
Financial assets sold under agreements to repurchase	**160**	51
Total	**1,265**	689
Net interest income of banking operations	**2,104**	1,568

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

45. Net fees and commission income of non-insurance operations

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Fees and commission income of non-insurance operations		
Brokerage fees	**509**	790
Underwriting commission income	**392**	224
Trust service fees	**267**	246
Others	**114**	97
Total	**1,282**	1,357
Fees and commission expenses of non-insurance operations		
Brokerage fees paid	**58**	71
Other fees paid	**60**	142
Total	**118**	213
Net fees and commission income of non-insurance operations	**1,164**	1,144

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

46. Investment income

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Interest income		
Bonds		
Held-to-maturity	**2,488**	2,526
Available-for-sale	**1,929**	1,170
At fair value through profit or loss	**416**	261
Term deposits		
Loans and receivables	**1,432**	1,395
Current deposits		
Loans and receivables	**405**	367
Others		
Loans and receivables	**200**	132
Dividend income		
Funds		
Available-for-sale	**2,250**	2,975
At fair value through profit or loss	**3,007**	3,642
Stocks		
Available-for-sale	**955**	96
At fair value through profit or loss	**75**	40
Realized gains		
Bonds		
Available-for-sale	**3**	98
At fair value through profit or loss	**29**	180
Funds		
Available-for-sale	**(1,067)**	2,904
At fair value through profit or loss	**(584)**	2,916
Stocks		
Available-for-sale	**10,295**	5,813
At fair value through profit or loss	**1,501**	5,022
Derivative financial instruments	**248**	3
Others	**8**	–
Share of profits and losses of associates	**41**	–
Interest expenses on financial assets sold under agreements to repurchase and placement from banks and other financial institutions	**(186)**	(432)
Total	**23,445**	29,108

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

47. Fair value gains and losses

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Held-for-trading financial instruments		
Bonds	**(157)**	(226)
Funds	**(9,116)**	2,361
Stocks	**(9,219)**	1,039
Designated at fair value through profit or loss	**–**	(190)
Derivative financial instruments	**(267)**	110
Total	**(18,759)**	3,094

48. Claims paid

(1) Details of claims paid by insurance contracts of the Group are as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Direct insurance contracts	**17,510**	11,789
Reinsurance contracts	**(5)**	2
Total	**17,505**	11,791

(2) Details of claims paid by types of payments of the Group are as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Claims	**7,643**	6,011
Payments on maturities	**7,217**	3,582
Payments on annuities	**1,660**	1,427
Payments on death and medical claims	**985**	771
Total	**17,505**	11,791

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

49. Change in insurance contract liabilities

(1) Details of change in insurance contract liabilities by insurance contracts of the Group are as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Change in claim reserves		
Direct insurance contracts	**2,464**	1,140
Reinsurance contracts	**17**	16
Change in policyholders' reserves for life insurance		
Direct insurance contracts	**15,599**	40,088
Change in reserves for long-term health insurance		
Direct insurance contracts	**3,696**	3,705
Total	**21,776**	44,949

(2) Details of changes in claim reserves of direct insurance contracts by type are as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Incurred and reported claim reserves	**965**	753
Incurred but not reported claim reserves	**1,518**	303
Loss adjustment expense reserves	**(19)**	84
Total	**2,464**	1,140

50. Reinsurers' share of insurance contract liabilities

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Reinsurers' share of claim reserves	**1,310**	334
Reinsurers' share of policyholders' reserves for life insurance	**1**	7
Reinsurers' share of reserves for long-term health insurance	**–**	7
Total	**1,311**	348

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

51. General and administrative expenses

General and administrative expenses of the Group include following expenses:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Wages, salaries and bonuses	**1,722**	3,829
Retirement benefits, social security contributions and welfare benefits	**722**	472
Depreciation of fixed assets	**239**	238
Amortization of intangible assets	**203**	77
Insurance guarantee funds	**219**	176
Auditors' remuneration-Interim audit and other assurance service fee	**15**	12

The employee costs reversed for the scheme of share appreciation rights during the Period are RMB1,068 million due to the decrease in stock price of the Company's H-share (Six months ended 30 June 2007: expense accrued of RMB777 million).

52. Asset impairment losses

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Bad debt provisions	**(67)**	41
Impairment losses for available-for-sale financial assets	**1,585**	–
Impairment losses for loans	**16**	(126)
Impairment losses for investment properties	**–**	8
Impairment losses for fixed assets	**1**	37
Impairment losses for other assets	**4**	57
Total	**1,539**	17

53. Income taxes

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Current income tax	**644**	666
Deferred income tax	**(835)**	(120)
Total	**(191)**	546

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

53. Income taxes *(continued)*

The relationship between income tax and accounting profit of the Group is as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Profit before tax	**7,119**	8,872
Tax computed at the main applicable tax rate of 18% (For the six months ended June 30, 2007:15%)	**1,281**	1,331
Tax effect of expenses not deductible in determining taxable income	**225**	573
Tax effect of income not taxable in determining taxable income	**(1,435)**	(1,558)
Tax effect of change in tax rate	**(177)**	(382)
Tax effect of higher tax rate on branches and entities (in the PRC) that are located outside the Special Economic Zones	**18**	582
Tax refund	**(103)**	–
Total	**(191)**	546

The Group's corporate income tax is calculated based on the understanding of current tax laws and the estimated taxable income earned in China using the applicable tax rate. For tax items involving taxable income generated from abroad, they are calculated using the applicable tax rate in accordance with the current effective laws, explanatory notices and practices of the jurisdiction where the Group's foreign operations are located.

The Group's tax position is subject to assessment and inspection of the tax authorities.

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

54. Earnings per share

The basic earnings per share is calculated by dividing the Company's net profit attributable to ordinary shareholders by the weighted average number of outstanding shares. The detailed calculation is as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Net profit attributable to ordinary shareholders for current period (in RMB million)	**7,102**	8,063
Weighted average number of outstanding shares of the Company (million shares)	**7,345**	6,962
Basic earnings per share	**0.97**	1.16
Diluted earnings per share	**0.97**	1.16

55. 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. The rights to the units are issued from 2004 to 2008. No shares will be issued under this scheme. The rights are granted in units with each unit representing one H share of the Company. Upon exercise of these 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 employee costs reversed for the scheme of share appreciation rights during the Period are RMB1,068 million due to the decrease in stock price of the Company's H-share (Six months ended 30 June 2007: expense accrued of RMB777 million).

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

55. Share appreciation rights scheme *(continued)*

The fair value of share appreciation rights is measured using Black-Scholes option pricing model. The following table lists the inputs to the model used for the period.

	June 30, 2008	December 31, 2007
Risk-free interest rate (%)	**2.6%**	2.6%
Expected dividend yield (%)	**1.0%**	1.0%
Expected volatility (%)	**40.6%**	36.1%
Expected residual life (year)	**1-2**	1-2

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 and with changes in fair value recognized in the income statement. The carrying amount of the liability relating to the share appreciation rights as at June 30, 2008 is RMB1,675 million (December 31, 2007: RMB2,743 million).

56. Investment-linked insurance

(1) Investment accounts for investment-linked insurance

Investment-linked insurance products of the Group include Ping An Century Wealth Management Investment-linked Insurance, Ping An Group Pension Investment-linked Insurance, Ping An Jufuniannian Investment-linked Insurance and Ping An Jufububugao Investment-linked Insurance. The Group has established nine separate portfolios for the above investment-linked products: the Ping An Development Portfolio (the "Development portfolio"), the Ping An Guaranteed Return Portfolio (the "Guaranteed portfolio"), the Ping An Fund Portfolio (the "Fund portfolio"), the Ping An Value Portfolio (the "Value portfolio"), the Ping An Conservative Portfolio (the "Conservative portfolio"), the Ping An Balanced Portfolio (the "Balanced portfolio"), the Ping An Growth Portfolio (the "Growth portfolio"), the Ping An Equity Portfolio (the "Equity portfolio"), the Ping An Money Market Portfolio (the "Money Market portfolio"). The above portfolios are established in accordance with the terms in the policies, "Provisional Measures on Management of Investment-linked Insurance" and other regulations issued by the CIRC, and approved by the CIRC. The above portfolios invest in bank deposits, placements with banks, security investment funds, bonds, stocks and other financial instruments permitted by the CIRC.

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

56. Investment-linked insurance *(continued)*

(2) Number of units and net asset value for each investment unit of investment-linked portfolio for June 2008 and December 2007

		June 2008		December 2007	
	Launch date	Number of unit	Net asset value per each investment unit	Number of unit	Net asset value per each investment unit
		Million	RMB	Million	RMB
Development portfolio	10/23/2000	**7,098**	**2.4305**	6,585	2.7891
Guaranteed portfolio	4/30/2001	**241**	**1.2687**	214	1.2428
Fund portfolio	4/30/2001	**3,389**	**2.7437**	3,155	3.5896
Value portfolio	9/4/2003	**2,154**	**1.5192**	2,089	1.5746
Conservative portfolio	3/31/2001	**2,042**	**1.5875**	2,124	1.6725
Balanced portfolio	3/31/2001	**128**	**2.6147**	119	2.8787
Growth portfolio	3/31/2001	**172**	**2.7964**	143	4.0649
Equity portfolio	9/13/2007	**2,307**	**0.7447**	787	1.0294
Money market portfolio	12/17/2007	**191**	**1.0212**	1	1.0071

(3) Separate account (investment-linked) assets and liabilities

	June 30, 2008	June 30, 2007
Separate account (investment-linked) assets:		
Cash at bank	**1,202**	2,101
Held-for-trading financial assets	**23,849**	27,644
Derivative financial assets	**6**	–
Financial assets purchased under agreements to resell	**132**	–
Interest receivables	**435**	225
Refundable deposits	**1**	–
Term deposits	**9,843**	9,383
Other assets	**1,206**	141
Total	**36,674**	39,494
Separate account (investment-linked) liabilities:		
Financial assets sold under agreements to repurchase	**580**	424
Unit reserves for life insurance	**36,084**	38,622
Other payables	**10**	448
Total	**36,674**	39,494

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

56. Investment-linked insurance *(continued)*

(4) Management fees of investment-linked insurance

Investment-linked account management fees are the management fees charged by the Group from policyholders in accordance with the terms of the investment-linked insurance policies. For Development portfolio, Guaranteed portfolio, Fund portfolio and Value portfolio, the management fees are collected on every valuation date capped at 0.2% of the highest value of the account's asset per month and 2% per annum. For Conservative portfolio, Balanced portfolio and Growth portfolio, the administrative fees and investment management fees are collected on every valuation date with both capped at 1.5% per annum, of the account's assets. For Equity portfolio, the Group charges management fees every valuation date for 1.2% per annum of the account net assets. For Money Market portfolio, the management fees are collected on every valuation date capped at 1% per annum of the account assets.

(5) Main accounting policies of investment-linked insurance

Ping An Century Wealth Management Investment-linked Insurance, Ping An Jufuniannian Investment-linked Insurance and Ping An Jufububugao Investment-linked Insurance, which undertake both insurance risk and other risks, are regarded as direct insurance contracts with no separation between the insurance risk and other risks and are accounted for as direct insurance contracts. Ping An Group Pension Investment-linked Insurance, which does not undertake any insurance risk, are regarded as investment contracts, and are accounted for as financial instruments.

(6) Valuation method of investment-linked insurance account

Assets related to investment-linked contracts are carried at market value. Marketable securities excluding open ended funds are valued using the closing price at the valuation date or the most recent closing price if there are no transactions of the securities on the valuation date. Open ended funds are valued using the published net asset value. Equity investment funds within the subscription period are valued at cost. Inter-bank bonds are valued using valuation methods.

(in RMB million)

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

57. Notes to consolidated cash flow statement

		For the six months ended June 30, 2008	For the six months ended June 30, 2007
(1)	***Reconciliation of the net profit to cash flows from operating activities***		
	Net profit	**7,310**	8,326
	Add: Provision for impairment losses	**1,539**	17
	Depreciation of investment properties	**80**	81
	Depreciation of fixed assets	**239**	238
	Amortization of intangible assets	**203**	77
	Amortization of long-term deferred expenses	**34**	66
	Gains from disposal of fixed assets, intangible assets and other long-term assets	**(22)**	(2)
	Fair value gains and losses	**18,759**	(3,094)
	Investment income	**(23,473)**	(29,150)
	Foreign exchange losses	**525**	335
	Provision for insurance contract liabilities	**23,000**	46,706
	Increase of net deferred tax assets and liabilities	**(835)**	(120)
	Decrease/(increase) in operating receivables	**(11,614)**	(14,218)
	Increase/(decrease) in operating payables	**5,529**	10,740
	Net cash flows from operating activities	**21,274**	20,002
(2)	***Net increase/(decrease) in cash and cash equivalents***		
	Cash at the end of the period	**45,676**	77,893
	Less: Cash at the beginning of the period	**(46,301)**	(37,683)
	Add: Cash equivalents at the end of the period	**22,580**	42,211
	Less: Cash equivalents at the beginning of the period	**(49,995)**	(9,644)
	Net increase/(decrease) in cash and cash equivalents	**(28,040)**	72,777

(3) For information on acquisition of subsidiaries by the Group, please refer to Note V.1 and V.2.

VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

57. Notes to consolidated cash flow statement *(continued)*

(4) Cash and cash equivalents

	June 30, 2008	June 30, 2007
Cash		
Cash on hand	**368**	382
Cash at bank readily available for payments	**35,009**	38,856
Other monetary funds readily available for payments	**7,648**	539
Balances with central bank available for payments	**1,993**	4,969
Balances with clearing companies	**48**	668
Balances with other financial institutions	**579**	833
Placements with other financial institutions	**31**	54
Subtotal	**45,676**	46,301
Cash equivalents		
Bonds with original maturity of less than 3 months	**4,323**	7,620
Money market funds	**16,505**	13,245
Financial assets purchased under agreements to resell with original maturity of less than 3 months	**1,752**	29,130
Subtotal	**22,580**	49,995
Cash and cash equivalents at the end of the period	**68,256**	96,296

58. Fair value of financial instruments

The carrying value of the financial instruments held by the Group, except for held-to-maturity investments, approximates their estimated fair value.

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

(1) Fixed maturity investments (mainly including bond investments and securities purchased under agreements to resell): fair values are generally based upon quoted market prices. Where quoted market prices are not readily available, fair values are estimated using either price 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.

VIII. RISK MANAGEMENT

1. Insurance risk

(1) Insurance risk types

The risk under an insurance contract is the possibility of occurrence of an 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 strategies and guidelines.

The business of the Group comprises 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, refuse to pay premiums or annuity conversion rights etc. Thus, the resultant insurance risk is subject to policyholders' behavior and decisions.

VIII. RISK MANAGEMENT *(continued)*

1. Insurance risk *(continued)*

(2) Concentration of Insurance risk

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note VII, 42.

(3) Assumption and sensitivity test

Long-term life insurance contracts

Assumptions

The policyholders' reserves for life insurance and reserves for long-term health insurance are calculated in accordance with related actuarial regulations promulgated by the CIRC. The Group is not allowed to change the above assumptions. Moreover, the policyholders' reserves for life insurance and reserves for long-term health insurance provided by the Group should meet the requirements of liability adequacy test. Unless the reserves are inadequate under liability adequacy test, no adjustment is needed for the policyholders' reserves for life insurance and reserves for long-term health insurance. In liability adequacy test: other variables held constant, if mortality rates or morbidity rates assumptions increase or decrease by 10% based on the current best assumptions, the reserves would not be inadequate; other variables held constant, the investment return assumptions increase or decrease 50 basis points based on the current best assumptions, the accrued reserves also would not be inadequate.

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 delays in settlement, etc.

Sensitivity analysis

The property and casualty and short-term life insurance claim 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 claim reserves are not known with certainty at the balance sheet date.

(in RMB million)

VIII. RISK MANAGEMENT *(continued)*

1. Insurance risk *(continued)*

(3) Assumption and sensitivity test *(continued)*

Property and casualty and short-term life insurance contracts (continued)

Sensitivity analysis *(continued)*

The claim development of the Group's property and casualty business gross of reinsurance is as follows:

Item	2004	2005	2006	2007	Six months ended June 30, 2008	Total
Estimated cumulative claims paid as of:						
End of the current year/period	5,955	7,171	9,317	10,700	**8,487**	
1 year later	5,948	7,172	10,305	11,076	**–**	
2 years later	5,397	6,953	9,920	–	**–**	
3 years later	5,259	6,851	–	–	**–**	
4 years later	5,222	–	–	–	**–**	
Estimated cumulative claims	5,222	6,851	9,920	11,076	**8,487**	41,556
Cumulated claims paid	(5,144)	(6,661)	(8,671)	(8,881)	**(3,116)**	(32,473)
Sub-total						9,083
Prior period adjustments and unallocated loss adjustment expenses						227
Unpaid claim expenses						9,310

VIII. RISK MANAGEMENT *(continued)*

1. Insurance risk *(continued)*

(3) Assumption and sensitivity test *(continued)*

Property and casualty and short-term life insurance contracts (continued)

Sensitivity analysis *(continued)*

The claim development of the Group's property and casualty business net of reinsurance is as follows:

Item	2004	2005	2006	2007	Six months ended June 30, 2008	Total
Estimated cumulative claims paid as of:						
End of the year/period	4,181	5,266	7,219	8,875	**6,202**	
1 year later	4,228	5,280	7,362	9,155	**–**	
2 years later	3,833	5,129	7,195	–	**–**	
3 years later	3,732	5,055	–	–	**–**	
4 years later	3,703	–	–	–	**–**	
Estimated cumulative claims	3,703	5,055	7,195	9,155	**6,202**	31,310
Cumulated claims paid	(3,642)	(4,915)	(6,752)	(7,537)	**(2,770)**	(25,616)
Sub-total						5,694
Prior period adjustments and unallocated loss adjustment expenses						207
Unpaid claim expenses						5,901

(in RMB million)

VIII. RISK MANAGEMENT *(continued)*

1. Insurance risk *(continued)*

(3) Assumption and sensitivity test *(continued)*

Property and casualty and short-term life insurance contracts (continued)

Sensitivity analysis *(continued)*

The claim development of the Group's short-term life insurance business gross of reinsurance is as follows:

Item	2004	2005	2006	2007	Six months ended June 30, 2008	Total
Estimated cumulative claims paid as of:						
End of the year/period	1,571	1,767	2,039	2,316	**1,226**	
1 year later	1,577	1,960	1,983	2,355	**–**	
2 years later	1,582	1,935	1,990	–	**–**	
3 years later	1,582	1,935	–	–	**–**	
4 years later	1,582	–	–	–	**–**	
Estimated cumulative claims	1,582	1,935	1,990	2,355	**1,226**	9,088
Cumulated claims paid	(1,582)	(1,935)	(1,983)	(2,206)	**(587)**	(8,293)
Sub-total						795
Prior period adjustments and unallocated loss adjustment expenses						21
Unpaid claim expenses						816

VIII. RISK MANAGEMENT *(continued)*

1. Insurance risk *(continued)*

(3) Assumption and sensitivity test *(continued)*

Property and casualty and short-term life insurance contracts (continued)

Sensitivity analysis *(continued)*

The claim development of the Group's short-term life insurance business net of reinsurance is as follows:

Item	2004	2005	2006	2007	Six months ended June 30, 2008	Total
Estimated cumulative claims paid as of:						
End of the year/period	1,053	1,156	1,616	1,790	**934**	
1 year later	1,057	1,482	1,555	1,797	**–**	
2 years later	1,086	1,538	1,544	–	**–**	
3 years later	1,086	1,538	–	–	**–**	
4 years later	1,086	–	–	–	**–**	
Estimated cumulative claims	1,086	1,538	1,544	1,797	**934**	6,899
Cumulated claims paid	(1,086)	(1,538)	(1,539)	(1,689)	**(458)**	(6,310)
Sub-total						589
Prior period adjustments and unallocated loss adjustment expenses						22
Unpaid claim expenses						611

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 June 30, 2008 by approximately RMB295 million and RMB31 million, respectively.

VIII. RISK MANAGEMENT *(continued)*

1. Insurance risk *(continued)*

(3) Assumption and sensitivity test (continued)

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 and surplus 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 reinsurers' share of insurance liabilities.

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.

2. 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.

(1) 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 foreign currency risk facing the Group mainly comes from the movements in the USD/RMB, HKD/RMB and EUR/RMB exchange rates. The Group seeks to limit its exposure to foreign currency risk by minimizing its net foreign currency position.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of foreign currency denominated non-monetary assets and liabilities measured at fair value, as well as monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on market risks, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

		June 30, 2008		December 31, 2007	
	Change in variables	**Decrease in profit**	**Decrease in equity**	Decrease in profit	Decrease in equity
All foreign currencies	Depreciation by 5% comparing to RMB	**597**	**1,638**	504	2,013

VIII. RISK MANAGEMENT *(continued)*

2. Market risk *(continued)*

(1) Foreign currency risk (continued)

The main non-monetary assets and liabilities measured at fair value, as well as monetary assets and liabilities of the Group, excluding balances of investment-linked contract, are analyzed as follows by currency:

	June 30, 2008					
(in million)	RMB	USD (Original)	HKD (Original)	EUR (Original)	Other (RMB equivalent)	RMB equivalent total
Cash on hand and at bank	63,772	417	1,456	1	2	67,925
Balances with clearing companies	3,639	–	10	–	–	3,648
Placements with banks and other financial institutions	505	4	–	–	–	532
Held for trading financial assets	39,527	1,790	465	–	7	52,221
Financial assets purchased under agreement to resell	8,779	–	–	–	–	8,779
Interest receivables	5,498	11	5	–	–	5,576
Premium receivables	5,918	63	26	–	1	6,377
Receivables from reinsures	1,814	21	9	–	–	1,967
Reinsurers' share of insurance liabilities	2,689	136	5	–	–	3,627
Policy loans	2,946	–	–	–	–	2,946
Loans and advances to customers	68,991	225	312	–	–	70,806
Refundable deposits	161	–	3	–	–	166
Term deposits	38,225	162	–	–	–	39,335
Available-for-sale financial assets	156,246	77	8,599	1,229	–	177,647
Held-to-maturity investments	126,397	–	–	–	–	126,397
Statutory deposits	1,560	–	–	–	–	1,560
Other assets	1,288	86	100	–	–	1,962
Total	527,955	2,992	10,990	1,230	10	571,471

VIII. RISK MANAGEMENT *(continued)*

2. Market risk *(continued)*

(1) Foreign currency risk (continued)

	June 30, 2008					
(in million)	RMB	USD (Original)	HKD (Original)	EUR (Original)	Other (RMB equivalent)	RMB equivalent total
Short-term borrowings	1,190	–	2,990	–	–	3,819
Due to banks and other financial institutions	5,204	99	–	–	–	5,883
Guarantee deposits	6,320	–	–	–	–	6,320
Placements from banks and other financial institutions	128	–	–	–	–	128
Financial assets sold under agreements to repurchase	16,356	–	–	–	–	16,356
Customer deposits	71,095	270	–	–	–	72,949
Payables to brokerage customers	10,537	12	229	–	–	10,821
Premiums received in advance	959	4	10	–	–	996
Commission payable	1,387	–	–	–	–	1,387
Due to reinsurance	2,957	60	29	–	–	3,392
Salaries and welfare payable	3,486	–	–	–	–	3,486
Taxes payable	1,392	4	10	–	–	1,431
Interest payable	590	6	17	–	–	644
Claims payable	5,936	10	3	–	–	6,005
Policyholder dividends payable	10,635	–	–	–	–	10,635
Investment contract liabilities for policyholders	2,816	–	–	–	–	2,816
Insurance contract liabilities	344,105	145	28	–	6	345,130
Long-term borrowings	2,443	–	1,719	–	–	3,954
Other liabilities	5,405	61	1,029	75	–	7,541
Total	492,941	671	6,064	75	6	503,693

VIII. RISK MANAGEMENT *(continued)*

2. Market risk *(continued)*

(1) ***Foreign currency risk*** *(continued)*

	December 31, 2007					
(in million)	RMB	USD (Original)	HKD (Original)	EUR (Original)	Other (RMB equivalent)	RMB equivalent total
Cash on hand and at bank	68,110	81	2,050	1	5	70,639
Balances with clearing companies	1,999	1	22	–	–	2,027
Placements with banks and other financial institutions	1,123	7	19	–	–	1,192
Held for trading financial assets	46,405	1,321	375	83	3	57,294
Financial assets purchased under agreement to resell	36,457	–	–	–	–	36,457
Interest receivable	3,903	8	3	–	–	3,962
Premium receivables	4,283	37	16	–	–	4,568
Receivables from reinsures	2,228	20	80	–	–	2,452
Reinsurers' share of insurance liabilities	1,230	148	5	–	–	2,316
Policy loans	2,411	–	–	–	–	2,411
Loans and advances to customers	61,206	243	156	–	–	63,125
Refundable deposits	881	–	6	–	–	887
Term deposits	31,151	164	–	–	–	32,348
Available-for-sale financial assets	146,858	228	10,369	1,904	–	178,539
Held-to-maturity investments	127,736	–	–	–	–	127,736
Statutory deposits	1,560	–	–	–	–	1,560
Other assets	1,301	39	43	1	–	1,637
Total	538,842	2,297	13,144	1,989	8	589,150

VIII. RISK MANAGEMENT *(continued)*

2. Market risk *(continued)*

(1) *Foreign currency risk* (continued)

	December 31, 2007					
(in million)	RMB	USD (Original)	HKD (Original)	EUR (Original)	Other (RMB equivalent)	RMB equivalent total
Short-term borrowings	990	–	2,915	–	–	3,719
Due to banks and other financial institutions	5,792	238	–	–	–	7,532
Guarantee deposits	5,398	–	–	–	–	5,398
Placements from banks and other financial institutions	–	24	–	–	–	175
Financial assets sold under agreements to repurchase	13,556	–	–	–	–	13,556
Customer deposits	70,778	186	(4)	–	–	72,133
Payables to brokerage customers	14,024	15	275	–	–	14,394
Premiums received in advance	2,918	7	14	–	–	2,981
Commission payable	1,104	–	–	–	–	1,104
Due to reinsurers	2,344	41	14	–	–	2,656
Salaries and welfare payable	4,732	–	–	–	–	4,732
Taxes payable	1,876	3	9	–	–	1,907
Interest payable	503	4	42	–	–	574
Claims payable	5,138	3	2	–	–	5,161
Policyholder dividends payable	7,006	–	–	–	–	7,006
Investment contract liabilities for policyholders	798	–	–	–	–	798
Insurance contract liabilities	329,904	157	34	–	4	331,083
Long-term borrowings	1,611	–	1,716	–	–	3,218
Other liabilities	3,380	18	269	–	–	3,763
Total	471,852	696	5,286	–	4	481,890

VIII. RISK MANAGEMENT *(continued)*

2. Market risk *(continued)*

(1) *Foreign currency risk* *(continued)*

Major currencies' exchange rates as of respective balance sheet date are as follows:

	June 30, 2008			December 31, 2007		
	USD	**HKD**	**EUR**	USD	HKD	EUR
Exchange rate	**6.8591**	**0.8792**	**10.8302**	7.3046	0.9364	10.6669

(2) *Price risk*

The Group's price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign currency risk), principally listed equity securities and equity investment funds classified as available-for-sale financial assets and financial assets at fair value through profit and loss.

The above investments are exposed to price risk because of change in market price, whether those changes are caused by factors specific to the individual financial instruments or its issuers, or factors affecting all similar financial instruments traded in the market.

The Group managed price risks by diversification of investments, setting limits for investments in different securities, etc.

The Group uses the 10-day market price value-at-risk ("VaR") technique to estimate its risk exposure for listed equity securities and equity investments funds. The Group adopts 10-day as the holding period on the assumption that not all the investments can be sold in one day. Moreover, the VaR calculation is made based on normal market condition and a 99% confidence interval.

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or over estimated due to the assumption placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

In practice the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

(in RMB million)

VIII. RISK MANAGEMENT *(continued)*

2. Market risk *(continued)*

(2) *Price risk* (continued)

The analysis below is the impact on equity for listed equity securities and equity investments funds with 10-day reasonable market fluctuation in using risk value module in the normal market.

	June 30, 2008	December 31, 2007
Listed stock and equity investment funds	**9,162**	14,495

The Group expected that the current trading and available-for-sale equity investments will not lose more than RMB9,162 million due to market price movements in a 10-trading-day holding period on 99% occasions.

(3) *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 repriced 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 analysis below is performed for reasonably possible movements in key variables with all other variables held constant, for the following financial instruments (excluding the balances of investment linked constant), showing the pre-tax impact on profit and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

VIII. RISK MANAGEMENT *(continued)*

2. Market risk *(continued)*

(3) Interest rate risk *(continued)*

	Change in interest rate	June 30, 2008 Decrease in profit	June 30, 2008 Decrease in equity	December 31, 2007 Decrease in profit	December 31, 2007 Decrease in equity
Bonds held-for-trading and available-for-sale	+50 basis points	**248**	**3,825**	153	2,728

		Increase in interest income/expense: Six months ended June 30, 2008	Increase in interest income/expense: Six months ended June 30, 2007
Floating interest rate bonds	+50 basis points	**38**	17
Loans and advances to customers	+50 basis points	**155**	68
Customer deposits	+50 basis points	**(148)**	(161)

The following table sets out the Group's term deposits (excluding investment-linked contract) exposed to interest rate risk by maturity:

	June 30, 2008	December 31, 2007
Fixed interest rate		
3 months to 1 year (including 1 year)	**1,511**	381
1-2 years (including 2 years)	**–**	400
2-3 years (including 3 years)	**250**	250
3-4 years (including 4 years)	**6,070**	4,170
4-5 years (including 5 years)	**34**	1,900
More than 5 years	**2,043**	2,082
Floating interest rate	**29,427**	23,165
Total	**39,335**	32,348

(in RMB million)

VIII. RISK MANAGEMENT *(continued)*

2. Market risk *(continued)*

(3) *Interest rate risk* (continued)

The following table sets out the Group's bonds (excluding investment-linked contract) exposed to interest rate risk by maturity:

	June 30, 2008			
	Held-to-maturity	**Available-for-sale**	**Carried at fair value through profit or loss**	**Total**
Fixed interest rate				
Within 3 months (including 3 months)	**457**	**3,928**	**4,453**	**8,838**
3 months to 1 year (including 1 year)	**3,052**	**5,544**	**9,935**	**18,531**
1-2 years (including 2 years)	**8,798**	**7,253**	**836**	**16,887**
2-3 years (including 3 years)	**6,354**	**18,266**	**971**	**25,591**
3-4 years (including 4 years)	**17,631**	**5,713**	**846**	**24,190**
4-5 years (including 5 years)	**6,071**	**5,312**	**770**	**12,153**
More than 5 years	**76,471**	**66,915**	**3,928**	**147,314**
Floating interest rate	**7,563**	**9,629**	**2,048**	**19,240**
Total	**126,397**	**122,560**	**23,787**	**272,744**

	December 31, 2007			
	Held-to-maturity	Available-for-sale	Carried at fair value through profit or loss	Total
Fixed interest rate				
Within 3 months (including 3 months)	49	7,518	14,120	21,687
3 months to 1 year (including 1 year)	4,862	6,425	5,686	16,973
1-2 years (including 2 years)	7,804	5,140	393	13,337
2-3 years (including 3 years)	1,639	3,833	512	5,984
3-4 years (including 4 years)	19,621	3,286	188	23,095
4-5 years (including 5 years)	3,898	3,252	111	7,261
More than 5 years	82,336	47,068	1,912	131,316
Floating interest rate	7,527	6,889	1,304	15,720
Total	127,736	83,411	24,226	235,373

Interest rates on floating rate term deposits and floating rate bonds are re-priced at intervals of less than one year. Interest rates on fixed rate term deposits and fixed rate bonds are fixed before maturity.

VIII. RISK MANAGEMENT *(continued)*

3. Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, loans and advances to customers, investment in bonds, equity investment, 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 Group's banking business carries out credit assessment before granting credit to 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.

Credit quality

The Group believes credit risk associated with balances with central bank and statutory deposits, cash and amounts due from banks and other financial institutions, term deposits and accrued invested income thereof are not material to the Group's consolidated financial statement as at June 30, 2008 and December 31, 2007.

The following tables set forth amounts due from banks and other financial institutions placed with major commercial banks in the PRC in terms of aggregates held by the Group (Excluding investment-linked contract).

	June 30, 2008	December 31, 2007
Top five banks		
China Construction Bank Corporation	**26,192**	25,045
China Minsheng Banking Corp., LTD.	**12,109**	11,243
Industrial Bank Co., LTD.	**9,581**	4,131
Industrial and Commercial Bank of China Limited	**8,477**	10,859
Guangdong Development Bank	**4,208**	4,505
Other banks and financial institutions		
Bank of China Limited	**3,767**	5,137
Agricultural Bank of China	**2,428**	3,230
The Hongkong and Shanghai Banking Corporation Limited ("HSBC")	**77**	153
Others	**26,177**	23,174
Total	**93,016**	87,477

(in RMB million)

VIII. RISK MANAGEMENT *(continued)*

3. Financial risk *(continued)*

(1) Credit risk (continued)

Credit quality (continued)

The Group's debt securities investment mainly includes domestic government bonds, central bank bills, financial institution bonds and corporate bonds. As at June 30, 2008, 100% (December 31, 2007: 100%) of the financial institution bonds held by the Group either have credit rating of A or above, or were issued by national commercial banks. As at June 30, 2008, 94.34% (December 31, 2007: 89.14%) of the corporate bonds held by the Group have credit rating of AA or above. The bond credit rating is assigned by a qualified appraisal institutions in the PRC at the time of its issuance.

The credit risk associated with securities purchased under agreements to resell and policy loans will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collateral held and maturity term of no more than one year as at June 30, 2008 and December 31, 2007.

Credit exposure

The table below shows the maximum exposure to credit risk for the components of the balance sheet and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancements.

	June 30, 2008	December 31, 2007
Cash on hand and at bank	**67,925**	70,639
Balances with clearing companies	**3,648**	2,027
Placements with banks and other financial institutions	**532**	1,192
Held-for-trading financial assets	**52,221**	57,294
Derivative financial assets	**121**	177
Financial assets purchased under agreement to resell	**8,779**	36,457
Interest receivables	**5,576**	3,962
Premium receivables	**6,377**	4,568
Due from reinsurers	**1,967**	2,452
Reinsurers' share of insurance liabilities	**7,077**	4,931
Policy loans	**2,946**	2,411
Loans and advances to customers	**70,806**	63,125
Refundable deposits	**166**	887
Term deposits	**39,335**	32,348
Available-for-sale financial assets	**177,647**	178,539
Held-to-maturity investments	**126,397**	127,736
Statutory deposits	**1,560**	1,560
Sub-total	**573,080**	590,305
Credit commitments *(Note XII.3)*	**48,919**	35,704
Total credit risk exposure	**621,999**	626,009

VIII. RISK MANAGEMENT *(continued)*

3. Financial risk *(continued)*

(1) ***Credit risk*** *(continued)*

Credit exposure (continued)

Above assets are already deducted for investment-linked account balances.

Where financial instruments are recorded at fair value (e.g. certain fixed maturity investments held-for-trading), the amounts shown above represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in fair values.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters.

The main types of collateral obtained are as follows:

– for reverse repurchase transactions, cash or securities;

– for commercial lending, charges over real estate properties, inventories and trade receivables, etc., and

– for retail lending, mortgages over residential properties, etc.

Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

(in RMB million)

VIII. RISK MANAGEMENT *(continued)*

3. Financial risk *(continued)*

(1) *Credit risk* *(continued)*

Aging analysis of financial assets past due

	June 30, 2008						
		Past due but not impaired					
	In due	Within 30 days	31-90 days	More than 90 days	Total past due but not impaired	Past due and impaired	Total
Placements with banks and other financial institutions	**532**	**–**	**–**	**–**	**–**	**19**	**551**
Premium receivables	**5,033**	**539**	**326**	**479**	**1,344**	**177**	**6,554**
Due from reinsurers	**1,618**	**85**	**88**	**176**	**349**	**32**	**1,999**
Loans and advances to customers	**68,919**	**1,244**	**436**	**304**	**1,984**	**432**	**71,335**
Sub-total	**76,102**	**1,868**	**850**	**959**	**3,677**	**660**	**80,439**
Less: Impairment provision	**(261)**	**–**	**–**	**–**	**–**	**(496)**	**(757)**
Net	**75,841**	**1,868**	**850**	**959**	**3,677**	**164**	**79,682**

	December 31, 2007						
		Past due but not impaired					
	In due	Within 30 days	31-90 days	More than 90 days	Total past due but not impaired	Past due and impaired	Total
Placements with banks and other financial institutions	1,192	–	–	–	–	45	1,237
Premium receivables	3,609	508	305	146	959	179	4,747
Due from reinsurers	1,861	102	81	408	591	49	2,501
Loans and advances to customers	61,859	769	256	78	1,103	699	63,661
Sub-total	68,521	1,379	642	632	2,653	972	72,146
Less: Impairment provision	(185)	–	–	–	–	(624)	(809)
Net	68,336	1,379	642	632	2,653	348	71,337

VIII. RISK MANAGEMENT *(continued)*

3. Financial risk *(continued)*

(1) ***Credit risk*** *(continued)*

Aging analysis of financial assets past due (continued)

Of the aggregate amount of gross past due but not impaired loans and advances to customers, the fair value of collateral that the Group held as at June 30, 2008 was RMB2,618 million (December 31, 2007: RMB1,295 million).

Of the aggregate amount of gross past due and impaired loans and advances to customers, the fair value of collateral that the Group held as at June 30, 2008 was RMB391 million (December 31, 2007: RMB1,057 million).

Financial assets of which terms have been renegotiated

	June 30, 2008	December 31, 2007
Loans and advances to customers	**1,185**	2,444

(2) ***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. The banking business of the Group is exposed to potential liquidity risk. The Group seeks to mitigate the liquidity risk of the banking business by optimizing the assets and liabilities structure, maintaining stable deposits, etc.

(in RMB million)

VIII. RISK MANAGEMENT *(continued)*

3. Financial risk *(continued)*

(2) *Liquidity risk* (continued)

The table below summarizes the remaining contractual maturity profile of the financial liabilities of the Group based on undiscounted contractual cashflows.

	June 30, 2008					
	Past due	Within 3 months	3-12 months	Over 1 year	Investment-linked	Total
Short-term borrowings	–	2,086	1,792	–	–	3,878
Due to banks and other financial institution	–	5,621	231	–	–	5,852
Guarantee deposits	–	3,601	2,760	37	–	6,398
Placements from banks and other financial institutions	–	132	–	–	–	132
Financial assets sold under agreements to repurchase	–	14,952	1,463	–	580	16,995
Customer deposits	–	36,299	36,520	2,199	–	75,018
Payables to brokerage customers	–	10,821	–	–	–	10,821
Commission payable	–	1,387	–	–	–	1,387
Due to reinsurers	–	2,959	244	189	–	3,392
Salaries and welfare payable	–	2,690	–	796	–	3,486
Interest payable	–	176	448	20	–	644
Claims payable	–	6,005	–	–	–	6,005
Policyholder dividends payable	–	10,635	–	–	–	10,635
Investment contract liabilities for policyholders	–	–	806	2,010	4,040	6,856
Long-term borrowings	–	40	282	5,212	–	5,534
Other liabilities	–	4,665	1,268	2,787	19	8,739
Total	–	102,069	45,814	13,250	4,639	165,772

VIII. RISK MANAGEMENT *(continued)*

3. Financial risk *(continued)*

(2) ***Liquidity risk*** *(continued)*

	December 31, 2007					
	Past due	Within 3 months	3-12 months	Over 1 year	Investment-linked	Total
Short-term borrowings	–	515	3,204	–	–	3,719
Due to banks and other financial Institutions	–	7,513	23	–	–	7,536
Guarantee deposits	–	3,685	1,724	43	–	5,452
Placements from banks and other financial institutions	–	74	104	–	–	178
Financial assets sold under agreements to repurchase	–	13,595	–	–	424	14,019
Customer deposits	–	50,662	15,275	7,666	–	73,603
Payables to brokerage customers	–	14,394	–	–	–	14,394
Commission payable	–	1,104	–	–	–	1,104
Due to reinsurers	–	2,204	452	–	–	2,656
Salaries and welfare payable	–	2,028	1,643	1,070	–	4,732
Interest payable	–	225	248	101	–	574
Claims payable	–	643	4,518	–	–	5,161
Policyholder dividends payable	–	7,006	–	–	–	7,006
Investment contract liabilities for policyholders	–	–	–	799	4,488	5,287
Long-term borrowings	–	–	155	4,115	–	4,270
Other liabilities	–	1,093	2,091	579	448	4,211
Total	–	104,741	29,428	14,373	5,360	153,902

The table below summarises the maturity profile of the nominal amount of derivative financial liabilities of the Group based on remaining contractual obligations.

	Within 3 months	**3-12 months**	**Over 1 year**	**Investment-linked**	**Total**
June 30, 2008	**287**	**332**	**1,077**	**–**	**1,696**
December 31, 2007	470	1,191	877	–	2,538

(in RMB million)

VIII. RISK MANAGEMENT *(continued)*

3. Financial risk *(continued)*

(2) *Liquidity risk* (continued)

The table below summarizes the expected recovery or settlement of assets.

	June 30, 2008			
	Current*	Non-current	Investment-linked	Total
Cash on hand and at bank	51,697	16,228	1,202	69,127
Balances with clearing companies	3,648	–	–	3,648
Placements with banks and other financial institutions	231	301	–	532
Held for trading financial assets	52,221	–	23,849	76,070
Derivative financial assets	18	103	6	127
Financial assets purchased under agreements to resell	8,779	–	132	8,911
Interest receivables	5,576	–	435	6,011
Premium receivables	6,327	50	–	6,377
Receivable from reinsurers	1,967	–	–	1,967
Reinsurers' share of insurance liabilities	4,980	2,097	–	7,077
Policy loans	2,946	–	–	2,946
Loans and advances to customers	38,040	32,766	–	70,806
Refundable deposits	166	–	1	167
Term deposits	1,511	37,824	9,843	49,178
Available-for-sale financial assets	9,515	168,132	–	177,647
Held-to-maturity investments	3,973	122,424	–	126,397
Long-term equity investments	–	3,554	–	3,554
Goodwill	–	722	–	722
Statutory deposits	–	1,560	–	1,560
Investment properties	–	3,843	–	3,843
Fixed assets	–	8,223	–	8,223
Intangible assets	–	9,695	–	9,695
Deferred tax assets	–	4,022	–	4,022
Other assets	2,702	1,091	1,206	4,999
Total assets	194,297	412,635	36,674	643,606

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

VIII. RISK MANAGEMENT *(continued)*

3. Financial risk *(continued)*

(2) *Liquidity risk* (continued)

	December 31, 2007			
	Current*	Non-current	Investment-linked	Total
Cash on hand and at bank	56,374	14,265	2,101	72,740
Balances with clearing companies	2,027	–	–	2,027
Placements with banks and other financial institutions	891	301	–	1,192
Held for trading financial assets	57,294	–	27,644	84,938
Derivative financial assets	174	3	–	177
Financial assets purchased under agreement to resell	36,457	–	–	36,457
Interest receivables	3,962	–	225	4,187
Premium receivables	4,388	180	–	4,568
Receivable from reinsurers	2,452	–	–	2,452
Reinsurers' share of insurance liabilities	3,157	1,774	–	4,931
Policy loans	2,411	–	–	2,411
Loans and advances to customers	34,024	29,101	–	63,125
Refundable deposits	887	–	–	887
Term deposits	10,988	21,360	9,383	41,731
Available-for-sale financial assets	13,977	164,562	–	178,539
Held-to-maturity investments	5,112	122,624	–	127,736
Long-term equity investments	–	2,207	–	2,207
Goodwill	–	610	–	610
Statutory deposits	–	1,560	–	1,560
Investment properties	–	4,051	–	4,051
Fixed assets	–	7,894	–	7,894
Intangible assets	–	3,621	–	3,621
Deferred tax assets	–	87	–	87
Other assets	2,275	800	141	3,216
Total assets	236,850	375,000	39,494	651,344

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

VIII. RISK MANAGEMENT *(continued)*

4. 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.

5. 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.

6. Capital management

The Group's capital requirements are primarily dependent on the scale and the type of business that it undertakes, as well as the industry and geographic location in which it operates. The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital requirements by assessing shortfalls, if any, between the reported and the required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Group's activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid, return capital to ordinary shareholders or issue capital securities.

The Group fully complied with the externally imposed capital requirements during the Period and no changes were made to its capital base, objectives, policies and processes from the previous year.

VIII. RISK MANAGEMENT *(continued)*

6. Capital management *(continued)*

The table below summarizes the minimum regulatory capital for major insurance subsidiaries of the Group and the regulatory capital held against each of them.

	June 30, 2008			December 31, 2007		
	Regulatory capital held	**Minimum regulatory capital**	**Solvency margin ratio**	Regulatory capital held	Minimum regulatory capital	Solvency margin ratio
Ping An Life	**20,702**	**17,064**	**121.3%**	45,218	15,704	287.9%
Ping An Property & Casualty	**3,397**	**3,038**	**111.8%**	4,895	2,695	181.6%

The regulatory capital of the Shenzhen Ping An Bank is analyzed below:

	June 30, 2008		December 31, 2007	
	Regulatory capital held	**Minimum regulatory capital**	Regulatory capital held	Minimum regulatory capital
Core capital	**7,181**	**2,828**	6,238	2,739
Capital	**7,152**	**5,656**	6,209	5,477
Risk weighted assets	**70,696**		68,466	
Core capital adequacy ratio	**10.2%**		9.1%	
Capital adequacy ratio	**10.1%**		9.1%	

Regulatory capital of Group's banking subsidiary consists of core capital and supplementary capital. Core capital comprises paid-in capital, capital reserve, surplus reserve fund, retained earnings and minority interests less goodwill and 50% of certain long-term investments, etc. Supplementary capital includes subordinated long-term debts, convertible bonds, hybrid debt capital instruments, preference shares, general reserves and revaluation reserves.

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1. Related party relationship

(1) During the current period, related parties of the Company comprise:

(i) subsidiaries;

(ii) investors having significant influence on the Company;

(iii) associates;

(iv) key management personnel, as well as their close family members;

(v) corporations which are controlled, or under common control, or significantly influenced by the Company's key management personnel or their close family members.

(2) Subsidiaries and associates

For details of the Company's subsidiaries and the Group's associates and their relationship with the Company, please refer to Note V and Note VII, 15.

(3) Other related parties

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 19.90% of the Company's shares. Since then, HSBC Holdings and its subsidiaries became the Company's related parties with significant influence over the Group. As at June 30, 2008, HSBC Holdings holds over 16% share of the Company through its subsidiaries.

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(continued)*

1. Related party relationship *(continued)*

(4) *Shareholders who hold more than 5% shares of the Company as at June 30, 2008:*

Name of the shareholders	Number of shares held	Type of share	Percentage of total shares (%)
HSBC Insurance	618,886,334	H-share	8.43%
HSBC	613,929,279	H-share	8.36%
Shenzhen Investment Holdings Co., Ltd.	546,672,967	A-Share	7.44%
Shenzhen New Horse Investment Development Co., Ltd. & Shenzhen Jingao Industrial Development Co., Ltd.	720,710,154	Non-tradable A-Share	9.81%
Yuan Trust Investment Co., Ltd.	380,000,000	A-Share	5.17%

(5) According to the regulations of the CSRC, from March 1, 2007 Bank of Communications Co., Ltd. ("Bank of Communications") was defined as a related legal person of the Company, because one of its directors also held the position of director in the Company.

2. Related party transactions

(1) *Significant transactions with related parties*

Interest income earned by the Group from banks is as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
HSBC	**1**	6
Bank of Communications	**11**	46

(in RMB million)

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(continued)*

2. Related party transactions *(continued)*

(2) Balances with related parties

	June 30, 2008	December 31, 2007
Cash at bank – HSBC	**77**	153
Cash at bank – Bank of Communications	**1,346**	395

(3) Compensation for key management personnel is as below:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Salaries and other short-term employee benefits	**35**	53

Key management personnel comprise the Company's directors, supervisors and senior officers as defined in the Company's articles of association. The unpaid portion of the compensation expenses for share appreciation rights (Note VII, 55) granted to key management personnel are not included in the above analysis. The expenses in respect of share appreciation right units granted to key management personnel recognized in current income statement is RMB320 million (Six months ended June 30, 2007: RMB226 million).

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(continued)*

2. Related party transactions *(continued)*

(4) Related party transactions between the Company and the subsidiaries of the Company for the current period are as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Interest income from bank deposits		
Shenzhen Ping An Bank	**71**	96
Ping An Bank	**–**	3
Ping An Securities	**5**	1
Total	**76**	100
Interest expenses on placements		
Ping An Property & Casualty	**–**	5
Ping An Life	**–**	4
Total	**–**	9
Asset management fees		
Ping An Asset Management Co., Ltd. (“Ping An Asset Management”)	**11**	2

(in RMB million)

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(continued)*

2. Related party transactions *(continued)*

(4) Related party transactions between the Company and the subsidiaries of the Company for the current period are as follows: *(continued)*

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Investment consultant fees		
Ping An of China Asset Management (Hong Kong) Company Limited	**4**	–
Property management fees		
Shenzhen Ping An Property and Facilities Management Co, Ltd. ("Ping An Property")	**10**	7
Membership fees		
Ping An Securities	**–**	1
Dividend income		
Ping An Life	**4,891**	3,386

(5) Balances with the subsidiaries of the Company:

	June 30, 2008	December 31, 2007
Bank deposits		
Shenzhen Ping An Bank	**6,159**	34,332
Total	**6,159**	34,332
Brokerage deposits		
Ping An Securities	**75**	233
Other payables		
Ping An Life	**26**	14
Ping An Property	**1**	2
Total	**27**	16

IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS *(continued)*

2. Related party transactions *(continued)*

(6) Guarantees provided by the Company to its subsidiaries:

	June 30, 2008	December 31, 2007
Shenzhen Ping An Real Estate investment Co., Ltd.	**1,190**	890
China Ping An Insurance Overseas (Holdings) Limited (Ping An Overseas)	**2,682**	2,856
Total	**3,872**	3,746

X. FIDUCIARY BUSINESS

	June 30, 2008	December 31, 2007
Assets under trust schemes	**40,470**	47,519
Assets under corporate annuity schemes	**9,115**	4,983
Entrusted loans	**1,560**	1,654
Assets under asset management schemes	**5,531**	1,317
Total	**56,676**	55,473

XI. CONTINGENCIES

1. 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 but not limited to being the plaintiff or the defendant in litigation and arbitration. The adverse effect of above mentioned events mostly involve claims on the Group's insurance policies and other claims. Provision has been made for the probable losses to the Group, where management can reasonably estimate the outcome of the lawsuits taking into account of any legal advice.

No provision has been made for pending assessments, lawsuits or possible violations of contracts when the outcome cannot be reasonably estimated or management believes the probability of losing the lawsuit 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.

(in RMB million)

XI. CONTINGENCIES *(continued)*

2. Tax inspection

In March 2008, the State Tax Bureau commenced regular inspection of the Group's tax filing positions for fiscal years ended December 31, 2004, 2005 and 2006. The Group has made relevant tax provision based on the understanding of the current tax laws. However, the inspection results would not be finalized in a short period of time and, currently, it is not feasible to make a reliable estimate of all under-provisions for the said fiscal years.

XII. COMMITMENTS

1. Capital commitments

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

	June 30, 2008	December 31, 2007
Contracted, but not provided for	**33,033**	11,048
Including: Fortis Investment Management NV/SA *(note 1)*	**23,285**	–
Xuji Group Corporation *(note 2)*	**672**	–
Beijing-Shanghai High Speed Railway *(note 3)*	**5,877**	–
Authorized, but not contracted for	**1,766**	456
Total	**34,799**	11,504

(1) On April 2, 2008, the Group entered into the Sale and Purchase Agreement to acquire, at a consideration of EUR2.15 billion, equity interest of 1,000,000 shares in Fortis Investment Management NV/SA ("FIM") and which at completion will constitute approximately 50% of the issued and fully diluted share capital of FIM. The remaining 1,000,001 shares are indirectly owned by Fortis SA/NV & Fortis N.V. through its wholly owned subsidiaries Fortis Bank NV/SA and Fortis Banque Luxembourg S.A.

The acquisition is conditional upon, amongst others:

– the Group having obtained approval from the CIRC in respect of the transactions referred to in the Sale and Purchase Agreement;

– all necessary approvals from or necessary filings with relevant regulatory authorities having been obtained or made, as the case may be.

XII. COMMITMENTS *(continued)*

1. Capital commitments *(continued)*

(2) On April 21, 2008, the Ping An Trust entered into a Stock Transfer Agreement to acquire 100% equity interest in Xuji Group Corporation ("Xuji Group") at a consideration of RMB960 million.

The acquisition is conditional upon:

- obtaining approval from the State-Owned Assets Supervision Administration Commission in respect of the transaction referred to in the Stock Transfer Agreement;
- the Group's payment of the consideration; and
- the issuance of "assets and equity transaction identification certificate" by the equity exchange.

Upon the completion of equity transferring, Ping An Trust will provide Xuji Group with fund support and financial services, while promising to provide Xuji Group with a 5-year interest-free loan amounting to RMB4 billion.

(3) In June 2008, the CIRC approved Ping An Asset Management, Pacific Asset Management Co., Ltd., Taikang Asset Management Co., Ltd. and Taipin Asset Management Co., Ltd. to jointly establish "Beijing-Shanghai High Speed Railway Investment Scheme" and to raise RMB16 billion for acquisition of 13.913% equity interest in Beijing-Shanghai High Speed Railway Corporation Limited. Ping An Life subscribed 39.375% of this investment scheme which amounted to RMB6.3 billion. As at June 30, 2008, the cumulative subscription amount paid by Ping An Life was RMB423 million and the unpaid subscribed portion amounting to RMB5,877 million was presented as a capital commitment.

2. Lease commitments

Future minimum rental payables under non-cancelable operating leases are as follows:

	June 30, 2008	December 31, 2007
Within 1 year (including 1 year)	**733**	420
1-2 years (including 2 years)	**510**	328
2-3 years (including 3 years)	**311**	202
More than 3 years	**405**	210
Total	**1,959**	1,160

(in RMB million)

XII. COMMITMENTS *(continued)*

3. Credit commitments

	June 30, 2008	December 31, 2007
Loan commitments		
Including: Original maturities within 1 year	**12,913**	11,537
Original maturities more than one year and above	**6,985**	3,274
Letter of credit issued	**803**	621
Guarantees issued	**8,575**	7,953
Acceptances issued	**8,851**	8,453
Others	**10,792**	3,866
Total	**48,919**	35,704

XIII. POST BALANCE SHEET EVENT

On August 15, 2008, the directors approved an interim dividend of RMB0.20 per ordinary share totaling RMB1,469 million.

XIV. NOTES TO FINANCIAL STATEMENTS OF PARENT COMPANY

1. Cash on hand and at bank

	June 30, 2008	December 31, 2007
Cash at bank	**13,081**	40,625
Other monetary assets	**977**	233
Total	**14,058**	40,858

XIV. NOTES TO FINANCIAL STATEMENTS OF PARENT COMPANY *(continued)*

2. Held for trading financial assets

	June 30, 2008	December 31, 2007
Bonds		
Government bonds	**702**	–
Central bank bills	**7,840**	1,953
Financial bonds	**1,141**	1,004
Corporate bonds	**2,250**	2,086
Equity instruments		
Funds	**6,052**	27
Stocks	**1,670**	3,106
Total	**19,655**	8,176

3. Available-for-sale financial assets

	June 30, 2008	December 31, 2007
Bonds		
Government bonds	**1,393**	1,661
Central bank bills	**11,556**	400
Financial bonds	**959**	379
Corporate bonds	**520**	206
Equity instruments		
Funds	**3,217**	760
Stocks	**992**	905
Total	**18,637**	4,311

(in RMB million)

XIV. NOTES TO FINANCIAL STATEMENTS OF PARENT COMPANY *(continued)*

4. Long-term equity investments

	June 30, 2008	December 31, 2007
Ping An Life	**3,762**	3,762
Ping An Property & Casualty	**2,973**	2,973
Ping An Trust	**4,216**	4,216
Shenzhen Ping An Bank	**4,916**	4,916
Ping An Overseas	**561**	561
Ping An Annuity	**485**	485
Ping An Health	**475**	475
Ping An Assets Management	**480**	480
Total	**17,868**	17,868

5. Deferred tax assets

	For the six months ended June 30, 2008					
	Beginning of the period	Charged to the profit and loss	Charged to equity	Others	End of the period	Temporary difference as at June 30, 2008
Fair value adjustment and impairment loss on available-for-sale investments	(195)	418	252	–	475	2,603
Others	205	(77)	–	–	128	666
Total	10	341	252	–	603	3,269

XIV. NOTES TO FINANCIAL STATEMENTS OF PARENT COMPANY *(continued)*

6. Salaries and welfare payable

	For the six months ended June 30, 2008			
	Beginning of the period	**Accruals**	**Payments**	**End of the period**
Salary, bonus and allowance	**147**	**171**	**(160)**	**158**
Staff welfare	**30**	**–**	**(1)**	**29**
Social insurance	**8**	**11**	**–**	**19**
Labor-union fund and employee educational fund	**56**	**(9)**	**(5)**	**42**
Cash-settled shares based payments	**1,084**	**(418)**	**–**	**666**
Total	**1,325**	**(245)**	**(166)**	**914**

	For the six months ended June 30, 2007			
	Beginning of the period	Accruals	Payments	End of the period
Salary, bonus, and allowance	44	115	(115)	44
Staff welfare	25	–	(5)	20
Social insurance	–	4	(1)	3
Labor-union fund and employee educational fund	9	37	(3)	43
Cash-settled shares based payments	508	272	–	780
Total	586	428	(124)	890

7. Taxes payable

	June 30, 2008	December 31, 2007
Corporate income tax	**41**	247
Business tax	**–**	32
Others	**90**	101
Total	**131**	380

(in RMB million)

XIV. NOTES TO FINANCIAL STATEMENTS OF PARENT COMPANY *(continued)*

8. Investment income

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Interest income		
Interest income of bonds		
Available-for-sale financial assets	**196**	38
At fair value through profit or loss	**157**	46
Interest income of term deposits		
Loans and receivables	**16**	10
Interest income of current deposits		
Loans and receivables	**188**	96
Others		
Loans and receivables	**23**	3
Dividend income		
Dividend income of funds		
Available-for-sale financial assets	**855**	73
At fair value through profit or loss	**26**	224
Dividend income of equity investments		
Long-term equity investments	**4,891**	3,386
Available-for-sale financial assets	**7**	68
At fair value through profit or loss	**16**	9
Realized gains		
Bonds		
At fair value through profit or loss	**(9)**	23
Funds		
Available-for-sale financial assets	**(150)**	96
At fair value through profit or loss	**(7)**	(36)
Stocks		
Available-for-sale financial assets	**61**	29
At fair value through profit or loss	**319**	942
Interests expenses for securities sold under agreements to repurchase and placements with banks	**(5)**	(33)
Total	**6,584**	4,974

XIV. NOTES TO FINANCIAL STATEMENTS OF PARENT COMPANY *(continued)*

9. Fair value gains and losses

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Held-for-trading financial instruments		
Bonds	**(119)**	(111)
Funds	**(7)**	(21)
Stocks	**(1,964)**	491
Total	**(2,090)**	359

10. General and administrative expenses

The Company's general and administrative expenses are as follows:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Salaries and bonuses	**(247)**	387
Pension, social insurance and other benefits	**2**	41
Depreciation of fixed assets	**11**	7
Amortization of intangible assets	**6**	3

11. Income taxes

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Current income tax	**42**	141
Deferred income tax	**(341)**	38
Total	**(299)**	179

(in RMB million)

XIV. NOTES TO FINANCIAL STATEMENTS OF PARENT COMPANY *(continued)*

11. Income taxes *(continued)*

The relationship of the Company's income tax expenses and the accounting profit is as follow:

	For the six months ended June 30, 2008	For the six months ended June 30, 2007
Profit before tax	**4,252**	4,783
Tax computed at the main applicable tax rate of 18% (for the six months ended June 30, 2007: 15%)	**765**	717
Tax effect of tax rate change	**(14)**	68
Tax effect of non deductible expenses in determining taxable income	**–**	41
Tax effect of income not taxable in determining taxable income	**(1,050)**	(647)
Total	**(299)**	179

XV. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to current period's presentation.

XVI. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved by the Company's board of directors on August 15, 2008.

DISCLOSURE OF INTERESTS

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

As at June 30, 2008, the following persons (other than the Directors and Supervisors of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

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

Name of substantial shareholder	H/A shares	Capacity	Notes	No. of H/A shares	Nature of interest	Percentage of total number of H/A shares in issue (%)	Percentage of total shares in issue (%)
HSBC Holdings plc	H	Interest of controlled corporations	1, 2, 3	1,233,870,388	Long position	48.22	16.80

2. Interests and short positions of other substantial shareholders

Name of substantial shareholder	H/A shares	Capacity	Notes	No. of H/A shares	Nature of interest	Percentage of total number of H/A shares in issue (%)	Percentage of total shares in issue (%)
HSBC Insurance Holdings Limited	H	Beneficial owner	1	618,886,334	Long position	24.19	8.43
The Hongkong and Shanghai Banking Corporation Limited	H	Beneficial owner	3	614,099,279	Long position	24.00	8.36
Shenzhen Investment Holdings Co., Ltd.	A	Beneficial owner		543,181,445	Long position	11.35	7.40

Name of substantial shareholder	H/A shares	Capacity	Notes	No. of H/A shares	Nature of interest	Percentage of total number of H/A shares in issue (%)	Percentage of total shares in issue (%)
Shenzhen Jingao Industrial Development Co., Ltd.	A	Beneficial owner	4	331,117,788	Long position	6.92	4.51
Ping An Securities Company, Ltd. Labor Union	A	Interest of controlled corporations	4	331,117,788	Long position	6.92	4.51
China Ping An Trust & Investment Co., Ltd. Labor Union	A	Interest of controlled corporations	4	331,117,788	Long position	6.92	4.51
Shenzhen New Horse Investment Development Co., Ltd.	A	Beneficial owner	5	389,592,366	Long position	8.14	5.30
Ping An Insurance (Group) Company of China, Ltd. Labor Union	A	Interest of controlled corporations	5	389,592,366	Long position	8.14	5.30
Yuan Trust Investment Company Ltd.	A	Beneficial owner		380,000,000	Long position	7.94	5.17
Shum Yip Group Limited*	A	Beneficial owner		301,585,684	Long position	6.30	4.11

* Shum Yip Group Limited was previously known as Shenzhen Shum Yip Investment Development Company Ltd. The change of name took effect on April 22, 2008.

Notes:

(1) HSBC Insurance Holdings Limited was a wholly-owned subsidiary of HSBC Holdings plc and its interest in 618,886,334 shares of the Company was deemed to be the interest of HSBC Holdings plc.

(2) Besides (1) above, HSBC Holdings plc was also interested in the Company by virtue of its control over HSBC CCF Financial Products (France) SNC ("CCF SNC") which held a direct interest in 884,775 shares in the Company. The interest in 884,775 shares of the Company was held through cash settled unlisted securities.

CCF SNC was 100% owned by CCF S.A. which was owned as to 99.99% by HSBC Bank plc. HSBC Holdings plc owned 100% interest in HSBC Bank plc.

(3) The Hongkong and Shanghai Banking Corporation Limited was 100% owned by HSBC Asia Holdings BV, a wholly-owned subsidiary of HSBC Asia Holdings (UK), which in turn was a wholly-owned subsidiary of HSBC Holdings BV. HSBC Finance (Netherlands), a wholly-owned subsidiary of HSBC Holdings plc, owned 100% interest in HSBC Holdings BV.

(4) Shenzhen Jingao Industrial Development Co., Ltd. was owned as to 80% and 20% by Ping An Securities Company, Ltd. Labor Union and China Ping An Trust & Investment Co., Ltd. Labor Union respectively. The interest in 331,117,788 shares relates to the same block of shares in the Company.

(5) Shenzhen New Horse Investment Development Co., Ltd. was owned as to 95% by Ping An Insurance (Group) Company of China, Ltd. Labor Union. The interest in 389,592,366 shares relates to the same block of shares in the Company.

Save as disclosed above, the Company is not aware of any other person (other than the Directors and Supervisors of the Company) having any interests or short positions in the shares and underlying shares of the Company as at June 30, 2008 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Interests and short positions of directors and supervisors

As at June 30, 2008, the interests and short positions of the Directors and Supervisors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and Supervisors of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

Name	Position	H/A shares	Capacity	No. of H/A shares	Nature of interest	Percentage of total number of H/A shares in issue (%)	Percentage of total shares in issue (%)
Cheung Chi Yan Louis	Executive Director	H	Beneficial owner	248,000	Long position	0.01	0.003
Chow Wing Kin Anthony	Independent non-executive Director	H	Interest held jointly with another person*	7,500	Long position	0.00029	0.000
Lin Li	Supervisor	A	Interest of controlled corporations**	175,678,700	Long position	3.67	2.39

* Chow Wing Kin Anthony jointly held these H shares with Chow Suk Han Anna.

** Lin Li was interested in the Company by virtue of his control over 93.33% shareholding in Shenzhen Liye Group Company Limited, which held a direct interest in 175,678,700 shares in the Company.

Save as disclosed above, as at June 30, 2008, none of the Directors or Supervisors held or was deemed to hold any interests or short positions in the shares and underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the Directors or Supervisors to the Company and the Stock Exchange pursuant to the Model Code nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

PURCHASE, SALE, OR REDEMPTION OF LISTED SHARES

Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed shares from January 1, 2008 to June 30, 2008.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

The primary duties of the audit committee are to review and supervise the Company's financial reporting process, internal audit and control procedures. The audit committee is also responsible for reviewing the external auditor's appointment, the external auditor's remuneration and any matters relating to the termination of the appointment or resignation of the external auditors. In addition, the audit committee also examines the effectiveness of the Company's internal controls, which involves regular reviews of the internal controls of various corporate structures and business processes on a continuous basis, and takes into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies.

The audit committee comprises five Independent Non-executive Directors, namely Mr. Kwong Che Keung Gordon, Mr. Zhang Honyi, Mr. Chen Su, Mr. Cheung Wing Yui and Mr. Chow Wing Kin Anthony and one Non-executive Director, namely Mr. Ng Sing Yip. The audit committee is chaired by Mr. Kwong Che Keung Gordon, an Independent Non-executive Director who also possesses the appropriate professional qualifications of accounting and related financial management expertise.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed the internal controls and financial reporting matters including a review of the interim accounts of the Company.

The Company has also established a remuneration committee and a nomination committee. Further details of the roles and functions, composition and summary of the work of these Board committees were set out under the paragraph headed "Board Committees" in the Corporate Governance Report on pages 40 to 42 of the Company's 2007 annual report dated March 19, 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable Code Provisions set out in the Code on Corporate Governance Practices for any part of the period from January 1, 2008 to June 30, 2008 except that Mr. Ma Mingzhe has occupied the positions of both the Chairman of the Board of Directors and Chief Executive Officer of the Company.

Code Provision A.2.1 of the Code on Corporate Governance Practices provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. However, the Board is of the opinion that the Company has built up a board structure of international standard and has developed a very structured and strict operation system and a set of procedural rules for meeting of the Board of Directors. The Chairman does not have any special power different from that of other directors in relation to the decision making process. Also, in the day-to-day operation of the Company, the Company has in place an established management system and structure. Decisions on all material matters will be subject to complete and stringent deliberation and decision making procedures in order to ensure that the Chief Executive Officer can perform his duties diligently and effectively. Further, the current management model of the Company has been recognised in the industry and this model proves to be reliable, efficient and successful, therefore the continuous adoption of this model will be beneficial to the future development of the Company. There is also clear delineation in the responsibilities of the Board and the management set out in the articles of association of the Company.

Therefore, the Board is of the opinion that the Company's management structure is able to provide the Company with efficient management and at the same time, protect shareholders' rights to the greatest extent. The Company therefore does not currently intend to separate the roles of the Chairman of the Board of Directors and the Chief Executive Officer of the Company.

Further details of the Company's arrangements and considered reasons for the Company's intention not to separate the roles of the Chairman of the Board of Directors and the Chief Executive Officer of the Company were set out under the paragraph headed "Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules" in the Corporate Governance Report on pages 37 to 38 of the Company's 2007 annual report dated March 19, 2008.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS OF THE COMPANY

On May 28, 2004, the Company adopted the Code of Conduct, which was amended on July 3, 2007, regarding securities transactions by Directors and Supervisors of the Company ("Code of Conduct") on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made of all Directors and Supervisors of the Company who have confirmed that they complied with the required standard set out in the Model Code and the Code of Conduct for the period from January 1, 2008 to June 30, 2008.

INTERIM DIVIDEND

The Board approved that an interim dividend of RMB0.20 per share for the six months ended June 30, 2008 be paid to the Company's shareholders. According to the Articles of Association of the Company, dividends will be denominated in Renminbi. Dividends on A shares will be paid in Renminbi and dividends on H shares will be paid in Hong Kong dollars. The relevant exchange rate, record date and arrangements in relation to the entitlements of holders of H shares to receive the interim dividends for the period ended June 30, 2008 will be separately announced according to the regulatory requirements and the Articles of Association of the Company.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE AND THE COMPANY'S WEBSITE

All information required by paragraphs 46(1) to 46(9) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.pingan.com.cn) respectively in due course.

By Order of the Board of Directors

Ma Mingzhe
Chairman and Chief Executive Officer

Shenzhen, PRC
August 15, 2008

REGISTERED NAMES

Chinese name

中國平安保險(集團)股份有限公司

English name

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

REGISTERED ADDRESS

Ping An Building,
Ba Gua No. 3 Road, Shenzhen,
PRC

PLACE OF BUSINESS

Ping An Building,
Ba Gua No. 3 Road, Shenzhen,
PRC

LEGAL REPRESENTATIVE

MA Mingzhe

AUTHORIZED REPRESENTATIVES

SUN Jianyi
YAO Jun

COMPANY SECRETARY

YAO Jun

AUDITORS

Ernst & Young

CONSULTING ACTUARIES

Ernst & Young Advisory Services Limited

LEGAL ADVISORS

DLA Piper Hong Kong

PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK AND STOCK CODE

H share	The Stock Exchange of Hong Kong Limited (stock code 2318)
A share	The Shanghai Stock Exchange (stock code 601318)

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

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The Bank of New York
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