

The following is the text of a report, prepared for the purpose of incorporating in this Prospectus, received from our auditors and reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



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Hutchison House  
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June 14, 2004

The Directors

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

BOCI Asia Limited

Goldman Sachs (Asia) L.L.C.

The Hongkong and Shanghai Banking Corporation Limited

Morgan Stanley Dean Witter Asia Limited

Dear Sirs,

We set out below our report on the consolidated financial information relating to Ping An Insurance (Group) Company of China, Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended December 31, 2001, 2002 and 2003 (the "Relevant Periods") for inclusion in the prospectus of the Company dated June 14, 2004 (the "Prospectus").

The Company was incorporated in Shenzhen, the People's Republic of China (the "PRC") on March 21, 1988. The Group is principally engaged in various general insurance and life insurance businesses denominated in Renminbi ("RMB") and foreign currencies. As of December 31, 2003, the Group had approximately 36,000 employees. The registered address of the Company is Ping An Building, Ba Gua No. 3 Road, Shenzhen, the PRC.

On October 28, 2002, the China Insurance Regulatory Commission (the "CIRC") approved the change of the Company's name from Ping An Insurance Company of China, Ltd. to Ping An Insurance (Group) Company of China, Ltd.. The Company's business license was updated on January 24, 2003, so that its business scope includes investing in insurance enterprises, supervising and managing domestic and overseas operations of subsidiaries, and utilizing insurance funds. On October 28, 2002, the CIRC approved the establishment of Ping An Property & Casualty Insurance Company of China, Ltd. ("Ping An Property & Casualty") and Ping An Life Insurance Company of China, Ltd. ("Ping An Life"). Shortly afterwards, the respective insurance businesses were transferred from the Company to these two companies.

Arthur Andersen Hua Qiang Certified Public Accountants audited the Group's statutory financial statements for the year ended December 31, 2001 as prepared in accordance with PRC accounting rules and regulations ("PRC GAAP"). Arthur Andersen & Co. audited the Group's consolidated financial statements for the year ended December 31, 2001, prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. We have acted as the auditors of the Company and its principal subsidiaries since the financial year ended December 31, 2002. For the purpose of this report, we have undertaken independent audits of the Group's consolidated financial

statements for the three years ended December 31, 2001, 2002 and 2003 in accordance with Hong Kong Statements of Auditing Standards and the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the consolidated results, statements of movements in equity and cash flow statements of the Group for the Relevant Periods, and of the consolidated balance sheets of the Group and the balance sheets of the Company as at December 31, 2001, 2002 and 2003 (the "Summaries") set out in this report have been prepared from the audited financial statements and management accounts, where appropriate, of the Company and its subsidiaries for the Relevant Periods, after making such adjustments as we consider appropriate and are prepared on the basis set out in Section 1 below.

The directors of the Company are responsible for the Summaries which are prepared based on the financial statements and management accounts of the respective companies of the Group. The directors of the respective companies of the Group are responsible for the preparation of respective financial statements and management accounts which give a true and fair view. In preparing the Summaries, financial statements and management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion on the Summaries and to report our opinion to you.

In our opinion, the Summaries, together with the notes thereon give, for the purpose of this report, a true and fair view of the consolidated results and consolidated cash flow statements of the Group for the Relevant Periods, and of the consolidated balance sheets of the Group and the balance sheets of the Company as at December 31, 2001, 2002 and 2003.

## **1. CHANGES IN GROUP STRUCTURE AND BASIS OF PREPARATION**

### **(1) Changes in the Group's Structure During the Relevant Periods**

In addition to the formation of Ping An Property & Casualty and Ping An Life as mentioned above, the principal changes in the structure of the Group during the Relevant Periods are as follows:

- (a) On May 22, 2001, the paid-in capital of Ping An Securities Company, Ltd. ("Ping An Securities") was increased from RMB150,000,000 to RMB1,000,000,000. The increase in paid-in capital was approved by the China Securities Regulatory Commission (the "CSRC"). Prior to this increase in paid-in capital and disposal of certain equity interest in Ping An Securities, the Group owned the entire equity interest in Ping An Securities. On May 22, 2001, the equity interest in Ping An Securities held by China Ping An Trust & Investment Co., Ltd. ("Ping An Trust", a subsidiary of the Company) was reduced to 30%. Accordingly, Ping An Securities was accounted for as a consolidated subsidiary for the period from January 1, 2001 to May 21, 2001, and as an associate from May 22, 2001.

On October 22, 2003, with the approval of the CSRC, Ping An Trust acquired a 34.12% equity interest in Ping An Securities from certain minority shareholders of Ping An Securities. Thereafter, Ping An Trust's equity interest in Ping An Securities

**1. CHANGES IN GROUP STRUCTURE AND BASIS OF PREPARATION (Continued)**

increased from 30% to 64.12%. Accordingly, Ping An Securities was accounted for as a consolidated subsidiary from October 22, 2003.

- (b) On August 21, 2001, with the approval of the Guangzhou Branch and the Shenzhen Central Sub-branch of the People's Bank of China, the paid-in capital of Ping An Trust was increased from RMB150,000,000 to RMB500,000,000, and the equity interest in Ping An Trust held by the Company was reduced from 100% to 95%.

On August 13, 2003, with the approvals of the CIRC and the Shenzhen Central Sub-branch of the People's Bank of China, the paid-in capital of Ping An Trust was increased from RMB500,000,000 to RMB2,700,000,000, and the Company's equity interest in Ping An Trust was increased from 95% to 99.08%. On September 8, 2003, the Company acquired a further equity interest of 0.18% in Ping An Trust from one of its shareholders. Thereafter, the Company's equity interest in Ping An Trust was increased to 99.26%.

- (c) On August 30, 2002, the Group entered into an agreement to dispose of its 71.25% equity interest in Shanghai Ping An Xinlun Property Development Co., Ltd. ("Shanghai Xinlun"). The disposal was later approved by the Shanghai Foreign Investment Committee and the business license of Shanghai Xinlun was updated on December 24, 2002.
- (d) On November 28, 2002 and December 2, 2002, the Group entered into agreements to dispose of its 58.68% equity interest in Hu'nan Ankee Real Estate Development Co., Ltd. and its 95% equity interest in Shenzhen Football Club. As the Group had no control over these two subsidiaries as of December 31, 2002, their operating results were included in the consolidated financial statements up to the respective dates of disposal.
- (e) On November 25, 2003, Ping An Trust entered into an agreement to dispose of its 70% equity interest in Zhong An Pawn Shop Co., Ltd. ("Pawn Shop"). After such disposal, the Group's equity interest in Pawn Shop was reduced to 29.85%. Accordingly, Pawn Shop was accounted for as a consolidated subsidiary for the period from January 1, 2001 to November 24, 2003, and as an associate since November 25, 2003.

**1. CHANGES IN GROUP STRUCTURE AND BASIS OF PREPARATION (Continued)**

Particulars of the Company's principal subsidiaries as at December 31, 2003 are set out below:

Name	Date and place of incorporation	Attributable equity interest		Registered and paid-up capital (RMB unless otherwise stated)	Principal activities
		Direct	Indirect		
Ping An Life	December 17, 2002 The PRC	99.00%	—	3,800,000,000	Life insurance activities
Ping An Property & Casualty	December 24, 2002 The PRC	99.00%	—	1,600,000,000	General insurance activities
Ping An Trust	November 19, 1984 The PRC	99.26%	—	2,700,000,000	Investment and financing activities
Ping An Securities	July 18, 1996 The PRC	—	63.64%	1,000,000,000	Security investment and brokerage activities
Shenzhen Ping An Industries Co.	November 24, 1992 The PRC	20.00%	79.40%	20,000,000	Investment activities
Shenzhen Ping An Property Investment and Management Co.	January 6, 1995 The PRC	90.00%	9.94%	20,000,000	Property management
China Ping An Insurance Overseas (Holdings) Limited	October 24, 1996 Hong Kong	100.00%	—	HK\$ 55,000,000	Investment holding
Shanghai Mingxin Real Estate Development Co., Ltd.	May 12, 1993 The PRC	—	98.01%	US\$ 12,000,000	Development of property in Shanghai (Completed)
Shenzhen Ping An Futures Brokerage Co., Ltd.	April 10, 1996 The PRC	—	99.78%	30,000,000	Futures brokerage activities
Beijing Ping An Real Estate Development Co., Ltd.	January 18, 1994 The PRC	—	99.25%	US\$ 12,000,000	Development of property in Beijing (Completed)
China Ping An Insurance (Hong Kong) Company Limited	August 17, 1976 Hong Kong	—	75.00%	HK\$ 80,000,000	General insurance activities
Fuzhou Ping An Real Estate Development Co., Ltd.	March 28, 1994 The PRC	—	74.25%	US\$ 5,000,000	Development of property in Fuzhou (Completed)

Details of the principal associate of the Group as at December 31, 2003 are as follows:

Name	Date and place of incorporation	Attributable equity interest		Registered and paid-up capital (RMB unless otherwise stated)	Principal activities
		Direct	Indirect		
Pawn Shop	March 28, 1993 The PRC	—	29.85%	10,000,000	Pawning activities

**1. CHANGES IN GROUP STRUCTURE AND BASIS OF PREPARATION (Continued)****(2) Basis of Presentation**

The Summaries, which are based on the audited financial statements and management accounts, where appropriate, of the Company and its subsidiaries, include the consolidated results, balance sheets, movements in equity and cash flows of the Company and its subsidiaries. All material intra-group transactions and balances are eliminated on consolidation.

These Summaries have been prepared under the historical cost convention, except for the measurement at fair values of held-for-trading investments and available-for-sale investments. The above basis of accounting differs from that used in the statutory and management accounts of the Group and the Company, which were prepared in accordance with PRC GAAP.

The Summaries have been prepared in accordance with IFRS, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

In the Group's preparation of its IFRS financial statements for 2001 to 2003, IFRS did not have a standard governing the accounting treatment of insurance contracts and, at the time when a specific topic is not addressed by IFRS, the IFRS framework permits reference to another comprehensive body of accounting principles. Because of such permission,

- the Group has chosen to use the revenue accounting practices currently adopted by many insurance companies reporting under the Companies Ordinance and Insurance Companies Ordinance in Hong Kong; and
- the Group has made reference to accounting principles generally accepted in the United States for guidance on the measurement of its insurance liabilities and associated deferred policy acquisition costs, specifically, the measurement guidance provisions contained within Statements of Financial Accounting Standards No. 60 and No. 97.

The IASB just issued IFRS 4 "Insurance Contracts" on March 31, 2004. It is effective for the Group's IFRS financial statements for the year ending December 31, 2005 and it will be months before the insurance industry has more consensus on its interpretation and application. However, the Group's management currently considers that its prevailing accounting policies are in compliance with certain main requirements of IFRS 4, including but not limited to no catastrophe and equalization provisions, the use of liability adequacy test and impairment test for reinsurance assets, keeping insurance liabilities until discharge, etc. As for the principal requirement of insurance contract being a contract with significant insurance risk, the Group believes that most of its insurance contracts qualify as such under IFRS 4; more specifically, investment contracts containing discretionary participation features can continue to be accounted for as if they are insurance contracts. In the event that premium income under certain contracts, which are regarded as investment contracts under IFRS 4, would not be accounted for as revenue, it would be accounted for as a direct credit to the policyholders' account balance held as a liability on the balance sheet, and related claims to the extent covered by the said account balance would also not be accounted for in the income statement

**1. CHANGES IN GROUP STRUCTURE AND BASIS OF PREPARATION (Continued)**

but as a debit to the policyholders' account balance. The impact will largely be a reduction of revenue and claim expense, and a corresponding decline in the increase in policyholders' reserves. On the above basis, the directors currently believe that there would be no significant impact to the line items of the Group's financial statements for 2001 to 2003. The directors further believe that the use of IFRS 4 since the year ending December 31, 2005 will not have a significant impact on the Group's operating results.

**2. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted by the Group and the Company in arriving at the financial information contained in this report, which conform with IFRS, are set out below.

**(1) Principles of Consolidation**

The Group's consolidated financial statements incorporate the financial statements of the Company and its material subsidiaries after elimination of intercompany transactions.

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

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

**(2) Foreign Currency**

Based on the economic substance of the underlying events and circumstances relevant to the Group, the measurement currency of the Group has been determined to be Renminbi ("RMB"). To consolidate the financial statements of the Company (measured in RMB) and each of its subsidiaries (each measured in its own measurement currency), the financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, at historical exchange rates for equity items and at the average exchange rate for the year with respect to the consolidated results. The resulting translation differences, if material, are included in a translation reserve in equity.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated results.

**(3) Subsidiaries**

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

The Company's interests in subsidiaries are stated in the balance sheet at the Company's share of net assets under the equity method of accounting.



**2. PRINCIPAL ACCOUNTING POLICIES (Continued)****(4) Associates**

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

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

**(5) Investments**

Investments are classified by management into the following categories: held-for-trading investments, loans and receivables originated by the enterprise, held-to-maturity investments and available-for-sale investments. Investments acquired principally for the purpose of generating a profit from short term price fluctuations are classified as held-for-trading investments. Loans and receivables originated by the Group by providing money, goods, or services directly to a debtor, other than those that are originated with the intent to be sold immediately or in the short term, are classified as loans and receivables originated by the enterprise. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables originated by the enterprise are classified as held-to-maturity investments. All other investments are classified as available-for-sale investments.

All purchases and sales of investments are recognized on the trade date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Held-for-trading investments and available-for-sale investments are subsequently carried at fair value, except for certain equity investments (categorized as available-for-sale investments) that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such equity investments are measured at their cost less any provision for impairment losses. The directors consider this treatment appropriate because there is no reliable open market value for these securities, there is uncertainty as to their future cash flows, the variability in the range of reasonable fair value estimates is significant and, as a result, the probabilities of the various outcomes are difficult to assess.

The fair values of listed bond investments, listed equity securities and listed equity investment funds are assessed at the balance sheet date with reference to the quoted prices on the last trading day on the applicable exchanges.

The fair values of bonds traded in the tertiary trading market are assessed each year at the balance sheet date with reference to the last transacted price. If the last transaction price is not current, or if a tertiary trading market is not available, the fair values are determined by discounted cash flow analysis. The discount rates are determined by reference to yield rates of similar listed bonds at the balance sheet date.

**2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

Changes in the fair values of held-for-trading investments are included in consolidated results.

Changes in the fair values of available-for-sale investments, net of deferred tax, are recognized as a separate component of equity until the investment is de-recognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated results. The Group de-recognizes a financial asset or a portion of a financial asset when, and only when, the Group loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Loans and receivables originated by the enterprise and held-to-maturity investments are subsequently measured at amortized cost less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity, using the effective interest rate method. For investments carried at amortized cost, gains and losses are recognized in income when the investments are de-recognized or impaired, as well as through the amortization process.

**(6) Securities purchased under agreement to resell — reverse repos**

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

**(7) Investment Properties**

Investment properties consist of investments in buildings that are held to earn rental income or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.

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 (3% 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.



**2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

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.

Impairment losses are recognized when the carrying amounts of investment properties are not expected to be recoverable. These impairment losses are recognized as an expense in the consolidated results. Impairment losses against the carrying amount of investment properties are reversed to the consolidated results when the circumstances and events that lead to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

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

**(8) Cash and Cash Equivalents**

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

**(9) Securities sold under repurchase agreements — repos**

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

**(10) Deferred Policy Acquisition Costs*****Deferred Policy Acquisition Costs for Long Term Life Insurance and Investment-linked Policies***

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

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

Deferred policy acquisition costs for investment type contracts, such as investment-linked 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

**2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

policyholder balances, administrative expenses and interest credited. Estimated gross profits are revised regularly and the interest rate used to compute the present value of revised estimates of expected gross profits is the latest revised rate applied to the remaining benefit period. Deviations of actual results from estimated experience are reflected in the consolidated results.

***Deferred Policy Acquisition Costs for General 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.

**(11) Property, Plant and Equipment and Depreciation**

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

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

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

	<b>Estimated residual values</b>	<b>Estimated useful lives</b>
Leasehold improvements . . . . .	—	Over the shorter of economic useful lives and terms of the leases
Buildings . . . . .	3%	30-35 years
Office equipment, furniture and fixtures . . . . .	—	3-8 years
Motor vehicles . . . . .	4%	4-6 years

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

**2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

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.

**(12) Construction-in-progress**

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

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

**(13) Land use rights**

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

**(14) Goodwill**

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of an acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill is amortized on a straight-line basis over its estimated useful economic life of 10 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value.

**(15) Long Term Life Insurance Business**

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 contracts.

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

For policies where the premium payment period is less than the policy term, an extra reserve, often known as deferred profit liability, is also included in policyholders' reserves. The

**2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

deferred profit liability ensures a profit emergence in a constant relationship to the amount of insurance in force.

**(16) General and Short Term Life Insurance Business**

General and short term life insurance contracts provide insurance protection for a fixed period of short duration and the contract terms enable the insurer to cancel a contract or to adjust the provisions of a contract at the end of any contract period.

***Claim Reserves***

These comprise a best estimate of general and short term life provisions for losses and loss adjustment expenses, representing the accumulation of estimates for ultimate losses less a deduction for the estimated value of salvage and subrogation, and including a provision for losses incurred but not yet reported ("IBNR"). The methods of determining such estimates and establishing the resulting reserves are continually reviewed and updated. Resulting adjustments are reflected in the consolidated results for the period. The Group does not discount its claim reserves.

***Unearned Premium Reserves***

Upon inception of general and short term 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.

***Premium Deficiency Reserves***

Premium deficiency reserves are assessed for individual life, group life and general portfolios on the basis of estimates of future claims, costs, premiums earned and proportionate investment income. Where applicable, such accounts are included as a component of policyholders' reserves. Premium deficiency reserves assessed on general business are disclosed, when material, as a separate provision.

**(17) Investment-linked Business**

Revenue from investment-linked business consists of policy fees and annual management fees. Policy fees represent the cost of insurance and front-end subscription fees. Annual management fees are charged at a rate predetermined in the policy contracts. Amounts received other than policy fees collected as premiums and management fees from these contracts are reported as separate account (investment-linked) assets. Policy benefits and claims incurred in the period are charged to claim expenses in the consolidated results, to the extent such amounts are not covered by separate account funds.

Separate account (investment-linked) assets and liabilities represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. The net investment income on separate account assets accrues directly to the policyholders. The assets and liabilities of each investment-linked fund are carried at market value and are segregated from each other and from the rest of the Company's invested assets.

**2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

Subscriptions, withdrawals, net investment income and management fee expenses are included in the separate account assets and liabilities and are not reflected in the consolidated results.

**(18) Dividends**

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

**(19) Revenue Recognition**

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

**(i) Premium Income**

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

**(ii) Investment-linked Business**

Policy fees from investment-linked business, as defined in Section 2(17), are the difference between premiums received for investment-linked contracts and the amounts of premiums allocated to separate account (investment-linked) assets and liabilities.

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

**(iii) Investment Income**

Interest income from bond investments and bank deposits is recognized on an accrual basis. Dividends are recognized when the right to receive payment is established. Trading income comprises realized gains and losses from all investment assets and unrealized gains and losses from held-for-trading investments.

**(iv) Rental Income**

Rental income from investment properties (after deduction of the aggregate cost of incentives granted to lessees) is recognized as income on the straight-line basis over the lease terms.

**(20) Reinsurance**

The Group assumes and/or cedes reinsurance in the normal course of business. Reinsurance assets mainly include the balances due from both insurance and reinsurance

**2. PRINCIPAL ACCOUNTING POLICIES (Continued)**

companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Other than long term life policyholders' reserves and general and short term life unearned premium reserves, reinsurance related assets and liabilities are recorded gross in the consolidated balance sheet unless a right of offset exists.

According to PRC insurance regulations, the Group was required to cede 15%-20% of gross premium income from general and short-term life insurance to a state-owned reinsurer during 2001 to 2003.

**(21) 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 rental receivables under such operating leases are credited to the consolidated results on the straight-line basis over the lease terms.

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

**(22) Employee Benefits*****Pension obligations***

The employees of the Group are mainly covered by various defined contribution pension plans. The Group makes and accrues on a monthly basis contributions to the pension plans, which are mainly sponsored by the related government authorities that are responsible for the pension liability to retired employees. The Group has no other significant legal or constructive obligation for retirement benefits beyond the said contributions, which are expensed as incurred.

***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.

***Medical benefits***

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



**2. PRINCIPAL ACCOUNTING POLICIES (Continued)****(23) Tax**

The income tax charges (and business tax payable) are estimated based on existing income tax legislation, practices and interpretations thereof. The income tax charges are provided based on estimated taxable profit and include consideration for deferred taxes.

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

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Deferred tax liabilities are recognized for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortization is not deductible for tax purposes.

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

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

Tax refunds are accounted for on a cash basis.

**(24) Impairment of Assets*****Investment Assets***

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

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

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

**2. PRINCIPAL ACCOUNTING POLICIES (Continued)*****Other Assets***

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

A reversal of an impairment loss recognized in prior years is recorded when there is an indication that the impairment loss recognized for the asset no longer exists or has decreased. The reversal is recorded in the consolidated results. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been initially recognized for that asset in prior years.

**(25) Use of Estimates**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Therefore, actual results could differ from those estimates.

**(26) Related Parties**

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

## 3. CONSOLIDATED RESULTS

	Notes	Year ended December 31,		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
Gross written premiums and policy fees (net of business tax and surcharges) .....	(1)	40,955,244	58,419,538	63,133,634
Less: Premiums ceded to reinsurers...		(2,699,908)	(3,720,402)	(3,799,950)
Net written premiums and policy fees ..	(1)	38,255,336	54,699,136	59,333,684
Increase in unearned premium reserves .....	Section 4.(21)	(1,263,503)	(1,401,811)	(484,793)
Net earned premiums .....		36,991,833	53,297,325	58,848,891
Reinsurance commission income .....		928,224	1,194,650	1,247,573
Investment income and other income ..	(2)	3,913,761	4,256,195	6,526,771
Total revenue .....		41,833,818	58,748,170	66,623,235
Policy acquisition costs deferred ....	Section 4.(11)	7,184,113	8,320,040	7,482,892
Amortization of deferred policy acquisition costs .....	Section 4.(11)	(2,654,294)	(3,300,873)	(4,598,224)
Change in deferred policy acquisition costs .....	Section 4.(11)	4,529,819	5,019,167	2,884,668
Claims, surrenders, annuities and maturities .....	(3)	(7,274,091)	(12,693,337)	(13,584,849)
Policyholder dividends and reserves ...		(118,119)	(131,356)	(987,637)
Increase in policyholders' reserves ....	Section 4.(22)	(24,814,147)	(35,647,866)	(40,416,519)
Commission expenses .....		(5,679,507)	(6,691,755)	(5,676,131)
General and administrative expenses ..		(4,471,281)	(5,595,570)	(5,718,498)
Finance costs .....		(23,046)	(174,806)	(224,334)
Provision for insurance guarantee fund	Section 4.(23)	(64,545)	(79,929)	(84,094)
Total expenses .....		(37,914,917)	(55,995,452)	(63,807,394)
Operating profit .....	(4)	3,918,901	2,752,718	2,815,841
Share of profits/(losses) of associates		(64,596)	(59,065)	5,040
Income taxes .....	(5)	(900,116)	(688,772)	(493,692)
Net profit before minority interests .....		2,954,189	2,004,881	2,327,189
Minority interests .....		(2,286)	11,682	(6,821)
Net profit attributable to shareholders ..		2,951,903	2,016,563	2,320,368
Dividends .....	(6)	266,400	266,400	493,333
Earnings per share — basic .....	(7)	0.66	0.45	0.47
Dividends per share .....	(7)	0.06	0.06	0.10

## 3. CONSOLIDATED RESULTS (Continued)

## (1) Gross Written Premiums and Policy Fees

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Gross written premiums and investment-linked premiums .....	46,521,096	61,901,798	67,497,010
Less: Allocated to separate (investment-linked) assets, net .....	(4,923,209)	(2,837,850)	(3,811,030)
	41,597,887	59,063,948	63,685,980
Less: Business tax and surcharges .....	(642,643)	(644,410)	(552,346)
Gross written premiums and policy fees (net of business tax and surcharges) .....	<u>40,955,244</u>	<u>58,419,538</u>	<u>63,133,634</u>
<b>Gross</b>			
Life:			
Short term .....	2,356,721	3,200,708	3,756,740
Long term .....	32,595,733	47,380,941	51,285,408
General .....	<u>6,002,790</u>	<u>7,837,889</u>	<u>8,091,486</u>
Gross written premiums and policy fees (net of business tax and surcharges) .....	<u>40,955,244</u>	<u>58,419,538</u>	<u>63,133,634</u>
<b>Net of reinsurance outward</b>			
Life:			
Short term .....	1,686,191	2,049,409	2,788,181
Long term .....	32,587,697	47,373,658	51,273,475
General .....	<u>3,981,448</u>	<u>5,276,069</u>	<u>5,272,028</u>
Net written premiums and policy fees .....	<u>38,255,336</u>	<u>54,699,136</u>	<u>59,333,684</u>

Gross written premiums and policy fees (gross of business tax and surcharges) for long term life business include the following gross receipts from single premium individual endowments and from group retirement products with deferred annuity option or discretionary participating feature:

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Single premium individual endowments .....	2,842,845	9,493,757	10,345,823
Group retirement products with deferred annuity option or discretionary participating feature ....	<u>2,412,372</u>	<u>6,672,572</u>	<u>6,838,298</u>

## 3. CONSOLIDATED RESULTS (Continued)

## (2) Investment Income and Other Income

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
<b>Investment income</b>			
Interest income:			
Bonds .....	941,988	990,476	2,141,873
Fixed and other bank deposits .....	2,098,487	3,055,182	3,519,542
Collateralized placements .....	49,012	162,711	117,879
Dividend income .....	755,827	103,159	69,138
Realized gain/(loss) on:			
Held-for-trading investments .....	(77,440)	7,493	90,271
Available-for-sale investments .....	433,862	230,027	(107,001)
Unrealized gain/(loss) on held-for-trading investments .....	(610,728)	(534,850)	406,861
Operating lease income from investment properties	105,154	117,157	99,442
Gain on partial disposal of interest in a subsidiary ..	39,526	—	—
Gain on disposal of subsidiaries, net .....	29,641	3,757	4,900
Total investment income .....	<u>3,765,329</u>	<u>4,135,112</u>	<u>6,342,905</u>
<b>Other income</b>			
Securities brokerage commission .....	30,593	—	25,667
Investment-linked business management fee income	5,738	20,623	119,000
Exchange gains/(losses), net .....	(1,301)	(426)	51
Others .....	113,402	100,886	39,148
Total other income .....	<u>148,432</u>	<u>121,083</u>	<u>183,866</u>
Total .....	<u><u>3,913,761</u></u>	<u><u>4,256,195</u></u>	<u><u>6,526,771</u></u>

## (3) Claims, Surrenders, Annuities and Maturities

	Year ended December 31, 2003		
	General	Life	Total
	RMB'000	RMB'000	RMB'000
Gross claim reserves, end of year .....	3,154,553	1,662,166	4,816,719
Gross claim reserves, beginning of year .....	(2,262,871)	(572,846)	(2,835,717)
Movements on gross claim reserves .....	891,682	1,089,320	1,981,002
Gross claims paid, surrenders, annuities and maturities:			
Direct underwriting .....	4,465,178	9,406,488	13,871,666
Reinsurance accepted .....	16,583	—	16,583
Gross amounts incurred .....	4,481,761	9,406,488	13,888,249
Recoverable from reinsurers .....	(1,627,026)	(657,376)	(2,284,402)
	<u><u>3,746,417</u></u>	<u><u>9,838,432</u></u>	<u><u>13,584,849</u></u>

## 3. CONSOLIDATED RESULTS (Continued)

	Year ended December 31, 2002		
	General	Life	Total
	RMB'000	RMB'000	RMB'000
Gross claim reserves, end of year .....	2,262,871	572,846	2,835,717
Gross claim reserves, beginning of year .....	(2,100,338)	(147,695)	(2,248,033)
Movements on gross claim reserves .....	162,533	425,151	587,684
Gross claims paid, surrenders, annuities and maturities:			
Direct underwriting .....	3,401,084	10,094,234	13,495,318
Reinsurance accepted .....	15,440	—	15,440
Gross amounts incurred .....	3,416,524	10,094,234	13,510,758
Recoverable from reinsurers .....	(936,113)	(468,992)	(1,405,105)
	<u>2,642,944</u>	<u>10,050,393</u>	<u>12,693,337</u>
	Year ended December 31, 2001		
	General	Life	Total
	RMB'000	RMB'000	RMB'000
Gross claim reserves, end of year .....	2,100,338	147,695	2,248,033
Gross claim reserves, beginning of year .....	(1,262,618)	(143,817)	(1,406,435)
Movements on gross claim reserves .....	837,720	3,878	841,598
Gross claims paid, surrenders, annuities and maturities:			
Direct underwriting .....	2,590,879	5,200,586	7,791,465
Reinsurance accepted .....	13,574	—	13,574
Gross amounts incurred .....	2,604,453	5,200,586	7,805,039
Recoverable from reinsurers .....	(1,086,058)	(286,488)	(1,372,546)
	<u>2,356,115</u>	<u>4,917,976</u>	<u>7,274,091</u>



**3. CONSOLIDATED RESULTS (Continued)****(4) Operating Profit**

(i) Operating profit is arrived at after charging the following items:

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Employee costs, excluding directors' remuneration (4(ii))	1,668,597	2,338,087	2,470,832
Depreciation of investment properties	46,283	67,122	55,605
Depreciation of property, plant and equipment	440,238	424,134	398,512
Amortization of land use rights	9,213	7,855	21,000
Amortization of goodwill	—	—	3,127
Loss on disposal of investment properties, property, plant and equipment, and construction-in-progress, net	2,299	18,186	1,871
Impairment losses for investment properties, property, plant and equipment, construction-in-progress, and land use rights	52,888	51,680	34,501
Operating lease payments in respect of land and buildings	343,925	475,069	523,840
Provision for doubtful debts, net	<u>53,841</u>	<u>31,818</u>	<u>—</u>

There was no additional provision for doubtful debts in 2003 because of better collection efforts and improvement in the ageing of gross premium receivables.

The above items are included in general and administrative expenses in the consolidated results.

(ii) Employee costs, excluding directors' remuneration

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	1,416,903	1,977,289	2,076,877
Retirement benefits, social security contributions and welfare benefits	<u>251,694</u>	<u>360,798</u>	<u>393,955</u>
	<u>1,668,597</u>	<u>2,338,087</u>	<u>2,470,832</u>

**(5) Income Taxes**

According to the "Provisional Regulations of the PRC on Enterprise Income Tax", the taxable income of the Group represents its income for financial reporting purposes, net of

**3. CONSOLIDATED RESULTS (Continued)**

deductible items for income tax purposes. The enterprise income tax rates applicable to the Group, the subsidiaries and their branches during the Relevant Periods are as follows:

<u>Tax</u>	<u>Subsidiaries and branches</u>	<u>Tax rate</u>
Enterprise income tax in the PRC . . . .	— Located in Special Economic Zones	15%
	— Located outside Special Economic Zones	33%
Hong Kong profit tax . . . . .	— Subsidiaries in the Hong Kong Special Administrative Region	16%–17.5%

	<u>Year ended December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Current income tax of the Group . . . . .	640,031	567,027	634,766
Share of tax attributable to an associate . . . . .	1,697	1,593	8
Total current income tax . . . . .	<u>641,728</u>	<u>568,620</u>	<u>634,774</u>
Deferred tax relating to the origination and reversal of temporary differences:			
Provision for policyholders' reserves . . . . .	(348,859)	(694,272)	(349,449)
Provision for claim reserves . . . . .	(34,982)	(24,387)	(43,365)
Provision for unearned premium reserves . . . . .	4,085	(24,405)	(4,656)
Deferred policy acquisition costs . . . . .	679,473	752,875	432,701
Fair value adjustment on held-for-trading investments . . . . .	(98,041)	16,573	(25,462)
Provision for placements and loans . . . . .	(14,527)	18,506	15,461
Impairment losses for assets . . . . .	2,992	8,578	4,306
Others . . . . .	68,247	66,684	(24,451)
Total deferred tax . . . . .	<u>258,388</u>	<u>120,152</u>	<u>5,085</u>
	900,116	688,772	639,859
Less: Tax refund . . . . .	—	—	(146,167)
Income taxes . . . . .	<u>900,116</u>	<u>688,772</u>	<u>493,692</u>

According to the related tax regulations in the PRC and upon approval from the tax authorities in 2003, the Group received a refund of income tax of RMB146,167,000 in 2003, which was levied on certain investment income earned in 2000 and 2001. Such tax refund was credited to income tax expenses for 2003.

**3. CONSOLIDATED RESULTS (Continued)**

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

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Accounting profit before tax and minority interests . . .	3,854,305	2,693,653	2,820,881
Tax computed at the main applicable tax rate of 15%	578,146	404,048	423,132
Tax effect of income not taxable in determining taxable income . . . . .	(223,373)	(194,871)	(214,520)
Tax effects of expenses not deductible in determining taxable income . . . . .	317,843	268,874	224,824
Tax effect of higher tax rate for entities (in the PRC) that are located outside the Special Economic Zones . . . . .	227,500	210,721	206,423
Income taxes . . . . .	900,116	688,772	639,859

**(6) Dividends**

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Declared in the year . . . . .	266,400	266,400	493,333
Paid in the year . . . . .	532,390	266,322	493,333

Under PRC Company Law and the Company's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up prior years' cumulative losses, if any.
- (ii) Allocations to the statutory revenue reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purposes of calculating the transfer to reserves, the profit after tax shall be the amount as determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory revenue reserve fund can be used to offset prior years' losses, if any, and part of the fund can be capitalized as the Company's share capital provided that the amount of such fund remaining after the capitalization shall not be less than 25% of the registered capital of the Company. The fund forms part of the shareholders' equity.

- (iii) Allocations of not less than 5% of after-tax profit, as determined under PRC GAAP, to the Company's statutory common welfare fund, which is established for the purpose of providing for the Company's employees collective welfare benefits such as the construction of dormitories, canteens and other staff welfare facilities. The

**3. CONSOLIDATED RESULTS (Continued)**

fund forms part of the shareholders' equity as only individual employees can use these facilities. The Company holds the title of such facilities.

- (iv) Allocations to the discretionary revenue reserve fund and general reserve if approved by the shareholders. These funds form part of the shareholders' equity.

In accordance with the relevant regulations, after the Company's initial public offering, the net profit after tax of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC GAAP and (ii) the retained profit determined in accordance with IFRS.

**(7) Earnings Per Share and Dividends Per Share**

The basic earnings per share amounts for the years ended December 31, 2001, 2002 and 2003 have been computed by dividing the net profit by the weighted average number of 4,440,000,000 shares, 4,490,009,132 shares and 4,933,333,334 shares in issue as adjusted to reflect the capitalization issue on December 19, 2003.

The Company had no dilutive potential shares during the Relevant Periods presented, hence no diluted earnings per share amounts are presented.

The dividends per share amounts are based on declared dividends per share for the respective years, as adjusted to reflect the capitalization issue on December 19, 2003.

**(8) Directors', Supervisors' and Senior Executives' Emoluments**

Details of the directors' and the supervisors' remuneration are as follows:

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Fees .....	—	—	555
Salaries, allowances and other benefits .....	7,484	22,049	13,850
Contributions to pension scheme .....	51	56	93
	<u>7,535</u>	<u>22,105</u>	<u>14,498</u>

The numbers of directors and supervisors whose remuneration fell within the following bands are set out below:

	Year ended December 31,		
	2001	2002	2003
Nil–RMB1,000,000 .....	4	2	6
RMB1,500,001–RMB2,000,000 .....	—	1	1
RMB5,500,001–RMB6,000,000 .....	1	1	—
RMB9,500,001–RMB10,000,000 .....	—	—	1
RMB13,500,001–RMB14,000,000 .....	<u>—</u>	<u>1</u>	<u>—</u>

**3. CONSOLIDATED RESULTS (Continued)**

The remuneration and designated bands of the five highest paid non-director individuals during the Relevant Periods are set out below:

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Salaries, allowances and other benefits .....	<u>23,600</u>	<u>29,712</u>	<u>27,302</u>

	Year ended December 31,		
	2001	2002	2003
RMB2,500,001–RMB3,000,000 .....	3	—	1
RMB3,500,001–RMB4,000,000 .....	—	1	1
RMB4,000,001–RMB4,500,000 .....	—	1	1
RMB5,000,001–RMB5,500,000 .....	—	1	—
RMB6,500,001–RMB7,000,000 .....	1	—	—
RMB7,000,001–RMB7,500,000 .....	—	1	1
RMB8,000,001–RMB8,500,000 .....	1	—	—
RMB9,000,001–RMB9,500,000 .....	<u>—</u>	<u>1</u>	<u>1</u>

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

During the Relevant Periods, no emoluments were paid by the Group to the directors, the supervisors or the other highest paid, non-director employees as an inducement to join the Group, or upon joining the Group, or as compensation for loss of office. No director or supervisor waived or agreed to waive any emoluments during the Relevant Periods.

**(9) Related Party Transactions**

During the Relevant Periods, the Group had the following related party transactions (as defined under IFRS) with Ping An Securities during the period that it was an associate of the Group between May 22, 2001 and October 22, 2003:

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
<b>Recurring transactions</b>			
Securities commissions paid .....	6,309	10,245	5,967
Interest income received for dealing deposits placed ....	29,900	15,879	19,208
Bonds purchased .....	—	—	314,196
Rental income received .....	<u>7,589</u>	<u>3,043</u>	<u>1,645</u>

In the opinion of the directors, the above transactions were conducted in the normal course of the Group's business.

**3. CONSOLIDATED RESULTS (Continued)****(10) Retirement Benefits**

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. The Group has no other significant legal or constructive obligation for retirement benefits beyond the said contributions, which are expensed as incurred.



## 4. BALANCE SHEETS

The following are the consolidated balance sheets of the Group and the balance sheets of the Company as at December 31, 2001, 2002 and 2003:

*Group*

	Notes	December 31,		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
Investments:				
Held-for-trading investments ..	(1)	3,533,818	3,437,071	6,799,053
Available-for-sale investments	(2)	18,657,316	22,685,805	14,764,334
Held-to-maturity investments ..	(3)	—	9,991,024	32,331,706
Loans and receivables				
originated by the enterprise:				
Bonds .....	(4)	4,170,000	5,666,617	19,169,863
Fixed deposits .....	(5)	45,922,715	73,438,880	78,233,003
Placements and loans .....	(6)	6,203,783	9,541,497	3,285,474
Investment in an associate ....		381,418	274,684	3,447
Investment properties, net ....	(7)	1,523,352	1,493,977	1,333,100
Total investments .....		80,392,402	126,529,555	155,919,980
Other assets:				
Cash and cash equivalents ...	(8)	4,954,860	3,814,741	8,016,968
Premium receivables, net .....	(9)	400,801	392,445	439,256
Interest receivables, net .....	(10)	144,239	393,586	316,463
Claims recoverable .....	(20)	686,500	775,406	1,338,039
Deferred policy acquisition				
costs .....	(11)	12,456,775	17,475,942	20,360,610
Statutory deposits .....	(12)	444,000	444,000	1,200,000
Property, plant and equipment,				
net .....	(13)	2,470,184	2,703,770	3,146,722
Construction-in-progress, net ..	(14)	207,065	142,870	146,231
Land use rights, net .....	(15)	493,986	847,458	924,000
Goodwill .....	(16)	—	—	241,406
Deferred tax assets .....	(17)	268,704	198,523	292,623
Other assets .....		815,357	871,648	1,077,542
Separate account (investment-				
linked) assets .....		4,979,034	8,005,942	10,059,231
Total other assets .....		28,321,505	36,066,331	47,559,091
Total assets .....		108,713,907	162,595,886	203,479,071

## 4. BALANCE SHEETS (Continued)

		December 31,		
	Notes	2001	2002	2003
		RMB'000	RMB'000	RMB'000
<b>EQUITY AND LIABILITIES</b>				
Equity:				
Paid-in capital .....	Section 5	2,220,000	2,466,667	4,933,334
Reserves .....	Section 5	4,180,259	9,322,247	7,667,021
Retained profits/(accumulated deficits) .....	Section 5	(1,129,905)	(101,800)	351,745
Total equity .....		5,270,354	11,687,114	12,952,100
Minority interests .....		101,499	112,766	337,142
Liabilities:				
Customers' deposits .....	(18)	—	—	2,303,984
Short term borrowings .....	(19)	3,000,582	8,313,266	200,000
Premiums received in advance		1,499,264	2,604,105	2,128,785
Commission payable .....		575,955	543,792	496,672
Claim reserves .....	(20)	2,248,033	2,835,717	4,816,719
Payable to reinsurers .....		21,452	282,846	269,884
Dividends payable to shareholders .....		410	488	287
Policyholder dividends payable and reserves .....		118,119	237,496	1,188,567
Deposits from policyholders ...		80,366	67,662	48,789
Deposits from reinsurers .....		268,297	282,632	129,795
Unearned premium reserves ..	(21)	3,894,615	5,296,426	5,781,219
Policyholders' reserves .....	(22)	83,880,370	119,528,236	159,944,755
Taxes payable .....		608,032	617,843	325,904
Insurance guarantee fund .....	(23)	538,306	618,235	710,669
Other liabilities .....		1,629,219	1,561,320	1,784,569
Separate account (investment-linked) liabilities .....		4,979,034	8,005,942	10,059,231
Total liabilities .....		103,342,054	150,796,006	190,189,829
Total equity and liabilities .....		108,713,907	162,595,886	203,479,071

## 4. BALANCE SHEETS (Continued)

*Company*

	Notes	December 31,		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
Investments:				
Held-for-trading investments .....	(1)	3,507,170	—	—
Available-for-sale investments .....	(2)	18,527,864	—	—
Loans and receivables originated by the enterprise:				
Bonds .....	(4)	4,170,000	—	—
Fixed deposits .....	(5)	45,864,779	5,316,380	4,710,730
Placements and loans .....	(6)	6,174,289	—	—
Investments in subsidiaries .....		2,882,000	4,452,585	8,110,508
Investment properties .....	(7)	398,606	—	—
Total investments .....		<u>81,524,708</u>	<u>9,768,965</u>	<u>12,821,238</u>
Other assets:				
Cash and cash equivalents .....	(8)	4,729,807	52,568	177,186
Premium receivables, net .....	(9)	387,921	—	—
Interest receivables, net .....	(10)	144,239	635	9,428
Intercompany receivables — non-trade .....		164,047	2,504,923	—
Claims recoverable .....	(20)	686,500	—	—
Deferred policy acquisition costs .....	(11)	12,456,775	—	—
Statutory deposits .....		444,000	—	—
Property, plant and equipment, net ..	(13)	1,515,406	510	1,682
Construction-in-progress .....	(14)	194,941	300	442
Land use rights, net .....	(15)	57,626	—	—
Deferred tax assets .....	(17)	264,863	—	—
Other assets .....		796,496	18,396	5,841
Separate account (investment-linked) assets .....		<u>4,979,034</u>	<u>—</u>	<u>—</u>
Total other assets .....		<u>26,821,655</u>	<u>2,577,332</u>	<u>194,579</u>
Total assets .....		<u>108,346,363</u>	<u>12,346,297</u>	<u>13,015,817</u>

## 4. BALANCE SHEETS (Continued)

		December 31		
	Notes	2001	2002	2003
		RMB'000	RMB'000	RMB'000
<b>EQUITY AND LIABILITIES</b>				
Equity:				
Paid-in capital .....	Section 5	2,220,000	2,466,667	4,933,334
Reserves .....	Section 5	4,180,259	8,940,639	7,285,413
Retained profits/(accumulated deficits) .....	Section 5	(1,129,905)	279,808	733,353
Total equity .....		5,270,354	11,687,114	12,952,100
Liabilities:				
Short term borrowings .....	(19)	3,000,000	—	—
Premiums received in advance ..		1,499,264	—	—
Commission payable .....		575,955	—	—
Claim reserves .....	(20)	2,217,271	—	—
Payable to reinsurers .....		13,286	—	—
Dividends payable to shareholders .....		410	488	287
Policyholder dividends payable and reserves .....		118,119	—	—
Deposits from policyholders .....		80,366	—	—
Deposits from reinsurers .....		268,297	—	—
Unearned premium reserves .....	(21)	3,876,807	—	—
Policyholders' reserves .....	(22)	83,880,370	—	—
Taxes payable .....		764,901	615,986	19,998
Deferred tax liabilities .....	(17)	—	24,667	—
Insurance guarantee fund .....	(23)	538,306	—	—
Other liabilities .....		1,263,623	18,042	43,432
Separate account (investment- linked) liabilities .....		4,979,034	—	—
Total liabilities .....		103,076,009	659,183	63,717
Total equity and liabilities .....		108,346,363	12,346,297	13,015,817

## 4. BALANCE SHEETS (Continued)

## (1) Held-for-trading Investments

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Listed bond investments, at fair value . . .	699,408	137,202	1,386,065
Unlisted bond investments, at fair value . .	391,935	454,250	725,038
Listed equity securities, at fair value . . . .	26,648	9,628	39,653
Listed equity investment funds, at fair value . . . . .	2,415,827	2,835,991	4,648,297
Total . . . . .	<u>3,533,818</u>	<u>3,437,071</u>	<u>6,799,053</u>
Range of discount rates used to compute fair value of certain unlisted bonds . . . .	<u>1.52%–4.89%</u>	<u>2.19%–4.74%</u>	<u>2.51%–2.55%</u>

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Listed bond investments, at fair value . . .	699,408	—	—
Unlisted bond investments, at fair value	391,935	—	—
Listed equity investment funds, at fair value . . . . .	2,415,827	—	—
Total . . . . .	<u>3,507,170</u>	<u>—</u>	<u>—</u>
Range of discount rates used to compute fair value of certain unlisted bonds . . . . .	<u>1.52%–4.89%</u>	<u>Not applicable</u>	<u>Not applicable</u>

**4. BALANCE SHEETS (Continued)***Interest Rate Risk*

The bond investments are subject to interest rate risk. Exposures to interest rate risk are analyzed according to their maturities and effective interest rates, as follows:

**Group**

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Fair value of bonds maturing:			
Within 1 year .....	—	—	1,117,127
Between 1 year and 5 years .....	223,323	366,726	557,538
After 5 years .....	868,020	224,726	436,438
Total .....	<u>1,091,343</u>	<u>591,452</u>	<u>2,111,103</u>
Range of effective interest rates of bonds (per annum) .....	<u>1.52%–4.36%</u>	<u>2.73%–3.90%</u>	<u>2.53%–3.72%</u>

**Company**

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Fair value of bonds maturing:			
Within 1 year .....	—	—	—
Between 1 year and 5 years .....	223,323	—	—
After 5 years .....	868,020	—	—
Total .....	<u>1,091,343</u>	<u>—</u>	<u>—</u>
Range of effective interest rates of bonds (per annum) .....	<u>1.52%–4.36%</u>	<u>Not applicable</u>	<u>Not applicable</u>



**4. BALANCE SHEETS (Continued)***Credit Risk*

The bond investments are subject to credit risk. The maximum credit risk exposures of these investments are represented by their total carrying amount. Concentrations of credit risk arise from exposures to particular individual debtors with whom the Group held significant bond investments. Credit risk for these bond investments is analyzed according to their maximum credit risk exposures and concentration of credit risk exposures as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Maximum credit risk exposures .....	<u>1,091,343</u>	<u>591,452</u>	<u>2,111,103</u>
Concentration of credit risk exposures:			
Bonds issued by the PRC Government .....	492,185	191,452	249,620
Bonds issued by financial institutions .....	496,709	400,000	1,169,160
Bonds issued by corporate entities .....	102,449	—	692,323
Total .....	<u>1,091,343</u>	<u>591,452</u>	<u>2,111,103</u>

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Maximum credit risk exposures .....	<u>1,091,343</u>	<u>—</u>	<u>—</u>
Concentration of credit risk exposures:			
Bonds issued by the PRC Government .....	492,185	—	—
Bonds issued by financial institutions .....	496,709	—	—
Bonds issued by corporate entities .....	102,449	—	—
Total .....	<u>1,091,343</u>	<u>—</u>	<u>—</u>

**(2) Available-for-sale Investments***Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Listed bond investments, at fair value . . .	5,323,837	15,603,725	12,408,024
Unlisted bond investments, at fair value . .	13,170,496	6,893,705	2,156,041
Unlisted equity investments, at cost (net of impairment losses) .....	162,983	188,375	200,269
Total .....	<u>18,657,316</u>	<u>22,685,805</u>	<u>14,764,334</u>
Range of discount rates used to compute fair value of certain unlisted bonds . . .	<u>1.63%–5.30%</u>	<u>2.01%–4.74%</u>	<u>0.86%–4.77%</u>

## 4. BALANCE SHEETS (Continued)

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Listed bond investments, at fair value . . .	5,323,837	—	—
Unlisted bond investments, at fair value	13,168,201	—	—
Unlisted equity investments, at cost (net of impairment losses) . . . . .	35,826	—	—
Total . . . . .	<u>18,527,864</u>	<u>—</u>	<u>—</u>
Range of discount rates used to compute fair value of certain unlisted bonds . . . . .	<u>1.63%–5.30%</u>	<u>Not applicable</u>	<u>Not applicable</u>

*Interest Rate Risk*

The bond investments are subject to interest rate risk. Exposures to interest rate risk are analyzed according to their maturities and effective interest rates, as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Fair value of bonds maturing:			
Within 1 year . . . . .	1,759,670	4,997,602	6,448,577
Between 1 year and 5 years . . . . .	9,407,179	5,491,223	1,082,133
After 5 years . . . . .	<u>7,327,484</u>	<u>12,008,605</u>	<u>7,033,355</u>
Total . . . . .	<u>18,494,333</u>	<u>22,497,430</u>	<u>14,564,065</u>
Range of effective interest rates of bonds (per annum) . . . . .	<u>1.64%–4.89%</u>	<u>1.64%–4.48%</u>	<u>1.90%–5.08%</u>

## 4. BALANCE SHEETS (Continued)

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Fair value of bonds maturing:			
Within 1 year .....	1,757,375	—	—
Between 1 year and 5 years .....	9,407,179	—	—
After 5 years .....	7,327,484	—	—
Total .....	<u>18,492,038</u>	<u>—</u>	<u>—</u>
Range of effective interest rates of bonds (per annum) .....	<u>1.64%–4.89%</u>	<u>Not applicable</u>	<u>Not applicable</u>

*Credit Risk*

The bond investments are subject to credit risk. The maximum credit risk exposures of these investments are represented by their total carrying amount. Concentrations of credit risk arise from exposures to particular individual debtors with whom the Group held significant bond investments. Credit risk for these bond investments is analyzed according to their maximum credit risk exposures and concentration of credit risk exposures as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Maximum credit risk exposures .....	<u>18,494,333</u>	<u>22,497,430</u>	<u>14,564,065</u>
Concentration of credit risk exposures:			
Bonds issued by the PRC Government .....	14,601,888	17,350,839	9,530,667
Bonds issued by financial institutions .....	1,133,888	2,508,964	2,534,698
Bonds issued by corporate entities .....	<u>2,758,557</u>	<u>2,637,627</u>	<u>2,498,700</u>
Total .....	<u>18,494,333</u>	<u>22,497,430</u>	<u>14,564,065</u>

## 4. BALANCE SHEETS (Continued)

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Maximum credit risk exposures .....	<u>18,492,038</u>	<u>—</u>	<u>—</u>
Concentration of credit risk exposures:			
Bonds issued by the PRC Government .....	14,601,888	—	—
Bonds issued by financial institutions .....	1,133,888	—	—
Bonds issued by corporate entities .....	<u>2,756,262</u>	<u>—</u>	<u>—</u>
Total .....	<u>18,492,038</u>	<u>—</u>	<u>—</u>

## (3) Held-to-maturity Investments

The amortized costs of these bond investments are analyzed according to their fair values and the range of discount rates used to compute their fair values, as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Amortized cost .....	<u>—</u>	<u>9,991,024</u>	<u>32,331,706</u>
Fair value .....	<u>—</u>	<u>10,151,961</u>	<u>31,407,240</u>
Range of discount rates used to compute fair value of certain unlisted bonds .....	<u>Not applicable</u>	<u>4.68%–4.86%</u>	<u>1.75%–5.98%</u>

The fair values of listed bond investments are computed in the same manner as those used for computing fair values of bond investments carried as held-for-trading and available-for-sale.

**4. BALANCE SHEETS (Continued)***Interest Rate Risk*

The bond investments are subject to interest rate risk. Exposures to interest rate risk are analyzed according to their maturities and effective interest rates, as follows:

**Group**

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Amortized cost of bonds maturing:			
Within 1 year .....	—	1,020,481	284,974
Between 1 year and 5 years .....	—	2,801,662	4,563,191
After 5 years .....	—	6,168,881	27,483,541
Total .....	—	9,991,024	32,331,706
Range of effective interest rates of bonds (per annum) .....	Not applicable	1.95%–5.13%	1.95%–5.13%

*Credit Risk*

The bond investments are subject to credit risk. The maximum credit risk exposures of these investments are represented by their total carrying amount. Concentrations of credit risk arise from exposures to particular individual debtors with whom the Group held significant bond investments. Credit risk for these bond investments is analyzed according to their maximum credit risk exposures and concentration of credit risk exposures as follows:

**Group**

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Maximum credit risk exposures .....	—	9,991,024	32,331,706
Concentration of credit risk exposures:			
Bonds issued by the PRC Government .....	—	7,428,273	21,344,073
Bonds issued by financial institutions .....	—	1,204,561	5,315,398
Bonds issued by corporate entities .....	—	1,358,190	5,672,235
Total .....	—	9,991,024	32,331,706

**(4) Loans and Receivables Originated by the Enterprise — Bonds**

Bonds purchased at original issuance in the primary market, without the intent to sell them immediately or in the short term, are classified as loans and receivables originated by the enterprise.

**4. BALANCE SHEETS (Continued)**

The amortized costs of these bond investments are analyzed according to their fair values and the range of discount rates used to compute their fair values, as follows:

***Group***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Amortized cost.....	4,170,000	5,666,617	19,169,863
Fair value .....	4,412,782	5,691,137	19,060,210
Range of discount rates used to compute fair value of certain unlisted bonds .....	1.89%–3.86%	3.41%–4.86%	1.67%–5.26%

***Company***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Amortized cost .....	4,170,000	—	—
Fair value .....	4,412,782	—	—
Range of discount rates used to compute fair value of certain unlisted bonds .....	1.89%–3.86%	Not applicable	Not applicable

***Interest Rate Risk***

The bond investments are subject to interest rate risk. Exposures to interest rate risk are analyzed according to their maturities and effective interest rates, as follows:

***Group***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Amortized cost of bonds maturing:			
Within 1 year .....	—	20,000	496,315
Between 1 year and 5 years.....	1,000,000	1,968,974	3,709,104
After 5 years .....	3,170,000	3,677,643	14,964,444
Total .....	4,170,000	5,666,617	19,169,863
Range of effective interest rates of bonds (per annum) .....	2.51%–5.68%	1.00%–4.76%	1.00%–5.10%

## 4. BALANCE SHEETS (Continued)

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Amortized cost of bonds maturing:			
Within 1 year .....	—	—	—
Between 1 year and 5 years .....	1,000,000	—	—
After 5 years .....	3,170,000	—	—
Total .....	4,170,000	—	—
Range of effective interest rates of bonds (per annum) .....	2.51%–5.68%	Not applicable	Not applicable

*Credit Risk*

The bond investments are subject to credit risk. The maximum credit risk exposures of these investments are represented by their total carrying amount. Concentrations of credit risk arise from exposures to particular individual debtors with whom the Group held significant bond investments. Credit risk for these bond investments is analyzed according to their maximum credit risk exposures and concentration of credit risk exposures as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Maximum credit risk exposures .....	4,170,000	5,666,617	19,169,863
Concentration of credit risk exposures:			
Bonds issued by the PRC Government .....	1,810,000	2,220,938	7,123,468
Bonds issued by financial institutions .....	2,360,000	3,139,324	10,135,962
Bonds issued by corporate entities .....	—	306,355	1,910,433
Total .....	4,170,000	5,666,617	19,169,863

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Maximum credit risk exposures .....	4,170,000	—	—
Concentration of credit risk exposures:			
Bonds issued by the PRC Government .....	1,810,000	—	—
Bonds issued by financial institutions .....	2,360,000	—	—
Bonds issued by corporate entities .....	—	—	—
Total .....	4,170,000	—	—



**4. BALANCE SHEETS (Continued)****(5) Loans and Receivables Originated by the Enterprise — Fixed Deposits***Interest Rate Risk*

The fixed deposits placed with banks are subject to interest rate risk. Exposures to interest rate risk are analyzed according to their maturities and interest rate ranges, as follows:

**Group**

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Carrying amount of deposits maturing:			
Within 1 year .....	2,446,915	6,500,322	3,688,988
Between 1 year and 5 years .....	28,307,800	55,952,178	62,970,995
After 5 years .....	15,168,000	10,986,380	11,573,020
Total .....	<u>45,922,715</u>	<u>73,438,880</u>	<u>78,233,003</u>
Range of interest rates (per annum) .....	<u>1.38%–7.50%</u>	<u>1.19%–7.50%</u>	<u>0.50%–7.50%</u>

**Company**

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Carrying amount of deposits maturing:			
Within 1 year .....	2,388,979	100,000	322,380
Between 1 year and 5 years .....	28,307,800	250,000	—
After 5 years .....	15,168,000	4,966,380	4,388,350
Total .....	<u>45,864,779</u>	<u>5,316,380</u>	<u>4,710,730</u>
Range of interest rates (per annum) .....	<u>1.38%–7.50%</u>	<u>1.98%–5.77%</u>	<u>0.55%–5.77%</u>

**4. BALANCE SHEETS (Continued)***Credit Risk*

The fixed deposits are subject to credit risk. The maximum credit risk exposures of these investments are represented by their total carrying value. Concentrations of credit risk arise from exposures to particular individual banks with which the Group has placed significant deposits. The credit risk of these fixed deposits is analyzed according to their maximum credit risk exposures and concentration of credit risks exposures as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Maximum credit risk exposures .....	<u>45,922,715</u>	<u>73,438,880</u>	<u>78,233,003</u>
Concentration of credit risk exposures:			
Fixed deposits placed with Bank of China .....	7,840,677	12,647,272	10,167,086
Fixed deposits placed with Guangdong Development Bank .....	<u>7,436,742</u>	<u>9,509,466</u>	<u>8,380,759</u>

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Maximum credit risk exposures .....	<u>45,864,779</u>	<u>5,316,380</u>	<u>4,710,730</u>
Concentration of credit risk exposures:			
Fixed deposits placed with Bank of China .....	7,840,677	4,966,380	4,138,350
Fixed deposits placed with Guangdong Development Bank .....	<u>7,378,806</u>	<u>—</u>	<u>12,788</u>

**(6) Loans and Receivables Originated by the Enterprise — Placements and Loans***Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Placements, at amortized cost (net of impairment loss) .....	20,292	—	—
Loans, at amortized cost (net of impairment loss) ...	80,136	47,013	20,900
Collateralized placements — reverse repos, at amortized cost .....	6,019,966	9,348,752	2,967,648
Policy loans, at amortized cost .....	<u>83,389</u>	<u>145,732</u>	<u>296,926</u>
Placements and loans, net .....	<u>6,203,783</u>	<u>9,541,497</u>	<u>3,285,474</u>

## 4. BALANCE SHEETS (Continued)

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Placements, at amortized cost (net of impairment loss) . .	20,292	—	—
Loans, at amortized cost (net of impairment loss) . . . . .	50,642	—	—
Collateralized placements — reverse repos, at amortized cost . . . . .	6,019,966	—	—
Policy loans, at amortized cost . . . . .	83,389	—	—
Placements and loans, net . . . . .	<u>6,174,289</u>	<u>—</u>	<u>—</u>

Collateralized placements are made with government bonds pledged as collateral. The fair value of such government bonds approximates the carrying amount of the collateralized placements. The Group is not permitted to sell or pledge these bonds in the absence of default.

*Interest Rate Risk*

The placements and loans are subject to interest rate risk. Exposures to interest rate risk are analyzed according to the original term of the placements and loans, and interest rate ranges, as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Original term of placements and loans:			
Placements . . . . .	360 days–2,880 days	Not applicable	Not applicable
Loans . . . . .	30 days–720 days	30 days–180 days	30 days–180 days
Collateralized placements — reverse repos . . . . .	4 days–182 days	3 days–182 days	3 days–182 days
Policy loans . . . . .	<u>180 days</u>	<u>180 days</u>	<u>180 days</u>
Range of interest rates (per annum):			
Placements . . . . .	10.26%–19.20%	Not applicable	Not applicable
Loans . . . . .	10.50%–30.00%	15.00%–30.00%	15.00%–30.00%
Collateralized placements — reverse repos . . . . .	2.33%–5.88%	1.94%–3.79%	2.46%–7.50%
Policy loans . . . . .	<u>5.50%–7.50%</u>	<u>5.50%–7.50%</u>	<u>5.50%–7.50%</u>

## 4. BALANCE SHEETS (Continued)

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Original term of placements and loans:			
Placements .....	360 days–2,880 days	Not applicable	Not applicable
Loans .....	30 days–720 days	Not applicable	Not applicable
Collateralized placements — reverse repos .....	4 days–182 days	Not applicable	Not applicable
Policy loans .....	<u>180 days</u>	<u>Not applicable</u>	<u>Not applicable</u>
Range of interest rates (per annum):			
Placements .....	10.26%–19.20%	Not applicable	Not applicable
Loans .....	10.50%–30.00%	Not applicable	Not applicable
Collateralized placements — reverse repos .....	2.33%–5.88%	Not applicable	Not applicable
Policy loans .....	<u>5.50%–7.50%</u>	<u>Not applicable</u>	<u>Not applicable</u>

*Credit Risk*

The placements and loans are subject to credit risk. The maximum credit risk exposures of these investments are represented by the carrying amount of these investments in the balance sheet. Policy loans are not subject to credit risk because the cash value of the policy pledged to the Group should exceed the corresponding loan amount.

Placements and loans are not provided on a concentrated basis to a single debtor or to groups of debtors having a similar characteristic such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

## (7) Investment Properties

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cost .....	1,690,696	1,790,974	1,670,237
Less: Accumulated depreciation .....	(139,871)	(231,290)	(251,622)
Accumulated impairment losses .....	<u>(27,473)</u>	<u>(65,707)</u>	<u>(85,515)</u>
Net book value .....	<u>1,523,352</u>	<u>1,493,977</u>	<u>1,333,100</u>
Fair value .....	<u>1,598,320</u>	<u>1,629,639</u>	<u>1,642,716</u>

The Group is still in the process of applying for the title certificates for its investment properties with a net book value of RMB474,285,000 as at December 31, 2003. In the opinion

**4. BALANCE SHEETS (Continued)**

of the management, adequate provision for impairment losses has been made on investment properties without title certificates as at December 31, 2001, 2002 and 2003.

***Company***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cost .....	450,215	—	—
Less: Accumulated depreciation .....	(51,609)	—	—
Net book value .....	<u>398,606</u>	—	—
Fair value .....	<u>450,459</u>	—	—

The fair values of the investment properties as at December 31, 2003 were estimated by a firm of independent valuers, Sallmanns (Far East) Limited, which has qualified surveyors. The registered address of the independent valuer is 22/F Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong.

**(8) Cash and Cash Equivalents*****Group***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cash at banks and in hand .....	1,890,409	3,330,257	8,016,968
Deposits placed with Ping An Securities .....	3,064,451	484,484	—
Deposits placed with other financial institutions .....	—	—	—
Cash and cash equivalents .....	<u>4,954,860</u>	<u>3,814,741</u>	<u>8,016,968</u>
Range of interest rates for deposits placed with Ping An Securities (per annum) .....	<u>2.07%</u>	<u>1.89%–2.07%</u>	<u>1.62%–1.89%</u>

The increase of approximately RMB4,200 million in cash and cash equivalents as at December 31, 2003 as compared to December 31, 2002 was mainly due to increase in the scale of operations and the need for appropriate investment opportunities.

## 4. BALANCE SHEETS (Continued)

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cash at banks and in hand . . . . .	1,665,356	52,568	177,186
Deposits placed with Ping An Securities . . . .	3,064,451	—	—
Cash and cash equivalents . . . . .	<u>4,729,807</u>	<u>52,568</u>	<u>177,186</u>
Range of interest rates for deposits placed with Ping An Securities (per annum) . . . . .	<u>2.07%</u>	<u>Not applicable</u>	<u>Not applicable</u>

The deposits placed with Ping An Securities represent deposits for securities trading purposes. These deposits can be withdrawn without restrictions. The interest rates of these deposits are pegged to the PRC inter-bank offer rate that is quoted by the People's Bank of China.

The cash equivalents are subject to credit risk. The maximum credit risk exposures of cash equivalents are represented by their total carrying value. Concentrations of credit risk arise from exposures to particular individual banks with which the Group has placed significant cash equivalents. The concentration of credit risks exposures are analyzed as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cash equivalents placed with Bank of China . . . . .	330,541	468,173	1,468,339
Cash equivalents placed with Guangdong Development Bank . . . . .	<u>52,006</u>	<u>232,515</u>	<u>622,915</u>

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cash equivalents placed with Bank of China . . . . .	327,843	3,105	76,580
Cash equivalents placed with Guangdong Development Bank . . . . .	<u>50,292</u>	<u>14,895</u>	<u>97,715</u>

## 4. BALANCE SHEETS (Continued)

## (9) Premium Receivables

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Premium receivables .....	605,311	596,955	529,174
Less: Provision for doubtful receivables .....	(204,510)	(204,510)	(89,918)
Premium receivables, net .....	<u>400,801</u>	<u>392,445</u>	<u>439,256</u>

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Premium receivables .....	592,431	—	—
Less: Provision for doubtful receivables .....	(204,510)	—	—
Premium receivables, net .....	<u>387,921</u>	<u>—</u>	<u>—</u>

Provision is made on a periodic basis for the amounts that are considered uncollectible. The credit term available to general insurance customers is generally for a period of one month, extending up to five months for major customers. Overdue balances are reviewed regularly by senior management.

An aging analysis of premium receivables is as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Within 2 months .....	297,467	314,901	364,738
Between 3 and 5 months .....	63,282	64,096	50,848
Over 5 months .....	<u>40,052</u>	<u>13,448</u>	<u>23,670</u>
Total .....	<u>400,801</u>	<u>392,445</u>	<u>439,256</u>

## 4. BALANCE SHEETS (Continued)

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Within 2 months .....	293,645	—	—
Between 3 and 5 months .....	57,515	—	—
Over 5 months .....	36,761	—	—
Total .....	<u>387,921</u>	<u>—</u>	<u>—</u>

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

## (10) Interest Receivables

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Interest receivables .....	182,153	415,667	316,463
Less: Provision for doubtful receivables .....	(37,914)	(22,081)	—
Interest receivables, net .....	<u>144,239</u>	<u>393,586</u>	<u>316,463</u>

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Interest receivables .....	182,153	635	9,428
Less: Provision for doubtful receivables .....	(37,914)	—	—
Interest receivables, net .....	<u>144,239</u>	<u>635</u>	<u>9,428</u>

Provision is made for the amounts of the receivables that are considered uncollectible. Interest receivables are expected to be recovered within one year.



## 4. BALANCE SHEETS (Continued)

## (11) Deferred Policy Acquisition Costs

*Group*

	<u>General</u>	<u>Short term life</u>	<u>Long term life</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
As at January 1, 2001 .....	306,087	101,323	7,519,546	7,926,956
Acquisition costs deferred ....	665,951	280,225	6,237,937	7,184,113
Amortization .....	<u>(545,062)</u>	<u>(242,510)</u>	<u>(1,866,722)</u>	<u>(2,654,294)</u>
Change in deferred acquisition costs charged to income statement .....	<u>120,889</u>	<u>37,715</u>	<u>4,371,215</u>	<u>4,529,819</u>
As at December 31, 2001 .....	426,976	139,038	11,890,761	12,456,775
Acquisition costs deferred ....	1,033,319	406,796	6,879,925	8,320,040
Amortization .....	<u>(739,367)</u>	<u>(337,639)</u>	<u>(2,223,867)</u>	<u>(3,300,873)</u>
Change in deferred acquisition costs charged to income statement .....	<u>293,952</u>	<u>69,157</u>	<u>4,656,058</u>	<u>5,019,167</u>
As at December 31, 2002 .....	720,928	208,195	16,546,819	17,475,942
Acquisition costs deferred ....	1,029,597	506,065	5,947,230	7,482,892
Amortization .....	<u>(992,427)</u>	<u>(462,869)</u>	<u>(3,142,928)</u>	<u>(4,598,224)</u>
Change in deferred acquisition costs charged to income statement .....	<u>37,170</u>	<u>43,196</u>	<u>2,804,302</u>	<u>2,884,668</u>
As at December 31, 2003 .....	<u>758,098</u>	<u>251,391</u>	<u>19,351,121</u>	<u>20,360,610</u>

## 4. BALANCE SHEETS (Continued)

*Company*

	<u>General</u>	<u>Short term life</u>	<u>Long term life</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
As at January 1, 2001 .....	306,087	101,323	7,519,546	7,926,956
Acquisition costs deferred ....	665,951	280,225	6,237,937	7,184,113
Amortization .....	<u>(545,062)</u>	<u>(242,510)</u>	<u>(1,866,722)</u>	<u>(2,654,294)</u>
Change in deferred acquisition costs charged to income statement .....	<u>120,889</u>	<u>37,715</u>	<u>4,371,215</u>	<u>4,529,819</u>
As at December 31, 2001 .....	426,976	139,038	11,890,761	12,456,775
Acquisition costs deferred ....	1,033,319	406,796	6,879,925	8,320,040
Amortization .....	<u>(739,367)</u>	<u>(337,639)</u>	<u>(2,223,867)</u>	<u>(3,300,873)</u>
Change in deferred acquisition costs charged to income statement .....	<u>293,952</u>	<u>69,157</u>	<u>4,656,058</u>	<u>5,019,167</u>
Transferred to subsidiaries ....	<u>(720,928)</u>	<u>(208,195)</u>	<u>(16,546,819)</u>	<u>(17,475,942)</u>
As at December 31, 2002 .....	—	—	—	—
Acquisition costs deferred ....	—	—	—	—
Amortization .....	—	—	—	—
Change in deferred acquisition costs charged to income statement .....	—	—	—	—
As at December 31, 2003 .....	—	—	—	—

## (12) Statutory Deposits

Ping An Life and Ping An Property & Casualty have made statutory deposits of RMB760,000,000 and RMB440,000,000, respectively, with PRC banks as at December 31, 2003. Such deposits are made in accordance with PRC Insurance Law based on not less than 20% of the respective registered capital of the said subsidiaries of the Company.

## 4. BALANCE SHEETS (Continued)

## (13) Property, Plant and Equipment

*Group*

	As at December 31, 2001			
	Cost	Accumulated depreciation	Accumulated impairment	Net book value
	RMB'000	RMB'000	RMB'000	
Leasehold improvements .....	307,823	(163,249)	—	144,574
Buildings .....	2,028,029	(120,209)	(46,825)	1,860,995
Office equipment, furniture and fixtures .....	710,920	(374,641)	—	336,279
Motor vehicles .....	323,444	(195,108)	—	128,336
	<u>3,370,216</u>	<u>(853,207)</u>	<u>(46,825)</u>	<u>2,470,184</u>
	As at December 31, 2002			
	Cost	Accumulated depreciation	Accumulated impairment	Net book value
	RMB'000	RMB'000	RMB'000	
Leasehold improvements .....	507,061	(262,452)	—	244,609
Buildings .....	2,231,973	(171,269)	(76,639)	1,984,065
Office equipment, furniture and fixtures .....	845,122	(510,969)	—	334,153
Motor vehicles .....	409,337	(268,394)	—	140,943
	<u>3,993,493</u>	<u>(1,213,084)</u>	<u>(76,639)</u>	<u>2,703,770</u>
	As at December 31, 2003			
	Cost	Accumulated depreciation	Accumulated impairment	Net book value
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold improvements .....	667,307	(398,898)	—	268,409
Buildings .....	2,529,304	(231,969)	(94,784)	2,202,551
Office equipment, furniture and fixtures .....	1,339,178	(727,020)	(39,759)	572,399
Motor vehicles .....	433,313	(329,950)	—	103,363
	<u>4,969,102</u>	<u>(1,687,837)</u>	<u>(134,543)</u>	<u>3,146,722</u>

The Group is still in the process of applying for the title certificates for its buildings with a net book value of RMB418,123,000 as at December 31, 2003. In the opinion of the management, adequate provision for impairment losses has been made on property, plant and equipment without title certificates as at December 31, 2001, 2002 and 2003.

## 4. BALANCE SHEETS (Continued)

*Company*

	As at December 31, 2001			
	Cost	Accumulated depreciation	Accumulated impairment	Net book value
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold improvements .....	241,964	(97,390)	—	144,574
Buildings .....	1,111,100	(171,229)	(23,356)	916,515
Office equipment, furniture and fixtures .....	698,472	(371,275)	—	327,197
Motor vehicles .....	316,131	(189,011)	—	127,120
	<u>2,367,667</u>	<u>(828,905)</u>	<u>(23,356)</u>	<u>1,515,406</u>

	As at December 31, 2002			
	Cost	Accumulated depreciation	Accumulated impairment	Net book value
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold improvements .....	—	—	—	—
Buildings .....	—	—	—	—
Office equipment, furniture and fixtures .....	3,060	(2,550)	—	510
Motor vehicles .....	—	—	—	—
	<u>3,060</u>	<u>(2,550)</u>	<u>—</u>	<u>510</u>

	As at December 31, 2003			
	Cost	Accumulated depreciation	Accumulated impairment	Net book value
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold improvements .....	—	—	—	—
Buildings .....	—	—	—	—
Office equipment, furniture and fixtures .....	4,565	(2,883)	—	1,682
Motor vehicles .....	—	—	—	—
	<u>4,565</u>	<u>(2,883)</u>	<u>—</u>	<u>1,682</u>

## (14) Construction-in-progress

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cost .....	270,548	201,504	157,231
Less: Accumulated impairment losses .....	(63,483)	(58,634)	(11,000)
Net book value .....	<u>207,065</u>	<u>142,870</u>	<u>146,231</u>

## 4. BALANCE SHEETS (Continued)

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cost .....	242,533	300	442
Less: Accumulated impairment losses .....	(47,592)	—	—
Net book value .....	<u>194,941</u>	<u>300</u>	<u>442</u>

Construction-in-progress mainly represents costs for the construction of properties.

## (15) Land Use Rights

Land use rights are acquired under PRC laws for fixed periods, and the related cost is amortized on a straight-line basis. All of the Group's land use rights are related to lands located in the PRC. The net book value of the land use rights as at December 31, 2003, is expected to be amortized over the lease terms ranging from 50 to 70 years.

The Group is still in the process of applying for title certificates for land use rights with a net book value of RMB635,718,000 as at December 31, 2003. Out of this amount, RMB543,000,000 represents costs incurred to acquire lands in Shanghai for the construction of new properties. In the opinion of the Company's management, adequate provision for impairment losses has been made for land use rights without title certificates as at December 31, 2001, 2002 and 2003.

## (16) Goodwill

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cost .....	—	—	244,533
Less: Accumulated amortization .....	—	—	(3,127)
Net book value .....	<u>—</u>	<u>—</u>	<u>241,406</u>

## 4. BALANCE SHEETS (Continued)

## (17) Deferred Tax Assets and Deferred Tax Liabilities

Estimated deferred tax assets are as follows:

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Deferred tax assets, beginning of year . . . . .	472,464	268,704	198,523
Recognized as income or expense during the year (Section 3.(5)) . . . . .	(258,388)	(120,152)	(5,085)
Recognized in equity during the year . . . . .	54,628	49,971	99,185
Deferred tax assets, end of year . . . . .	<u>268,704</u>	<u>198,523</u>	<u>292,623</u>
Components of deferred tax assets:			
Provision for policyholders' reserves . . . . .	2,100,265	2,794,537	3,143,986
Provision for claim reserves . . . . .	18,398	42,785	86,150
Provision for unearned premium reserves . . . . .	42,488	66,893	71,549
Deferred policy acquisition costs . . . . .	(1,868,516)	(2,621,391)	(3,054,092)
Fair value adjustment on held-for-trading and available-for-sale investments . . . . .	(117,547)	(84,149)	40,498
Provision for placements and loans . . . . .	47,454	28,948	13,487
Impairment losses for assets . . . . .	18,821	10,243	5,937
Others . . . . .	27,341	(39,343)	(14,892)
	<u>268,704</u>	<u>198,523</u>	<u>292,623</u>

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Components of deferred tax assets/(liabilities):			
Provision for policyholders' reserves . . . . .	2,100,265	—	—
Provision for claim reserves . . . . .	18,398	—	—
Provision for unearned premium reserves . . . . .	42,488	—	—
Deferred policy acquisition costs . . . . .	(1,868,516)	—	—
Fair value adjustment on held-for-trading and available-for-sale investments . . . . .	(117,547)	—	—
Provision for placements and loans . . . . .	47,454	—	—
Impairment losses for assets . . . . .	18,821	—	—
Others . . . . .	23,500	(24,667)	—
	<u>264,863</u>	<u>(24,667)</u>	<u>—</u>

The Company's management believes that a sufficient level of taxable income will be generated in the future to utilize the deferred tax assets.

**4. BALANCE SHEETS (Continued)****(18) Customers' Deposits**

The customers' deposits as at December 31, 2003 represented customers' funds placed with Ping An Securities for securities trading purposes.

**(19) Short Term Borrowings*****Group***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Short term loans .....	582	317	—
Collateralized borrowings — repos .....	3,000,000	8,312,949	200,000
Total .....	<u>3,000,582</u>	<u>8,313,266</u>	<u>200,000</u>
Terms of collateralized borrowings — repos .....	<u>14 days–20 days</u>	<u>7 days–183 days</u>	<u>7 days</u>
Interest rate ranges for collateralized borrowings — repos .....	<u>2.14%–2.24%</u>	<u>2.10%–3.27%</u>	<u>2.14%</u>

***Company***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Collateralized borrowings — repos ...	<u>3,000,000</u>	<u>—</u>	<u>—</u>
Terms of collateralized borrowings — repos .....	<u>14 days–20 days</u>	<u>Not applicable</u>	<u>Not applicable</u>
Interest rate ranges for collateralized borrowings — repos .....	<u>2.14%–2.24%</u>	<u>Not applicable</u>	<u>Not applicable</u>

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

## 4. BALANCE SHEETS (Continued)

## (20) Claim Reserves and Claims Recoverable

*Group — Claim Reserves*

	General	Life	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2001 .....	1,262,618	143,817	1,406,435
Movements for the year .....	837,720	3,878	841,598
As at December 31, 2001 .....	2,100,338	147,695	2,248,033
Movements for the year .....	162,533	425,151	587,684
As at December 31, 2002 .....	2,262,871	572,846	2,835,717
Movements for the year .....	891,682	1,089,320	1,981,002
As at December 31, 2003 .....	<u>3,154,553</u>	<u>1,662,166</u>	<u>4,816,719</u>

*Group — Claims Recoverable*

	General	Life	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2001 .....	402,108	27,000	429,108
Movements for the year .....	256,292	1,100	257,392
As at December 31, 2001 .....	658,400	28,100	686,500
Movements for the year .....	44,454	44,452	88,906
As at December 31, 2002 .....	702,854	72,552	775,406
Movements for the year .....	475,223	87,410	562,633
As at December 31, 2003 .....	<u>1,178,077</u>	<u>159,962</u>	<u>1,338,039</u>

*Company — Claim Reserves*

	General	Life	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2001 .....	1,230,693	143,817	1,374,510
Movements for the year .....	838,883	3,878	842,761
As at December 31, 2001 .....	2,069,576	147,695	2,217,271
Movements for the year .....	177,228	425,151	602,379
Transferred to subsidiaries .....	<u>(2,246,804)</u>	<u>(572,846)</u>	<u>(2,819,650)</u>
As at December 31, 2002 .....	—	—	—
Movements for the year .....	—	—	—
As at December 31, 2003 .....	<u>—</u>	<u>—</u>	<u>—</u>



## 4. BALANCE SHEETS (Continued)

*Company — Claims Recoverable*

	General	Life	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2001 .....	402,108	27,000	429,108
Movements for the year .....	256,292	1,100	257,392
As at December 31, 2001 .....	658,400	28,100	686,500
Movements for the year .....	44,454	44,452	88,906
Transferred to subsidiaries .....	(702,854)	(72,552)	(775,406)
As at December 31, 2002 .....	—	—	—
Movements for the year .....	—	—	—
As at December 31, 2003 .....	—	—	—

## (21) Unearned Premium Reserves

*Group*

	General	Short term life	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2001 .....	1,981,605	649,507	2,631,112
Increase for the year .....	960,694	302,809	1,263,503
As at December 31, 2001 .....	2,942,299	952,316	3,894,615
Increase for the year .....	1,177,292	224,519	1,401,811
As at December 31, 2002 .....	4,119,591	1,176,835	5,296,426
Increase for the year .....	228,955	255,838	484,793
As at December 31, 2003 .....	4,348,546	1,432,673	5,781,219

*Company*

	General	Short term life	Total
	RMB'000	RMB'000	RMB'000
As at January 1, 2001 .....	1,962,097	649,507	2,611,604
Increase for the year .....	962,394	302,809	1,265,203
As at December 31, 2001 .....	2,924,491	952,316	3,876,807
Increase for the year .....	1,144,689	224,519	1,369,208
Transferred to subsidiaries .....	(4,069,180)	(1,176,835)	(5,246,015)
As at December 31, 2002 .....	—	—	—
Increase for the year .....	—	—	—
As at December 31, 2003 .....	—	—	—

## 4. BALANCE SHEETS (Continued)

## (22) Policyholders' Reserves

*Group*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Beginning of year .....	59,066,223	83,880,370	119,528,236
Provision for the year .....	24,814,147	35,647,866	40,416,519
End of year .....	<u>83,880,370</u>	<u>119,528,236</u>	<u>159,944,755</u>

*Company*

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Beginning of year .....	59,066,223	83,880,370	—
Provision for the year .....	24,814,147	35,764,562	—
Transferred to a subsidiary .....	—	(119,644,932)	—
End of year .....	<u>83,880,370</u>	<u>—</u>	<u>—</u>

The liabilities for future life policyholder benefits are accrued when premium income is recognized, based on the present value of estimated future policy benefits and payments less the present value of estimated future net premiums to be collected from policyholders. These estimates are based on the following assumptions:

- (i) Interest rates are based on management's estimates of future yields on the Group's investments. In determining the interest rate assumptions, the Company considers past investment experience, the current and future asset allocation and expected return for each asset class. For the purposes of gross premium reserve valuation and loss recognition test on a portfolio basis, the best estimate interest rate is assumed to increase from 4% currently to an ultimate rate of 5% after five years.
- (ii) 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 the experience studies of the Company's actual experience incurred.
- (iii) The assumption for policy administration expenses is determined based on expected unit costs plus, where applicable, a margin for adverse deviation. Unit costs have been based on an analysis of actual experience.
- (iv) The amount of policyholder dividends to be paid is determined on an annual basis. Policyholder dividends are determined based on the insurance contracts, relevant regulations and the Group's distribution basis, and comprise life policyholders' share of net income and allowable unrealized gain of investments. Investment,

**4. BALANCE SHEETS (Continued)**

mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to the relevant regulations.

**(23) Insurance Guarantee Fund**

The Group is required to provide for the insurance guarantee fund at 1% of the net premiums of general insurance, accident insurance, short-term health insurance, etc. No additional provision is required when the accumulated balance of the provision reaches 6% of the related entity's total assets as determined in accordance with PRC GAAP.

**(24) Assets Managed Under Trust**

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

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Ping An Trust .....	—	107,580	188,834
Ping An Securities .....	Not applicable	Not applicable	112,102

Ping An Securities was an associate of the Group during the period from May 22, 2001 to October 22, 2003.

**(25) Risk Management***Product Risk*

Product risk is the risk of loss due to actual experience emerging differently from the assumed when the product was designed and priced, as a result of investment returns, expenses, claims, and policyholder behavior. The Group controls this risk through closely monitoring its product designing, pricing, and actual claims experience. Product risk is also mitigated through the use of aggregate retention limits and through catastrophe reinsurance.

*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 a duration of sufficient length to match the duration of its life insurance liabilities. When the regulatory and market environment permits, however, the Group intends to lengthen the duration of its assets by matching the new liabilities of lower guarantee rates, while narrowing the gap of existing liabilities of higher guarantee rate.

*Market Risk*

Market risk is the risk of potential loss to future earnings, fair values or future cash flows that may result from changes in the value of a financial instrument as a result of changes in

**4. BALANCE SHEETS (Continued)**

interest rates, market prices and other factors that affect market risk sensitive instruments. Market risk is attributed to all market risk sensitive financial instruments.

*Credit Risk*

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

*Liquidity Risk*

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

*Concentration Risk*

Concentration risk is the risk of incurring a major loss as a result of having a significant portion of the Group's investments concentrated in a single entity, group of related entities or industry segment. The Group seeks to control concentration risk by limiting the amount of investment in any single entity or group of related entities.

*Foreign Currency Risk*

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

*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.

**4. BALANCE SHEETS (Continued)****(26) Commitments***Capital Commitments*

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

***Group and Company***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for .....	96,232	173,000	282,000
Authorized, but not contracted for .....	58,672	1,553,000	2,110,328

*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:

***Group***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Within 1 year .....	230,832	338,997	355,181
Between 1 and 5 years .....	284,911	289,106	309,506
After 5 years .....	6,861	65,977	11,189
	522,604	694,080	675,876

***Company***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Within 1 year .....	230,832	—	—
Between 1 and 5 years .....	284,911	—	—
After 5 years .....	6,861	—	—
	522,604	—	—

**4. BALANCE SHEETS (Continued)***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:

***Group***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Within 1 year .....	71,209	73,203	64,905
Between 1 and 5 years .....	68,926	77,002	53,451
After 5 years .....	21,870	23,326	1,556
	<u>162,005</u>	<u>173,531</u>	<u>119,912</u>

***Company***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Within 1 year .....	8,627	—	—
Between 1 and 5 years .....	7,088	—	—
After 5 years .....	198	—	—
	<u>15,913</u>	<u>—</u>	<u>—</u>

**(27) Contingent Liabilities**

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

No provision has been made for pending lawsuits or possible violations of contracts when the outcome cannot be reasonably estimated or management believes the probability of loss 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.

## 5. STATEMENTS OF MOVEMENTS IN EQUITY

The following are the consolidated statements of movements in equity of the Group and the statements of movements in equity of the Company for the Relevant Periods:

*Group*

	Reserves						Retained profits/ (accumulated deficits)	Total
	Paid-in capital	Capital reserve	Revenue reserve fund	Common welfare fund	General reserve	Net unrealized gains/(losses)		
	RMB'000 (1)	RMB'000	RMB'000 Section 3.(6)	RMB'000 Section 3.(6)	RMB'000	RMB'000	RMB'000	RMB'000
Balance, January 1, 2001 .....	2,220,000	582,087	1,258,258	202,092	394,509	974,336	(2,736,871)	2,894,411
Net profit for the year ended December 31, 2001 .....	—	—	—	—	—	—	2,951,903	2,951,903
Net gains on available-for-sale investments ..	—	—	—	—	—	69,674	—	69,674
Net gains on available-for-sale investments removed from equity and reported in net profit .....	—	—	—	—	—	(433,862)	—	(433,862)
Deferred tax recognized, net .....	—	—	—	—	—	54,628	—	54,628
Appropriation to discretionary reserve	—	—	814,398	—	—	—	(814,398)	—
Dividends declared .....	—	—	—	—	—	—	(266,400)	(266,400)
Appropriations to statutory reserves .....	—	—	176,093	88,046	—	—	(264,139)	—
Balance, December 31, 2001 .....	2,220,000	582,087	2,248,749	290,138	394,509	664,776	(1,129,905)	5,270,354
Net profit for the year ended December 31, 2002 .....	—	—	—	—	—	—	2,016,563	2,016,563
Net losses on available-for-sale investments ..	—	—	—	—	—	(103,112)	—	(103,112)
Net gains on available-for-sale investments removed from equity and reported in net profit .....	—	—	—	—	—	(230,027)	—	(230,027)
Deferred tax recognized, net .....	—	—	—	—	—	49,971	—	49,971
Capital contribution .....	246,667	4,703,098	—	—	—	—	—	4,949,765
Appropriation to discretionary reserve	—	—	448,369	—	—	—	(448,369)	—
Dividends declared .....	—	—	—	—	—	—	(266,400)	(266,400)
Appropriations to statutory reserves .....	—	—	182,459	91,230	—	—	(273,689)	—
Balance, December 31, 2002 .....	2,466,667	5,285,185	2,879,577	381,368	394,509	381,608	(101,800)	11,687,114
Transfer from capital reserve to paid-in capital .....	2,466,667	(2,466,667)	—	—	—	—	—	—
Net profit for the year ended December 31, 2003 .....	—	—	—	—	—	—	2,320,368	2,320,368

## 5. STATEMENTS OF MOVEMENTS IN EQUITY (Continued)

	Paid-in capital	Capital reserve	Reserves			Net unrealized gains/(losses)	Retained profits/ (accumulated deficits)	Total
			Revenue reserve fund	Common welfare fund	General reserve			
	RMB'000 (1)	RMB'000	RMB'000 Section 3.(6)	RMB'000 Section 3.(6)	RMB'000	RMB'000	RMB'000	RMB'000
Net losses on available- for-sale investments ..	—	—	—	—	—	(768,235)	—	(768,235)
Net losses on available- for-sale investments removed from equity and reported in net profit .....	—	—	—	—	—	107,001	—	107,001
Deferred tax recognized, net .....	—	—	—	—	—	99,185	—	99,185
Appropriation to discretionary reserve	—	—	1,057,567	—	—	—	(1,057,567)	—
Dividends declared .....	—	—	—	—	—	—	(493,333)	(493,333)
Appropriations to statutory reserves .....	—	—	210,615	105,308	—	—	(315,923)	—
Balance, December 31, 2003 .....	<u>4,933,334</u>	<u>2,818,518</u>	<u>4,147,759</u>	<u>486,676</u>	<u>394,509</u>	<u>(180,441)</u>	<u>351,745</u>	<u>12,952,100</u>



## 5. STATEMENTS OF MOVEMENTS IN EQUITY (Continued)

*Company*

	Reserves						Retained profits/ (accumulated deficits)	Total
	Paid-in capital	Capital reserve	Revenue reserve fund	Common welfare fund	General reserve	Net unrealized gains/(losses)		
	RMB'000 (1)	RMB'000	RMB'000 Section 3.(6)	RMB'000 Section 3.(6)	RMB'000	RMB'000	RMB'000	RMB'000
Balance, January 1, 2001 . . .	2,220,000	582,087	1,258,258	202,092	394,509	974,336	(2,736,871)	2,894,411
Net profit for the year ended December 31, 2001 . . . . .	—	—	—	—	—	—	2,951,903	2,951,903
Net gains on available-for-sale investments . . . . .	—	—	—	—	—	69,674	—	69,674
Net gains on available-for-sale investments removed from equity and reported in net profit . . . . .	—	—	—	—	—	(433,862)	—	(433,862)
Deferred tax recognized, net						54,628		54,628
Appropriation to discretionary reserve . . . . .	—	—	814,398	—	—	—	(814,398)	—
Dividends declared . . . . .	—	—	—	—	—	—	(266,400)	(266,400)
Appropriations to statutory reserves . . . . .	—	—	176,093	88,046	—	—	(264,139)	—
Balance, December 31, 2001	2,220,000	582,087	2,248,749	290,138	394,509	664,776	(1,129,905)	5,270,354
Net profit for the year ended December 31, 2002 . . . . .	—	—	—	—	—	—	2,398,171	2,398,171
Net losses on available-for-sale investments . . . . .	—	—	—	—	—	(103,112)	—	(103,112)
Net gains on available-for-sale investments, removed from equity and reported in net profit . . . . .	—	—	—	—	—	(230,027)	—	(230,027)
Deferred tax recognized, net						49,971		49,971
Capital contribution . . . . .	246,667	4,703,098	—	—	—	—	—	4,949,765
Net losses on available-for-sale investments, removed from equity upon transfer of investments to subsidiaries . . . . .	—	—	—	—	—	(381,608)	—	(381,608)
Appropriation to discretionary reserve . . . . .	—	—	448,369	—	—	—	(448,369)	—
Dividends declared . . . . .	—	—	—	—	—	—	(266,400)	(266,400)
Appropriations to statutory reserves . . . . .	—	—	182,459	91,230	—	—	(273,689)	—
Balance, December 31, 2002	2,466,667	5,285,185	2,879,577	381,368	394,509	—	279,808	11,687,114
Transfer from capital reserve to paid-in capital . . . . .	2,466,667	(2,466,667)	—	—	—	—	—	—
Net profit for the year ended December 31, 2003 . . . . .	—	—	—	—	—	—	2,320,368	2,320,368
Net losses of subsidiaries' available-for-sale investments, directly charged into equity . . . . .	—	—	—	—	—	(562,049)	—	(562,049)
Appropriation to discretionary reserve . . . . .	—	—	1,057,567	—	—	—	(1,057,567)	—
Dividends declared . . . . .	—	—	—	—	—	—	(493,333)	(493,333)
Appropriations to statutory reserves . . . . .	—	—	210,615	105,308	—	—	(315,923)	—
Balance, December 31, 2003	<u>4,933,334</u>	<u>2,818,518</u>	<u>4,147,759</u>	<u>486,676</u>	<u>394,509</u>	<u>(562,049)</u>	<u>733,353</u>	<u>12,952,100</u>

**5. STATEMENTS OF MOVEMENTS IN EQUITY (Continued)****(1) Paid-in Capital**

	31 December,		
	2001	2002	2003
	'000	'000	'000
Number of shares registered, issued and fully paid at			
RMB1 each .....	<u>2,220,000</u>	<u>2,466,667</u>	<u>4,933,334</u>

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company.

Pursuant to the subscription agreement between the Company and HSBC Insurance Holdings Limited, prior to October 7, 2005, where necessary as a result of any future share issuance, the Company will issue new shares and pay cash as permissible by prevailing laws, so that the price per share of the shares subscribed by HSBC Insurance Holdings Limited in 2002 will not exceed the subscription price per share for future issuances.

On December 19, 2003, the Company's paid-in capital was increased to RMB4,933,333,334 by the creation of 2,466,666,667 additional shares of RMB1 each. Such additional shares were credited as fully paid by capitalization of the Company's capital reserve in the amount of RMB2,466,666,667.

**(2) Distributable Reserves**

As set out in Section 3.(6), for dividend distribution purposes, the amount which the Company and its subsidiaries can legally distribute by way of dividends is determined by reference to their retained profits as reflected in their PRC statutory financial statements, which are prepared in accordance with PRC GAAP. Such retained profits differ from those that are reflected in these Summaries, which are prepared in accordance with IFRS. Upon the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited, the Company is required to distribute dividends based on the lower of the Group's retained profits determined under PRC GAAP and IFRS.

In accordance with the Company Law of the PRC, profit after tax would be appropriated for transfers to the statutory revenue reserve fund and common welfare fund, as set out in Section 3.(6). The Company's maximum distributable reserves as at December 31, 2003 represent the Company's reserves as determined in accordance with PRC GAAP after deduction of the minimum transfers to the statutory revenue reserve fund and common welfare fund.

## 6. CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Year ended December 31,		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
Cash inflows from operating activities .....	(1)	<u>26,406,334</u>	<u>32,665,051</u>	<u>35,178,232</u>
Cash flows from investing activities .....				
Additions of property, plant and equipment, investment properties, construction-in-progress, and land use rights...		(710,985)	(1,201,311)	(742,822)
Proceeds from disposal of property, plant and equipment, investment properties and construction-in-progress .....		53,156	73,237	6,143
Net cash inflow/(outflow) from disposal of subsidiaries .....	(2)	(5,817,347)	169,069	4,617
Purchases of investments, net ....		(9,306,721)	(19,407,858)	(25,177,629)
Fixed deposits placed, net .....		(18,811,085)	(27,516,165)	(4,794,123)
Net cash inflow from acquisition of a subsidiary .....	(3)	—	—	2,435,575
Interest received .....		3,153,363	3,959,022	5,864,757
Dividends received .....		755,827	103,159	159,169
Rentals received .....		<u>117,055</u>	<u>125,214</u>	<u>99,442</u>
Net cash outflow from investing activities .....		<u>(30,566,737)</u>	<u>(43,695,633)</u>	<u>(22,144,871)</u>
Cash flows from financing activities .....				
Proceeds from capital contribution		—	4,949,765	—
Increase/(decrease) in short term borrowings .....		3,236,828	5,312,684	(8,113,266)
Dividends paid .....		(532,390)	(266,322)	(493,534)
Finance costs paid .....		(23,046)	(159,664)	(224,334)
Capital injections from minority investors .....		<u>430,600</u>	<u>54,000</u>	<u>—</u>
Net cash inflow/(outflow) from financing activities .....		<u>3,111,992</u>	<u>9,890,463</u>	<u>(8,831,134)</u>
Net increase/(decrease) in cash and cash equivalents .....		(1,048,411)	(1,140,119)	4,202,227
Cash and cash equivalents at beginning of year .....		<u>6,003,271</u>	<u>4,954,860</u>	<u>3,814,741</u>
Cash and cash equivalents at end of year .....	Section 4.(8)	<u><u>4,954,860</u></u>	<u><u>3,814,741</u></u>	<u><u>8,016,968</u></u>

## 6. CONSOLIDATED CASH FLOW STATEMENTS (Continued)

## (1) Reconciliation from Profit Before Tax and Minority Interests to Cash Flows from Operating Activities

	Notes	Year ended December 31,		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
Profit before tax and minority interests .....		3,854,305	2,693,653	2,820,881
Adjustments for:				
Impairment losses for investment properties, property, plant and equipment, construction-in-progress, and land use rights .....	Section 3.(4)(i)	52,888	51,680	34,501
Depreciation, and amortization of land use rights and goodwill .....	Section 3.(4)(i)	495,734	499,111	475,117
Loss on disposal of investment properties, property, plant and equipment, and construction-in-progress ....	Section 3.(4)(i)	2,299	18,186	1,871
Loss/(gain) on disposal of held-for-trading investments	Section 3.(2)	77,440	(7,493)	(90,271)
Loss/(gain) on disposal of available-for-sale investments .....	Section 3.(2)	(433,862)	(230,027)	107,001
Change in fair value of held-for-trading investments ....	Section 3.(2)	610,728	534,850	(406,861)
Interest income .....	Section 3.(2)	(3,089,487)	(4,208,369)	(5,779,294)
Dividend income .....	Section 3.(2)	(755,827)	(103,159)	(69,138)
Operating lease income from investment properties .....	Section 3.(2)	(105,154)	(117,157)	(99,442)
Gain on disposal of subsidiaries .....	Section 3.(2)	(29,641)	(3,757)	(4,900)
Gain on partial disposal of interest in a subsidiary ....	Section 3.(2)	(39,526)	—	—
Share of losses/(gains) of associates .....		64,596	59,065	(5,040)
Provision for doubtful debts, net .....	Section 3.(4)(i)	53,841	31,818	—
Finance costs .....		23,046	174,806	224,334
Operating gain/(loss) before working capital changes ....		781,380	(606,793)	(2,791,241)

## 6. CONSOLIDATED CASH FLOW STATEMENTS (Continued)

	Notes	Year ended December 31,		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
Changes in operational assets and liabilities:				
Increase in premium receivables .....		(108,130)	(3,170)	(46,811)
Increase in claims recoverable	Section 4.(20)	(257,392)	(88,906)	(562,633)
Increase in statutory deposits		—	—	(756,000)
Increase in deferred policy acquisition costs .....	Section 4.(11)	(4,529,819)	(5,019,167)	(2,884,668)
Decrease/(increase) in other assets .....		190,499	(144,821)	(249,809)
Increase/(decrease) in customers' deposits .....		2,274,042	—	(188,121)
Increase/(decrease) in premiums received in advance .....		331,693	1,104,841	(475,320)
Increase/(decrease) in commission payable .....		219,104	(32,163)	(47,120)
Increase in claim reserves ...	Section 4.(11)	841,598	587,684	1,981,002
Increase/(decrease) in amount payable to reinsurers .....		(27,228)	261,394	(12,962)
Decrease in deposits from policyholders .....		(22,604)	(12,704)	(18,873)
Increase/(decrease) in deposits from reinsurers ...		75,394	14,335	(152,837)
Decrease in an amount receivable from an associate .....		8,008	15,257	—
Increase in unearned premium reserves .....	Section 4.(21)	1,263,503	1,401,811	484,793
Increase in policyholders' reserves .....	Section 4.(22)	24,814,147	35,647,866	40,416,519
Increase in policyholder dividend payable and reserves .....		118,119	119,377	424,230
Increase in insurance guarantee fund .....		64,545	79,929	84,094
Increase/(decrease) in other liabilities .....		529,461	(118,433)	767,205
Cash generated from operations .....		<u>26,566,320</u>	<u>33,206,337</u>	<u>35,971,448</u>

## 6. CONSOLIDATED CASH FLOW STATEMENTS (Continued)

	Notes	Year ended December 31,		
		2001	2002	2003
		RMB'000	RMB'000	RMB'000
Income taxes refunded . . . . .	Section 3.(5)	—	—	146,167
Income taxes paid . . . . .		(159,986)	(541,286)	(939,383)
Net cash inflow from operating activities . . . . .		<u>26,406,334</u>	<u>32,665,051</u>	<u>35,178,232</u>

## (2) Disposals of Equity Interests in Subsidiaries

During 2001, there was a disposal by Ping An Trust of a 30% equity interest in Ping An Securities. Details of the disposal are summarized as follows:

	<u>RMB'000</u>
Assets disposed of:	
Held-for-trading investments . . . . .	606,432
Available-for-sale investments . . . . .	517,665
Fixed deposits . . . . .	570,501
Cash and cash equivalents . . . . .	6,172,667
Property, plant and equipment . . . . .	151,257
Construction-in-progress . . . . .	14,926
Other assets . . . . .	74,154
	<u>8,107,602</u>
Liabilities disposed of:	
Short term borrowings . . . . .	692,902
Customers' deposits . . . . .	5,709,434
Dividends payable . . . . .	147,592
Taxes payable . . . . .	9,982
Other liabilities . . . . .	462,096
	<u>7,022,006</u>
Net assets . . . . .	<u>1,085,596</u>
30% equity interests in net assets disposed of . . . . .	325,679
Gain on disposal of equity interest in Ping An Securities . . . . .	29,641
Cash consideration received . . . . .	<u>355,320</u>
Analysis of the net outflow of cash and cash equivalents in connection with the disposal of part of the equity interest in Ping An Securities:	
Cash consideration received . . . . .	355,320
Reduction in cash and cash equivalents . . . . .	<u>(6,172,667)</u>
Net outflow of cash and cash equivalents in connection with the disposal of part of the equity interest in Ping An Securities . . . . .	<u>(5,817,347)</u>

**6. CONSOLIDATED CASH FLOW STATEMENTS (Continued)**

As disclosed in Section 1.(1)(c) and Section 1.(1)(d), in 2002, the Group disposed of its equity interests in Shanghai Xinlun, Hu'nan Ankee Real Estate Development Co., Ltd. and Shenzhen Football Club. Details of the disposals are summarized as follows:

	<u>RMB'000</u>
Assets disposed of:	
Cash and cash equivalents .....	831
Property, plant and equipment .....	130
Construction-in-progress .....	65,479
Other assets .....	<u>120,942</u>
	<u>187,382</u>
Liabilities disposed of:	
Taxes payable .....	72
Other liabilities .....	<u>21,167</u>
	<u>21,239</u>
Net assets disposed of .....	166,143
Gain on disposal .....	<u>3,757</u>
Cash consideration received .....	<u>169,900</u>
Analysis of the net inflow of cash and cash equivalents in connection with the disposals of equity interests in subsidiaries:	
Cash consideration received .....	169,900
Reduction in cash and cash equivalents .....	<u>(831)</u>
Net inflow of cash and cash equivalents in connection with the disposals of equity interests in subsidiaries .....	<u>169,069</u>

**6. CONSOLIDATED CASH FLOW STATEMENTS (Continued)**

As disclosed in Section 1.(1)(e), in 2003, there was a disposal of the Group's equity interest in Pawn Shop. Details of the disposal are summarized as follows:

	<u>RMB'000</u>
Assets disposed of:	
Cash and cash equivalents .....	7,283
Loans and receivables .....	37,156
Other assets .....	941
Sub-total .....	<u>45,380</u>
Liabilities disposed of .....	<u>35,380</u>
Net assets .....	<u>10,000</u>
70% equity interest in net assets disposed of .....	7,000
Gain on disposal of equity interest in Pawn Shop .....	<u>4,900</u>
Cash consideration received .....	<u>11,900</u>
Analysis of the net inflow of cash and cash equivalents in connection with the disposal of equity interest in Pawn Shop:	
Cash consideration received .....	11,900
Reduction in cash and cash equivalents .....	<u>(7,283)</u>
Net inflow of cash and cash equivalents in connection with the disposal of part of the equity interest in Pawn Shop .....	<u>4,617</u>

**(3) Acquisition of a Subsidiary**

As disclosed in Section 1.(1)(a), in 2003, Ping An Trust acquired a further 34.12% equity interest in Ping An Securities, increasing its equity interest in Ping An Securities from 30% to 64.12%. Details of the acquisition are summarized as follows:

	<u>RMB'000</u>
Assets acquired:	
Held-for-trading investments .....	115,920
Available-for-sale investments .....	2,970
Cash and cash equivalents .....	2,892,796
Property, plant and equipment .....	132,607
Construction-in-progress .....	1,034
Other assets .....	98,457
	<u>3,243,784</u>
Liabilities assumed:	
Customers' deposits .....	2,492,105
Dividends payable .....	97,411
Taxes payable .....	(2,119)
Other liabilities .....	33,033
	<u>2,620,430</u>
Net assets .....	<u>623,354</u>



**6. CONSOLIDATED CASH FLOW STATEMENTS (Continued)**

	<u>RMB'000</u>
34.12% equity interest in net assets acquired .....	212,688
Goodwill recognized on acquisition of equity interest in Ping An Securities ....	<u>244,533</u>
Cash consideration paid .....	<u>457,221</u>
Analysis of the net inflow of cash and cash equivalents in connection with the acquisition of equity interest in Ping An Securities:	
Cash and cash equivalents acquired .....	2,892,796
Cash consideration paid .....	<u>(457,221)</u>
Net inflow of cash and cash equivalents in connection with the acquisition of equity interest in Ping An Securities .....	<u>2,435,575</u>

**7. SEGMENT INFORMATION**

Currently, the Group's business segment information is divided into four business segments — life insurance, general insurance, 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 Relevant Periods were mainly derived in the PRC. Accordingly, no further segment analysis by geographical area is provided.

## 7. SEGMENT INFORMATION (Continued)

The segment analysis as at and for the year ended December 31, 2003 is as follows:

	Life insurance RMB'000	General insurance RMB'000	Corporate RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
<b>Income statement</b>						
Gross written premiums and policy fees (net of business tax and surcharges) .....	55,042,148	8,091,486	—	—	—	63,133,634
Less: Premiums ceded to reinsurers .....	(980,492)	(2,819,458)	—	—	—	(3,799,950)
Increase in unearned premium reserves .....	(255,838)	(228,955)	—	—	—	(484,793)
Net earned premiums .....	53,805,818	5,043,073	—	—	—	58,848,891
Reinsurance commission income .....	370,155	877,418	—	—	—	1,247,573
Investment income and other income .....	5,781,621	304,755	228,820	211,575	—	6,526,771
Total revenue .....	59,957,594	6,225,246	228,820	211,575	—	66,623,235
Policy acquisition costs deferred .....	6,453,295	1,029,597	—	—	—	7,482,892
Amortization of deferred policy acquisition costs .....	(3,605,797)	(992,427)	—	—	—	(4,598,224)
Change in deferred policy acquisition costs .....	2,847,498	37,170	—	—	—	2,884,668
Claims, surrenders, annuities and maturities .....	(9,838,432)	(3,746,417)	—	—	—	(13,584,849)
Policyholder dividends and reserves .....	(987,637)	—	—	—	—	(987,637)
Increase in policyholders' reserves .....	(40,416,519)	—	—	—	—	(40,416,519)
Commission expenses .....	(5,074,079)	(602,052)	—	—	—	(5,676,131)
General and administrative expenses .....	(4,007,481)	(1,523,776)	(31,620)	(158,529)	2,908	(5,718,498)
Finance costs .....	(204,930)	(15,399)	—	(4,005)	—	(224,334)
Provision for insurance guarantee fund .....	(27,798)	(56,296)	—	—	—	(84,094)
Total expenses .....	(57,709,378)	(5,906,770)	(31,620)	(162,534)	2,908	(63,807,394)
Operating profit .....	2,248,216	318,476	197,200	49,041	2,908	2,815,841
Share of profits of associates .....	—	—	—	5,040	—	5,040
Income taxes .....	(298,248)	(222,425)	27,145	(164)	—	(493,692)
Minority interests .....	—	—	—	(5,383)	(1,438)	(6,821)
Net profit .....	1,949,968	96,051	224,345	48,534	1,470	2,320,368

## 7. SEGMENT INFORMATION (Continued)

	Life insurance	General insurance	Corporate	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance sheet</b>						
Investment in an associate . . . . .	—	—	—	3,447	—	3,447
Other investments . . . . .	143,370,810	5,873,830	12,798,080	2,055,207	(8,181,394)	155,916,533
Other assets . . . . .	<u>38,883,652</u>	<u>4,762,014</u>	<u>227,378</u>	<u>4,718,319</u>	<u>(1,032,272)</u>	<u>47,559,091</u>
Gross assets . . . . .	182,254,462	10,635,844	13,025,458	6,776,973	(9,213,666)	203,479,071
Policyholders' and other reserves . . . . .	163,039,594	7,503,099	—	—	—	170,542,693
Other liabilities . . . . .	<u>15,368,414</u>	<u>1,592,946</u>	<u>63,718</u>	<u>3,654,329</u>	<u>(1,032,271)</u>	<u>19,647,136</u>
Gross liabilities . . . . .	178,408,008	9,096,045	63,718	3,654,329	(1,032,271)	190,189,829
Minority interests . . . . .	<u>11,234</u>	<u>—</u>	<u>—</u>	<u>247,503</u>	<u>78,405</u>	<u>337,142</u>
Segment net assets . . . . .	<u><u>3,835,220</u></u>	<u><u>1,539,799</u></u>	<u><u>12,961,740</u></u>	<u><u>2,875,141</u></u>	<u><u>(8,259,800)</u></u>	<u><u>12,952,100</u></u>
Depreciation, and amortization of land use rights and goodwill	337,314	121,553	334	15,916	—	475,117
Impairment losses recognized . . . . .	2,125	—	—	32,376	—	34,501
Capital expenditure . . . . .	613,534	131,473	1,505	1,728	(5,418)	742,822
Total other non-cash expenses charged to consolidated results . . .	<u><u>27,798</u></u>	<u><u>56,296</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>84,094</u></u>

## 7. SEGMENT INFORMATION (Continued)

The segment analysis as at and for the year ended December 31, 2002 is as follows:

	Life insurance	General insurance	Corporate	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Income statement</b>						
Gross written premiums and policy fees (net of business tax and surcharges) . . . . .	50,581,649	7,837,889	—	—	—	58,419,538
Less: Premiums ceded to reinsurers . . . . .	(1,158,582)	(2,561,820)	—	—	—	(3,720,402)
Increase in unearned premium reserves . . . . .	(224,519)	(1,177,292)	—	—	—	(1,401,811)
Net earned premiums . . . . .	49,198,548	4,098,777	—	—	—	53,297,325
Reinsurance commission income . . . . .	366,408	828,242	—	—	—	1,194,650
Investment income and other income . . . . .	3,997,933	202,559	15,133	40,570	—	4,256,195
Total revenue . . . . .	53,562,889	5,129,578	15,133	40,570	—	58,748,170
Policy acquisition costs deferred Amortization of deferred policy acquisition costs . . . . .	7,286,721	1,033,319	—	—	—	8,320,040
	(2,561,506)	(739,367)	—	—	—	(3,300,873)
Change in deferred policy acquisition costs . . . . .	4,725,215	293,952	—	—	—	5,019,167
Claims, surrenders, annuities and maturities . . . . .	(10,050,393)	(2,642,944)	—	—	—	(12,693,337)
Policyholder dividends and reserves . . . . .	(131,356)	—	—	—	—	(131,356)
Increase in policyholders' reserves . . . . .	(35,647,866)	—	—	—	—	(35,647,866)
Commission expenses . . . . .	(5,864,429)	(827,326)	—	—	—	(6,691,755)
General and administrative expenses . . . . .	(3,893,775)	(1,615,640)	(11,544)	(78,931)	4,320	(5,595,570)
Finance costs . . . . .	(125,243)	(9,936)	—	(39,627)	—	(174,806)
Provision for insurance guarantee fund . . . . .	(22,654)	(57,275)	—	—	—	(79,929)
Total expenses . . . . .	(51,010,501)	(4,859,169)	(11,544)	(118,558)	4,320	(55,995,452)
Operating profit . . . . .	2,552,388	270,409	3,589	(77,988)	4,320	2,752,718
Share of loss of an associate . .	—	—	—	(59,065)	—	(59,065)
Income taxes . . . . .	(549,787)	(163,446)	33,052	(1,673)	(6,918)	(688,772)
Minority interests . . . . .	—	—	—	—	11,682	11,682
Net profit/(loss) . . . . .	2,002,601	106,963	36,641	(138,726)	9,084	2,016,563

## 7. SEGMENT INFORMATION (Continued)

	Life insurance	General insurance	Corporate	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance sheet</b>						
Investment in an associate . . . .	—	—	—	274,684	—	274,684
Other investments . . . . .	114,804,937	5,734,191	11,207,732	532,631	(6,024,620)	126,254,871
Other assets . . . . .	29,893,617	3,997,468	2,060,481	471,715	(356,950)	36,066,331
Gross assets . . . . .	144,698,554	9,731,659	13,268,213	1,279,030	(6,381,570)	162,595,886
Policyholders' and other reserves . . . . .	121,277,917	6,382,462	—	—	—	127,660,379
Other liabilities . . . . .	21,015,753	1,850,906	31,488	594,391	(356,911)	23,135,627
Gross liabilities . . . . .	142,293,670	8,233,368	31,488	594,391	(356,911)	150,796,006
Minority interests . . . . .	11,235	—	—	—	101,531	112,766
Segment net assets . . . . .	2,393,649	1,498,291	13,236,725	684,639	(6,126,190)	11,687,114
Depreciation, and amortization of land use rights . . . . .	385,204	134,588	—	27,573	(48,254)	499,111
Impairment losses recognized . .	—	48,803	—	2,877	—	51,680
Capital expenditure . . . . .	933,538	415,346	—	2,334	(149,907)	1,201,311
Total other non-cash expenses charged to consolidated results . . . . .	45,675	57,277	—	8,795	—	111,747

The segment analysis as at and for the year ended December 31, 2001 is as follows:

	Life insurance	General insurance	Corporate	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Income statement</b>						
Gross written premiums and policy fees (net of business tax and surcharges) . . . . .	34,952,454	6,002,790	—	—	—	40,955,244
Less: Premiums ceded to reinsurers . . . . .	(678,566)	(2,021,342)	—	—	—	(2,699,908)
Increase in unearned premium reserves . . . . .	(302,807)	(960,696)	—	—	—	(1,263,503)
Net earned premiums . . . . .	33,971,081	3,020,752	—	—	—	36,991,833
Reinsurance commission income	244,510	683,714	—	—	—	928,224
Investment income and other income . . . . .	3,540,082	246,303	50,379	76,997	—	3,913,761
Total revenue . . . . .	37,755,673	3,950,769	50,379	76,997	—	41,833,818
Policy acquisition costs deferred	6,518,162	665,951	—	—	—	7,184,113
Amortization of deferred policy acquisition costs . . . . .	(2,109,232)	(545,062)	—	—	—	(2,654,294)
Change in deferred policy acquisition costs . . . . .	4,408,930	120,889	—	—	—	4,529,819

## 7. SEGMENT INFORMATION (Continued)

	Life insurance	General insurance	Corporate	Others	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Claims, surrenders, annuities and maturities .....	(4,917,976)	(2,356,115)	—	—	—	(7,274,091)
Policyholder dividends and reserves .....	(118,119)	—	—	—	—	(118,119)
Increase in policyholders' reserves .....	(24,814,147)	—	—	—	—	(24,814,147)
Commission expenses .....	(5,148,634)	(528,832)	—	(2,041)	—	(5,679,507)
General and administrative expenses .....	(3,182,830)	(1,494,127)	(6,998)	210,420	2,254	(4,471,281)
Finance costs .....	(17,740)	(5,435)	—	129	—	(23,046)
Provision for insurance guarantee fund .....	(17,457)	(47,088)	—	—	—	(64,545)
Total expenses .....	(33,807,973)	(4,310,708)	(6,998)	208,508	2,254	(37,914,917)
Operating profit .....	3,947,700	(359,939)	43,381	285,505	2,254	3,918,901
Share of loss of an associate ....	—	—	—	(64,596)	—	(64,596)
Income taxes .....	(803,871)	(21,425)	(99,936)	25,202	(86)	(900,116)
Minority interests .....	—	—	—	—	(2,286)	(2,286)
Net profit/(loss) .....	3,143,829	(381,364)	(56,555)	246,111	(118)	2,951,903
<b>Balance sheet</b>						
Investment in an associate .....	—	—	50,181	331,237	—	381,418
Other investments .....	74,531,068	5,028,194	5,907,716	591,393	(6,047,387)	80,010,984
Other assets .....	24,557,956	3,132,044	658,565	317,389	(344,449)	28,321,505
Gross assets .....	99,089,024	8,160,238	6,616,462	1,240,019	(6,391,836)	108,713,907
Policyholders' and other reserves	84,980,381	5,042,637	—	—	—	90,023,018
Other liabilities .....	11,441,257	1,764,689	43,386	417,054	(347,350)	13,319,036
Gross liabilities .....	96,421,638	6,807,326	43,386	417,054	(347,350)	103,342,054
Minority interests .....	42,285	—	—	—	59,214	101,499
Segment net assets .....	2,625,101	1,352,912	6,573,076	822,965	(6,103,700)	5,270,354
Depreciation, and amortization of land use rights .....	363,759	90,469	31,504	10,002	—	495,734
Impairment losses recognized ...	35,120	—	—	17,768	—	52,888
Capital expenditure .....	456,769	199,167	60,241	347,282	(352,474)	710,985
Total other non-cash expenses charged to consolidated results	23,592	97,103	—	—	(2,309)	118,386

## 8. OTHER SIGNIFICANT MATTER

On September 29, 2003, Ping An Trust entered into a sale and purchase agreement to acquire Bank of China's 50% equity interest in Fujian Asia Bank Limited (the "Bank"). On December 23, 2003, the China Banking Regulatory Commission (the "CBRC") approved the above sale and purchase of the equity interest in the Bank and the change of the Bank's name into Ping An Bank Limited. The CBRC also approved that Ping An Trust make an additional capital contribution of US\$23 million to the Bank. As at December 31, 2003, Ping An Trust had paid US\$23 million as additional capital injection and US\$5,431,000 as part of the consideration in respect of the transfer of equity interest. The related business registration was completed in February 2004. Upon completion of the acquisition, the Bank has become a 73%

**8. OTHER SIGNIFICANT MATTER (Continued)**

owned subsidiary of Ping An Trust and the Bank's financial statements are consolidated into the Group's consolidated financial statements thereafter.

Extracts from the Bank's IFRS-adjusted management accounts for the three years ended December 31, 2003 are set out below.

***Balance Sheets***

	December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
<b>ASSETS</b>			
Cash on hand .....	738	719	502
Due from the central bank .....	2,446	2,965	6,900
Due from other banks .....	5,981	3,718	199,399
Placements with banks .....	257,673	256,276	252,607
Loans and advances to customers, net .....	8,874	5,666	3,303
Other assets .....	4,130	1,452	1,164
Total assets .....	<u>279,842</u>	<u>270,796</u>	<u>463,875</u>
<b>LIABILITIES AND INVESTORS' EQUITY</b>			
Advances .....	—	—	190,440
Other liabilities .....	11,678	1,894	2,956
Total liabilities .....	<u>11,678</u>	<u>1,894</u>	<u>193,396</u>
Investors' equity:			
Paid-in capital .....	188,816	188,816	188,816
Reserves .....	79,348	80,086	81,663
Total investors' equity .....	<u>268,164</u>	<u>268,902</u>	<u>270,479</u>
Total liabilities and investors' equity .....	<u>279,842</u>	<u>270,796</u>	<u>463,875</u>

***Income Statements***

	Year ended December 31,		
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Turnover .....	<u>11,899</u>	<u>5,010</u>	<u>3,344</u>
Net profit for the year .....	<u>7,661</u>	<u>716</u>	<u>1,603</u>

**9. SUBSEQUENT EVENTS**

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 will be granted in units with each unit representing one H share of the Company after its initial public offering in Hong Kong. The rights to the units will be issued in the next five years and can be exercised since the fourth anniversary of the grant. Upon exercise of the said rights, the participants will receive a cash

**9. SUBSEQUENT EVENTS (Continued)**

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 the H Shares at the time of exercise.

**10. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group and the Company in respect of any period subsequent to December 31, 2003.

Yours faithfully,

Ernst & Young  
Certified Public Accountants  
Hong Kong