



2004

INTERIM REPORT 2004

PING AN INSURANCE (GROUP) COMPANY OF CHINA, LTD.



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CHAIRMAN'S STATEMENT

The successful listing of Ping An Insurance (Group) Company of China, Ltd. ("Ping An" or the "Company") on The Stock Exchange of Hong Kong Limited on June 24, 2004 represents another milestone in our development. We are very much encouraged by and I am proud of the recognition by our shareholders of our sound corporate governance, our strong management team with international expertise, our outstanding asset quality, our distinguished risk management, our stable operating record and our prestigious brand name built up in the market. I would like to take this opportunity to express my deepest gratitude to the cordial support of our shareholders, to the seamless cooperation between the Board of Directors, the Supervisory Committee and our management team and to the great efforts contributed by each of our staff.

During the first half of 2004, we have achieved steady development in every segment of our business as planned and made significant improvement in the quality of our insurance business. Our net profit increased 25.8% to RMB1,504 million in the six months ended June 30, 2004 from RMB1,196 million in the same period in 2003. Our total equity increased to RMB26,664 million as of June 30, 2004 from RMB12,952 million as of December 31, 2003. Improvement was also accomplished in many key indicators of our performance, such as the persistency ratio of insurance policies, retention of our staff, agent productivity and loss ratio. We were also able to make substantial progress in the cross-selling of our insurance products, which contributed to the enhancement of our profitability.

Further intensify the reform on property and casualty insurance and life insurance

With a view to enhance the overall profitability of our life insurance business, we strive to strengthen the training of agents, reinforce the operating model with emphasis on the sales team, improve the sales support system, optimize the business structure of life insurance, and proceed with the transformation of group insurance/bancassurance. For our property and casualty insurance business, we are committed to optimizing distribution network, improving underwriting and claims processing systems, reforming the remuneration system and upgrading the customer relation management system. Some of the reforms have been fully implemented and have achieved the expected results.

Further promote cross-selling

We will spare no efforts in promoting the cross-selling of personal life insurance, group insurance and property and casualty insurance products and offering to our customers with diversified insurance products and services.

Further centralize back-office support

The back-office support centralization project has proceeded smoothly. The construction of the National Support Center in Zhangjiang, Shanghai (上海張江全國後援中心) has been progressing well. The centralization of underwriting and claims services for property and casualty insurance and life insurance also proceeded smoothly, and the property and casualty insurance business has commenced the centralization of claims settlement on trial basis. Meanwhile, we are exploring the feasibility of establishment and application of the automatic underwriting system for personal line business.

Develop integrated services

Being a customer-oriented group, we are committed to providing better and tailored services to customers by integrating our customer data base, consolidating our services, and effectively transforming from selling products to providing services, with a view to promote customer loyalty and satisfaction.



Advocate the specialization of insurance operations

Under the guidance of the China Insurance Regulatory Commission (“CIRC”), we have applied for the establishment of new companies which will be engaged in the provision of pension and health insurance services, so as to explore the new growth opportunities in the future. We have received an approval in principle from the CIRC to establish a company to be engaged in the provision of pension services. The application for the establishment of other companies is being reviewed by the relevant authorities.

All of the above tasks are proceeding as scheduled with the full support of our staff. We believe we are heading towards our goal of improving the long-term profitability of the Company, and enhancing shareholder value.

Prospects for the second half of 2004

The insurance market in the PRC saw emerging features in 2004. The correlation between the insurance industry and the macro-economy, financial sector and other industries has become closer than ever. In addition, competition within the insurance industry has further intensified. Insurance companies are bound to provide diversified and integrated products and services, instead of single product and service, and they are all adopting the standardized operations, efficiency and profit-oriented approach. Such new changes and trends pose a new challenge to the insurance industry in China. However, for Ping An, a value-driven company consistently committed to standardization and professionalism, such a challenge will, in the long run, provide us with a competitive environment which is compatible with our business doctrine, and allow us more room for future development.

For the second half of 2004, we will keep up our effort in reforming property and casualty insurance and life insurance businesses, adjusting the product mix, improving the productivity of the sales team, optimizing the structure of the sales team and improving sales support and internal control for the purpose of laying a stronger foundation for our future development. We will also continue our efforts on the centralization of the back-office support of property and casualty insurance and life insurance businesses and formulate a standardized operating procedure, reinforce the risk management and strive to improve the quality of our insurance business. We will also strengthen the integration of services, as well as enhance our product development capabilities, to reinforce the cross-selling of products and provide more diversified and tailor-made insurance products to customers, with an objective to satisfy the fast growing demand of the insurance market in China.

2004 is not only the year Ping An became a public company, but is also a critical year for our business development. The Company and every member of our staff are committed to maximizing shareholder value, implementing various reform and development initiatives, and achieving the Company’s operating targets for the year to deliver satisfactory results to our shareholders.

Ma Mingzhe

Chairman and Chief Executive Officer

August 25, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Review

The financial performance of the Group in the six months ended June 30, 2004 was satisfactory. Our gross written premiums and policy fees decreased 9.1% to RMB32,297 million in the six months ended June 30, 2004 from RMB35,548 million in the same period in 2003, while our net profit increased 25.8% to RMB1,504 million in the six months ended June 30, 2004 from RMB1,196 million in the same period in 2003. The decrease in our gross written premiums and policy fees was primarily due to our effort to manage the growth of our overall business in 2004, with a view towards optimizing our product mix and enhancing our profit margins. Our total assets increased to RMB240,587 million as of June 30, 2004 from RMB203,479 million as of December 31, 2003, and our total equity increased to RMB26,664 million as of June 30, 2004 from RMB12,952 million as of December 31, 2003, which was principally a result of the proceeds received from our initial public offering in June 2004 as well as an increase of our net profit in the first half of 2004. We believe we have continued to achieve sustained quality improvement in our core life insurance and property and casualty insurance businesses and are well positioned for medium-term profitable growth.

Our core life insurance and property and casualty insurance operations accounted for approximately 89.1% and 9.9%, respectively, of our revenue in the six months ended June 30, 2004. The following table sets forth the breakdown of our revenue by business segment for the periods indicated:

	Six months ended June 30,	
	2004	2003
	<i>(in millions of RMB)</i>	
Life insurance	29,261	33,404
Property and casualty insurance	3,256	3,231
Other ⁽¹⁾	340	208
Total	32,857	36,843

- (1) Consists of businesses other than life insurance and property and casualty insurance, including our trust business and the securities services we provide to our customers through China Ping An Trust & Investment Co., Ltd. and Ping An Securities Company, Ltd., respectively.



Life Insurance

During the first half of 2004, we managed the growth of our life insurance business to focus on the more profitable regular premium individual life insurance products. As a result, premiums from our individual life insurance products accounted for approximately 68.5% of the gross written premiums and policy fees for our life insurance business in the six months ended June 30, 2004 compared to approximately 57.2% in the same period in 2003. In particular, over 95% of individual life first year premium were from regular premium products in the six months ended June 30, 2004. Our focus on regular premium individual life insurance products provides us with a stable revenue stream that helps us to generate sustainable longer term profits. Net profit from our life insurance business increased 38.2% to RMB1,382 million in the six months ended June 30, 2004 from RMB1,000 million in the same period in 2003.

We continued to rationalize our individual life insurance sales force in the first half of 2004 to enhance productivity and professionalism, and stabilized the number of our individual life insurance sales agents at approximately 180,000. In addition, we continued our efforts in enhancing customer service. As a result, the 13-month and 25-month persistency ratios for our individual life insurance customers improved to 88.5% and 80.8%, respectively, as of June 30, 2004.

Property and Casualty Insurance

The loss ratio for our property and casualty insurance business declined to 72.6% in the six months ended June 30, 2004 from 73.7% in the same period in 2003. During the first half of 2004, we continued to focus on disciplined underwriting and careful selection of risk exposures to improve the profitability of our property and casualty insurance business. As a result, our claims experience, and in particular our claims experience relating to automobile insurance, improved in the six months ended June 30, 2004 compared to the same period in 2003.

The following table sets forth the expense, loss and combined ratios for our property and casualty insurance business for the periods indicated:

	Six months ended June 30,	
	2004	2003
Expense ratio	24.6%	23.8%
Loss ratio	72.6	73.7
Combined ratio	97.2%	97.5%

Cross Selling

We were able to leverage our broad customer base and our advanced information technology capacity to make substantial progress in the cross-selling of our insurance products in the first half of 2004. As a result, gross written premiums from cross-selling activities increased 85.2% to RMB787 million in the six months ended June 30, 2004 from RMB425 million in the same period in 2003.

The following table sets forth certain data relating to crossing-selling of our insurance products for the periods indicated:

	Six months ended June 30,	
	2004	2003
	<i>(in millions of RMB)</i>	
Gross written premiums from our property and casualty insurance customers purchasing life insurance	473	218
Gross written premiums from our life insurance customers purchasing property and casualty insurance	314	207
Total	787	425

Investment

Our net investment income, including interest income and dividend income, increased 23.2% to RMB3,448 million in the six months ended June 30, 2004 from RMB2,799 million in the same period in 2003. During the first half of 2004, we continued to improve the assets allocation of our investment portfolio and lengthen our assets duration. As a result, our bond investment as a percentage of our total investment assets increased to 47.7% as of June 30, 2004 from 43.7% as of December 31, 2003. We were able to achieve an average 4.6% investment return from our new money investment in bonds in the first half of 2004, as the bond yield increased significantly in the same period. In addition, our government bonds investment, of which interest income enjoys tax exemptions, as a percentage of our total bond investment portfolio increased to 59.1% as of June 30, 2004 from 56.1% as of December 31, 2003. As a result of the downturn of the PRC equity market in the first half of 2004, our total investment yield decreased to 3.6% in the first half of 2004 from 4.5% in the same period in 2003. While the equity market can be volatile, we believe our investment strategy will allow us to achieve stable returns from our core net investment income.



The following table sets forth certain information relating to our investment income for the periods indicated:

	Six months ended June 30,			
	2004		2003	
	Amount	Yield	Amount	Yield
	<i>(in millions of RMB, except percentages)</i>			
Net investment income	3,448	4.1%	2,799	4.3%
Net realized and unrealized gain/(loss)	(769)		266	
Total investment income	2,679	3.6%	3,065	4.5%

Liquidity and Gearing Ratio

As of June 30, 2004, the amount of cash and cash equivalents of the Group was approximately RMB22,940 million.

The Group had no material charges on group assets.

The gearing ratio was 88.9%, which was computed by dividing the sum of total liabilities and minority interests by total assets.

Company Staff

As of June 30, 2004, the Company had 34,735 employees and approximately 180,000 individual sales agents. Staff remuneration packages are structured and reviewed by reference to market terms and individual merits. The Company has participated in various defined contribution pension schemes coordinated by the provincial and municipal governments for the Company's staff in accordance with the laws and regulations of PRC.

Results of Operations

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Written Premiums and Policy Fees. Our gross written premiums and policy fees, after excluding amounts allocated to separate account (investment-linked) assets as well as business tax and surcharges, decreased 9.1% to RMB32,297 million in the six months ended June 30, 2004 from RMB35,548 million in the same period in 2003. This decrease was principally a result of our continued efforts to manage the growth of our overall business during the first half of 2004.

Gross written premiums and policy fees for our life insurance business, after excluding amounts allocated to separate account (investment-linked) assets as well as business tax and surcharges, decreased 12.6% to RMB27,161 million in the six months ended June 30, 2004 from RMB31,080 million in the same period in 2003. This decrease was primarily due to decreases in gross written premiums and policy fees attributable to our bancassurance and group insurance products. The following table sets forth gross written premiums and policy fees for our life insurance business for the periods indicated:

	Six months ended June 30,	
	2004	2003
	<i>(in millions of RMB)</i>	
Individual life insurance	18,595	17,773
Bancassurance	3,055	6,813
Group Insurance	5,511	6,494
Total	27,161	31,080

Gross written premiums and policy fees attributable to our individual life insurance products increased 4.6% to RMB18,595 million in the six months ended June 30, 2004 from RMB17,773 million in the same period in 2003. This increase was mainly a result of a 15.4% increase in renewal premiums to RMB14,679 million in six months ended June 30, 2004 from RMB12,725 million the same period in 2003, which was primarily due to: (1) our continued focus on regular premium products and (2) an increase in our customer persistency level resulting from our continued efforts to improve customer service. The effect of the increase in renewal premiums was partially offset by a 22.4% decrease in first year premiums to RMB3,916 million in the six months ended June 30, 2004 from RMB5,048 million in the same period in 2003. This decrease in first year premiums was largely due to a decrease of the number of our individual life insurance sales agents, which was principally a result of the ongoing rationalization of our individual life insurance sales force.

Gross written premiums and policy fees attributable to our bancassurance products decreased 55.2% to RMB3,055 million in the six months ended June 30, 2004 from RMB6,813 million in the same period in 2003. Gross written premiums and policy fees attributable to our group insurance products decreased 15.1% to RMB5,511 million in the six months ended June 30, 2004 from RMB6,494 million in the same period in 2003. These decreases were primarily due to our decision to manage the growth of our business in response to the lower profit margins experienced in these two business lines.

For our life insurance business, premiums ceded to reinsurers decreased 19.8% to RMB420 million in the six months ended June 30, 2004 from RMB524 million in the same period in 2003. This decrease was primarily a result of a reduction in 2004 in the mandatory statutory reinsurance requirements for short-term accident and health insurance pursuant to China's WTO accession agreement.



Gross written premiums and policy fees for our property and casualty insurance business, after excluding business tax and surcharges, increased 15.0% to RMB5,136 million in the six months ended June 30, 2004 from RMB4,468 million in the same period in 2003. This increase was primarily due to increases in the gross written premiums attributable to our automobile, non-automobile and accident and health insurance businesses. The following table sets forth our gross written premiums and policy fees for our automobile, non-automobile and accident and health insurance businesses for the periods indicated:

	Six months ended June 30,	
	2004	2003
	<i>(in millions of RMB)</i>	
Automobile	3,007	2,656
Non-automobile	1,958	1,781
Accident and health	171	31
<hr/>		
Total	5,136	4,468

Gross written premiums and policy fees attributable to our automobile insurance products increased 13.2% to RMB3,007 million in the six months ended June 30, 2004 from RMB2,656 million in the same period in 2003. This increase was primarily due to: (1) the continued increase in demand for automobiles in the PRC during the first half of 2004 and (2) the stabilization of automobile insurance premium rates resulting from a decrease in price competition.

Gross written premiums and policy fees attributable to our non-automobile products increased 9.9% to RMB1,958 million in the six months ended June 30, 2004 from RMB1,781 million in the same period in 2003. Gross written premiums and policy fees attributable to our accident and health insurance products increased to RMB171 million in the six months ended June 30, 2004 from RMB31 million in the same period in 2003. These increases were primarily due to our continued focus on promoting sales of these two products and continued economic growth in China.

For our property and casualty insurance business, premiums ceded to reinsurers increased 26.9% to RMB1,751 million in the six months ended June 30, 2004 from RMB1,380 million in the same period in 2003. Premiums ceded to reinsurers as a percentage of the gross written premiums and policy fees for our property and casualty insurance business was 34.1% in the six months ended June 30, 2004 and 30.9% in the same period in 2003. These increases were primarily due to the increase in gross written premiums and policy fees as well as our underwriting of several large commercial and construction insurance policies, of which we ceded a higher percentage of premiums to reinsurers.

Investment Income. Our investment income decreased 12.6% to RMB2,679 million in the six months ended June 30, 2004 from RMB3,065 million in the same period in 2003. This decrease was primarily due to a significant decrease of the fair value of our equity investment funds, which was partially offset by an increase in dividend income from our equity investment funds and interest income from our bond portfolio and bank deposits.

Change in Deferred Policy Acquisition Costs. The change in our deferred policy acquisition costs was RMB681 million in the six months ended June 30, 2004 compared to RMB1,663 million in the same period in 2003. The change in deferred policy acquisition costs for our life insurance business was RMB543 million in the six months ended June 30, 2004 compared to RMB1,621 million in the same period in 2003. The smaller change in deferred policy acquisition costs was primarily due to a decrease in first year premiums from individual life insurance products as well as an increase in the amortization of the deferred policy acquisition costs for our in-force life insurance policies.

The change in deferred policy acquisition costs for our property and casualty insurance business was RMB138 million in the six months ended June 30, 2004 compared to RMB42 million in the same period in 2003. The larger change in deferred policy acquisition costs was principally a result of a significant increase in gross written premiums and policy fees for our property and casualty insurance business in the first half of 2004.

Claims, Surrenders, Annuities and Maturities. Our claims, surrenders, annuities and maturities increased 7.6% to RMB7,002 million in the six months ended June 30, 2004 from RMB6,510 million in the same period in 2003.

Claims, surrenders, annuities and maturities for our life insurance business increased 11.9% to RMB5,118 million in the six months ended June 30, 2004 from RMB4,573 million in the same period in 2003. These increases were primarily due to an increase in payments made on annuities and upon the maturity of insurance policies, the surrender of insurance policies and death and other benefits paid, which was partially offset by a decrease in claims paid. The following table summarizes total amounts paid pursuant to surrenders, annuities and maturities, death and other benefits and claims under our life insurance policies for the periods indicated:

	Six months ended June 30,			
	2004		2003	
	Amount	% of total	Amount	% of total
	<i>(in millions of RMB, except percentages)</i>			
Claims	653	12.8%	981	21.4%
Annuities and maturities	2,213	43.2	1,704	37.3
Surrenders	1,866	36.5	1,626	35.6
Death and other benefits	386	7.5	262	5.7
Total	5,118	100.0%	4,573	100.0%

Claims for our property and casualty insurance business decreased 2.7% to RMB1,884 million in the six months ended June 30, 2004 from RMB1,937 million in the same period in 2003. This decrease was primarily due to an increase in amounts recoverable from reinsurers and a smaller increase in the gross claim reserves for our property and casualty insurance business.

Policyholder Dividends and Provisions. Policyholder dividends and provisions decreased 42.7% to RMB219 million in the six months ended June 30, 2004 from RMB382 million in the same period in 2003. This decrease was primarily due to a decrease of our investment return for our life insurance participating policies.



Increase in Policyholders' Reserves. The increase in our policyholders' reserves was RMB18,962 million in the six months ended June 30, 2004 compared to RMB24,033 million in the same period in 2003. The smaller increase in policyholders' reserves in the six months ended June 30, 2004 was mainly due to a decrease in gross written premiums attributable to our bancassurance and group insurance businesses.

Commission Expenses. Our commission expenses decreased 15.6% to RMB2,584 million in the six months ended June 30, 2004 from RMB3,060 million in the same period in 2003. Our commission expenses decreased as a percentage of our gross written premiums and policy fees to 8.0% in the six months ended June 30, 2004 from 8.6% in the same period in 2003.

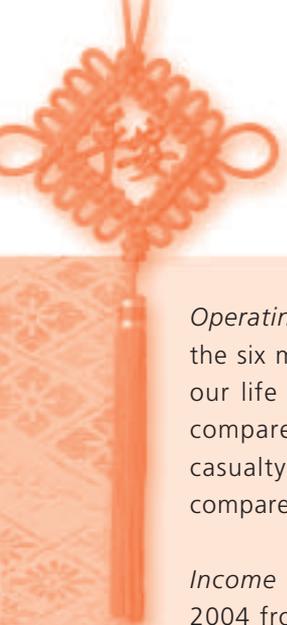
Commission expenses for our life insurance business, which we pay primarily to our sales agents, decreased 18.2% to RMB2,253 million in the six months ended June 30, 2004 compared to RMB2,754 million in the same period in 2003. Commission expenses decreased as a percentage of the gross written premiums and policy fees for our life insurance business to 8.3% in the six months ended June 30, 2004 from 8.9% in the same period in 2003. These decreases were principally a result of the decrease in gross written premiums and policy fees from our life insurance products, particularly with respect to first year premiums from individual life insurance products.

Commission expenses for our property and casualty insurance business, which we pay primarily to agents and brokers that sell our products, increased 8.2% to RMB331 million in the six months ended June 30, 2004 from RMB306 million in the same period in 2003. This increase was primarily due to the increase in gross written premiums and policy fees for our property and casualty insurance business in the six months ended June 30, 2004 compared to the same period in 2003. Commission expenses decreased as a percentage of the gross written premiums and policy fees for our property and casualty insurance business to 6.4% in the six months ended June 30, 2004 from 6.8% in the same period in 2003.

General and Administrative Expenses. Our general and administrative expenses decreased 1.7% to RMB2,861 million in the six months ended June 30, 2004 from RMB2,910 million in the same period in 2003. General and administrative expenses as a percentage of our gross written premiums and policy fees were 8.9% and 8.2% in the six months ended June 30, 2004 and 2003, respectively.

General and administrative expenses for our life insurance business decreased 16.6% to RMB1,690 million in the six months ended June 30, 2004 from RMB2,026 million in the same period in 2003. General and administrative expenses decreased as a percentage of the gross written premiums and policy fees for our life insurance business to 6.2% in the six months ended June 30, 2004 from 6.5% in the same period in 2003. These decreases were primarily due to increasing economies of scale and our implementation of cost control initiatives, as well as fewer insurance policies sold in the first half of 2004.

General and administrative expenses for our property and casualty insurance business increased 21.6% to RMB957 million in the six months ended June 30, 2004 compared to RMB787 million in the same period in 2003. This increase was mainly due to increased sales of automobile, non-automobile and accident and health insurance policies in the first half of 2004. General and administrative expenses increased as a percentage of the gross written premiums and policy fees for our property and casualty insurance business to 18.6% in the six months ended June 30, 2004 from 17.6% in the same period in 2003.



Operating Profit. As a result of the foregoing, our operating profit increased 26.3% to RMB1,842 million in the six months ended June 30, 2004 from RMB1,458 million in the same period in 2003. Operating profit for our life insurance business increased 34.8% to RMB1,543 million in the six months ended June 30, 2004 compared to RMB1,145 million in the same period in 2003, while operating profit for our property and casualty insurance business decreased 9.4% to RMB183 million in the six months ended June 30, 2004 compared to RMB202 million in the same period in 2003.

Income Taxes. Our income taxes increased 23.0% to RMB315 million in the six months ended June 30, 2004 from RMB256 million in the same period in 2003. This increase was principally a result of the increase of our operating profit. The effective tax rate decreased to 17.1% in the six months ended June 30, 2004 from 17.6% in the same period in 2003. This decrease was principally a result of dividend income from equity investment funds and interest income from government bonds, which constitute an increasing portion of our investment income in the first half of 2004, being entitled to certain tax exemptions.

Net Profit Attributable to Shareholders. As a result of the foregoing, and after taking into account minority interests, our net profit increased 25.8% to RMB1,504 million in the six months ended June 30, 2004 from RMB1,196 million in the same period in 2003. Net profit for our life insurance business increased 38.2% to RMB1,382 million in the six months ended June 30, 2004 compared to RMB1,000 million in the same period in 2003, and net profit for our property and casualty insurance business increased 4.7% to RMB45 million in the six months ended June 30, 2004 compared to RMB43 million in the same period in 2003.



Independent Auditors' Review Report

To the board of directors

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

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2004 set out on pages 14 to 35.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended June 30, 2004.

Ernst & Young

Certified Public Accountants

Hong Kong

August 25, 2004

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended June 30, 2004

		Six months ended June 30,	
		2004	2003
	Notes	(Unaudited) RMB Million	(Unaudited) RMB Million
Gross written premiums and policy fees (net of business tax and surcharges)	3	32,297	35,548
Less: Premiums ceded to reinsurers		(2,171)	(1,904)
Net written premiums and policy fees	3	30,126	33,644
Increase in unearned premium reserves		(887)	(712)
Net earned premiums		29,239	32,932
Reinsurance commission income		670	673
Investment income and other income	4	2,948	3,238
Total revenue		32,857	36,843
Change in deferred policy acquisition costs		681	1,663
Claims, surrenders, annuities and maturities		(7,002)	(6,510)
Policyholder dividends and provisions		(219)	(382)
Increase in policyholders' reserves		(18,962)	(24,033)
Commission expenses		(2,584)	(3,060)
General and administrative expenses		(2,861)	(2,910)
Finance costs		(16)	(107)
Provision for insurance guarantee fund		(52)	(46)
Total expenses		(31,015)	(35,385)
Operating profit	5	1,842	1,458
Share of profits of an associate		-	4
Income taxes	6	(315)	(256)
Net profit before minority interests		1,527	1,206
Minority interests		(23)	(10)
Net profit attributable to shareholders		1,504	1,196
Dividends	7	592	493
		RMB	RMB
Earnings per share – basic	8	0.30	0.24

The accompanying notes form an integral part of the condensed consolidated financial statements.



CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2004

	<i>Notes</i>	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
ASSETS			
Investments			
Held-for-trading investments	9	11,502	6,799
Available-for-sale investments	10	13,196	14,764
Held-to-maturity investments	11	41,832	32,332
Loans and receivables originated by the enterprise:			
Bonds	12	24,949	19,170
Fixed deposits	13	80,446	78,233
Placements and loans	14	1,163	3,286
Investment in an associate		3	3
Investment properties, net		1,423	1,333
Total investments		174,514	155,920
Other assets			
Cash and cash equivalents	15	22,940	8,017
Premium receivables, net		530	439
Interest receivables, net		1,716	316
Claims recoverable		1,250	1,338
Deferred policy acquisition costs	16	21,042	20,361
Statutory deposits		1,200	1,200
Property, plant and equipment, net		2,899	3,147
Construction-in-progress, net		151	146
Land use rights, net		938	924
Goodwill		245	241
Deferred tax assets		354	293
Other assets		997	1,078
Separate account (investment-linked) assets		11,811	10,059
Total other assets		66,073	47,559
Total assets		240,587	203,479

The accompanying notes form an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As of June 30, 2004

	Notes	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
EQUITY AND LIABILITIES			
Equity			
Share capital	17	6,195	4,933
Reserves		19,205	7,667
Retained profits		1,264	352
Total equity		26,664	12,952
Minority interests		491	337
Liabilities			
Customers' deposits	18	2,939	2,304
Short term borrowings	19	70	200
Premiums received in advance		599	2,129
Commission payable		518	497
Claim reserves		5,119	4,817
Payable to reinsurers		652	270
Policyholder dividends payable and provisions		1,396	1,189
Deposits from policyholders		45	49
Deposits from reinsurers		110	130
Unearned premium reserves		6,668	5,781
Policyholders' reserves		178,907	159,945
Taxes payable		396	326
Insurance guarantee fund		768	710
Other liabilities		3,434	1,784
Separate account (investment-linked) liabilities		11,811	10,059
Total liabilities		213,432	190,190
Total equity and liabilities		240,587	203,479

The accompanying notes form an integral part of the condensed consolidated financial statements.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2004

	Notes	Reserves						Retained profits/ (accumulated deficits)	Total
		Share capital	Capital reserve	Revenue reserve fund	Common welfare fund	General reserve	Net unrealized gains/ (losses)		
		RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	RMB Million	
(Unaudited)									
Balance, January 1, 2003		2,467	5,285	2,880	381	395	382	(102)	11,688
Net profit for the six months ended June 30, 2003		-	-	-	-	-	-	1,196	1,196
Net gains on available-for-sale investments		-	-	-	-	-	124	-	124
Net gains on available-for-sale investments removed from equity and reported in net profit	4	-	-	-	-	-	(43)	-	(43)
Deferred tax recognized, net		-	-	-	-	-	(12)	-	(12)
Appropriation to discretionary reserve		-	-	1,057	-	-	-	(1,057)	-
Dividends declared	7	-	-	-	-	-	-	(493)	(493)
Balance, June 30, 2003		2,467	5,285	3,937	381	395	451	(456)	12,460
(Unaudited)									
Balance, January 1, 2004		4,933	2,818	4,148	486	395	(180)	352	12,952
Net profit for the six months ended June 30, 2004		-	-	-	-	-	-	1,504	1,504
Net losses on available-for-sale investments		-	-	-	-	-	(532)	-	(532)
Net losses on available-for-sale investments removed from equity and reported in net profit	4	-	-	-	-	-	8	-	8
Deferred tax recognized, net		-	-	-	-	-	79	-	79
Issue of shares through initial public offering	17	1,262	12,564	-	-	-	-	-	13,826
Share issue expenses		-	(581)	-	-	-	-	-	(581)
Dividends declared	7	-	-	-	-	-	-	(592)	(592)
Balance, June 30, 2004		6,195	14,801	4,148	486	395	(625)	1,264	26,664

The accompanying notes form an integral part of the condensed consolidated financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2004

		Six months ended June 30,	
		2004	2003
		(Unaudited)	(Unaudited)
	Note	RMB Million	RMB Million
Cash inflows from operating activities		20,119	20,171
Cash outflows from investing activities		(17,779)	(10,478)
Cash inflows/(outflows) from financing activities		12,583	(7,172)
Net increase in cash and cash equivalents		14,923	2,521
Cash and cash equivalents at beginning of period		8,017	3,815
Cash and cash equivalents at end of period	15	22,940	6,336

The accompanying notes form an integral part of the condensed consolidated financial statements.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

1. Principal activities, organization and basis of preparation

(a) *Principal activities and change in the Group's organization*

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

On September 29, 2003, China Ping An Trust & Investment Co., Ltd. ("Ping An Trust", a subsidiary of the Company) 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. The acquisition, additional capital contribution and the related business registration were completed by February 2004. Thereafter, the Bank has become a 73% owned subsidiary of Ping An Trust and the Bank's financial statements are consolidated into the Group's consolidated financial statements.

(b) *Basis of preparation and significant accounting policies*

These unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and the disclosure requirements of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in and should be read in conjunction with the accountants' report as set out in Appendix I to the Company's prospectus dated June 14, 2004.

2. Segment reporting

Segment information is presented in respect of the Group's business segment. The Group's revenue and net profit were mainly derived from the PRC. Accordingly, no segment analysis by geographical area is presented.

The segment analysis for the six months ended June 30, 2004 (the "Period") is as follows:

	Life insurance (Unaudited) RMB Million	General insurance (Unaudited) RMB Million	Corporate (Unaudited) RMB Million	Others (Unaudited) RMB Million	Elimination (Unaudited) RMB Million	Total (Unaudited) RMB Million
Income statement						
Gross written premiums and policy fees (net of business tax and surcharges)	27,161	5,136	-	-	-	32,297
Less: Premiums ceded to reinsurers	(420)	(1,751)	-	-	-	(2,171)
Increase in unearned premium reserves	(97)	(790)	-	-	-	(887)
Net earned premiums	26,644	2,595	-	-	-	29,239
Reinsurance commission income	120	550	-	-	-	670
Investment income and other income	2,497	111	118	251	(29)	2,948
Total revenue	29,261	3,256	118	251	(29)	32,857
Change in deferred policy acquisition costs	543	138	-	-	-	681
Claims, surrenders, annuities and maturities	(5,118)	(1,884)	-	-	-	(7,002)
Policyholder dividends and provisions	(219)	-	-	-	-	(219)
Increase in policyholders' reserves	(18,962)	-	-	-	-	(18,962)
Commission expenses	(2,253)	(331)	-	-	-	(2,584)
General and administrative expenses	(1,690)	(957)	(40)	(191)	17	(2,861)
Finance costs	(3)	(3)	-	(10)	-	(16)
Provision for insurance guarantee fund	(16)	(36)	-	-	-	(52)
Total expenses	(27,718)	(3,073)	(40)	(201)	17	(31,015)
Operating profit	1,543	183	78	50	(12)	1,842
Income taxes	(161)	(138)	(13)	(3)	-	(315)
Net profit before minority interests	1,382	45	65	47	(12)	1,527
Minority interests	-	-	-	(8)	(15)	(23)
Net profit attributable to shareholders	1,382	45	65	39	(27)	1,504



2. Segment reporting (Continued)

The segment analysis as at June 30, 2004 is as follows:

	Life insurance (Unaudited) RMB Million	General insurance (Unaudited) RMB Million	Corporate (Unaudited) RMB Million	Others (Unaudited) RMB Million	Elimination (Unaudited) RMB Million	Total (Unaudited) RMB Million
Balance sheet						
Investment in an associate	-	-	-	3	-	3
Other investments	161,286	6,414	12,042	2,969	(8,200)	174,511
Other assets	41,668	5,764	15,045	4,080	(484)	66,073
<hr/>						
Gross assets	202,954	12,178	27,087	7,052	(8,684)	240,587
Policyholders' and other reserves	182,163	8,531	-	-	-	190,694
Other liabilities	15,948	2,142	1,404	3,727	(483)	22,738
<hr/>						
Gross liabilities	198,111	10,673	1,404	3,727	(483)	213,432
Minority interests	11	-	-	391	89	491
<hr/>						
Segment net assets	4,832	1,505	25,683	2,934	(8,290)	26,664
<hr/>						

2. Segment reporting (Continued)

The segment analysis for the six months ended June 30, 2003 is as follows:

	Life insurance (Unaudited) RMB Million	General insurance (Unaudited) RMB Million	Corporate (Unaudited) RMB Million	Others (Unaudited) RMB Million	Elimination (Unaudited) RMB Million	Total (Unaudited) RMB Million
Income statement						
Gross written premiums and policy fees (net of business tax and surcharges)	31,080	4,468	-	-	-	35,548
Less: Premiums ceded to reinsurers	(524)	(1,380)	-	-	-	(1,904)
Increase in unearned premium reserves	(253)	(459)	-	-	-	(712)
Net earned premiums	30,303	2,629	-	-	-	32,932
Reinsurance commission income	206	467	-	-	-	673
Investment income and other income	2,895	135	155	58	(5)	3,238
Total revenue	33,404	3,231	155	58	(5)	36,843
Change in deferred policy acquisition costs	1,621	42	-	-	-	1,663
Claims, surrenders, annuities and maturities	(4,573)	(1,937)	-	-	-	(6,510)
Policyholder dividends and provisions	(382)	-	-	-	-	(382)
Increase in policyholders' reserves	(24,033)	-	-	-	-	(24,033)
Commission expenses	(2,754)	(306)	-	-	-	(3,060)
General and administrative expenses	(2,026)	(787)	(44)	(74)	21	(2,910)
Finance costs	(98)	(9)	-	-	-	(107)
Provision for insurance guarantee fund	(14)	(32)	-	-	-	(46)
Total expenses	(32,259)	(3,029)	(44)	(74)	21	(35,385)
Operating profit	1,145	202	111	(16)	16	1,458
Share of profits of an associate	-	-	-	4	-	4
Income taxes	(145)	(159)	48	-	-	(256)
Net profit before minority interests	1,000	43	159	(12)	16	1,206
Minority interests	-	-	-	-	(10)	(10)
Net profit attributable to shareholders	1,000	43	159	(12)	6	1,196



2. Segment reporting (Continued)

The segment analysis as at December 31, 2003 is as follows:

	Life insurance (Audited) <i>RMB Million</i>	General insurance (Audited) <i>RMB Million</i>	Corporate (Audited) <i>RMB Million</i>	Others (Audited) <i>RMB Million</i>	Elimination (Audited) <i>RMB Million</i>	Total (Audited) <i>RMB Million</i>
Balance sheet						
Investment in an associate	-	-	-	3	-	3
Other investments	143,371	5,874	12,798	2,055	(8,181)	155,917
Other assets	38,883	4,762	227	4,719	(1,032)	47,559
Gross assets	182,254	10,636	13,025	6,777	(9,213)	203,479
Policyholders' and other reserves	163,040	7,503	-	-	-	170,543
Other liabilities	15,368	1,593	64	3,654	(1,032)	19,647
Gross liabilities	178,408	9,096	64	3,654	(1,032)	190,190
Minority interests	11	-	-	248	78	337
Segment net assets	3,835	1,540	12,961	2,875	(8,259)	12,952

3. Written premiums and policy fees

	Six months ended June 30,	
	2004	2003
	(Unaudited)	(Unaudited)
	RMB Million	RMB Million
Gross premiums written and investment-linked premiums	34,550	38,094
Less: Allocated to separate (investment-linked) assets	(1,903)	(2,213)
	32,647	35,881
Less: Business tax and surcharges	(350)	(333)
Gross written premiums and policy fees (net of business tax and surcharges)	32,297	35,548
Gross		
Life		
Short term	2,037	1,972
Long term	25,124	29,108
General	5,136	4,468
Gross written premiums and policy fees (net of business tax and surcharges)	32,297	35,548
Net of reinsurance outward		
Life		
Short term	1,624	1,452
Long term	25,117	29,104
General	3,385	3,088
Net written premiums and policy fees	30,126	33,644



4. Investment income and other income

	Six months ended June 30,	
	2004	2003
	(Unaudited)	(Unaudited)
	RMB Million	RMB Million
Investment income		
Interest income:		
Bonds	1,258	937
Fixed and other bank deposits	1,769	1,689
Collateralized placements	40	102
Dividend income	321	27
Realized gain/(loss) on:		
Held-for-trading investments	65	48
Available-for-sale investments	(8)	43
Unrealized gain/(loss) on held-for-trading investments	(826)	175
Operating lease income from investment properties	60	44
<hr/>		
Total investment income	2,679	3,065
<hr/>		
Other income	269	173
<hr/>		
Total investment income and other income	2,948	3,238

5. Operating profit

Operating profit is arrived at after charging the following items:

	Six months ended June 30,	
	2004	2003
	(Unaudited)	(Unaudited)
	RMB Million	RMB Million
Employee costs, excluding directors' remuneration	1,230	1,285
Depreciation of investment properties	31	22
Depreciation of property, plant and equipment	150	174
Amortization of land use rights	10	10
Amortization of goodwill	13	–
Impairment losses for investment properties, property, plant and equipment, construction-in-progress, and land use rights	17	32
Operating lease payments in respect of land and buildings	276	260
Provision for doubtful debts, net	40	–
<hr/>		

6. Income taxes

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

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

	Six months ended June 30,	
	2004 (Unaudited) RMB Million	2003 (Unaudited) RMB Million
Current income tax	297	310
Deferred tax	18	(54)
Income taxes	315	256

7. Dividends

(1) Dividends attributable to the interim period

The directors do not recommend payment of any dividend in respect of the Period (Six months ended June 30, 2003: Nil).

(2) Dividends attributable to the previous financial year and declared during the interim period

	Six months ended June 30,	
	2004 (Unaudited) RMB Million	2003 (Unaudited) RMB Million
Final dividend of RMB0.12 per share (Six months ended June 30, 2003: RMB0.10 per share)	592	493



8. Earnings per share

The basic earnings per share for the Period is computed by dividing the unaudited net profit attributable to shareholders for the Period by the weighted average number of 4,981,861,026 shares (Six months ended June 30, 2003: 4,933,333,334 shares after reflecting the capitalization issue on December 19, 2003) in issue during the Period.

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

9. Held-for-trading investments

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Listed bond investments, at fair value	3,381	1,386
Unlisted bond investments, at fair value	201	725
Listed equity securities, at fair value	57	40
Listed equity investment funds, at fair value	7,863	4,648
Total	11,502	6,799

The maturity profile of bond investments is as follows:

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Fair value of bonds maturing:		
Within 1 year	1,966	1,117
Between 1 year and 5 years	950	558
After 5 years	666	436
Total	3,582	2,111

10. Available-for-sale investments

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Listed bond investments, at fair value	10,265	12,408
Unlisted bond investments, at fair value	2,677	2,156
Unlisted equity investments, at cost (net of impairment losses)	254	200
Total	13,196	14,764

The maturity profile of bond investments is as follows:

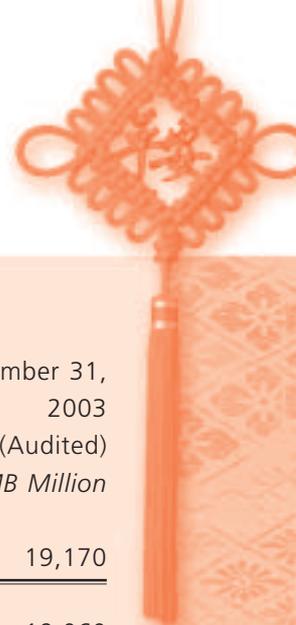
	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Fair value of bonds maturing:		
Within 1 year	–	6,449
Between 1 year and 5 years	4,430	1,082
After 5 years	8,512	7,033
Total	12,942	14,564

11. Held-to-maturity investments

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Bond investments, at amortized cost	41,832	32,332
Fair value	38,547	31,407

The maturity profile of bond investments is as follows:

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Amortized cost of bonds maturing:		
Within 1 year	1	285
Between 1 year and 5 years	5,049	4,563
After 5 years	36,782	27,484
Total	41,832	32,332



12. Loans and receivables originated by the enterprise – bonds

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Amortized cost	24,949	19,170
Fair value	23,845	19,060

The maturity profile of bond investments is as follows:

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Amortized cost of bonds maturing:		
Within 1 year	2,050	496
Between 1 year and 5 years	2,326	3,709
After 5 years	20,573	14,965
Total	24,949	19,170

13. Loans and receivables originated by the enterprise – fixed deposits

The maturity profile of fixed deposits is as follows:

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Carrying amount of deposits maturing:		
Within 1 year	8,580	3,689
Between 1 year and 5 years	57,937	62,971
After 5 years	13,929	11,573
Total	80,446	78,233

14. Loans and receivables originated by the enterprise – placements and loans

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Loans, at amortized cost (net of impairment loss)	139	21
Collateralized placements – reverse repos, at amortized cost	634	2,968
Policy loans, at amortized cost	390	297
	<hr/>	<hr/>
Placements and loans, net	1,163	3,286

The maturity profile of placements and loans is as follows:

	June 30, 2004 (Unaudited)	December 31, 2003 (Audited)
Placements	Not applicable	Not applicable
Loans	3 months – 5 years	30 days – 180 days
Collateralized placements – reverse repos	7 days – 91 days	3 days – 182 days
Policy loans	180 days	180 days

15. Cash and cash equivalents

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Cash at banks and in hand	22,940	8,017

The increase in cash and cash equivalents was mainly due to the proceeds received in the Company's initial public offering in June 2004.



16. Deferred policy acquisition costs

	Life insurance <i>RMB Million</i>	General insurance <i>RMB Million</i>	Total <i>RMB Million</i>
As at January 1, 2003	16,755	721	17,476
Deferred	6,453	1,030	7,483
Amortized	(3,606)	(992)	(4,598)
As at December 31, 2003	19,602	759	20,361
Deferred	2,470	638	3,108
Amortized	(1,927)	(500)	(2,427)
As at June 30, 2004	20,145	897	21,042

17. Share capital

	June 30, 2004 (Unaudited) <i>Million</i>	December 31, 2003 (Audited) <i>Million</i>
Number of shares registered, issued and fully paid at RMB1 each	6,195	4,933

On June 24, 2004, 1,261,720,000 ordinary shares of RMB1 each were issued at HKD10.33 (equivalent to approximately RMB10.96) each for a total cash consideration, before issue expenses, of RMB13,826 million through an initial public offering.

The movement of share capital is as follows:

	Number of shares registered, issued and fully paid <i>Million</i>	Nominal value of share capital <i>RMB Million</i>
As at January 1, 2004	4,933	4,933
Issued on initial public offering	1,262	1,262
As at June 30, 2004	6,195	6,195

18. Customer's deposits

The customers' deposits represented customers' short term funds placed with Ping An Securities Company, Ltd. for securities trading purposes.

19. Short term borrowings

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Collateralized borrowings – repos	70	200
Terms of collateralized borrowings – repos	7 days	7 days

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



20. Risk management *(Continued)*

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.

21. Significant related party transactions

The Group had the following significant transactions with Ping An Securities Company, Ltd.:

	Six months ended June 30,	
	2004	2003
	(Unaudited)	(Unaudited)
	RMB Million	RMB Million
Securities commissions paid	–	4
Interest income for dealing deposits placed	–	7

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

22. Commitments

(1) Capital commitments

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

	June 30,	December 31,
	2004	2003
	(Unaudited)	(Audited)
	RMB Million	RMB Million
Contracted, but not provided for	143	282
Authorized, but not contracted for	2,931	2,110

(2) Operating lease commitments

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

	June 30,	December 31,
	2004	2003
	(Unaudited)	(Audited)
	RMB Million	RMB Million
Within 1 year	306	355
Between 1 year and 5 years	408	310
After 5 years	3	11
	717	676



22. Commitments *(Continued)*

(3) *Operating lease rental receivables*

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

	June 30, 2004 (Unaudited) RMB Million	December 31, 2003 (Audited) RMB Million
Within 1 year	85	65
Between 1 year and 5 years	101	53
After 5 years	1	2
	187	120

23. 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 when 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 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.

24. Approval of the financial statements

The condensed consolidated financial statements have been approved and authorized for issue by the Company's board of directors on August 25, 2004.

OTHER INFORMATION

Share Capital Structure

	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	3,636,409,636	58.70 %
H Shares	2,558,643,698	41.30 %
	6,195,053,334	100.00 %

Disclosure of Interests

Interests and short positions of substantial shareholders and other persons

As at June 30, 2004, the interests or short positions of every person, other than a director, supervisor or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the "SFO") are as follows:

- (1) Interests and short positions of substantial shareholders who were entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company

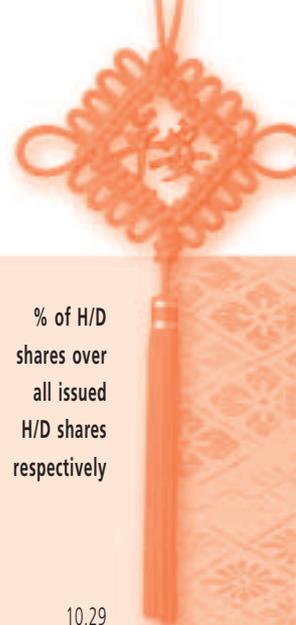
Name	Nature of Interest	H/Domestic ("D") shares	Capacity	Note	Number of Shares interested	% of entire issued capital	% of H/D shares over all issued H/D shares respectively	
HSBC Insurance Holdings Limited	Long Position**	H	Beneficial Owner	7	18,907,000			
	Long Position*				618,886,334	637,793,334	10.30 24.93	
HSBC Holdings plc	Long Position**	H	Interest of controlled corporations	1, 6 & 7	227,090,000			
	Long Position*				648,212,334	875,302,334	14.13	34.21
	Short Position					126,276,000	2.04	4.94



(2) Interests and short positions of persons other than substantial shareholders

Name	Nature of Interest	H/Domestic ("D") shares	Capacity	Note	Number of Shares interested	% of entire issued capital	% of H/D shares over all issued H/D shares respectively	
BOCI Asia Limited	Long Position*	H	Beneficial Owner	1	242,909,000	3.92	9.49	
BOC International Holdings Limited	Long Position*	H	Interest of controlled corporations	1 & 2	242,909,000	3.92	9.49	
Bank of China	Long Position*	H	Interest of controlled corporations	1 & 2	242,909,000	3.92	9.49	
Goldman Sachs (Asia) L.L.C.	Long Position**	H	Beneficial Owner	3	208,183,000	3.36	8.14	
Goldman Sachs (Cayman) Holding Company	Long Position**	H	Interest of controlled corporations	3	208,183,000			
	Long Position*				400,000	208,583,000	3.37	8.15
GS Capital Partners (Asia), LP	Long Position*	H	Beneficial Owner	4	213,347,476	3.44	8.34	
GS Advisors, L.L.C.	Long Position*	H	Interest of controlled corporations	4	310,901,538	5.02	12.15	
The Goldman Sachs Group, Inc.	Long Position**	H	Interest of controlled corporations	1, 3, 4 & 5	208,183,000			
	Long Position*				393,854,182	602,037,182	9.72	23.53
The Hongkong and Shanghai Banking Corporation Limited	Long Position**	H	Beneficial Owner	1 & 6	208,183,000			
	Long Position*				29,326,000	237,509,000	3.83	9.28
	Short Position		Beneficial owner Interest of controlled corporations		125,553,000 723,000	126,276,000	2.04	4.94

Name	Nature of Interest	H/Domestic ("D") shares	Capacity	Note	Number of Shares interested		% of entire issued capital	% of H/D shares over all issued H/D shares respectively
HSBC Asia Holdings BV	Long Position**	H	Interest of controlled corporations	1 & 6	208,183,000			
	Long Position*				29,326,000	237,509,000	3.83	9.28
	Short Position					126,276,000	2.04	4.94
HSBC Asia Holdings (UK)	Long Position**	H	Interest of controlled corporations	1 & 6	208,183,000			
	Long Position*				29,326,000	237,509,000	3.83	9.28
	Short Position					126,276,000	2.04	4.94
HSBC Holdings BV	Long Position**	H	Interest of controlled corporations	1 & 6	208,183,000			
	Long Position*				29,326,000	237,509,000	3.83	9.28
	Short Position					126,276,000	2.04	4.94
HSBC Finance (Netherlands)	Long Position**	H	Interest of controlled corporations	1 & 6	208,183,000			
	Long Position*				29,326,000	237,509,000	3.83	9.28
	Short Position					126,276,000	2.04	4.94
Morgan Stanley Dean Witter Asia Limited	Long Position**	H	Beneficial owner	1 & 8	208,183,000			
	Long Position*				29,326,000	237,509,000	3.83	9.28
MSDW Asia Securities Products L.L.C.	Long Position**	H	Interest of controlled corporations	1 & 8	208,183,000			
	Long Position*				29,326,000	237,509,000	3.83	9.28
Morgan Stanley Dean Witter (Hong Kong) Holdings Limited	Long Position**	H	Interest of controlled corporations	1 & 8	208,183,000			
	Long Position*				29,326,000	237,509,000	3.83	9.28



Name	Nature of Interest	H/Domestic ("D") shares	Capacity	Note	Number of Shares interested	% of entire issued capital	% of H/D shares over all issued H/D shares respectively
Morgan Stanley Asia Pacific (Holdings) Limited	Long Position**	H	Interest of controlled corporations	1 & 9	208,183,000	4.25	10.29
	Long Position*				55,185,000		
Morgan Stanley International Holdings Inc.	Long Position**	H	Interest of controlled corporations	1 & 9	208,183,000	4.25	10.29
	Long Position*				55,185,000		
Morgan Stanley International Incorporated	Long Position**	H	Interest of controlled corporations	1 & 10	208,183,000	4.27	10.33
	Long Position*				56,079,500		
Morgan Stanley Domestic Capital Inc.	Long Position**	H	Interest of controlled corporations	1 & 10	208,183,000	4.27	10.33
	Long Position*				56,079,500		
Morgan Stanley Capital Management, L.L.C.	Long Position**	H	Interest of controlled corporations	1 & 10	208,183,000	4.27	10.33
	Long Position*				56,079,500		
MSCP/PA Holdings Limited (Mauritius company)	Long Position*	H	Beneficial Owner	12	289,375,848	4.67	11.31
MSCP/PA Holdings Limited (Cayman Islands company)	Long Position*	H	Interest of controlled corporations	12	289,375,848	4.67	11.31
Morgan Stanley Leveraged Equity Fund II, L.P.	Long Position*	H	Interest of controlled corporations	12	289,375,848	4.67	11.31

Name	Nature of Interest	H/Domestic ("D") shares	Capacity	Note	Number of Shares interested	% of entire issued capital	% of H/D shares over all issued H/D shares respectively
Morgan Stanley Leveraged Equity Fund II, Inc.	Long Position*	H	Interest of controlled corporations	12	289,375,848	4.67	11.31
Morgan Stanley	Long Position**	H	Interest of controlled corporations	1, 9, 10, 11 & 12	208,183,000		
	Long Position*				349,222,348	557,405,348	9.00 21.79
Shenzhen Jiangnan Industrial Development Co., Ltd.	Long Position*	D	Beneficial Owner	13	479,117,788	7.73	13.18
Shenzhen Jingao Industrial Development Co., Ltd.	Long Position*	D	Interest of controlled corporations	13	479,117,788	7.73	13.18
Ping An Securities Company Ltd. Labor Union	Long Position*	D	Interest of controlled corporations	13	479,117,788	7.73	13.18
Ping An Trust Company Ltd. Labor Union	Long Position*	D	Interest of controlled corporations	13	479,117,788	7.73	13.18
Shenzhen New Horse Investment Development Co., Ltd.	Long Position*	D	Beneficial Owner	14	389,592,366	6.29	10.71
Ping An Insurance (Group) Company of China, Ltd. Labor Union	Long Position*	D	Interest of controlled corporations	14	389,592,366	6.29	10.71
Shenzhen Investment Holding Corporation	Long Position*	D	Beneficial Owner		543,181,445	8.77	14.94
Yuan Trust Investment Company Ltd.	Long Position*	D	Beneficial Owner		380,000,000	6.13	10.45
Capital China Group Limited	Long Position*	D	Beneficial Owner		332,526,844	5.37	9.14

Long Position represents long position other than through equity derivatives.*

*Long Position** represents long position via physically settled unlisted securities.*

Short Position represents short position via physically settled unlisted securities.



Notes

- (1) The interest in the long position in 237,509,000 shares were jointly held by BOC International Holdings Limited, Goldman Sachs (Asia) L.L.C., The Hongkong and Shanghai Banking Corporation Limited and Morgan Stanley Dean Witter Asia Limited.
- (2) BOCI Asia Limited was a wholly owned subsidiary of BOC International Holdings Limited, which in turn was wholly owned by Bank of China. The interest in 242,909,000 shares relates to the same block of shares in the Company.
- (3) Goldman Sachs (Asia) L.L.C. was owned as to 99% by Goldman Sachs (Cayman) Holding Company, which in turn was a wholly owned subsidiary of The Goldman Sachs Group, Inc.. The interest of Goldman Sachs (Asia) L.L.C. in 208,183,000 shares was included as part of the interest of Goldman Sachs (Cayman) Holding Company and The Goldman Sachs Group, Inc.. Goldman Sachs & Co. Bank held 400,000 shares in the Company. Goldman Sachs (Cayman) Holding Company was deemed to hold the said 400,000 shares by virtue of its 99% interest in Goldman Sachs & Co. Bank.
- (4) GS Capital Partners (Asia) LP holding 213,347,476 shares in the Company was a controlled corporation of and owned as to 1% by GS Advisors, L.L.C., which in turn was a wholly owned subsidiary of The Goldman Sachs Group, Inc.. GS Capital Partners Offshore (Asia) LP and GS Capital Partners LP, holding 35,373,746 and 62,180,316 shares in the Company respectively were controlled corporations of and owned as to 1% by GS Advisors, L.L.C.. The interests of GS Capital Partners (Asia) LP, GS Capital Partners Offshore (Asia) LP and GS Capital Partners LP in a total of 310,901,538 shares have been included as the interest of GS Advisors, L.L.C. and part of the interest of The Goldman Sachs Group, Inc..
- (5) Besides (3) and (4) above, The Goldman Sachs Group, Inc. also held interest in the Company by virtue of its control over the following corporations:

Name of Controlled Corporation	Percentage of ownership in controlled corporation	No. of Shares
Goldman Sachs & Co	100	2,031,000
Goldman Sachs International	100	52,714,000
Stone Street Fund 1994, LP	1.00	13,584,034
Bridge Street Fund 1994, LP	0.03	14,223,610

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- (6) The Hongkong and Shanghai Banking Corporation Limited was a wholly owned subsidiary of HSBC Asia Holdings BV, which in turn was wholly owned by HSBC Asia Holdings (UK). HSBC Asia Holdings (UK) was a wholly owned subsidiary of HSBC Holdings BV, which in turn was wholly owned by HSBC Finance (Netherlands). HSBC Holdings plc held 100% of HSBC Finance (Netherlands). The respective interest in 237,509,000 shares (long position) and 126,276,000 shares (short position) relates to the same blocks of shares in the Company. The respective interest in 237,509,000 shares (long position) and 126,276,000 shares (short position) in the Company was included as part of the interest of HSBC Holdings plc.
- (7) HSBC Insurance Holdings Limited was a wholly owned subsidiary of HSBC Holdings plc and its interest in 637,793,334 shares in the Company was included as part of the interest of HSBC Holdings plc.
- (8) Morgan Stanley Dean Witter Asia Limited was a wholly owned subsidiary of MSDW Asia Securities Products L.L.C., which in turn was wholly owned by Morgan Stanley Dean Witter (Hong Kong) Holdings Limited. The interest in 237,509,000 shares relates to the same block of shares in the Company.
- (9) Morgan Stanley Dean Witter (Hong Kong) Holdings Limited was a wholly owned subsidiary of Morgan Stanley Asia Pacific (Holdings) Limited, which in turn was owned as to 90% by Morgan Stanley International Holdings Inc.. Morgan Stanley held 80% interest in Morgan Stanley International Holdings Inc.. The interest in 237,509,000 shares was included as part of the interests of Morgan Stanley Asia Pacific (Holdings) Limited, Morgan Stanley International Holdings Inc. and Morgan Stanley.
- Morgan Stanley Investment Management Company, indirectly wholly owned by Morgan Stanley Asia Pacific (Holdings) Limited, which in turn was owned as to 90% by Morgan Stanley International Holdings Inc., held 25,859,000 shares in the Company. The said interest totaling 263,368,000 shares in the Company was included as the interests of Morgan Stanley Asia Pacific (Holdings) Limited, Morgan Stanley International Holdings Inc. and Morgan Stanley respectively.
- (10) Morgan Stanley & Co International Limited holding 894,500 shares in the Company was indirectly owned as to 98.3% by Morgan Stanley International Incorporated. The said interest together with the interest disclosed under note (9) above were included as the interest of Morgan Stanley International Incorporated. Morgan Stanley held 80% interest in Morgan Stanley International Incorporated. Morgan Stanley Domestic Capital, Inc. was a wholly owned subsidiary of Morgan Stanley Capital Management L.L.C., which in turn was wholly owned by Morgan Stanley. The interest of Morgan Stanley International Incorporated in 264,262,500 shares was included as the interest of Morgan Stanley Domestic Capital Inc., Morgan Stanley Capital Management L.L.C. and Morgan Stanley respectively.
- (11) Morgan Stanley & Co. Incorporated, holding 3,767,000 shares, was a wholly owned subsidiary of Morgan Stanley. The said interest was included as the interest of Morgan Stanley.
- (12) MSCP/PA Holdings Limited (Mauritius company) was wholly owned by MSCP/PA Holdings Limited (Cayman Islands company), which in turn was owned as to 51.6% by Morgan Stanley Leveraged Equity Fund II, L.P.. Morgan Stanley held 100% interest in Morgan Stanley Leveraged Equity Fund II, Inc., which held 9% of Morgan Stanley Leveraged Equity Fund II, L.P..



The interest of MSCP/PA Holdings Limited (Mauritius company) has been included as the interest of Morgan Stanley Leveraged Equity Fund II, L.P., Morgan Stanley Leveraged Equity Fund II, Inc. and Morgan Stanley respectively.

- (13) Shenzhen Jiangnan Industrial Development Co., Ltd. was owned as to 69.11% by Shenzhen Jingao Industrial Development Co., Ltd. which in turn was owned as to 80% and 20% by Ping An Securities Company Ltd. Labor Union and Ping An Trust Company Ltd. Labor Union respectively. The interest in 479,117,788 shares relates to the same block of shares in the Company.
- (14) Shenzhen New Horse Investment Development Co., Ltd. was owned as to 95% by Ping An Insurance (Group) Company of China, Ltd. Labor Union. The interest in 389,592,566 shares relates to the same block of shares in the Company.

Save as disclosed above, the directors of the Company are not aware of any persons holding any interests or short positions in shares or underlying shares of the Company which were required to be disclosed pursuant to the SFO as at June 30, 2004.

Interests and Short Positions of Directors and Supervisors

As at June 30, 2004, none of the directors or supervisors of the Company held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the directors or supervisors to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Purchase, sale, or redemption of shares

The Company has not redeemed any of its shares since the Listing on June 24, 2004 up to June 30, 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the same period.

Audit committee

The Company has established an audit committee in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review the financial reporting process of the Group. The audit committee consists of two independent non-executive Directors, namely Mr. Bao Youde and Mr. Kwong Che Keung Gordon and a non-executive Director, Mr. Anthony Philip Hope. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal controls and financial reporting matters including a review of the condensed interim accounts of the Company.



Compliance with the Code of Best Practice of the Listing Rules

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not or was not for any part of the period from the Listing to June 30, 2004 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

Code for securities transactions by directors and supervisors of the Company

On May 28, 2004, the Company adopted a code of conduct regarding securities transactions by directors and supervisors of the Company (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code. Specific enquiry has been made of all directors and supervisors of the Company who have confirmed that they complied with the required standard set out in the Code of Conduct regarding securities transactions by directors and supervisors of the Company at the applicable times for the period from May 28, 2004 to June 30, 2004.

Disclosure of information of the Stock Exchange's website

All information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange (<http://www.hkex.com.hk>) in due course.

By Order of the Board

Ma Mingzhe

Chairman and Chief Executive Officer

Hong Kong, August 25, 2004