

# **中国平安保险(集团)股份有限公司**

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

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 2318)

## **ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED DECEMBER 31, 2006**

### **CHAIRMAN'S STATEMENT**

In 2006, the PRC economy maintained stable and rapid growth while investment, export and consumers' spending increased steadily. As the reform of the financial sector progressed successfully and the financial regulatory system further matured, the financial and insurance industries also sustained a healthy growth momentum. By leveraging on our strong foundation and competitive advantages, Ping An successfully achieved its strategic targets and grew profitably across its broad portfolio of businesses in this favourable economic environment. For the year ended December 31, 2006, Ping An recorded a net profit of RMB8 billion and a total income of RMB87.9 billion, representing a substantial increase of 87.6% and 35.3% respectively over the previous year.

In 2006, we achieved historical breakthroughs as well as made new progress in various segments of our businesses.

### **Enhanced growth in core insurance businesses**

Our life insurance and property and casualty insurance businesses continued to grow profitably. As our premium growth rate surpassed the average market growth rate, our market share increased accordingly. Cross-selling sustained a strong growth momentum. Service quality was continuously improved, resulting in customers foundation being further strengthened.

### **Major breakthrough in banking business**

Ping An successfully acquired Shenzhen Commercial Bank and formed a professional banking management team with extensive international experience. We will complete the integration of Ping An Bank and Shenzhen Commercial Bank in 2007 subject to the approval of the China Banking Regulatory Commission ("CBRC"). After restructuring, our banking business will expand from Shenzhen to Shanghai, Fuzhou and other cities, and gradually develop a nationwide platform.

### **Steady progress in investment and asset management business**

With more liberal investment policies, our professional and internationally experienced investment team delivered record high investment returns. In addition to a steady growth in our own assets, we had a good start in the development of third party assets management business, where the total assets held in trust exceeded RMB16 billion.

### **Development of annuity business network**

Ping An Annuity was approved by the China Insurance Regulatory Commission ("CIRC") to build a nationwide distribution and service network in 127 cities across 35 provinces. We will gradually expand our annuity business across the country.

Along with the steady achievements in our portfolio of businesses, Ping An has won various recognitions and awards. In 2006, Ping An was awarded one of "Asia's Best Managed Companies" by Euromoney and was honored as one of the "Most Respectable Enterprises" for the fifth consecutive year. In a customer satisfaction survey of the life insurance sector in the PRC conducted by the CIRC, Ping An Life was ranked the first among 24 participants in terms of customer service satisfaction and other aspects.

Looking ahead at 2007, it is expected that the PRC economy will continue to develop rapidly and positively, personal wealth will continue to increase, and the opening up of the financial sector in the PRC to foreign entities will be accelerated. The Group is expected to benefit from all these developments. Ping An will adhere to its strategic missions and visions, maintain its leading position in the domestic market, create synergy across our portfolio of businesses, execute our “One Customer, Multiple Products” strategy, and constantly enhance our competitive advantages.

Prior to the release of this announcement, Ping An successfully completed its issue of A shares in the PRC capital market with overwhelming levels of oversubscription. As a domestic financial enterprise, the Group will benefit from this A shares listing in terms of its brand recognition, reputation and transparency in the PRC market, thus laying a solid foundation for our long-term development.

I would like to take this opportunity to express my sincere thanks to our customers, shareholders and members of the public for their wholehearted support to the Group.

## **KEY FINANCIAL AND OPERATION INFORMATION**

### **Life Insurance**

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

#### **For the year ended December 31,**

**(in RMB million, except percentages)**

	<b>2006</b>	<b>2005</b>
Gross written premiums and policy fees	<b>53,622</b>	46,945
Individual life insurance	<b>45,870</b>	38,758
Bancassurance	<b>928</b>	1,133
Group insurance	<b>6,824</b>	7,054
Premium deposits	<b>15,158</b>	11,746
Individual life insurance	<b>9,296</b>	7,411
Bancassurance	<b>5,284</b>	4,091
Group insurance	<b>578</b>	244
Gross written premiums, policy fees and premium deposits	<b>68,780</b>	58,691
Market share of gross written premiums, policy fees and premium deposits <sup>(1)</sup>	<b><u>17.0 %</u></b>	<b><u>16.1 %</u></b>

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

#### **As at or for the year ended December 31,**

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

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

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

### **Property and Casualty Insurance**

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

<b>For the year ended December 31, (in RMB million, except percentages)</b>	<b>2006</b>	<b>2005</b>
Gross written premiums	<b>16,074</b>	12,076
Automobile	<b>11,057</b>	7,497
Non-automobile	<b>4,207</b>	4,044
Accident and health	<b>810</b>	535
Market share of gross written premiums <sup>(1)</sup>	<b>10.7%</b>	9.9%

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

<b>As at or for the year ended December 31,</b>	<b>2006</b>	<b>2005</b>
Combined ratio:		
Expense ratio	<b>25.8%</b>	23.3%
Loss ratio	<b>69.6%</b>	72.0%
Combined ratio	<b>95.4%</b>	95.3%
Number of customers:		
Individual (in thousand)	<b>6,222</b>	6,006
Corporate (in thousand)	<b>1,724</b>	1,680
Total (in thousand)	<b>7,946</b>	7,686

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

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

### **Consolidated Investment Income**

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

	<b>2006</b>	<b>2005</b>
Net investment income	<b>12,198</b>	9,338
Net realized and unrealized gains	<b>9,673</b>	317
Total investment income	<b>21,871</b>	9,655
Net investment yield <sup>(1)</sup>	<b>4.6%</b>	4.2%
Total investment yield <sup>(1)</sup>	<b>8.3%</b>	4.3%

(1) Lease income from investment properties and foreign currency gains/losses on investment assets denominated in foreign currencies are excluded in the calculation of the above yields.

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

<b>As at December 31, (in RMB million, except percentages)</b>	<b>2006</b>		<b>2005</b>	
	<b>Carrying Value</b>	<b>% of Total</b>	<b>Carrying Value</b>	<b>% of Total</b>
Fixed maturity investments				
Term deposits <sup>(3)</sup>	<b>59,107</b>	<b>18.8%</b>	69,015	28.0%
Bond investments <sup>(1)(3)</sup>	<b>206,881</b>	<b>65.9%</b>	159,776	64.9%
Other fixed maturity investments	<b>1,600</b>	<b>0.5%</b>	864	0.4%
Equity investments <sup>(2)(3)</sup>	<b>44,791</b>	<b>14.3%</b>	15,244	6.2%
Investment properties	<b>1,528</b>	<b>0.5%</b>	1,243	0.5%
Total investments	<b>313,907</b>	<b>100.0%</b>	246,142	100.0%

(1) Bond investments include the carrying value of derivatives embedded with the host contracts.

(2) Equity investments include equity investment funds, equity securities and investment in an associate.

(3) The above figures exclude items that are classified as cash and cash equivalents.

(4) Certain comparative figures have been reclassified to conform to current year's presentation.

## FINANCIAL STATEMENTS

### A. Prepared in accordance with International Financial Reporting Standards (“IFRSs”)

#### Consolidated Income Statement

For the year ended December 31, 2006

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

	Notes	2006	2005
Gross written premiums and policy fees	4	69,696	59,021
Less: Premiums ceded to reinsurers		(4,271)	(4,241)
Net written premiums and policy fees		65,425	54,780
Increase in unearned premium reserves, net		(2,412)	(1,581)
Net earned premiums		63,013	53,199
Reinsurance commission income		1,549	1,371
Interest income of banking operations	5	192	25
Other fees and commission income		615	254
Investment income	6	21,871	9,655
Other income		703	491
<b>Total income</b>		<b>87,943</b>	<b>64,995</b>
Change in deferred policy acquisition costs		5,480	3,830
Claims and policyholders’ benefits		(66,068)	(50,375)
Changes in fair value of derivative financial liabilities		100	(6)
Commission expenses of insurance operations		(8,078)	(5,928)
Interest expenses of banking operations	5	(80)	(7)
Other fees and commission expenses		(50)	(18)
Loan loss provisions, net of reversals		(3)	73
Foreign currency losses		(466)	(405)
General and administrative expenses		(10,230)	(7,347)
<b>Total expenses</b>		<b>(79,395)</b>	<b>(60,183)</b>
Operating profit before tax	7	8,548	4,812
Income taxes	8	(548)	(547)
<b>Net profit</b>		<b>8,000</b>	<b>4,265</b>
<b>Attributable to:</b>			
– Equity holders of the parent		7,838	4,226
– Minority interests		162	39
		<b>8,000</b>	<b>4,265</b>
		<b>RMB</b>	<b>RMB</b>
<b>Earnings per share for net profit attributable to equity holders of the parent – basic</b>	10	<b>1.27</b>	<b>0.68</b>

**Consolidated Balance Sheet***As at December 31, 2006*

<b>As at December 31, (in RMB million)</b>	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
Balances with central bank and statutory deposits	<b>9,234</b>	1,260
Cash and amounts due from banks and other financial institutions	<b>95,912</b>	81,082
Fixed maturity investments	<b>215,640</b>	160,613
Equity investments	<b>46,729</b>	20,865
Derivative financial assets	<b>21</b>	27
Loans and advances to customers	<b>49,152</b>	531
Investments in associates	<b>176</b>	3
Premium receivables	<b>2,939</b>	749
Reinsurance assets	<b>4,130</b>	4,185
Policyholder account assets in respect of insurance contracts	<b>20,961</b>	12,820
Policyholder account assets in respect of investment contracts	<b>3,971</b>	3,078
Deferred policy acquisition costs	<b>31,866</b>	26,428
Investment properties	<b>1,528</b>	1,243
Property and equipment	<b>4,766</b>	3,538
Intangible assets	<b>1,484</b>	1,411
Deferred income tax assets	<b>417</b>	–
Other assets	<b>5,383</b>	1,873
<b>Total assets</b>	<b>494,309</b>	319,706
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	<b>6,195</b>	6,195
Reserves	<b>29,703</b>	21,493
Retained profits	<b>10,477</b>	5,308
Equity attributable to equity holders of the parent	<b>46,375</b>	32,996
Minority interests	<b>1,375</b>	526
<b>Total equity</b>	<b>47,750</b>	33,522
<b>Liabilities</b>		
Due to banks and other financial institutions	<b>5,138</b>	37
Assets sold under agreements to repurchase	<b>13,436</b>	7,095
Derivative financial liabilities	<b>178</b>	133
Customer deposits	<b>75,960</b>	1,825
Insurance contract liabilities	<b>330,213</b>	263,025
Investment contract liabilities for policyholders	<b>4,233</b>	3,092
Policyholder dividend payable and provisions	<b>4,107</b>	2,864
Income tax payable	<b>691</b>	445
Deferred income tax liabilities	<b>1,657</b>	49
Other liabilities	<b>10,946</b>	7,619
<b>Total liabilities</b>	<b>446,559</b>	286,184
<b>Total equity and liabilities</b>	<b>494,309</b>	319,706

## Consolidated Statement of Changes in Equity

For the year ended December 31, 2006

		Equity attributable to equity holders of the parent									
		Reserves									
(in RMB million)	Notes	Share capital	Capital reserve	Surplus reserve fund	Statutory public welfare fund	General reserve	Net unrealized gains/ (losses)	Foreign currency translation differences	Retained profits	Minority interests	Total
As at January 1, 2006		6,195	14,835	4,743	783	430	715	(13)	5,308	526	33,522
Net profit for 2006		-	-	-	-	-	-	-	7,838	162	8,000
Net gains on available-for-sale investments		-	-	-	-	-	11,861	-	-	118	11,979
Net gains on available-for-sale investments removed from equity and reported in net profit		-	-	-	-	-	(2,996)	-	-	(30)	(3,026)
Deferred tax recognized, net	8	-	-	-	-	-	(1,330)	-	-	(13)	(1,343)
Changes in equity interests in subsidiaries		-	-	-	-	-	-	-	-	54	54
Acquisition of subsidiaries		-	-	-	-	-	-	-	-	617	617
Dividends declared	9	-	-	-	-	-	-	-	(1,982)	-	(1,982)
Transfer to statutory surplus reserve fund		-	-	783	(783)	-	-	-	-	-	-
Appropriations to statutory reserve		-	-	600	-	-	-	-	(600)	-	-
Increase in general reserve		-	-	-	-	87	-	-	(87)	-	-
Currency translation adjustments		-	-	-	-	-	-	(12)	-	(4)	(16)
Dividends declared by subsidiaries		-	-	-	-	-	-	-	-	(55)	(55)
As at December 31, 2006		6,195	14,835	6,126	-	517	8,250	(25)	10,477	1,375	47,750
As at January 1, 2005		6,195	14,835	4,409	616	395	(738)	-	2,485	430	28,627
Net profit for 2005		-	-	-	-	-	-	-	4,226	39	4,265
Net gains on available-for-sale investments		-	-	-	-	-	1,715	-	-	18	1,733
Net gains on available-for-sale investments removed from equity and reported in net profit		-	-	-	-	-	(5)	-	-	-	(5)
Deferred tax recognized, net		-	-	-	-	-	(257)	-	-	(3)	(260)
Change in equity interests in subsidiaries		-	-	-	-	-	-	-	-	46	46
Increase in general reserve		-	-	-	-	35	-	-	(35)	-	-
Dividends declared	9	-	-	-	-	-	-	-	(867)	-	(867)
Currency translation adjustments		-	-	-	-	-	-	(13)	-	(4)	(17)
Appropriations to statutory reserve		-	-	334	167	-	-	-	(501)	-	-
As at December 31, 2005		6,195	14,835	4,743	783	430	715	(13)	5,308	526	33,522

### Supplementary Information

#### 1. Organization and principal activities

Ping An Insurance (Group) Company of China, Ltd. (the “Company”) was incorporated in Shenzhen, the People’s Republic of China (the “PRC”) on March 21, 1988. Its business scope includes investing in insurance enterprises, supervising and managing various domestic and overseas businesses of subsidiaries, and utilizing insurance funds. The Company and its principal subsidiaries (the “Group”) are mainly engaged in the provision of life insurance, property and casualty insurance, banking and other financial services.



## 2. *Changes in accounting policies*

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

- *International Accounting Standard (“IAS”) 39 Financial Instruments: Recognition and Measurement*

### Fair Value Option

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

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis; or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about such group is provided internally on that basis to an entity’s key management personnel.

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

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

### Financial Guarantee Contracts

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

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

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

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

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

## 3. *Segment reporting*

The Group’s business segment information is currently divided into five business segments – life insurance business, property and casualty insurance business, banking business, corporate business, and other business. Segment net profit represents revenue less expenses directly attributable to a segment and the relevant portion of enterprise revenue less expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group.



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

(in RMB million)	Life insurance	Property and casualty insurance	Banking	Corporate	Others	Elimination	Total
<b>Income statement</b>							
Gross written premiums and policy fees	53,622	16,074	–	–	–	–	69,696
Less: Premiums ceded to reinsurers	(631)	(3,640)	–	–	–	–	(4,271)
Increase in unearned premium reserves, net	(290)	(2,122)	–	–	–	–	(2,412)
Net earned premiums	52,701	10,312	–	–	–	–	63,013
Reinsurance commission income	278	1,271	–	–	–	–	1,549
Interest income of banking operations	–	–	192	–	–	–	192
Other fees and commission income	73	–	10	–	1,092	(560)	615
Investment income	19,298	684	44	1,321	535	(11)	21,871
Other income	524	46	22	29	223	(141)	703
Total income	72,874	12,313	268	1,350	1,850	(712)	87,943
Change in deferred policy acquisition costs	4,808	672	–	–	–	–	5,480
Claims and policyholders' benefits	(58,890)	(7,178)	–	–	–	–	(66,068)
Changes in fair value of derivative financial liabilities	104	–	–	–	(4)	–	100
Commission expenses of insurance operations	(6,559)	(1,572)	–	–	–	53	(8,078)
Interest expenses of banking operations	–	–	(80)	–	–	–	(80)
Other fees and commission expenses	(32)	–	(3)	–	(47)	32	(50)
Loan loss provisions, net of reversals	–	–	(2)	–	(1)	–	(3)
Foreign currency losses	(413)	(16)	(1)	(26)	(10)	–	(466)
General and administrative expenses	(6,007)	(3,029)	(86)	(891)	(833)	616	(10,230)
Total expenses	(66,989)	(11,123)	(172)	(917)	(895)	701	(79,395)
Operating profit before tax	5,885	1,190	96	433	955	(11)	8,548
Income taxes	(181)	(142)	(25)	(42)	(158)	–	(548)
Net profit	5,704	1,048	71	391	797	(11)	8,000

**4. Gross written premiums and policy fees**

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

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

**5. Net interest income of banking operations**

*(1) Interest income of banking operations*

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

	<b>2006</b>	<b>2005</b>
Loans and advances to customers	<b>132</b>	6
Balances with central bank	<b>5</b>	–
Cash and amounts due from banks and other financial institutions	<b>55</b>	19
Total	<b>192</b>	25

*(2) Interest expenses of banking operations*

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

	<b>2006</b>	<b>2005</b>
Customer deposits	<b>47</b>	1
Due to banks and other financial institutions	<b>33</b>	6
Total	<b>80</b>	7

*(3) Net interest income of banking operations*

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

	<b>2006</b>	<b>2005</b>
Interest income of banking operations	<b>192</b>	25
Less: interest expenses of banking operations	<b>(80)</b>	(7)
Net interest income of banking operations	<b>112</b>	18

## 6. *Investment income*

### (1) *Net investment income*

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

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

Lease income from investment properties and foreign currency gains/losses on investment assets denominated in foreign currencies are excluded in the calculation of the above yield.

### (2) *Realized gains/(losses)*

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

	2006	2005
Fixed maturity investments		
– Available-for-sale	103	258
– Carried at fair value through profit or loss	170	43
Equity investments		
– Available-for-sale	2,923	(253)
– Carried at fair value through profit or loss	3,124	(553)
Derivative financial instruments		
– Carried at fair value through profit or loss	237	–
Total	<u>6,557</u>	<u>(505)</u>

(3) *Unrealized gains/(losses)*

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

	2006	2005
Fixed maturity investments		
– Carried at fair value through profit or loss	(9)	10
Equity investments		
– Carried at fair value through profit or loss	3,117	808
Derivative financial instruments		
– Carried at fair value through profit or loss	8	4
Total	<u>3,116</u>	<u>822</u>

(4) *Total investment income*

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

	2006	2005
Net investment income	12,198	9,338
Realized gains/(losses)	6,557	(505)
Unrealized gains	3,116	822
Total	<u>21,871</u>	<u>9,655</u>
Yield of total investment income (% per annum)	<u>8.3</u>	<u>4.3</u>

Lease income from investment properties and foreign currency gains/losses on investment assets denominated in foreign currencies are excluded in the calculation of the above yield.

7. *Operating profit before tax*

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

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

	2006	2005
Employee costs (Note 7(2))	5,121	3,095
Provision for insurance guarantee fund	271	209
Depreciation of investment properties	86	50
Depreciation of property and equipment	495	486
Amortization of prepaid land premiums	21	20
Loss/(gain) on disposal of property and equipment and investment properties	(45)	19
Charge/(write-back) of impairment losses on investment properties, property and equipment, and prepaid land premiums	(149)	75
Provision for doubtful debts, net	100	122
Loan loss provisions, net of reversals	3	(73)
Auditors' remuneration:		
– Annual audit fees	14	10
Operating lease payments in respect of land and buildings	<u>525</u>	<u>506</u>

(2) *Employee costs*

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

	2006	2005
Wages, salaries and bonuses	4,079	2,626
Retirement benefits, social security contributions and welfare benefits	1,042	469
Total	<u>5,121</u>	<u>3,095</u>

8. *Income taxes*

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

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

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

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

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

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

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

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

**9. Dividends**

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

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

**10. Earnings per share**

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

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

**11. Embedded value**

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

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

## Components of Economic Value

As at December 31, (in RMB million)	2006	2005
Adjusted net asset value	46,282	33,072
Value of in-force insurance business written prior to June 1999	(20,932)	(18,089)
Value of in-force insurance business written since June 1999	48,011	38,537
Cost of holding the required solvency margin	(7,788)	(5,157)
<b>Embedded Value</b>	<b>65,573</b>	<b>48,363</b>
Value of one year's new business	6,007	5,148
Cost of holding the required solvency margin	(875)	(609)
<b>Value of one year's new business after cost of solvency</b>	<b>5,132</b>	<b>4,539</b>

### 12. Distributable reserves

As at December 31, 2006, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, totaled RMB1,686 million, of which RMB1,616 million has been proposed as a final dividend for the year. In addition, the Company's capital reserve and surplus reserve fund, in the amount of RMB20,961 million, may be distributed by a future capitalization issue.

### 13. Major customers

In the year under review, gross written premiums, policy fees and premium deposits from the Group's five largest customers accounted for less than 2% of the total gross written premiums, policy fees and premium deposits for the year.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

### 14. Contingent liabilities

#### (1) Guarantees

Shenzhen Ping An Real Estate Development Co., Ltd. provided guarantees for several loans under trust schemes managed by China Ping An Trust & Investment Co., Ltd. ("Ping An Trust"). The guarantees provided were RMB426 million as at December 31, 2006.

#### (2) Litigation

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

No provision has been made for pending lawsuits or possible violations of contracts when the outcome cannot be reasonably estimated or management believes the probability is low or remote. For pending lawsuits, management also believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group or any of its subsidiaries.



## **15. Post balance sheet events**

1. Pursuant to the approval from the Company's shareholders and the China Securities Regulatory Commission, the Company issued 1.15 billion ordinary A-shares with par value of RMB1 at a price of RMB33.80 each in February 2007. The total cash consideration received, after deduction of issuance expenses, amounts to RMB38,222 million and the Company's registered and paid-up capital has increased to RMB7,345 million.
2. Pursuant to an agreement entered into by Shenzhen Commercial Bank Co., Ltd. ("SZCB"), Ping An Trust and HSBC in February 2007, SZCB will acquire all of the equity interest held by Ping An Trust and HSBC in Ping An Bank Limited ("Ping An Bank"). Upon completion of such transfer, the Group's equity interest in Ping An Bank will increase to 89.36%.
3. In March 2007, Ping An of China Asset Management (Hong Kong) Company Limited obtained a license issued by Securities and Futures Commission of Hong Kong to conduct asset management business.
4. During the 5th Session of the 10th National People's Congress, which was concluded on March 16, 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on January 1, 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the future financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.
5. On April 11, 2007, the directors proposed 2006 final dividend distribution of RMB0.22 per share totaling RMB1,616 million. This proposal is subject to Company shareholders' approval.

**B. Prepared in accordance with PRC Accounting Standards**

**Consolidated Income Statement**

*For the year ended December 31, 2006*

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

	2006	2005
Underwriting income		
Premium income	85,955	71,609
Reinsurance premium income	29	15
Less: Premium ceded to reinsurers	(4,271)	(4,241)
Total underwriting income	81,713	67,383
Underwriting expenses		
Claim expenses	(10,721)	(8,222)
Less: Claims recoverable from reinsurers	2,446	2,475
Subrogation income	46	49
Claims for reinsurance accepted	(9)	(4)
Payments on death and medical claims	(1,087)	(982)
Payments on maturities	(3,035)	(3,263)
Payments on annuities	(2,771)	(2,447)
Payments on surrenders	(8,493)	(6,956)
Expenses for reinsurance accepted	(4)	(2)
Handling charges	(1,832)	(964)
Commission expenses	(6,242)	(4,962)
Business tax and surcharges	(1,645)	(910)
Operating expenses	(9,759)	(7,032)
Less: Expenses recoverable from reinsurers	1,549	1,371
Provision for insurance guarantee fund	(271)	(209)
Total underwriting expenses	(41,828)	(32,058)
Changes in reserves		
Provision for claim reserves	(6,155)	(4,928)
Less: Write-back of claim reserves	4,928	3,874
Provision for unearned premium reserves	(8,702)	(6,241)
Less: Write-back of unearned premium reserves	6,241	4,869
Provision for long-term unearned premium reserves	(2,408)	(2,414)
Less: Write-back of long-term unearned premium reserves	2,414	1,895
Provision for policyholders' reserves for life insurance	(243,535)	(198,372)
Less: Write-back of policyholders' reserves for life insurance	198,372	167,143
Provision for long-term reserves for health insurance	(30,126)	(24,569)
Less: Write-back of long-term reserves for health insurance	24,569	18,626
Total change in reserves	(54,402)	(40,117)
Underwriting losses	(14,517)	(4,792)
Add: Other profit	16	116
Investment income	18,513	5,885
Interest income	3,847	3,883
Income from assets purchased under agreements to resell	28	—
Commission income	475	175
Securities underwriting income	140	79
Foreign exchange losses	(480)	(408)
Less: Interest expenses	(130)	(16)
Policyholder dividends	(1,487)	(1,064)
Expenses of assets sold under agreements to repurchase	(172)	(91)
Other handling charges	(50)	(18)
Loan loss provisions	(1)	73
Operating profit	6,182	3,822
Add: Non-operating income	87	57
Less: Non-operating expenses	(11)	(123)
Profit before tax	6,258	3,756
Less: Income tax	(135)	(388)
Profit after tax	6,123	3,368
Less: Minority interests	(137)	(30)
Net profit	5,986	3,338

**Consolidated Profit Appropriation Statement***For the year ended December 31, 2006***For the year ended December 31,  
(in RMB million)**

	<b>2006</b>	<b>2005</b>
Net profit	<b>5,986</b>	3,338
Add: Retained profits at beginning of year	<b>5,350</b>	3,415
Distributable profit	<b>11,336</b>	6,753
Less: Appropriation to statutory surplus reserve fund	<b>(600)</b>	(334)
Appropriation to statutory public welfare fund	–	(167)
Appropriation to general risk provision	<b>(17)</b>	–
Appropriation to general provision	<b>(41)</b>	(35)
Appropriation to loss provision for trust business	<b>(29)</b>	–
Profit available for distribution to shareholders	<b>10,649</b>	6,217
Less: Dividends payable	<b>(1,982)</b>	(867)
Retained profits at end of year	<b>8,667</b>	5,350

**Consolidated Balance Sheet***As at December 31, 2006***As at December 31, (in RMB million)****ASSETS****CURRENT ASSETS:**

Cash on hand	<b>347</b>	14
Cash at bank	<b>89,789</b>	80,291
Balances with clearing companies	<b>1,135</b>	177
Precious metal	<b>111</b>	–
Balances with central bank	<b>7,714</b>	20
Due from banks and other financial institutions	<b>2,840</b>	426
Short-term investments	<b>24,149</b>	16,533
Placements with banks and other financial institutions	<b>1,727</b>	131
Short-term loans	<b>10,709</b>	401
Policy loans	<b>1,381</b>	864
Assets purchased under agreements to resell	<b>6,950</b>	–
Discounted bills	<b>12,634</b>	–
Bills negotiation of export and import L/C	<b>318</b>	–
Interest receivables	<b>609</b>	438
Premium receivables	<b>3,073</b>	749
Receivables from reinsurers	<b>787</b>	720
Prepaid claims	<b>135</b>	226
Deposits with stock and futures exchanges	<b>74</b>	42
Other receivables	<b>2,675</b>	467
Materials	<b>2</b>	4
Low-value consumables	<b>114</b>	90
Deferred expenses	<b>123</b>	94
Financial guarantees	<b>94</b>	–
Dividends receivable	<b>43</b>	–
Long-term bond investments due within one year	<b>2,506</b>	780
Total current assets	<b>170,039</b>	102,467

**LONG-TERM INVESTMENTS:**

Long-term equity investments	<b>13,388</b>	3,007
Consolidation surplus	<b>599</b>	330
Long-term bond investments	<b>192,025</b>	151,966
Long-term fund investments	<b>5,193</b>	6,978
	<hr/>	<hr/>
Total long-term investments	<b>211,205</b>	162,281
	<hr/>	<hr/>
Medium to long-term loans	<b>24,240</b>	130
Overdue loans	<b>896</b>	–
Non-accrual loans	<b>2,786</b>	94
Less: Loan loss provisions	<b>(2,431)</b>	(94)
Fixed assets:		
Fixed assets, at cost	<b>9,153</b>	7,071
Less: accumulated depreciation	<b>(2,932)</b>	(2,235)
	<hr/>	<hr/>
Fixed assets, net	<b>6,221</b>	4,836
Less: impairment losses	<b>(192)</b>	(323)
	<hr/>	<hr/>
Fixed assets, net	<b>6,029</b>	4,513
Construction in progress	<b>1,234</b>	1,319
Fixed assets disposal	<b>(1)</b>	–
	<hr/>	<hr/>
Total fixed assets	<b>7,262</b>	5,832
	<hr/>	<hr/>
<b>INTANGIBLE ASSETS AND OTHER ASSETS:</b>		
Intangible assets	<b>158</b>	152
Long-term deferred expenses	<b>61</b>	37
Statutory deposits	<b>1,520</b>	1,240
Repossessed assets	<b>464</b>	8
Other long-term assets	<b>29</b>	39
Separate account assets	<b>24,932</b>	15,898
	<hr/>	<hr/>
Total intangible assets and other assets	<b>27,164</b>	17,374
	<hr/>	<hr/>
<b>DEFERRED TAX:</b>		
Deferred tax assets	<b>630</b>	20
	<hr/>	<hr/>
Total assets	<b>441,791</b>	288,104
	<hr/>	<hr/>

## LIABILITIES AND SHAREHOLDERS' EQUITY

### CURRENT LIABILITIES:

Short-term borrowings	527	—
Short-term deposits	50,627	18
Short-term saving deposits	10,725	—
Due to banks and other financial institutions	3,465	37
Placements from banks and other financial institutions	991	—
Assets sold under agreements to repurchase	13,436	7,095
Handling charges payable	118	76
Commission payable	776	557
Due to reinsurers	746	533
Premium received in advance	1,353	1,880
Deposits from reinsurers	—	58
Guarantee deposits	5,485	77
Inward and outward remittances	249	—
Interest payable	309	5
Salary payable	1,724	475
Welfare payable	295	142
Warrants payable	88	—
Policyholder dividends payable	4,106	2,864
Dividends payable	81	76
Taxes payable	1,120	673
Other payables	2,191	1,356
Accrued expenses	75	15
Claim reserves	6,155	4,928
Unearned premium reserves	8,702	6,241
Insurance guarantee fund	82	60
Customer deposits	3,750	1,730
Other current liabilities	191	—
Long-term liabilities due within one year	1,577	—
Total current liabilities	<u>118,944</u>	<u>28,896</u>

### LONG-TERM LIABILITIES:

Long-term deposits	3,043	—
Long-term saving deposits	455	—
Long-term guarantee deposits	49	—
Long-term borrowings	155	—
Long-term unearned premium reserves	2,408	2,414
Policyholders' reserves for life insurance	223,722	183,096
Long-term reserves for health insurance	30,126	24,569
Deposits from policyholders	37	40
Other long-term liabilities	1	2
Separate account liabilities	24,932	15,898
Including: Separate account reserves	19,813	15,276
Total long-term liabilities	<u>284,928</u>	<u>226,019</u>
Total liabilities	<u><u>403,872</u></u>	<u><u>254,915</u></u>

MINORITY INTERESTS	<u>1,251</u>	<u>525</u>
SHAREHOLDERS' EQUITY:		
Share capital	6,195	6,195
Capital reserve	15,163	15,163
Surplus reserve fund	6,126	5,526
General reserve	395	395
General risk provision	17	–
General provision	76	35
Loss provision for trust business	29	–
Retained profits	8,667	5,350
Including: Proposed dividends	1,616	–
Total shareholders' equity	<u>36,668</u>	<u>32,664</u>
Total liabilities and shareholders' equity	<u>441,791</u>	<u>288,104</u>

### Income Statement of the Company

For the year ended December 31, 2006

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

	2006	2005
Operating expenses		
Business tax and surcharges	(24)	(2)
Operating expenses	<u>(886)</u>	<u>(410)</u>
Total operating expenses	<u>(910)</u>	<u>(412)</u>
Add: Other profit	4	5
Investment income	6,559	3,205
Interest income	383	581
Income from assets purchased under agreements to resell	5	–
Foreign exchange losses	(27)	(3)
Less: Interest expenses	(25)	–
Expenses of assets sold under agreements to repurchase	<u>(10)</u>	<u>(3)</u>
Operating profit	5,979	3,373
Less: Non-operating expenses	<u>(3)</u>	<u>–</u>
Profit before tax	5,976	3,373
Less: Income tax	21	(35)
Net profit	<u>5,997</u>	<u>3,338</u>

### Profit Appropriation Statement of the Company

For the year ended December 31, 2006

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

	2006	2005
Net profit	5,997	3,338
Add: Retained profits at beginning of year	<u>5,350</u>	<u>3,415</u>
Distributable profit	11,347	6,753
Less: Appropriation to statutory surplus reserve fund	(600)	(334)
Appropriation to statutory public welfare fund	–	(167)
Appropriation to general risk provision	(17)	–
Appropriation to general provision	(41)	(35)
Appropriation to loss provision for trust business	<u>(29)</u>	<u>–</u>

Profit available for distribution to shareholders	10,660	6,217
Less: Dividends payable	(1,982)	(867)
Retained profits at end of year	<u>8,678</u>	<u>5,350</u>
<b>Balance Sheet of the Company</b>		
<i>As at December 31, 2006</i>		
<b>As at December 31,</b>		
<b>(in RMB million)</b>	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash at bank	3,916	11,753
Short-term investments	5,249	2,935
Interest receivables	5	22
Other receivables	413	4
Low-value consumables	1	1
Long-term bond investments due within one year	350	198
Total current assets	<u>9,934</u>	<u>14,913</u>
<b>LONG-TERM INVESTMENTS:</b>		
Long-term equity investments	26,646	17,960
Long-term bond investments	1,535	829
Long-term fund investments	22	–
Total long-term investments	<u>28,203</u>	<u>18,789</u>
<b>Fixed assets:</b>		
Fixed assets, at cost	86	41
Less: accumulated depreciation	(17)	(7)
Fixed assets, net	69	34
Construction in progress	–	3
Total fixed assets	<u>69</u>	<u>37</u>
<b>INTANGIBLE ASSETS AND OTHER ASSETS:</b>		
Intangible assets	18	11
Long-term deferred expenses	7	3
Total intangible assets and other assets	<u>25</u>	<u>14</u>
<b>DEFERRED TAX:</b>		
Deferred tax assets	80	–
Total assets	<u>38,311</u>	<u>33,753</u>



## LIABILITIES AND SHAREHOLDERS' EQUITY

### CURRENT LIABILITIES:

Placements from bank and other financial institutions	820	274
Assets sold under agreements to repurchase	—	645
Salary payable	552	66
Welfare payable	24	17
Dividends payable	78	76
Taxes payable	74	2
Other payables	61	9
Accrued expenses	23	—
	<hr/>	<hr/>
Total current liabilities	1,632	1,089

### SHAREHOLDERS' EQUITY:

Share capital	6,195	6,195
Capital reserve	15,163	15,163
Surplus reserve fund	6,126	5,526
General reserve	395	395
General risk provision	17	—
General provision	76	35
Loss provision for trust business	29	—
Retained profits	8,678	5,350
	<hr/>	<hr/>
Total shareholders' equity	36,679	32,664
	<hr/>	<hr/>
Total liabilities and shareholders' equity	38,311	33,753

### C. Reconciliation of GAAP differences between PRC Accounting Standards and IFRS

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

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

#### Consolidated net profit

	<i>Notes</i>	2006	2005
Financial statements prepared in accordance with PRC Accounting Standards		5,986	3,338
Claim reserves	(i)	149	(440)
Long-term and unearned premium reserves	(ii)	(16)	310
Policyholders' reserves	(iii)	(6,544)	(3,006)
Deferred policy acquisition costs	(iv)	5,481	3,830
Fair value adjustment of investment assets and financial liabilities	(v)	3,095	360
Deferred tax	(vi)	(413)	(159)
Minority interests and others		100	(7)
		<hr/>	<hr/>
Financial statements prepared in accordance with IFRS		7,838	4,226

**As at December 31,  
(in RMB million)  
Consolidated equity**

	<i>Notes</i>	<b>2006</b>	<b>2005</b>
Financial statements prepared in accordance with PRC Accounting Standards		<b>36,668</b>	32,664
Claim reserves	(i)	<b>(1,401)</b>	(1,550)
Long-term and unearned premium reserves	(ii)	<b>86</b>	102
Policyholders' reserves	(iii)	<b>(35,762)</b>	(25,816)
Deferred policy acquisition costs	(iv)	<b>31,866</b>	26,428
Fair value adjustment of investment assets and financial liabilities	(v)	<b>16,935</b>	1,440
Deferred tax	(vi)	<b>(1,840)</b>	(69)
Minority interests and others		<b>(177)</b>	(203)
Financial statements prepared in accordance with IFRS		<b><u>46,375</u></b>	<b><u>32,996</u></b>

*Notes:*

- (i) Under 2006 PRC Accounting Standards, claim reserves are provided for claims reported but not settled, and claims incurred but not reported at the balance sheet date. Reserves for claims incurred but not reported are estimated on the basis of 4% of actual claim losses. From September 1, 2006, in accordance with the "Regulations on health insurance" (Baojianhuiling [2006] No. 8), the Chain-ladder method and the Bornhuetter-Ferguson method are used to calculate the reserves for health insurance business. The higher of the two results will be the best estimate. Under IFRS, reserves for claims incurred but not reported are estimated using actuarial techniques.
- (ii) Under 2006 PRC Accounting Standards, unearned premium reserves of life insurance businesses should be no less than 50% of the net premium for the current period. Under IFRS, unearned premium reserves are provided using actuarial valuation results (1/365 method).
- (iii) Under 2006 PRC Accounting Standards, policyholders' reserves are provided in accordance with related actuarial regulations released by CIRC. Under IFRS, policyholders' reserves are provided in accordance with IFRS 4 Insurance Contracts and by reference to US GAAP.
- (iv) Under 2006 PRC Accounting Standards, handling costs and commission expenses of acquiring new policies are recognized in the income statement when incurred. Under IFRS, handling costs and commission expenses of acquiring new policies are deferred and amortized over the premium paying period of the insurance contracts or amortized in proportion to expected premiums or the present value of estimated gross profits expected to be realized over the life of the insurance contracts, in accordance with IFRS 4 Insurance Contracts and by reference to US GAAP.
- (v) Under 2006 PRC Accounting Standards, the Group classifies its investments into short-term investments and long-term investments, depending on liquidity and the period for which these investments are intended to be held. Short-term investments are carried at the lower of cost and market value, while long-term investments are stated at the lower of book value and the recoverable amount. Under IFRS, the Group classifies its investments into four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and other receivables and available-for-sale financial assets, in accordance with IAS 32 Financial Instruments: Disclosure and Presentation as well as IAS 39 Financial Instruments: Recognition and Measurement. Available-for-sale financial assets and financial assets at fair value through profit or loss are stated at fair value. Held-to-maturity financial assets and loans and other receivables are carried at amortized cost. Unrealized gains or losses, arising from changes in fair value of financial assets at fair value through profit or loss, are recognized in the income statement. Unrealized gains or losses, arising from changes in fair value of available-for-sale financial assets, are reported in equity. On derecognition or impairment of available-for-sale financial assets, the cumulative unrealized gains or losses previously reported in equity is transferred to the income statement.
- (vi) The above differences between PRC Accounting Standards and IFRS are temporary differences in accordance with IAS 12 Income Taxes. The Group recognizes deferred tax assets on the basis of the above differences and the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The financial figures above in respect of the Announcement of Audited Results for the Year Ended December 31, 2006 ("Announcement") have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's audited financial statements for the year ended December 31, 2006. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the Announcement.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Foreign currency denominated investments and cash assets held by the Group are exposed to foreign currency risks. These assets include term deposits, cash and cash equivalents held in foreign currency that are considered as monetary assets. In addition to foreign currency denominated monetary assets, the Group's foreign currency denominated monetary liabilities are also exposed to fluctuations in exchange rates. These liabilities include foreign currency denominated claim reserves and payable to reinsurers. The exposures to fluctuations in exchange rates from monetary assets and monetary liabilities offset each other.

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

**As at December 31, 2006 (in RMB million)**

**Foreign currency risk**

Net exposure to fluctuations in exchange rates  
assuming a simultaneous and uniform 5%  
depreciation of all foreign currency  
denominated monetary assets and  
monetary liabilities against the Renminbi

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## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES CONTAINED IN APPENDIX 14 TO THE LISTING RULES

None of the directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable Code Provisions set out in the Code on Corporate Governance Practices (the "Code on Corporate Governance Practices") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") for any part of the period from January 1, 2006 to December 31, 2006 except that Mr. Ma Mingzhe has occupied the positions of both the Chairman of the Board of Directors and Chief Executive Officer of the Company. Further details of the Company's arrangements and considered reasons for the Company's intention not to separate the roles of the Chairman of the Board of Directors and the Chief Executive Officer of the Company will be set out under the paragraph headed "Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules" in the Corporate Governance Report to be contained in the Company's 2006 annual report.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND SUPERVISORS

As at December 31, 2006 the interests and short positions of the Directors and Supervisors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and Supervisors of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified by the Directors or Supervisors to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules (“Model Code”), were as follows:

### *Interests in ordinary shares of the Company*

Name of Director/ Supervisor	Position	H/Domestic (“D”) Shares	Capacity	No. of H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total shares in issue (%)
Cheung Chi Yan Louis	Executive Director	H	Beneficial owner	248,000	Long position	0.01	0.004
Lin Li	Supervisor	D	Interest of controlled corporations	176,000,000	Long position	4.84	2.84

Save as disclosed above, as at December 31, 2006, none of the Directors or Supervisors held or was deemed to hold any interests or short positions in the shares and underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the Directors or Supervisors to the Company and the Stock Exchange pursuant to the Model Code nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 10:00 a.m. on Thursday, June 7, 2007 at Ping An School of Financial Services, Guanlan, Shenzhen, PRC.

## CLOSURE OF THE REGISTER OF MEMBERS

In order to determine the list of holders of H shares who are entitled to attend the annual general meeting of the Company and to receive the final dividend for the year ended December 31, 2006, the register of members of H shares will be closed from Tuesday, May 8, 2007 to Thursday, June 7, 2007, both days inclusive, during which period no transfer of shares will be effected. Holders of the Company’s H shares whose names appear on the register of members on Thursday, June 7, 2007 are entitled to attend the meeting and to receive the final dividend for the year ended December 31, 2006. The registration date and arrangements in relation to the rights of A shares holders to attend the annual general meeting of the Company and to receive the final dividend for the year ended December 31, 2006 will be separately announced in the PRC.

## AUDIT COMMITTEE

The audit committee of the Board of Directors of the Company (the “Audit Committee”) comprises four Independent Non-executive Directors, Mr. Bao Youde, Mr. Kwong Che Keung Gordon, Mr. Cheung Wing Yui and Mr. Chow Wing Kin Anthony and one Non-executive Director, Mr. Anthony Philip HOPE. The Audit Committee has reviewed, in the presence of the internal and external auditors, the Group’s principal accounting policies and the audited financial statements for the year ended December 31, 2006.

## **DETAILED RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE COMPANY**

The above detailed results announcement will be published on the website of the Company ([www.pingan.com.cn](http://www.pingan.com.cn)) at around 9:00 a.m. on April 12, 2007.

## **PUBLICATION OF DETAILED RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE**

The 2006 annual report of the Company containing all the information required under Appendix 16 to the Listing Rules will be submitted to the Stock Exchange and published on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) in due course.

By order of the Board

**Ma Mingzhe**

*Chairman and Chief Executive Officer*

Shenzhen, PRC, April 11, 2007

*As at the date of this announcement, the Executive Directors of the Company are Ma Mingzhe, Sun Jianyi and Cheung Chi Yan Louis, the Non-executive Directors of the Company are Lin Yu Fen, Cheung Lee Wah, Anthony Philip HOPE, Lin Lijun, Fan Gang, Hu Aimin, Chen Hongbo, Wong Tung Shun Peter and Ng Sing Yip, and the Independent Non-executive Directors are Bao Youde, Kwong Che Keung Gordon, Cheung Wing Yui, Chow Wing Kin Anthony, Zhang Hongyi and Chen Su.*

“Please also refer to the published version of this announcement in the South China Morning Post”