中国人民财产保险股份有限公司
PICC Property and Casualty Company Limited

2004
Annual Report

COMPANY PROFILE

PICC Property and Casualty Company Limited (the "Company") is a property and casualty insurance company established in July 2003 with The People's Insurance Company of China, later renamed and re-registered as PICC Holding Company ("PICC Holding") as its sole promoter. The Company became the first domestic financial enterprise to list overseas when the Company listed on the main board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 6 November 2003 (the Company's stock code: 2328). The Company currently has a total share capital of 11,141,800,000 shares. American International Group, Inc. ("AIG") is a strategic investor of the Company, and holds 9.9% of total share capital of the Company.

The Company is the largest property and casualty insurance company in Mainland China, engaging in the businesses of property insurance, accidental injury insurance and short-term health insurance, with a market share of 58.1% in 2004. The main areas of business of the Company include motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, hull insurance, accidental injury insurance and short-term health insurance.

The Company's strategic target is to develop itself, in ten to fifteen years, into "a modernized, knowledge-based public property and casualty insurance company which is the market leader in China and ranks among the top property and casualty insurance companies in the world". The Company has a corporate culture which emphasizes "Practicality, Integrity, Devotion and Innovation", and takes a "market-oriented and customer-centered" approach to its operations.

Contents

Summaries of the results and the assets and liabilities of the Company for each of the past five financial years are set out as follows:

RESULTS

	Year ended 31 December				
	2000	2001	2002	2003	**2004**
	RMB million	*RMB million*	*RMB million*	*RMB million*	***RMB million***
Turnover	43,621	47,949	50,571	54,968	**62,003**
Net premiums earned	32,140	34,521	36,381	40,409	**50,628**
Interest and dividend income, net	610	574	648	690	**1,252**
Net gains/(losses) on trading and non-trading securities	19	(10)	(645)	260	**(948)**
Net claims incurred	(22,158)	(23,632)	(26,634)	(29,063)	**(38,905)**
Amortisation of deferred acquisition costs	(1,282)	(1,229)	(1,694)	(2,479)	**(3,560)**
Insurance protection expense	(367)	(393)	(407)	(468)	**(563)**
Interest expense credited to policyholders' deposits	–	–	(54)	(123)	**(144)**
General and administrative expenses	(7,186)	(7,058)	(6,566)	(6,903)	**(7,135)**
Finance costs	–	–	(35)	(35)	**(120)**
Profit before tax	1,776	2,773	994	2,288	**505**
Tax	(734)	(1,382)	(716)	(837)	**(297)**
Net profit	1,042	1,391	278	1,451	**208**

ASSETS AND LIABILITIES

	31 December				
	2000	2001	2002	2003	**2004**
	RMB million	*RMB million*	*RMB million*	*RMB million*	***RMB million***
Total assets	59,310	63,612	71,626	84,572	**88,262**
Total liabilities	52,471	55,383	61,333	65,815	**69,744**
Subordinated loan	–	–	–	2,000	**2,000**
Net assets	6,839	8,229	10,293	16,757	**16,518**

The results of the Company for the years ended 31 December 2000, 2001 and 2002 and the values of total assets and total liabilities of the Company as at 31 December 2000, 2001 and 2002 were extracted from the Accountant's Report as set out in the Company's prospectus dated 27 October 2003. The results of the Company for the year ended 31 December 2003 were based on its pro forma profit and loss account for the year then ended.

Mr Tang Yunxiang *Chairman*

Dear Shareholders,

In 2004, the property and casualty insurance industry in mainland China developed rapidly and the Company continued to accelerate the pace of its development and strengthen its reform.

In 2004, insurance premium revenues of insurance industry in mainland China[1] reached RMB431.81 billion, representing an increase of 11.3% from the previous year. Premium revenues of the property and casualty insurance sector exceeded the RMB100 billion benchmark, reaching RMB108.99 billion, representing an increase of 25.4% from previous year. There are 26 P&C insurance companies in mainland China. Newly established P&C insurance companies are rapidly expanding their branch network and the intensifying market competition is quickly spreading from coastal to inland regions.

In 2004, the Company vigorously promoted development, reform and innovation to enhance its business management capabilities and market competitiveness. A preliminary system for modularized insurance products was established to target at individuals and families. Motor vehicle insurance premium rates were adjusted four times in most provincial branches, forming a geographical pricing system. The Company cooperated with AIG to develop and launch accidental injury and short-term health insurance products to achieve market expansion, promoted the integration of its business information system and enhanced source data management resulting in noticeable improvement in the quality of data, strengthened its basic management by implementing the centralized processing of information and data from insurance verification, case reporting and finance, and optimizing its business processes, established a mechanism to monitor and control the development of motor vehicle insurance business dynamically, and implemented a three-level system of insurance verification and differentiated authorization for underwriting purview. Control over key procedures such as claims adjustment, loss determination and medical claims verification was strengthened to enhance the Company's risk control capability. A new accounting system was put in practice and an actuarial system of reserves contribution was implemented for determining loss and LAE reserves on a provincial branch basis. The Company also established a system of delegated asset management and asset entrustment system, implemented performance appraisal procedures, and established a market-driven compensation and incentives system.

[1] *PRC insurance industry data were extracted from the website of the China Insurance Regulatory Commission (the "CIRC").*

In 2004, the Company's net premiums earned was RMB50,628 million, representing an increase of 25.3% from 2003. Affected by an unfavorable development in the loss and LAE reserves and the sluggish Chinese capital market, the Company's underwriting profit and investment return fell substantially. Underwriting profit of the Company was RMB465 million, combined ratio was 99.0%; investment return was RMB304 million; net profit was RMB208 million. In 2004, the Company held a market share[2] of 58.1% and continued to hold a leading position in non-life insurance market in mainland China.

The global economy will maintain moderate growth in 2005, with economy in East Asia growing fastest. Due to increasing risks in catastrophe such as floods, storms and frequent occurrence of terrorist attacks, there is a trend of rising premium rates in the global insurance market, and the non-life insurance industry remains in a hard market cycle. The Asian insurance market enjoys good growth prospect, personal products are developing at a rapid pace and liability insurance will become a new growing area.

The Company believes that the PRC economy will continue to develop strongly in 2005, with further increase in demand for insurance and overall insurance penetration. At the same time, the permitted scope for the investment of insurance funds has been further widened, creating favorable conditions for the Company to diversify its investment risks and enhance investment return. However, various factors including eventual implementation of the mandatory motor vehicle third party liability insurance, intensified market competition and potential further increase in interest rates create uncertainties in the outlook for both the Company's underwriting and investment functions.

The Company anticipates a further increase in underwriting profits in 2005 compared to 2004 and much enhancement in investment returns.

Enhancement of distribution and servicing capabilities: The Company will build professional distribution teams to better undertake large-scale commercial insurance business, strengthen distributing force of individual sales agent, and establish a comprehensive system to monitor and evaluate service quality, a highly efficient client service platform and a high-quality customer service team to strengthen customer service and brand promotion.

Implementation of financial reporting based on product line: The Company will gradually implement financial reporting based on product line, refine cost structure and driving factors, accurately ascertain how resources are allocated to various businesses so as to grasp the key steps in value creation and cost control, to refine management.

Improvement of claims management: The Company will establish a claims management system, implement closed-loop management of claims to firmly control claim cost, and establish alert system to predict risks at different phases of claim procession. The Company will launch a "Speed Up Claims Settlement" campaign to provide better claim services, improve its loss and LAE reserves actuarial system to narrow the gap between actual losses and estimated losses.

Refinement of basic management: The Company will establish a monthly data monitoring system to assess data quality, implement seamless inter-connection of its business processing system, collection and payment system, and financial system. The Company will also enhance its overall synergy between the "three centers", accelerate the speed of business processing, and strengthen risk control over key phases such as risk evaluation, loss determination and claim verification.

[2] *Data on Company's market share were extracted from the website of the CIRC.*

Strengthening investment risk management and oversight: The Company will formulate scientific asset investment delegation and asset allocation plans, establish investment benchmark and a system of performance appraisal indicators, perfect its long-term system of risk prevention, further clarify the duties of appointees, managers and trustees so that the managers' and trustees' work can be effectively assessed.

Improvement of finance management: The Company will implement a three-tier budget management system; perfect the fund management system, and implement the dynamic management of cash flow. The Company will push the development of on-line bank settlement system, increase the efficiency of fund utilization, and strengthen its management of fixed assets by controlling the scale of fixed assets and enhancing the efficiency of fixed assets utilization.

In 2005, we will continue to focus on profitability, innovation, development acceleration and risk mitigation, to accomplish our missions, and further enhance the Company's profitability and corporate value.

Tang Yunxiang
Chairman

Beijing, PRC
22 April 2005

DIRECTORS

Tang Yunxiang, age 58, a senior economist, Chairman of the Board of Directors, and General Manager of PICC Holding. Mr Tang joined The People's Insurance Company of China ("PICC") in 2000 as general manager. Mr Tang has extensive financial regulatory experience by working in the regulatory authorities of the PRC financial and insurance industries. He was previously the vice chairman of the China Insurance Regulatory Commission, assistant president of the People's Bank of China, and chairman of the Financial Industry Workers' Union. Mr Tang graduated from Shaoyang Normal College of Hunan Province and has 41 years of experience in business operation and management and an in-depth knowledge of the PRC financial and insurance industries.

Wang Yi, age 49, a senior economist, Vice Chairman of the Board of Directors, Executive Director, President and Chief Executive Officer of the Company. Mr Wang joined PICC in 1979 and was previously the deputy general manager of PICC's Ningbo branch, general manager of PICC's Hangzhou branch, general manager of PICC's Zhejiang branch and deputy general manager of PICC. Mr Wang graduated from Zhejiang Radio and Television University in 1986. He graduated from the Chinese Communist Party University with a bachelor's degree of economic and management in 2000 and a master's degree of political science in 2004. He has 26 years of operation and management experience in the PRC insurance industry.

Wang Yincheng, age 44, a senior accountant, Executive Director, Executive Vice President and Chief Financial Officer of the Company. Mr Wang joined PICC in 1982 and was previously the deputy general manager of the planning and finance department of PICC Property Insurance Company, general manager of PICC's Shenzhen branch and assistant general manager of PICC. Mr Wang graduated from Zhongnan University of Economics and Law with a doctorate degree of Economics. He has 23 years of experience in economic and financial management in the PRC insurance industry.

Liu Zhenghuan, age 55, a senior economist, Executive Director and Executive Vice President of the Company. Md Liu joined PICC in 1984 and was previously the deputy manager and manager of the operations division of PICC's Anhui branch, deputy general manager and general manager of PICC's Anhui branch and general manager of PICC's Jiangsu branch. Md Liu graduated from Fudan University with a master's degree of economics. She has 21 years of operation and management experience in the PRC insurance industry.

Fu Zhu, age 50, a senior economist, Executive Director, Executive Vice President and Secretary of the Board of Directors of the Company. Mr Fu joined PICC in 2000 as the general manager of its research and development center and planning and statistics department. He was previously the general manager of the research and development department of China Minsheng Banking Corp, Ltd. Mr Fu graduated from Shaanxi University of Finance and Economics with a master's degree of economics. He has 23 years of experience in economic research and business operation and management.

Ding Yunzhou, age 52, a senior economist, Non-executive Director of the Company. Mr Ding joined PICC in 1977 and was previously the deputy general manager of PICC's international insurance department, chairman and general manager of China Insurance (UK) Company Limited, chief representative of PICC's London branch and assistant general manager and deputy general manager of PICC. He is a deputy general manager of PICC Holding. Mr Ding graduated from Dalian University of Foreign Languages and has 29 years of operation and management experience in the domestic and global insurance industries.

Zhou Shurui, age 52, a senior administrative engineer, Non-executive Director of the Company. Mr Zhou joined PICC in 1992 and was previously the assistant general manager, deputy general manager and general manager of PICC's human resources department. He is a deputy general manager of PICC Holding. Mr Zhou graduated from the Hebei Normal University with a college diploma and a bachelor's degree, and from a postgraduate program in banking at The Central University of Finance and Economics. He has 23 years of experience in management.

Tse Sze-Wing, Edmund, GBS, age 67, Non-executive Director of the Company. Mr Tse is the senior vice chairman, Life Insurance of AIG as well as chairman and chief executive officer of American International Assurance Company, Limited. He also holds various senior positions and directorships in other AIG companies around the world. In 2003, he was elected to the Insurance Hall of Fame, the most prestigious award in the insurance industry. Mr Tse graduated with a bachelor's degree of Mathematics from The University of Hong Kong, which later conferred on him an Honorary Fellowship and an Honorary Degree of Doctor of Social Sciences. Mr Tse also holds diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has 44 years of extensive management experience in the insurance market, both in Asia and globally. Mr Tse was appointed as Non-executive Director of the Company in June 2004.

Cheng Wai-Chee, Christopher, GBS, JP, age 57, Independent Non-executive Director of the Company. Mr Cheng is the chairman of USI Holdings Limited, Winsor Properties Holdings Limited and Wing Tai Corporation Limited. He is a director of NWS Holdings Limited, New World China Land Limited and DBS Bank (Hong Kong) Limited. Mr Cheng plays an active role in the public services. He is the chairman of the standing committee on Judicial Salaries and Conditions of Service of the Government of the Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR Government"), a member of the Exchange Fund Advisory Committee of the HKSAR Government, the non-executive director of Securities and Futures Commission, Steward of the Hong Kong Jockey Club, and Council member of Hong Kong Trade Development Council and The University of Hong Kong. He is also a member of the Yale University President's Council on International Activities. Mr Cheng graduated from University of Notre Dame, Indiana, U.S.A., with a bachelor's degree of business administration, and from Columbia University, U.S.A., with a master's degree of business administration. Mr Cheng was appointed as Independent Non-executive Director of the Company in July 2003.

Lu Zhengfei, age 42, a professor and supervisor of doctoral students, Independent Non-executive Director of the Company. Mr Lu is the head of the Department of Accounting, Guanghua School of Management, Peking University, a consultant to the accounting rules committee set up by the Ministry of Finance, a member and an academic committee member of Chinese Accounting Association, a standing committee member of Chinese Audit Association, and a member of Chinese Tax Association and Chinese Costing Research Institute. He is also a guest editor of Accounting Research, and a member of the editorial committee of Auditing Research. He was elected into the "100 Outstanding Persons' Research Program" as a man of talent in social science theories in Beijing in 2001. Mr Lu graduated from Nanjing University with a doctorate degree of economics, and completed the post-doctoral research on economics (accounting) at Renmin University of China. He was appointed as Independent Non-executive Director of the Company in February 2004.

SUPERVISORS

Deng Zhaoyu, age 58, Chairman of the Supervisory Committee of the Company. Mr Deng joined PICC in 2002 as deputy general manager. He was previously engaged in technological and management work in enterprises under the control of the Chinese Aviation Industrial Ministry, and was later transferred to organizations within the Central Government where he served as deputy director-general of the local cadre bureau of the organization department of the Communist Party's Central Committee, director-general of the cadre education bureau and minister of the organization department of the Communist Party's central finance working committee. Mr Deng obtained a college diploma in political management, and graduated from the China Lawyers' Correspondence Centre. He has 37 years of extensive experience in management.

Tang Wei, age 57, a senior economist, Supervisor of the Company. Mr Tang joined PICC in 1989 and was previously the general manager of PICC's auditing department. Mr Tang graduated from Harbin Normal College with a college diploma, from Zhongnanhai University with a bachelor's degree, and from the China Lawyers' Correspondence Centre with a college diploma in law. He has 25 years of management experience.

Liu Qilong, age 57, a senior economist, Supervisor of the Company. Mr Liu joined PICC in 1984 and was previously the manager of the domestic business department, city business department and audit department, general manager of the comprehensive affair department and manager of the human resources division, as well as general manager of PICC's disciplinary and supervisory office. Mr Liu graduated from Submarine Naval College of the Chinese People's Liberation Army with a college diploma. He has 21 years of management experience in the PRC insurance industry.

OTHER SENIOR OFFICERS

Guo Shengchen, age 50, a university graduate and a senior economist, Executive Vice President of the Company. Mr Guo joined PICC in 1984 and was previously the assistant general manager, deputy general manager and general manager of PICC's Beijing branch. He has 31 years of operation and management experience in the PRC financial and insurance industries.

Zhao Shuxian, age 53, a university graduate and a senior economist, Executive Vice President of the Company. Md Zhao joined PICC in 1978 and was previously the deputy general manager of the operations department and general manager of the special risk insurance department of PICC Property Insurance Company and chief representative of PICC's European Representative office. Md Zhao has 27 years of operation and management experience in the PRC insurance industry.

Jia Haimao, age 51, a senior economist, Executive Vice President of the Company. Mr Jia joined PICC in 1984 and was the deputy general manager and general manager of PICC's motor vehicle insurance department. Mr Jia has 21 years of operation and management experience in the PRC insurance industry.

Li Yuquan, age 40, Ph.D, an associate professor, Executive Vice President of the Company and general manager of Shanghai branch. Mr Li joined PICC in 1994, and was the deputy general manager of PICC's marketing department and general manager of its legal department. He has 16 years of experience in research in PRC insurance law and in the operation and management in the PRC insurance industry.

Wang He, age 48, Ph.D, a senior economist, Executive Vice-President of the Company. He joined PICC in 1988 and was the manager of the operation department of PICC's Fujian branch, deputy general manager of its Xiamen branch and executive deputy director of PICC's products development center. He has 17 years of operation and management experience in the PRC insurance industry.

OVERVIEW

The Company is a leading non-life insurance company in the PRC providing a broad range of property and casualty insurance products together with accidental injury insurance and short-term health insurance products for customers. In 2004, the Company held 58.1% share of the non-life insurance market in the PRC.

The following table sets forth the net premiums earned, underwriting profit, net profit and total assets of the Company for the periods indicated.

	Year ended 31 December	
		Pro forma
	2004	2003
	(RMB in millions)	
Net premiums earned	50,628	40,409
Underwriting profit *(Note)*	465	1,496
Net profit	208	1,451
Total assets	88,262	84,572

Note: Underwriting profit represents net premiums earned less net claims incurred, and after amortisation of deferred acquisition costs, insurance protection expense and general and administrative expenses.

RESULTS OF OPERATIONS

In 2004, the Company's turnover increased steadily, while underwriting profit and investment income decreased.

The following table sets forth selected financial information shown as percentages of net premiums earned and certain financial ratios for the periods indicated.

	Year ended 31 December	
		Pro forma
	2004	2003
	(%)	
Net premiums earned	100.0	100.0
Net claims incurred	(76.8)	(71.9)
Amortisation of deferred acquisition costs	(7.0)	(6.1)
Insurance protection expense	(1.1)	(1.2)
General and administrative expenses	(14.1)	(17.1)
Underwriting profit	1.0	3.7
Interest and dividend income, net	2.5	1.7
Net gains/(losses) on trading and non-trading securities	(1.9)	0.6
Finance costs	(0.2)	(0.1)
Interest expenses credited to policyholders' deposits	(0.3)	(0.3)
Profit before taxation	1.0	5.7
Tax	(0.6)	(2.1)
Net profit	0.4	3.6
Loss ratio	76.8%	71.9%
Expense ratio	22.2%	24.4%
Combined ratio	99.0%	96.3%

The following table sets forth the net premiums earned, net claims incurred and amortisation of deferred acquisition costs for each of the Company's segments as a percentage of the respective combined amounts for the periods indicated.

	Year ended 31 December	
		Pro forma
	2004	2003
	(%)	
Net premiums earned		
Motor vehicle insurance	70.7	66.6
Commercial property insurance	12.6	15.9
Homeowners insurance	0.9	2.6
Other insurance	15.8	14.9
Total	100.0	100.0
Net claims incurred		
Motor vehicle insurance	78.9	74.4
Commercial property insurance	10.2	11.3
Homeowners insurance	0.6	1.2
Other insurance	10.3	13.1
Total	100.0	100.0
Amortisation of deferred acquisition costs		
Motor vehicle insurance	75.6	82.8
Commercial property insurance	7.4	5.0
Homeowners insurance	0.8	5.4
Other insurance	16.2	6.8
Total	100.0	100.0

TURNOVER

Turnover of the Company was RMB62,003 million in 2004, representing an increase of RMB7,035 million, or 12.8%, over RMB54,968 million in 2003. The increase was primarily due to a RMB7,604 million increase in turnover of the motor vehicle insurance segment.

NET PREMIUMS EARNED

Net premiums earned of the Company was RMB50,628 million in 2004, representing an increase of 25.3% over RMB40,409 million in 2003. This increase in net premiums earned was primarily due to an increase in turnover, a decrease in reinsurance premiums ceded and a decrease in the change in net unearned premium reserves. Reinsurance premiums ceded decreased from RMB11,116 million to RMB9,283 million, primarily due to a reduction in the statutory reinsurance rate from 15% in 2003 to 10% in 2004 in accordance with the requirements set out in the WTO Accession Protocol signed by the PRC. The decrease in the change in net unearned premium reserves in 2004 from that in 2003 was primarily due to a larger portion of turnover being recorded in the first half than in the second half of the year and a shortening of the average term of insurance policies underwritten in 2004.

INTEREST AND DIVIDEND INCOME

Interest and dividend income of the Company was RMB1,252 million in 2004, representing an increase of 81.4% over RMB690 million in 2003. This increase was primarily due to an increase in interest income and dividend income from trading and non-trading securities of RMB272 million and RMB192 million, respectively. The increase in interest income from trading and non-trading securities was primarily due to an increase of investments in debt securities in 2004 compared to 2003 and an increase in average yield on investment in debt securities. The increase in dividend income from trading and non-trading securities was primarily due to an increase in dividends from the mutual funds in which the Company invested.

NET GAINS/(LOSSES) ON TRADING AND NON-TRADING SECURITIES

The Company's net losses on trading and non-trading securities was RMB948 million in 2004, representing a decrease of RMB1,208 million as compared to a net gain of RMB260 million in 2003. This decrease was primarily due to the continued decline in the domestic equity markets, which led to decreases in unrealised gains in respect of trading mutual funds and trading debt securities by RMB937 million and RMB77 million respectively. Net losses on trading and non-trading securities for 2004 also include provisions for impairment losses of certain debt securities held by the Company as at 31 December 2004. The Company has assessed the expected net recoverable amount of those debt securities and their accrued interest and considered that necessary provisions have been made to cover any potential shortfall between the expected net recoverable amount and the carrying amount as at 31 December 2004.

NET CLAIMS INCURRED

The Company's net claims incurred was RMB38,905 million in 2004, representing an increase of 33.9% over RMB29,063 million in 2003, and financial year loss ratio increased to 76.8% in 2004 from 71.9% in 2003. The increase in net claims incurred was primarily due to an increase in net claims incurred of the motor vehicle insurance segment from RMB21,618 million in 2003 to RMB30,713 million in 2004, representing an increase of 42.1%. The increase in net claims incurred was also partly due to the increases in net claims incurred of the commercial property insurance and the accidental injury insurance segments. However, the increases in net claims incurred of the motor vehicle insurance, the commercial property insurance and the accidental injury insurance segments were partially offset by decreases in net claims incurred of the liability insurance, the cargo insurance and the homeowners insurance segments in 2004. Net loss and LAE reserves as of 31 December 2004 increased by RMB3,642 million as compared to 31 December 2003, partly due to an increase of RMB2,454 million in the loss and LAE reserves for claims that occurred prior to 31 December 2003, after comparing the latest actuarial results as of 31 December 2004 to the actuarial results as of 31 December 2003.

AMORTISATION OF DEFERRED ACQUISITION COSTS

Amortisation of deferred acquisition costs of the Company was RMB3,560 million in 2004, representing an increase of 43.6% over RMB2,479 million in 2003. This increase was primarily due to a RMB698 million increase in commission expenses paid to insurance intermediaries, a RMB660 million decrease in reinsurance commission receivable and a RMB485 million increase in salaries paid to underwriting personnel in 2004 compared to 2003. The increase in commission expenses was primarily due to an increase in turnover. The decrease in reinsurance commission receivable was primarily due to a decrease in reinsurance premiums ceded. The increase in salaries paid to underwriting personnel was primarily due to the adoption of a new compensation and incentive system by the Company in 2004, which increased overall compensation levels in response to market competition.

INSURANCE PROTECTION EXPENSE

According to the relevant PRC insurance law and regulations, the Company is required to accrue an insurance protection fund based on 1% of its retained premiums. Insurance protection expense of the Company was RMB563 million in 2004, representing an increase of 20.3% over RMB468 million in 2003. This increase was due to an increase in retained premiums.

INTEREST EXPENSE CREDITED TO POLICYHOLDERS' DEPOSITS

Interest expense of the Company credited to policyholders' deposits was RMB144 million in 2004, representing an increase of 17.1% over RMB123 million in 2003. This increase was primarily due to an increase in the average balance of policyholders' deposits from the Company's Golden Bull homeowners insurance products in 2004 compared to 2003.

FINANCE COSTS

Finance costs of the Company were RMB120 million in 2004, representing an increase of RMB85 million over RMB35 million in 2003. This increase was primarily due to a RMB2,000 million subordinated loan obtained by the Company in the second half of 2003, for which the Company incurred an interest expense of RMB105 million in 2004.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the Company were RMB7,135 million in 2004, representing an increase of 3.4% over RMB 6,903 million in 2003. This increase was primarily due to a RMB501 million increase in personnel expenses and a RMB427 million increase in office expenses. These increases were partially offset by a RMB212 million decrease in depreciation expenses, and a RMB484 million decrease in other remaining expenses, and a RMB484 million decrease in other remaining expenses as a result of an increased control over capital expenditure and operating expenses in 2004.

PROFIT BEFORE TAXATION

As a result of the foregoing, profit before taxation of the Company was RMB505 million in 2004, representing a decrease of RMB1,783 million from RMB2,288 million in 2003.

TAX

Income tax expense of the Company was RMB297 million in 2004, representing a decrease of RMB540 million from RMB837 million in 2003. The Company's effective tax rate increased to 58.8% in 2004 from 36.6% in 2003. The increase in effective tax rate was primarily due to a larger portion of non-tax deductible expenses related to profit before taxation in 2004 compared to 2003.

NET PROFIT

As a result of the foregoing, the Company's net profit was RMB208 million in 2004, representing a decease of 85.7% from RMB1,451 million in 2003. Basic earning per share in 2004 was RMB0.019.

COMBINED RATIO

The Company's combined ratio increased from 96.3% in 2003 to 99.0% in 2004, primarily due to an increase in loss ratio from 71.9% in 2003 to 76.8% in 2004, partially offset by a decrease in expense ratio from 24.4% in 2003 to 22.2% in 2004.

RESULTS OF SEGMENT OPERATIONS

Motor Vehicle Insurance

	Year ended 31 December	
		Pro forma
	2004	2003
	(RMB in millions)	
Turnover	**42,898**	35,294
Net premiums earned	**35,802**	26,930
Net claims incurred	**(30,713)**	(21,618)
Amortisation of deferred acquisition costs	**(2,691)**	(2,053)
Insurance protection expense	**(409)**	(323)
Segment profit before unallocated income and expenses	**1,989**	2,936
Loss ratio	**85.8%**	80.3%
Segment expense ratio	**8.6%**	8.8%
Segment combined ratio	**94.4%**	89.1%

Turnover of the motor vehicle insurance segment increased by 21.5% from RMB35,294 million in 2003 to RMB42,898 million in 2004. This increase was primarily due to an increase in the number of motor vehicles insured and an increase in premium rates. The Company insured 22.28 million motor vehicles in 2004, representing an increase of 4.22 million motor vehicles over 2003.

Net premiums earned of the motor vehicle insurance segment increased by 32.9% from RMB26,930 million in 2003 to RMB35,802 million in 2004. This increase was primarily due to an increase in turnover and a decrease in reinsurance premiums ceded.

Net claims incurred of the motor vehicle insurance segment increased by 42.1% from RMB21,618 million in 2003 to RMB30,713 million in 2004, and loss ratio increased to 85.8% in 2004 compared to 80.3% in 2003. The substantial increase in net claims incurred of the motor vehicle insurance segment in 2004 was due to a number of factors including the continuing unfavorable effects of the deregulation of motor vehicle insurance terms and premium rates in 2003, changes in laws and regulations governing road traffic management and the compensation of personal injuries which resulted in an increase in the number of claims and a rise in claims payment standard, an increase in the number of private motor vehicles insured that exhibited higher accident rate, and a significant increase in the number of small claims leading to an increase in claims settlement expenses. Loss and LAE reserves of the motor vehicle insurance segment increased by RMB3,306 million as of 31 December 2004 compared to 31 December 2003. The Company increased the loss and LAE reserves for motor vehicle insurance claims that occurred prior to 31 December 2003 by RMB2,153 million, after comparing the latest actuarial results as of 31 December 2004 to the actuarial results as of 31 December 2003.

Amortisation of deferred acquisition costs of the motor vehicle insurance segment increased by 31.1% from RMB2,053 million in 2003 to RMB2,691 million in 2004. The increase was primarily due to an increase in turnover resulted in corresponding increases in commission expenses and underwriting personnel expenses, and a decrease in reinsurance commission caused by a decrease in reinsurance premiums ceded.

Insurance protection expense of the motor vehicle insurance segment increased by 26.6% from RMB323 million in 2003 to RMB409 million in 2004 due to an increase in retained premiums.

The segment expense ratio for the motor vehicle insurance segment decreased from 8.8% in 2003 to 8.6% in 2004 as net premiums earned increased at a faster rate than the sum of amortization of deferred acquisition costs and insurance protection expenses.

Overall, profit before unallocated income and expenses of the motor vehicle insurance segment was RMB1,989 million in 2004, representing a decrease of 32.3% compared to RMB2,936 million in 2003.

Commercial Property Insurance

	Year ended 31 December	
		Pro forma
	2004	2003
	(RMB in millions)	
Turnover	**7,987**	8,090
Net premiums earned	**6,402**	6,437
Net claims incurred	**(3,981)**	(3,285)
Amortisation of deferred acquisition costs	**(262)**	(125)
Insurance protection expense	**(66)**	(59)
Segment profit before unallocated income and expenses	**2,093**	2,968
Loss ratio	**62.2%**	51.0%
Segment expense ratio	**5.1%**	2.9%
Segment combined ratio	**67.3%**	53.9%

Turnover of the commercial property insurance segment decreased by 1.3% from RMB8,090 million in 2003 to RMB7,987 million in 2004, primarily due to a decrease in average premium rates resulting from more intense market competition, and also due to a reduction of exposure to certain higher risk business with the objective of improving the underwriting quality of the commercial property insurance segment.

Net premiums earned of the commercial property insurance segment decreased by 0.5% from RMB6,437 million in 2003 to RMB6,402 million in 2004. The decrease was primarily due to a decrease in turnover, partially offset by a decrease in reinsurance premiums ceded.

Net claims incurred of the commercial property insurance segment increased by 21.2% from RMB3,285 million in 2003 to RMB3,981 million in 2004. The increase in net claims incurred was primarily due to material losses to certain commercial properties insured caused by a number of natural disasters which occurred in 2004, resulting in a substantial increase in claims. The increase was also partially due to a decrease in loss recovered from reinsurance compared to 2003. Due to the substantial increase in net claims incurred, the loss ratio of the commercial property segment increased to 62.2% in 2004 from 51.0% in 2003.

Amortisation of deferred acquisition costs of the commercial property insurance segment increased by 109.6% from RMB125 million in 2003 to RMB262 million in 2004, primarily due to an increase in commission expenses, which was caused by increasing market competition for commercial property insurance, and a decrease in reinsurance commission, which was caused by a decrease in reinsurance premiums ceded.

Insurance protection expense of the commercial property insurance segment increased by 11.9% from RMB59 million in 2003 to RMB66 million in 2004, due to an increase in retained premiums.

Due to an increase in amortisation of deferred acquisition costs and an increase in insurance protection expense, the segment expense ratio of the commercial property insurance segment increased from 2.9% in 2003 to 5.1% in 2004.

As a result of the foregoing, profit before unallocated income and expenses of the commercial property insurance segment was RMB2,093 million in 2004, representing a decrease of 29.5% compared to RMB2,968 million in 2003.

Homeowners Insurance

	Year ended 31 December	
		Pro forma
	2004	2003
	(RMB in millions)	
Turnover	1,257	1,425
Net premiums earned	452	1,045
Net claims incurred	(236)	(340)
Amortisation of deferred acquisition costs	(29)	(134)
Interest and dividend income	179	26
Net gains/(losses) on trading and non-trading securities	(95)	64
Interest expense credited to policyholders' deposits	(144)	(123)
Insurance protection expense	(12)	(17)
Segment profit before unallocated income and expenses	115	521
Loss ratio	52.2%	32.5%
Segment expense ratio	9.1%	14.4%
Segment expense combined ratio	61.3%	46.9%

Turnover of the homeowners insurance segment decreased by 11.8% from RMB1,425 million in 2003 to RMB1,257 million in 2004. The decrease was primarily due to an increase in homeowners insurance policy terminations caused by an increase and the expectation of further increases in residential mortgage interest rates.

Net premiums earned of the homeowners insurance segment decreased by 56.7% from RMB1,045 million in 2003 to RMB452 million in 2004. This decrease was primarily due to the termination of homeowners insurance policies underwritten in previous years.

Net claims incurred of the homeowners insurance segment decreased by 30.6% from RMB340 million in 2003 to RMB236 million in 2004. Loss ratio of the homeowners insurance segment increased from 32.5% in 2003 to 52.2% in 2004, primarily because net premiums earned decreased at a faster rate than net claims incurred.

Amortisation of deferred acquisition costs of the homeowners insurance segment decreased by 78.4% from RMB134 million in 2003 to RMB29 million in 2004. This decrease was primarily due to a substantial increase in unearned premium reserves at the end of 2004, which led to a substantial increase in the deferral of acquisition costs.

Insurance protection expense charged to the homeowners insurance segment decreased from RMB17 million in 2003 to RMB12 million in 2004, due to a decrease in retained premiums.

The segment expense ratio for the homeowners insurance segment decreased from 14.4% in 2003 to 9.1% in 2004 as the sum of amortization of deferred acquisition costs and insurance protection expense decreased at a faster rate than net premiums earned.

The interest and dividend income derived from policyholders' deposits of the homeowners insurance segment increased by RMB153 million from RMB26 million in 2003 to RMB179 million in 2004. This increase was primarily due to an increase in interest rates in 2004 and an increase in dividends received in respect of mutual fund investment using deposits from the Golden Bull homeowners insurance product.

Interest expense credited to policyholders' deposits of the homeowners insurance segment increased by 17.1% from RMB123 million in 2003 to RMB144 million in 2004. This increase was primarily due to an increase in the average balance of policyholders' deposits from the Company's Golden Bull homeowners insurance product in 2004 compared to 2003.

As a result of the foregoing, profit before unallocated income and expenses of the homeowners insurance segment was RMB115 million in 2004, representing a decrease of 77.9% compared to RMB521 million in 2003.

Other Insurance

The Company's other insurance segments include cargo, liability, accidental injury, aviation, construction, marine hull, oil and gas and other insurance products.

	Year ended 31 December	
		Pro forma
	2004	2003
	(RMB in millions)	
Turnover		
Cargo insurance	2,724	2,657
Liability insurance	2,051	2,406
Accidental injury insurance	1,890	1,745
Other insurance	3,196	3,351
Total	9,861	10,159
Net premiums earned		
Cargo insurance	2,940	2,314
Liability insurance	1,850	2,116
Accidental injury insurance	1,688	514
Other insurance	1,494	1,053
Total	7,972	5,997
Net claims incurred	(3,975)	(3,820)
Amortisation of deferred acquisition costs	(578)	(167)
Insurance protection expense	(76)	(69)
Segment profit before unallocated income and expenses	3,343	1,941
Loss ratio	49.9%	63.7%
Segment expense ratio	8.2%	3.9%
Segment combined ratio	58.1%	67.6%

Turnover of the other insurance segments decreased by 2.9% from RMB10,159 million in 2003 to RMB9,861 million in 2004. This decrease was primarily due to a substantial decrease in turnover of employers' commercial liabilities insurance. Turnover of employers' commercial liabilities insurance decreased as the promulgation and implementation of the "Regulations on Industrial Accident Insurance" in 2004 required certain employers to subscribe for employers' liability insurance through a public fund rather than through commercial insurers.

Net premiums earned of the other insurance segment increased by 32.9% from RMB5,997 million in 2003 to RMB7,972 million in 2004. This increase was primarily due to an increase of RMB1,174 million in net premiums earned of accidental injury insurance and an increase of RMB626 million in net premiums earned of cargo insurance.

Net claims incurred for the other insurance segments increased by 4.1% from RMB3,820 million in 2003 to RMB3,975 million in 2004. The increase in net claims incurred was primarily due to an increase of RMB585 million in net claims incurred for accidental injury insurance. By introducing stringent measures on underwriting criteria and improving claims management, the loss ratio of the other insurance segments decreased to 49.9% in 2004 from 63.7% in 2003.

Amortisation of deferred acquisition costs of the other insurance segments was RMB578 million in 2004, representing an increase of RMB411 million compared to 2003.

Insurance protection expense of the other insurance segments increased by 10.1% to RMB76 million in 2004 as compared to 2003. This increase was due to an increase in retained premiums.

As a result of the foregoing, the other insurance segments recorded a RMB3,343 million profit before unallocated income and expenses in 2004, representing an increase of 72.2% compared to RMB1,941 million in 2003.

DEVELOPMENT OF NEW PRODUCTS

In 2004, the Company developed 222 new insurance coverages in liability insurance, accidental injury insurance, short-term health insurance, motor vehicle insurance, commercial property insurance and homeowners insurance product lines, of which 87 are stand-alone coverages and 135 are supplementary coverages.

In 2004, the Company strengthened its market research and marketing, and designed customised products for targeted customer groups and specific channels. The Company also actively strengthened its cooperation with its strategic partner, AIG, in improving its accidental injury insurance product offerings and in launching short-term health insurance products.

The experts from AIG visited the Company's Hebei branch.

CASH FLOW

	Year ended 31 December	
		Pro forma
	2004	2003
	(RMB in millions)	
Net cash inflow/(outflow) from operating activities	**6,705**	7,559
Net cash inflow/(outflow) from investing activities	**(7,477)**	(9,222)
Net cash inflow/(outflow) from financing activities	**(957)**	8,038
Net increase/(decrease) in cash and cash equivalents	**(1,729)**	6,375

Net cash generated from operating activities was RMB6,705 million in 2004, representing a decrease of 11.3% from 2003. The decrease was primarily due to increases in personnel expenses and premiums receivables, and a substantial decrease in payables to reinsurers in 2004.

Net cash used by the Company in investing activities in 2004 was RMB7,477 million, representing a decrease of RMB1,745 million compared to 2003. The decrease was primarily due to an increase in cash outflow for investments in securities.

Net cash used by the Company in financing activities in 2004 was RMB957 million, while net cash generated from financing activities in 2003 was RMB8,038 million. The net cash outflow increased substantially in 2004 compared to 2003 primarily because the Company's net cash inflows in 2003 included proceeds of RMB5,610 million from its initial public offering in 2003 and RMB2,000 million from the subordinated-loan obtained in 2003. The increase was also partially due to the payment of RMB644 million special dividend to the Company's ultimate holding company, PICC Holding, in 2004 and a decrease of RMB504 million in policyholders' deposits.

Net decrease in cash and cash equivalents of the Company in 2004 was RMB1,729 million.

LIQUIDITY

The Company's cash flow is primarily derived from cash generated from operating activities, and, in particular, cash from insurance premiums received. Additional liquidity sources include interest and dividend income, proceeds from matured investments, disposal of assets and financing activities. The Company's liquidity needs consist principally of payment of claims and other obligations under outstanding insurance policies, capital expenditures, operating expenses, tax payments, dividend payments and investment.

The Company entered into a subordinated loan agreement with China Development Bank on 10 October 2003, whereby the Company obtained from China Development bank a subordinated loan of RMB2,000 million. This loan is unsecured and bears interest at a rate which is equal to 90% of the 5-year lending rate as set by the People's Bank of China. The loan comes due in November 2023.

The Company obtained a 10-year revolving credit facility from China Development Bank for up to RMB10 billion on 26 August 2003. Each drawdown made under this facility is repayable within one year. As of the date of this announcement, no amount has been drawn down under that facility.

Save for the subordinated loan and the credit facility mentioned above, the Company does not obtain working capital by borrowing.

The Company expects that it can fund its working capital needs in the future from cash generated from operating activities. The board of directors of the Company (the "Board" or the "Board of Directors") is of the opinion that the Company has sufficient working capital.

CAPITAL EXPENDITURE

The capital expenditure of the Company has primarily been for property construction, acquisition of motor vehicles for business needs and development of information systems. Capital expenditure was RMB1,212 million in 2004.

Save for a property purchase agreement approved by the Board on 19 January 2005 in relation to the purchase of a new headquarters building with floor space of approximately 78,000 square meters for RMB1,705 million, for which the Company has prepaid part of the amount, there is no other material capital expenditure. The Company believes that it has sufficient capital resources to fully satisfy its capital expenditure plan and its working capital requirements.

SOLVENCY MARGIN REQUIREMENT

The Company is subject to a number of regulations regarding financial operations, including maintaining a stipulated solvency margin, complying with 11 regulatory benchmarks and providing for certain funds and reserves. In accordance with the insurance laws and regulations in the PRC, the Company is required to maintain a solvency margin that exceeds a minimum statutory level of RMB8,437 million in 2004. The Company's solvency margin for calculated pursuant to the CIRC regulations was RMB9,740 million and solvency margin adequacy ratio was 115% *(Note)*.

Pursuant to the CIRC regulations, if an insurance company fails to meet 4 of the 11 benchmarks regarding solvency, the CIRC has the right to demand an explanation and investigate into the reasons for non-compliance. In 2004, the Company failed to meet fewer than four of such benchmarks.

Note: Calculated in accordance with the PRC Accounting Regulations for Financial Institutions.

PREMIUM TO CAPITAL RATIO

The premium to capital ratio is the ratio of retained premiums in any financial year to the sum of paid-in capital, capital reserves, surplus reserves and public welfare funds. Pursuant to the Insurance Law, this premium to capital ratio may not exceed 4 times for any property and casualty insurance company in any financial year. The premium to capital ratio for the Company in 2004 was 3.4 times *(Note)*.

Note: Calculated in accordance with the PRC Accounting Regulations for Financial Institutions.

GEARING RATIO

As of 31 December 2004, the Company's gearing ratio *(Note)* was 79.0%, representing an increase of 1.2 percentage point from 77.8% in 2003.

Note: Gearing ratio is represented by total liabilities (excluding the subordinated loan) divided by total assets under accounting principles generally accepted in Hong Kong.

CONTINGENT LIABILITIES

Owing to the nature of the insurance business, the Company is involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Company's insurance policies. While the outcomes of such contingencies and lawsuits cannot be determined at present, the Company believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Company.

INTEREST RATE RISK

The Company's holdings in fixed income investments are subject to interest rate risk. The Company also invests in floating rate instruments, interest proceeds from which can rise and fall due to changes in interest rates. The Company's holdings in mutual funds are also exposed to price fluctuations caused by changes in interest rates. The Company manages exposure to risks associated with interest rate fluctuations through active review of the investment portfolio and consultation with financial investment experts with a goal toward maintaining liquidity and to generate stable returns.

CREDIT RISK

The Company is subject to credit risk on investments such as corporate bonds and mutual funds. The Company manages credit risk by analysing the creditworthiness of companies prior to making investments as well as strictly following the CIRC guidelines which only permit investments in corporate bonds with rating higher than AA. The Company is also subject to credit risk with respect to amounts owed to it by reinsurers. As a result, except when dealing with national reinsurers such as China Property and Casualty Reinsurance Company Ltd., the Company only purchases reinsurance from reinsurers with A.M. Best ratings of at least A-, and pays particular attention to their creditworthiness and financial condition.

EXCHANGE RATE RISK

The Company conducts its business primarily in Renminbi, which is also its functional and financial reporting currency. However, a portion of its business (including underwriting certain international cargo insurance and aviation insurance) are conducted in foreign currencies, typically US dollars. A portion of its claims, account receivable and liabilities is also denominated in foreign currencies, typically US dollars.

As such, the Company is exposed to exchange rate risk with respect to its foreign currency business, assets and liabilities. Foreign exchange transactions under the Company's capital account are subject to foreign exchange regulations and require the approval of the State Administration of Foreign Exchange. Foreign exchange policies adopted by the PRC government could cause future exchange rates to vary.

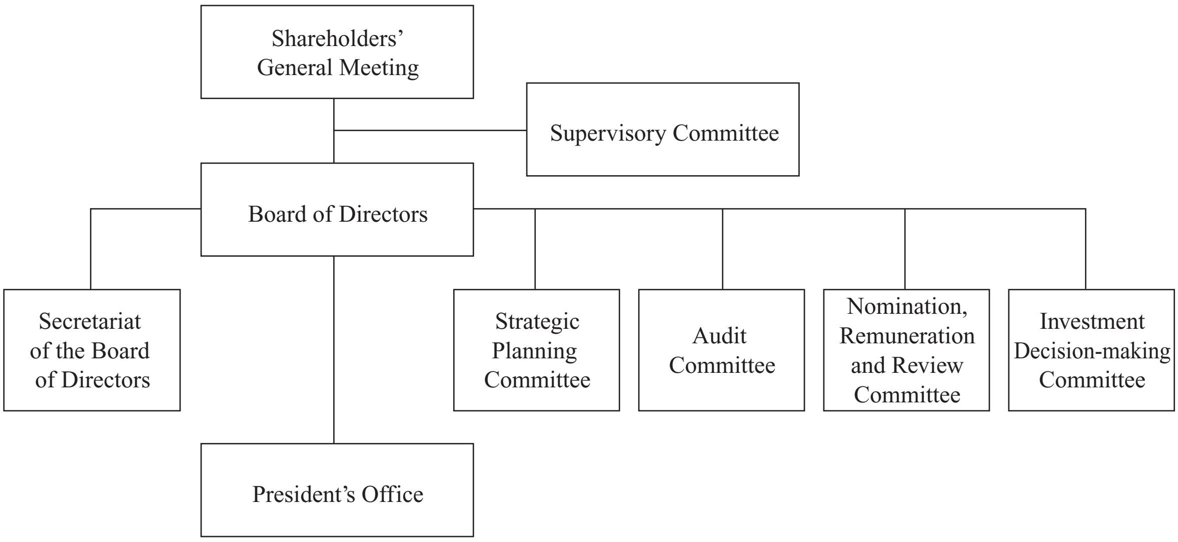
HEDGING INSTRUMENTS

The Company does not use any financial instruments for hedging purposes.

EMPLOYEES

As of 31 December 2004, the Company had 62,862 employees. Personnel expenses in 2004 was RMB4,410 million. The Company makes contributions to retirement plans and social medical insurance plans for its employees. The Company enhances the performance and efficiency of employees by providing various career development channels, strengthening personnel training and implementing performance review. The Company is of the view that it maintains a good relationship with its employees.

The Company strives to establish a proper corporate governance structure and continuously improves its corporate governance system. The Company has formulated its Articles of Association ("Articles of Association"), Rules of Conduct for Shareholders' Meetings, Rules of Conduct for Board of Directors' Meetings, Charter of the Supervisory Committee and work manuals for the Board committees in strict compliance with the Company Law of the People's Republic of China (the "Company Law"), the Insurance Law of the People's Republic of China, the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies, other PRC laws, regulations and regulatory documents, as well as the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").



CONVENING OF SHAREHOLDERS' MEETINGS

During the year ended 31 December 2004 ("this Year"), the Board of Directors convened two shareholders' meetings.

On 24 February 2004, the Company convened the first special general meeting in 2004, at which three resolutions including those for the Election and Appointment of Independent Directors of the Company and the Appointment of Auditors of the Company were considered and approved.

On 15 June 2004, the Company convened the annual general meeting for 2003, at which eight resolutions including those regarding the Report of Directors for 2003 and the Report of the Supervisory Committee for 2003 were considered and approved.

WORK UNDERTAKEN BY THE BOARD OF DIRECTORS

During this Year, the Company convened five meetings of the Board.

On 7 January 2004, the Company convened the fifth meeting of the first session of the Board, at which nine resolutions including the Election and Appointment of Independent Directors of the Company, the Appointment of Auditors and the Remuneration for Directors and Supervisors for 2004 were considered and approved.

On 23 April 2004, the Company convened the sixth meeting of the first session of the Board, at which twelve resolutions including those regarding the Report of the Directors for 2003, the Auditors' Report, Audited Financial Statements and Results Announcement and the 2003 Management Discussion and Analysis for 2003 were considered and approved.

On 20 August 2004, the Company convened the eighth meeting of the first session of the Board , at which four resolutions including those for the Interim Financial Report for 2004, Interim Results Announcement for 2004 and the Remuneration for Reviewing the Interim Financial Report for 2004 were considered and approved. Report on Capital Raised through Listing was reviewed and the resignation of Qiao Lin as non-executive director of the Company was approved.

In addition, the Board convened the seventh and the ninth meeting by way of resolutions in writing in June 2004 and in November 2004 respectively, at which the resolutions including the Initial Grant under the Share Appreciation Rights Plan were approved.

WORK UNDERTAKEN BY BOARD COMMITTEES

The Strategic Planning Committee

During this Year, the Strategic Planning Committee convened two meetings and two resolutions were passed. The Strategic Planning Committee mainly accomplished the following tasks:

1. The committee formulated the work manual for the Strategic Planning Committee. In order to define the duties and the operating procedures of the Strategic Planning Committee, it drew up the "Work Manual for the Strategic Planning Committee of the Board of Directors of PICC Property and Casualty Company Limited", which was submitted to and adopted by the Board of Directors.

2. The committee reviewed and verified the "Investment Plan for the Capital Raised through the Company's Listing" drawn up by the President's Office, which was submitted to and adopted by the Board of Directors.

The Audit Committee

During this Year, the Audit Committee convened two meetings and five resolutions were passed. The Audit Committee mainly accomplished the following tasks:

1. The committee formulated the work manual for the Audit Committee. In order to define the duties and the operating procedures of the Audit Committee clearly, it drew up the "Work Manual for the Audit Committee of the Board of Directors of PICC Property and Casualty Company Limited", which was submitted to and adopted by the Board of Directors.

2. The committee nominated the external auditor for appointment by the Company. The Audit Committee proposed that Ernst & Young be appointed as the auditor of the Company for 2004, the proposal was submitted to and adopted by the Board.

3. The committee reviewed the external auditors' remuneration. The Audit Committee reviewed the auditors' remuneration for 2003 and the remuneration for reviewing the Interim Report for 2004, the review papers were submitted to and approved by the Board.

4. The committee reviewed the financial information of the Company. During the Reporting Period, the Audit Committee reviewed the 2003 financial statements audited by Ernst & Young and the 2004 Interim Report reviewed by Ernst & Young, which were submitted to and adopted by the Board of Directors. The Audit Committee reviewed and verified the connected transactions of the Company in 2003 and confirmed that these transactions were entered into in the ordinary course of business of the Company on an arm's length and with terms that are fair and reasonable to the independent shareholders of the Company.

The Nomination, Remuneration and Review Committee

During this Year, the Nomination, Remuneration and Review Committee convened two meetings and five resolutions were adopted. The Nomination, Remuneration and Review Committee mainly accomplished the following tasks:

1. The committee formulated the work manual for the Nomination, Remuneration and Review Committee. In order to define the duties and the operating procedures of the Nomination, Remuneration and Review Committee, it drew up the "Work Manual for the Nomination, Remuneration and Review Committee of the Board of PICC Property and Casualty Company Limited", which was submitted to and adopted by the Board.

2. The committee nominated directors. The Nomination, Remuneration and Review Committee nominated to the Board Mr Lu Zhengfei as independent non-executive director and Mr Tse Sze Wing, Edmund as non-executive director of the Company. These nominations were submitted to and approved by the Board and the shareholders' general meeting. In the meantime, pursuant to relevant provisions of the Company Law and changes in the composition of the Board, the Nomination, Remuneration and Review Committee proposed that the number of directors be changed from 11 persons to 5 -19 persons and further proposed that the relevant provisions of the Articles of the Association be amended accordingly.

3. The committee reviewed and verified the remuneration of the directors and senior officers of the Company. The Nomination, Remuneration and Review Committee examined the "Implementation Plan for the Initial Grant under the Share Appreciation Rights Plan" and the "Proposal for Examination and Verification of the Compensation of the Directors for 2003", and it reviewed and verified the directors' remuneration for 2003.

COMPOSITION OF THE BOARD OF DIRECTORS AND COMPOSITION AND DUTIES OF BOARD COMMITTEES

Composition of the Board of Directors

The Board consists of 11 directors, including 7 non-executive directors, of whom 3 are independent non-executive directors.

Chairman of the Board: Tang Yunxiang

Vice Chairman of the Board: Wang Yi

Executive Directors: Wang Yi, Wang Yincheng, Liu Zhenghuan and Fu Zhu

Non-executive Directors: Ding Yunzhou, Zhou Shurui and Tse Sze Wing, Edmund

Independent Non-executive Directors: Cheng Wai Chee, Christopher, Lu Zhengfei and Wong Tung Shun, Peter (Mr Wong resigned on 18 January 2005)

During this Year, the composition of the Board changed as follows:

Mr Lu Zhengfei was elected as an independent non-executive director of the Company at the 2004 first special general meeting held on 24 February 2004.

Mr Tse Sze Wing, Edmund was approved as a non-executive director of the Company at the annual general meeting for 2003 held on 15 June 2004.

At the eighth meeting of the first session of the Board held on 20 August 2004, the resignation of Qiao Lin as non-executive director of the Company was approved.

Composition and Duties of the Strategic Planning Committee

Chairman: Tang Yunxiang
Members: Wang Yi, Fu Zhu, Wong Tung Shun, Peter

Duties of the Strategic Planning Committee include:

- considering strategic development plans for the Company, formulating strategic objectives and strategic implementation measures;
- considering the Company's plans to make equity investments by acting as a promoter or by purchasing equity interest in a company;
- considering the Company's plans for mergers and acquisitions;
- considering the Company's business plans, annual budgets, financial reports, profit distribution plans and loss recovery plans;
- considering the Company's annual, medium-term and long-term investment plans in fixed assets;
- considering the Company's plans for the disposition of its material assets;
- considering the Company's plans for the issue of shares and bonds;
- considering the Company's plans to increase or reduce in its registered capital and to repurchase its own shares;
- considering the Company's plans for mergers, spinoffs, dissolution and liquidation;
- considering the Company's plans for amendments to its Articles of Association;
- considering any delegation by the Board to the management;
- considering the Company's plans for material adjustment to its organisational structure;
- other matters authorised by the Board.

Composition and Duties of the Audit Committee

Chairman: Lu Zhengfei
Members: Ding Yunzhou and Cheng Wai Chee, Christopher

Duties of the Audit Committee include:

- proposing to the Board the appointment, dismissal or discontinuation of the appointment of the Company's external auditors, and dealing with any matters concerning the resignation or dismissal of such auditors;
- considering the remuneration and terms of engagement of the external auditors;
- considering the independence of the external auditors and the effectiveness of their auditing procedures, discussing with the external auditors the nature and scope of the audit and the relevant reporting obligations before the commencement of the audit;
- considering and ascertaining the independence and objectivity of non-audit services provided by the external auditors, deciding whether to choose such auditors for non-audit services, formulating relevant policies and monitoring implementation of such policies;
- meeting at least once a year with the external auditors (preferably the management should not be present at such meetings) to discuss matters concerning audit and the auditors' remuneration;
- examining the completeness of the Company's financial statements, annual reports, accounts, interim reports and, if prepared for publication, quarterly reports; reviewing material opinions on financial reporting matters set out in such statements and reports;
- reviewing the Company's financial control, internal control and risk management systems;
- discussing with the management the system of internal control and ensuring that the management establishes an effective internal control system;
- studying the major findings of any investigations of the relevant internal control matters and the management's response;
- coordinating the work between the internal audit department and the external auditors;
- monitoring the implementation of the Company's internal audit system, examining the effectiveness of internal audit, and ensuring that the internal audit department is adequately resourced and has appropriate positioning within the Company;
- reviewing the management letters issued by the external auditors to the management, any material queries raised by the external auditors to the management in respect of accounting records, financial accounts or the internal control system and the management's response to the above, and ensuring timely response by the Board to the matters raised in the management letters;
- examining and verifying the Company's material connected transactions;

- assessing the work of the relevant personnel in charge of the Company's financial accounting department and internal audit department;

- monitoring and guiding the special audit projects carried out by internal audit department;

- other matters authorised by the Board.

Composition and Duties of the Nomination, Remuneration and Review Committee

Chairman: Cheng Wai Chee, Christopher
Members: Wang Yincheng, Liu Zhenghuan and Zhou Shurui

Duties of the Nomination, Remuneration and Review Committee include:

- evaluating the structure of the Board, its size and composition (taking into account factors such as skills, knowledge and experiences) at regular intervals, and making corresponding proposals to the Board;

- proposing to the Board potential candidates for appointment to the Board;

- evaluating the independence of the independent directors;

- proposing to the Board in respect of the overall policy and structure for the compensation of the directors, the president and other senior management personnel and the procedures for formulating compensation policies;

- evaluating and approving the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is in accordance with relevant contractual terms or that such compensation is fair;

- evaluating and approving compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are in accordance with relevant contractual terms or that such arrangements are fair;

- formulating appraisal standards for directors, the president and other senior management personnel, conducting annual appraisals and making recommendations in relation thereto;

- other matters authorised by the Board.

Composition and Duties of the Investment Decision-making Committee

The Investment Decision-making Committee was established on 19 January 2005 following the approval of the resolution to establish such committee at the tenth meeting of the first session of the Board.

Chairman: Tang Yunxiang
Members: Wang Yi, Wang Yincheng, Liu Zhenghuan, Ding Yunzhou, Zhou Shurui

Duties of the Investment Decision-making Committee include:

- examing the management of the use of insurance funds, and plans for the delegation and custody of insurance funds;

- examing regulations, decision-making procedures and delegation policies in respect of the use of insurance funds;

- examing the delegation by the Board to the management in respect of the use of insurance funds;

- formulating annual strategic plans on the allocation of assets and investment strategies, including targeted rate of return, investment principles, risk tolerance level together with the terms and indicators for selecting, restricting or abandoning certain kinds of assets;

- formulating investment strategies and plans for new investment products;

- reviewing at regular intervals findings from the Company's risk control inspection on its use of funds, and understanding at regular intervals the risks faced by the Company in its use of funds;

- reviewing the Company's "Reports on Assets and Liabilities Matching";

- examing matters in respect of changes in the accounting policies regarding use of insurance funds;

- other matters authorised by the Board.

Work Undertaken by the Supervisory Committee

During this Year, the Supervisory Committee of the Company accomplished the following tasks:

1. *Meetings of the Supervisory Committee*

   In 2004, the Supervisory Committee of the Company convened two meetings, considered and passed five resolutions.

2. *Attending Meetings of the Board and Shareholders' Meetings*

The Supervisory Committee attended the fifth, sixth and eighth meetings of the first session of Board and the first special shareholders' meeting in 2004 and the annual general meeting for 2003. The "Report of the Supervisory Committee for 2003" was submitted to and approved at the annual general meeting for 2003.

3. *Other Work*

In April 2004, the Supervisory Committee conducted two inspections on the financial, business and internal control systems in respect of the Company's Guangdong branch, Guangxi branch, Shanxi branch and more than twenty of their respective sub-branches.

Two hearings were held, where the Chief Financial Officer of the Company, the Finance Department of the Company and Ernst & Young presented the financial conditions and the operating conditions of the Company and the status of the review by accountants for the first half of 2004.

Two recommendations were made to the President's Office of the Company to address the relevant problems identified in the supervision and inspection carried out by the Supervisory Committee.

Five working seminars were also organized by the Supervisory Committee.

The directors submit their report and the audited financial statements for the year ended 31 December 2004 ("this Year").

PRINCIPAL ACTIVITIES

The Company engages in property insurance, accidental injury insurance and short-term health insurance in the People's Republic of China ("PRC"). The key product lines include motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, shipping insurance, construction insurance, surety insurance, agriculture insurance, aviation insurance, energy insurance, accidental injury insurance and short-term health insurance, which are denominated in RMB and foreign currencies.

CORPORATE REORGANISATION

As of the date of this annual report, the Company's branch offices which are required to obtain Licences to Operate Foreign Exchange Business have already obtained such licenses. According to the State Administration of Foreign Exchange's "Circular on the Relevant Issues Concerning the Simplification of Approving Procedures for Foreign Exchange Business of Insurance Institutions", the Company's branch offices which have not obtained such licenses may also act as agents of the Company's branch offices with such licenses to conduct foreign exchange insurance business and to sign foreign exchange insurance contracts on their behalf. However, the branch offices without the requisite licences may not collect or pay various funds in foreign currencies when conducting foreign exchange insurance business.

At the time of the Company's reorganisation, the Company obtained a building from PICC Holding, in respect of which the requisite title certificate was lacking. The title certificate for this building has now been obtained. The Beijing branch office has obtained building ownership title certificates or land use right certificates for 16 buildings and 15 parcels of land, respectively.

FINANCIAL RESULTS AND DIVIDENDS

The results of the Company for this Year and the Company's financial affairs as at 31 December 2004 are set out on pages 41 to 90 in this annual report.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Company of the last five financial years is set out on page 2 in this annual report.

FIXED ASSETS

Details of the changes in the fixed assets of the Company for this Year are set out in note 24 to the financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

There were no movements in either the Company's authorised or issued share capital during this Year.

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights under the Company Law, which requires the Company to issue new shares to its existing shareholders in proportion to their existing shareholdings.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not purchase, sell or redeem any of its listed securities during this Year.

RESERVES

Details of the reserves and changes in the reserves of the Company for this Year are set out in the Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company did not have distributable reserves based on PRC Accounting Regulation.

CHARITABLE AND OTHER DONATIONS

Charitable donations made by the Company during this Year amounted to RMB5.48 million.

MAJOR CUSTOMERS

The Company's aggregate turnover with its five largest customers did not exceed 10% of the Company's total turnover for this Year.

FIVE LARGEST REINSURERS

In this Year, the reinsurance premiums ceded to the Company's top five reinsurers, the ratings by A.M. Best and by Standard & Poor's are as follows *(Note 1)*:

Reinsurer	**Reinsurance Premiums Ceded (RMB million)**	**A.M. Best Rating**	**Standard & Poor's Rating**
China Re	6,957	Not applicable	Not applicable
Munich Re	415	A+	A+
Swiss Re	331	A+	AA
AIG *(Note 2)*	266	A++	AAA
Lloyd's Syndicates	209	A	Not applicable

Note 1: Credit ratings as of 31 December 2004.

Note 2: The accumulated reinsurance premiums ceded to AIG's subsidiaries.

DIRECTORS AND SUPERVISORS

The directors of the Company in this Year are as follows:

Name	Title	Appointed for the term of the office
Mr Tang Yunxiang	Chairman of the Board	6 July 2003 to 5 July 2006
Mr Wang Yi	Vice Chairman of the Board and Executive Director	6 July 2003 to 5 July 2006
Mr Wang Yincheng	Executive Director	6 July 2003 to 5 July 2006
Md Liu Zhenghuan	Executive Director	6 July 2003 to 5 July 2006
Mr Fu Zhu	Executive Director and Secretary of the Board	6 July 2003 to 5 July 2006
Mr Qiao Lin (resigned)	Non-executive Director	
Mr Ding Yunzhou	Non-executive Director	6 July 2003 to 5 July 2006
Mr Zhou Shurui	Non-executive Director	6 July 2003 to 5 July 2006
Mr Tse Sze Wing, Edmund	Non-executive Director	15 June 2004 to 5 July 2006
Mr Cheng Wai-Chee, Christopher	Independent Non-executive Director	30 July 2003 to 29 July 2006
Mr Wong Tung Shun, Peter (resigned)	Independent Non-executive Director	
Mr Lu Zhengfei	Independent Non-executive Director	24 February 2004 to 23 February 2007

Supervisors:

Name	Title
Mr Deng Zhaoyu	Chairman of Supervisory Committee
Mr Tang Wei	Supervisor
Mr Liu Qilong	Supervisor

Change of directors or supervisors from 1 January 2005 to the date of this report is as follows:

Mr Wong Tung Shun, Peter has resigned as an Independent Non-executive Director of the Company with effect from 18 January 2005. Since Mr Wong's resignation, the Company has not been able to comply with the requirement of having at least three independent non-executive directors under Rule 3.10(1) of the Listing Rules. The Board of Directors has sought a suitable candidate to be the Company's Independent Non-executive Director and will propose for his appointment at the special general meeting to be held on 29 April 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

Biographical details of directors, supervisors and other senior management of the Company are set out on pages 6 to 8 in this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

The Company did not enter into any service contracts with its directors and supervisors which is not determinable by the Company within one year without payment of compensation (other than compensation under normal statutory obligations).

Details of the remuneration of Company's directors and supervisors are set out in note 10 to the financial statements.

HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Company's five highest paid individuals are set out in note 11 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the directors and the supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Company which was in effect during this Year.

MANAGEMENT CONTRACTS

Pursuant to the asset management agreement entered into between the Company and PICC Asset Management Company Limited, a wholly owned subsidiary of PICC Holding, PICC Asset Management Company Limited provides investment management services in respect of certain cash assets of the Company. The Company pays an annual management fee to PICC Asset Management Company Limited.

Pursuant to the custodian agreement for managed assets entered into between the Company and the Bank of China, the Bank of China, as the custodian bank of the Company, is responsible for the custody of assets under management, settlement of capital, audit of accounts, valuation of assets, supervision on investments, as well as evaluation on investment performance. The term of the custodian agreement is one year and it became effective on 9 October 2003. The parties to the custodian agreement further agreed on 9 October 2004 that the term of the agreement be extended by one year.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTEREST IN SHARES

The following sets forth the interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Securities and Futures Ordinance) held by the then directors, supervisors and chief executive of the Company as at 31 December 2004 as recorded in the register of interests and short positions of directors, supervisors and chief executive required to be kept under section 352 of the Securities and Futures Ordinance:

Director	**Capacity in which the shares are held**	**Number of shares held**
Mr Cheng Wai-Chee, Christopher	Controlled corporation *(Note)*	50,000 H Shares

Note: Such shares were directly held by Wing Tai Corporation Limited and were indirectly held by Wing Tai (Cheng) Holdings Limited and Renowned Development Limited. Mr Cheng controls more than one-third of the votes at the shareholders' general meeting of the above companies. The interests disclosed above are long positions in the shares of the Company.

Save as disclosed above, none of the other directors, supervisors or chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2004 as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance, or any interests that require notification to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code").

SHARE APPRECIATION RIGHTS SCHEME

The details of the share appreciation rights scheme provided by the Company are set out in note 15 to the financial statements.

RETIREMENT BENEFITS

Details of the retirement benefits of the Company are set out in note 15 to the financial statements.

MATERIAL CONTRACTS

The Company entered into various agreements with PICC Holding (the Company's controlling shareholder), PICC Asset Management Company Limited (a wholly-owned subsidiary of the Company's controlling shareholder) and AIG (the Company's strategic investor).

Details of the transactions pursuant to these agreements during this Year are set out in note 40 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following shareholders were shown to have an interest of 5% or more in the issued share capital of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance:

Types of Shares	**Shareholder**	**Number of Shares held** **Directly held**	**Indirectly held**	**Percentage of Issued Share Capital**
Domestic Shares	PICC Holding	7,685,820,000		69.0%
H Shares	AIG *(Note 1)*		1,103,038,000	9.9%
H Shares	Birmingham Fire Insurance Company of Pennsylvania ("BFIC") *(Note 1)*	562,549,380		5.05%

Notes:

1. AIG is the ultimate controlling company of BFIC, hence BFIC's interests are deemed to be AIG's interests.

2. The interests disclosed above are long positions in the shares of the Company.

Apart from the foregoing, as at 31 December 2004, no other person had any interests or short positions in the shares or underlying shares of the Company required to be recorded in the register kept under section 336 of the Securities and Futures Ordinance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

All directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout this Year.

INDEPENDENCE OF DIRECTORS

The Company has received annual confirmations from all independent non-executive directors in respect of their independence in accordance with Rule 3.13 of the Listing Rules. As at the date of this annual report, the Company is of the view that all independent non-executive directors are independent.

PUBLIC FLOAT

As at the date of this annual report, 31% of the shares issued by the Company are held by the public.

CONNECTED TRANSACTIONS

The connected transactions of the Company for this Year are set out in notes 40(a) to 40(e) to the financial statements.

The Independent Non-executive Directors of the Company have reviewed all connected transactions and confirmed that:

1 all transactions were entered into during the ordinary and usual course of business;

2 all transactions were on normal commercial terms, fair and reasonable and in the interests of the shareholders of the Company as a whole;

3 all transactions have been carried out in accordance with the terms of the agreements governing the transactions; and

4 none of the transactions exceeded the annual upper limits approved by the Stock Exchange.

The auditors of the Company have reviewed all continuing connected transactions and confirmed to the Board of Directors of the Company that:

1. all transactions have been approved by the Board of Directors of the Company;

2. all transactions have been carried out in accordance with the terms of the agreements governing the transactions;

3. none of the transactions exceeded the annual upper limits approved by the Stock Exchange.

CODE OF BEST PRACTICE

So far as the Board of Directors is aware, for this Year, apart from the passing away of Mr Yan Dawu, who was the Company's Independent Non-executive Director and the chairman of the audit committee, which resulted in the Company's audit committee failing to fulfil the requirement of having a majority of independent non-executive directors under the Code of Best Practice, Appendix 14 (which was effective prior to 1 January 2005) to the Listing Rules (the "Code of Best Practice"), the Company has complied with the Code of Best Practice throughout this Year. The Company has appointed an Independent Non-executive Director, Mr Lu Zhengfei, as the chairman of the audit committee on 24 February 2004, to fill the vacancy.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements for this Year. The duties and composition of the Audit Committee and a summary of this Year's work are set out on page 24 to page 25 and on page 27 to page 28 respectively in this annual report.

AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board
Tang Yunxiang
Chairman

Beijing, PRC
22 April 2005

Dear Shareholders:

In 2004, the Supervisory Committee of the Company carried out its supervisory duties and protected the interests of the Company, its shareholders and employees strictly in accordance with the relevant provisions of the Company Law and the Articles of Association.

During this Year, the Supervisory Committee convened two meetings, at which five proposals, including the 2003 Auditors' Report and Audited Financial Report, the 2003 Profit Distribution Plan and Dividend Recommendation, the 2003 Report of the Supervisory Committee were considered and approved. Two hearings were held, in which the Chief Financial Officer of the Company, the Company's Finance Department and Ernst & Young made presentations on the Company's financial conditions, operation situations and the auditors's review for the first half of 2004.

The Supervisory Committee attended three meetings of the Board of Directors, participated in two shareholders' general meetings and submitted the 2003 Report of the Supervisory Committee to the shareholders' general meeting, at which it was adopted.

In April 2004, the Supervisory Committee organised an inspection of the Company's Guangdong branch and its sub-branches and inspected their finance, business and internal control system. Between mid-October 2004 and early November 2004, the Supervisory Committee made an inspection of Guangxi branch and Shanxi branch and over twenty of their respective sub-branches and inspected their finance and business operations.

To further improve the Supervisory Committee's operational mechanism and supervisory functions, the Supervisory Committee completed five performance researches in 2004 and formulated Report on Best Practice of the Supervisory Committee.

In 2004, the Supervisory Committee established a working group with its own staff and formulated the Work Manual on the Daily Operation of the Supervisory Committee. The Supervisory Committee made recommendations to the Company's management team in relation to certain potential risks identified in the process of supervision and inspection.

The Supervisory Committee is of the view that:

Work of the Board committees was strengthened and functions of Independent Non-executive Directors were emphasized. The Board of Directors's decision-making was scientific and within its delegated authority. The Board carried out its duties and responsibilities.

The Company's management team devoted to adjusting business structure, and effectively standardized the "three centers" and strengthened the Company's basic management.

Directors and senior management of the Company acted in diligence and good faith. During this Year, no member of the senior management was found to have committed any breach of any laws, regulations or the Articles of Association or to have infringed any rights or interests of the Company, its shareholders or employees in conducting their duties.

The Company's connected transactions were conducted on an arm's length basis, satisfied the relevant regulatory provisions of the Stock Exchange. There was no indication of any infringement of the interests of the Company or its independent shareholders.

In 2005, the Supervisory Committee will continue to strictly abide by relevant laws and regulations and the Articles of Association, concentrate on its own improvement, carry out its supervisory duties and fairly protect the interests of the Company, its shareholders and employees. The Supervisory Committee will also continue to strengthen its supervision over the decision-making process and the truthfulness of financial information, try to establish an off-the-spot monitor system over finance and business operations and conduct specialized inspections, investigations and research regarding the issues of connected transactions, internal controls, budget operations, reserve contributions and implementation of resolutions of the Company.

By Order of the Supervisory Committee
Deng Zhaoyu
Chairman of the Supervisory Committee

Beijing, PRC
21 April 2005

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the members

PICC Property and Casualty Company Limited
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 41 to 90 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2004 and of the profit and cash flows of the Company for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
22 April 2005

Year ended 31 December 2004

	Notes	2004 RMB million	7 July 2003 to 31 December 2003 RMB million	Pro forma 2003 RMB million
TURNOVER	6	62,003	23,643	54,968
Net premiums earned	6	50,628	19,923	40,409
Interest and dividend income, net	6	1,252	389	690
Net gains/(losses) on trading and non-trading securities	6	(948)	30	260
Net claims incurred	7	(38,905)	(14,444)	(29,063)
Amortisation of deferred acquisition costs	26	(3,560)	(1,427)	(2,479)
Insurance protection expense		(563)	(204)	(468)
Interest expense credited to policyholders' deposits		(144)	(65)	(123)
General and administrative expenses	8	(7,135)	(3,837)	(6,903)
OPERATING PROFIT		625	365	2,323
Finance costs	9	(120)	(23)	(35)
PROFIT BEFORE TAX		505	342	2,288
Tax	12	(297)	(235)	(837)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		208	107	1,451
BASIC EARNING PER SHARE (in RMB)	14	0.019	0.012	0.171

The basis of presentation is disclosed in note 1 to the financial statements.

Balance Sheet

31 December 2004

	Notes	2004 RMB million	2003 RMB million
ASSETS			
Cash and cash equivalents	16	16,275	18,004
Deposits with banks and other financial institutions	16	11,723	12,562
Trading securities	17	4,981	6,094
Non-trading securities	18	15,236	10,765
Held-to-maturity securities	19	2,910	–
Premiums receivable and agents' balances, net	20	2,472	2,012
Unearned premium reserves – reinsurers' share	27	4,319	6,030
Receivable from reinsurers	21	989	656
Reinsurance recoverable on unpaid losses	28	5,957	6,283
Prepayments and other receivable	22	2,515	2,067
Capital security fund	23	2,228	2,228
Fixed assets	24	15,169	15,645
Construction in progress	25	949	642
Deferred acquisition costs	26	2,253	1,284
Other non-current assets		286	300
TOTAL ASSETS		88,262	84,572
LIABILITIES			
Unearned premium reserves	27	30,803	30,422
Loss and loss adjustment expense reserves	28	21,272	17,956
Policyholders' deposits	29	8,786	9,290
Payable to reinsurers	30	1,311	1,978
Accrued insurance protection fund	31	1,099	522
Tax payable		291	167
Other liabilities and accruals	32	6,153	5,147
Deferred tax liabilities	33	29	333
TOTAL LIABILITIES		69,744	65,815
CAPITAL RESOURCES			
Issued capital	34	11,142	11,142
Reserves		5,376	5,615
		16,518	16,757
SUBORDINATED LOAN	35	2,000	2,000
TOTAL LIABILITIES AND CAPITAL RESOURCES		88,262	84,572

Mr Tang Yunxiang
Chairman

Mr Wang Yincheng
Executive Director

Year ended 31 December 2004

	Notes	Issued share capital RMB million	Share premium account RMB million	Non-trading securities revaluation reserve RMB million	Statutory surplus reserve RMB million	Statutory public welfare fund RMB million	Other reserves RMB million	Retained profits RMB million	Total RMB million
At 7 July 2003 – Injection pursuant to the Reorganisation		–	–	–	–	–	11,695	–	11,695
Revaluation of non-trading securities		–	–	(8)	–	–	–	–	(8)
Change of deferred tax asset recognised		–	–	3	–	–	–	–	3
Net gains and losses not recognised in the profit and loss account		–	–	(5)	–	–	–	–	(5)
Issue of shares upon incorporation	34	8,000	2,271	–	–	–	(10,271)	–	–
Issue of H Shares upon listing	34	3,142	2,882	–	–	–	–	–	6,024
Share issue expenses		–	(414)	–	–	–	–	–	(414)
Net profit for the period		–	–	–	–	–	–	107	107
Special dividend in connection with the Reorganisation	13	–	–	–	–	–	(650)	–	(650)
Transfer from/(to) reserves		–	–	–	6	3	–	(9)	–
At 31 December 2003 and 1 January 2004		11,142	4,739	(5)	6	3	774	98	16,757
Revaluation of non-trading securities		–	–	(674)	–	–	–	–	(674)
Revaluation deficit realised		–	–	5	–	–	–	–	5
Change of deferred tax asset recognised		–	–	222	–	–	–	–	222
Net loss not recognised in the profit and loss account		–	–	(447)	–	–	–	–	(447)
Net profit for the year		–	–	–	–	–	–	208	208
At 31 December 2004		11,142	4,739	(452)	6	3	774	306	16,518
							(Note)		

Note: This represents the net profit during the period from 1 October 2002 to 6 July 2003 arising from the commercial insurance business injected into the Company, net of the special dividend payable, pursuant to the Reorganisation (see note 1 to the financial statements). According to a legal opinion obtained from the Company's PRC legal counsel, this amount is distributable, subject to the provisions as set out under "Profit appropriation" in note 4 to the financial statements.

Year ended 31 December 2004

	Notes	Issued share capital RMB million	Share premium account RMB million	Non-trading securities revaluation reserve RMB million	Statutory surplus reserve RMB million	Statutory public welfare fund RMB million	Other reserves RMB million	Retained profits RMB million	Total RMB million
Pro forma									
At 1 January 2003		–	–	–	–	–	10,293	–	10,293
Pre-incorporation net profit		–	–	–	–	–	1,344	–	1,344
Pre-incorporation revaluation of non-trading securities		–	–	–	–	–	85	–	85
Post-incorporation revaluation of investments in non-trading securities		–	–	(8)	–	–	–	–	(8)
Change of deferred tax asset recognised		–	–	3	–	–	(27)	–	(24)
Net gains and loss not recognised in the profit and loss account		–	–	(5)	–	–	58	–	53
Capitalisation upon incorporation	34	8,000	2,271	–	–	–	(10,271)	–	–
Issues of H shares upon listing	34	3,142	2,882	–	–	–	–	–	6,024
Share issue expenses		–	(414)	–	–	–	–	–	(414)
Post-incorporation net profit		–	–	–	–	–	–	107	107
Special dividend in connection with the Reorganisation	13	–	–	–	–	–	(650)	–	(650)
Transfer from/(to) reserves		–	–	–	6	3	–	(9)	–
At 31 December 2003		11,142	4,739	(5)	6	3	774 (Note)	98	16,757

Note: This represents the net profit during the period from 1 October 2002 to 6 July 2003 arising from the commercial insurance business injected into the Company, net of the special dividend payable, pursuant to the Reorganisation (see note 1 to the financial statements). According to a legal opinion obtained from the Company's PRC legal counsel, this amount is distributable, subject to the provisions as set out under "Profit appropriation" in note 4 to the financial statements.

The basis of presentation is disclosed in note 1 to the financial statements.

Year ended 31 December 2004

	Notes	2004 *RMB million*	7 July 2003 to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		505	342	2,288
Adjustments for:				
Interest and dividend income	6	(1,252)	(389)	(690)
Net (gains)/losses on trading and non-trading securities	6	948	(30)	(260)
Interest expense credited to policyholders' deposits	5	144	65	123
Depreciation	8	1,348	680	1,560
Impairment loss on construction in progress	8	6	21	21
Provision for doubtful accounts	8	81	63	66
Net loss on disposals of fixed assets	8	17	6	7
Finance costs	9	120	23	35
(Increase)/decrease in premiums receivable and agents' balances		(538)	793	255
Decrease in reinsurers' share of unearned premium reserves		1,711	1,132	1,074
(Increase)/decrease in receivable from reinsurers		(333)	(193)	255
Decrease in reinsurance recoverable on unpaid losses		326	728	36
(Increase)/decrease in prepayments and other receivable		(181)	11	(165)
Increase in deferred acquisition costs		(969)	(1)	(208)
(Increase)/decrease in other non-current assets		14	(52)	34
Increase/(decrease) in unearned premium reserves		381	(2,690)	2,369
Increase in loss and loss adjustment expense reserves		3,316	489	1,359
Decrease in provision for premium deficiency		–	(1)	(2)
Decrease in payable to reinsurers		(667)	(331)	(325)
Increase in accrued insurance protection fund		577	182	441
Increase/(decrease) in other liabilities and accruals		1,408	(471)	(9)
Increase in capital security fund		–	(2,228)	(688)
Cash (used in)/generated from operations		6,962	(1,851)	7,576
PRC income tax paid		(257)	(17)	(17)
Net cash inflow/(outflow) from operating activities		6,705	(1,868)	7,559
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		612	478	657
Dividend received from trading and non-trading securities		228	12	42
Cash received in connection with the Reorganisation	36	–	17,797	–
Payment for capital expenditures		(1,281)	(573)	(1,696)
Proceeds from disposal of fixed assets		10	–	7
Payment for purchase of trading, non-trading and held-to-maturity securities		(35,051)	(12,661)	(16,511)
Proceeds from sales of trading and non-trading securities		27,166	10,051	12,555
Placement of deposits with banks and other financial institutions with original maturity of more than three months		(13,626)	(13,389)	(15,318)
Maturity of deposits with banks and other financial institutions with original maturity of more than three months		14,465	11,171	11,042
Net cash inflow/(outflow) from investing activities		(7,477)	12,886	(9,222)
Net cash inflow/(outflow) before financing activities		(772)	11,018	(1,663)

Year ended 31 December 2004

	Notes	2004 RMB million	7 July 2003 to 31 December 2003 RMB million	Pro forma 2003 RMB million
CASH FLOWS FROM FINANCING ACTIVITIES				
Securities sold under agreements to repurchase		611	300	300
Securities purchased under agreements to resell		(300)	(2,100)	(1,500)
Increase/(decrease) in policyholders' deposits		(504)	1,204	1,668
Subordinated loan borrowed		–	2,000	2,000
Issue of H Shares		–	6,024	6,024
Expenses related to share issues		–	(414)	(414)
Interest on loans and other finance costs		(120)	(23)	(35)
Special dividend paid to PICC Holding Company	13	(644)	(5)	(5)
Net cash inflow/(outflow) from financing activities		(957)	6,986	8,038
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,729)	18,004	6,375
Cash and cash equivalents at beginning of year/period		18,004	–	11,629
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	16	16,275	18,004	18,004
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Demand deposits	16	14,942	11,529	11,529
Cash in hand	16	25	32	32
Securities purchased under resale agreements with original maturity of less than three months	16	50	3,327	3,327
Deposits with bank and other financial institutions with original maturity of less than three months	16	1,258	3,116	3,116
		16,275	18,004	18,004

The basis of presentation is disclosed in note 1 to the financial statements.

1. BASIS OF PRESENTATION

Pursuant to the reorganisation of the People's Insurance Company of China (the "Reorganisation"), which took effect as of 30 September 2002, the Company was incorporated on 7 July 2003 as a joint stock company with limited liability in the People's Republic of China (the "PRC"). Further details of the Reorganisation are set out in the Company's prospectus dated 27 October 2003 issued in respect of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE").

The prior period comparative figures included in these financial statements are prepared for the period from 7 July 2003 (date of incorporation) to 31 December 2003. Consequently, the comparative amounts for the profit and loss account, the statement of changes in equity, the cash flow statement and related notes are not comparable with those of the current fiscal twelve month period. The prior year pro forma comparative figures included in these financial statements are prepared as if the Company had been in existence throughout the year ended 31 December 2003 and as if the Reorganisation was effective prior to the earliest date presented therein.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. Certain of these new HKFRSs, in particular, HKFRS 2 "Share-based Payment", HKFRS 4 "Insurance Contracts", HKAS32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" may have a significant impact on the results of operations, financial positions or disclosures in the financial statements in the future.

3. CORPORATE INFORMATION

The registered office of the Company is located at 69 Dongheyanjie, Xuanwumen, Beijing 100052, the PRC.

The Company is a provider of commercial insurance coverage in the PRC, and provides a wide range of property and casualty ("P&C") insurance consisting of property loss and damage insurance, liability insurance, credit and guarantee insurance, accidental injury insurance, short term health insurance and other P&C insurance as well as related reinsurance.

In the opinion of the directors, the ultimate holding Company is PICC Holding Company, which is incorporated in the PRC.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of trading and non-trading investments in securities as further explained below.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following basis:

(a) premium income, at the inception of risk resulting from a policy being written;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Reinsurance

Assets and liabilities related to reinsurance contracts are reported on a gross basis unless a right of offset exists. Reinsurance premiums ceded and reinsurance recoveries on loss incurred are deducted from the respective revenue and expense accounts. Unearned premium reserves – reinsurers' share represents the ceded portion of unearned premium reserves. Payable to reinsurers includes ceded premiums retained by the Company to fund ceded losses as they become due pursuant to reinsurance agreements. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured risks. Accordingly, revenues and expenses related to reinsurance agreements are recognised consistently with the underlying risk of the business reinsured.

Unearned premium reserves

Unearned premium reserves are recognised to cover the unexpired portion of the premiums written. Premiums are earned on a time-apportioned basis over the terms of the related insurance contracts.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Loss and loss adjustment expense reserves

The loss and loss adjustment expense reserves are for future payment obligations under insurance loss.

The loss and loss adjustment expense reserves are recorded on an undiscounted basis and comprise estimated provisions for losses reported at the balance sheet date, losses incurred but not yet reported at the balance sheet date, and loss adjustment expenses that can be directly attributable to individual claims.

The loss and loss adjustment reserves are calculated at the realistically estimated amount considered necessary to settle the loss in full less a deduction for the estimated value of salvage and other recoveries, using recognised actuarial methods. Past experience is taken into account as well as current and future expected social and economic factors.

Changes in estimates of the loss and loss adjustment expense reserves are recognised in the profit and loss account in the period in which the estimates are changed. The directors believe that the loss and loss adjustment expense reserves at the balance sheet date are adequate to cover the ultimate cost of all incurred losses and direct loss adjustment expenses to that date, but the reserves are necessarily based on estimates and no representation is made that the ultimate liability may not exceed or be less than such estimates.

Net claims incurred

Net claims incurred represents the actual amount of claims paid and payable plus claims handling expenses, net of claims recovered from reinsurance, and adjusted by changes in net loss and loss adjustment expenses reserves and net provision for premium deficiency.

Provision for premium deficiency

A provision for premium deficiency is recognised if the sum of expected losses and loss adjustment expenses, unamortised deferred acquisition costs and maintenance costs exceeds related unearned premium reserves. The premium deficiency is first recognised by writing off deferred acquisition costs to the extent required to eliminate the deficiency. If the premium deficiency is greater than the unamortised deferred acquisition costs, a provision is made for the excess deficiency. The amount of provision is made for each class of business individually.

Deferred acquisition costs

Policy acquisition costs which vary with and are primarily related to the production of new and renewal business (consisting principally of commission expenses and underwriting personnel expenses), net of reinsurance commissions, are deferred and amortised on a time-apportioned basis over the terms of the related insurance policies. Deferred acquisition costs are limited to the excess of unearned premium reserves over the sum of expected claim expenses, related claim adjustment expenses and policy maintenance expenses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessor, assets leased by the Company under operating leases are included in fixed assets and rentals receivable under the operating leases are credited to the profit and loss account on a straight-line basis over the lease terms. Where the Company is the lessee, rentals payable under the operating leases are charged to the profit and loss account on a straight-line basis over the lease terms.

Employee benefits

The Company's contributions to the defined contribution plans administered by the PRC government are recognised as an expense in the profit and loss account as incurred.

Share appreciation rights are recognised in the profit and loss account when they are exercised.

Related parties

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

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences and the carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date and interpretations and practices in respect thereof.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim or special dividends are simultaneously proposed and declared. Consequently, interim or special dividends are recognised immediately as a liability when they are proposed and declared.

Profit appropriation

Under the PRC Company Law and the Company's articles of association, net profit after tax, as determined in accordance with PRC accounting standards and regulations ("PRC GAAP"), can only be distributed as dividends after making up prior years' cumulative losses, if any, and making allowance for the following statutory reserve funds, which cannot be used for purposes other than those for which they are created and are not distributable as cash dividends:

(a) *Statutory surplus reserve*

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after any such usage.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Profit appropriation *(continued)*

(b) Statutory public welfare fund

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to appropriate 5% to 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory public welfare fund, which will be utilised to build or acquire capital items, such as dormitories and other facilities for the employees of the Company, and cannot be used to settle staff welfare expenses.

In accordance with the PRC relevant regulations and the Company's articles of association, the retained profits of the Company for the purpose of profit distribution are deemed to be the lower of the amount determined in accordance with PRC GAAP, and the amount determined in accordance with generally accepted accounting principles in Hong Kong.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

Trading securities

Trading securities are investments in securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Non-trading securities

Non-trading securities are investments in listed and unlisted securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend and interest yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the non-trading investment securities revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the non-trading investment securities revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

Securities purchased under purchase and resale agreements are recorded at their cost. The difference between the purchase cost and the reselling price is credited as interest income over the period from the date of purchase to the date of resale using the effective interest method.

Securities sold under sale and repurchase agreements in which the Company maintains effective control of the securities are accounted for as secured borrowings. Such securities are maintained on the balance sheet with the proceeds of the sale included in other liabilities and accruals. The difference between the selling price and the repurchase price is amortised as interest expense over the period from the date of sale to the date of repurchase using the effective interest method.

Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Company has the expressed intention and ability to hold to maturity, and are stated at amortised costs less any impairment losses which reflect their credit risk. Amortised cost is cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount. An impairment loss is charged to the investment and profit and loss account in the period in which it arises, on an individual investment basis. In situations where the circumstances and events which led to an impairment of a held-to-maturity security cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the reversal of the impairment is credited to the profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Premiums receivable and agents' balances

Premiums receivable and agents' balances represent amounts due from policyholders and agents and are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based on an evaluation of the recoverability of these accounts at the balance sheet date.

Fixed assets, construction in progress and depreciation

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of a fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on a straight-line basis after taking into account the estimated residual value, to write off the cost of each asset over its estimated useful life, as follows:

Land and buildings	30 – 70 years
Motor vehicles	4 – 9 years
Office equipment, furniture and fixtures	3 – 14 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether fixed assets, construction in progress and investments in securities are impaired or an impairment loss previously recognised no longer exists or has decreased. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised as a charge to the profit and loss account when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of assets *(continued)*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of impairment losses is recognised as a credit to the profit and loss account.

Policyholders' deposits

Policyholders' deposits represent deposits received from policyholders which are refundable under maturity refund type commercial insurance policies. Interest credited to these deposits is recognised as an expense in the profit and loss account.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Subordinated loan

Subordinated loan is included in the balance sheet at the value of the net proceeds received upon issue, adjusted for the amortisation of any premium or discount arising on issue.

Interest on subordinated loan is charged to the profit and loss account at the coupon rate adjusted for the amortisation of any premium or discount arising on issue, so as to achieve a constant rate of charge over the period from the date of issue to the date of redemption.

When subordinated loan issued is settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the profit and loss account.

5. SEGMENT INFORMATION

Line of business segments have been presented as the Company's primary segment reporting basis. No analysis of the Company's turnover and contribution to profit from operations by geographical segment has been prepared as all the Company's operating activities are carried out in the PRC.

Summary details of the business segments are as follows:

(a) the motor vehicle segment provides insurance products covering motor vehicles;
(b) the commercial property segment provides insurance products covering commercial properties;
(c) the homeowners segment provides insurance products covering homes and their contents;
(d) the cargo segment provides insurance products covering vessels, crafts or conveyances;
(e) the liability segment provides insurance products covering policyholders' liability;
(f) the accidental injury segment provides insurance products covering accidental injury; and
(g) the "other" segment mainly represents insurance products related to marine hull, aviation and oil and gas.

Information on the Company's reportable business segments is as follows:

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Turnover			
Motor vehicle	42,898	15,466	35,294
Commercial property	7,987	2,789	8,090
Homeowners	1,257	670	1,425
Cargo	2,724	1,072	2,657
Liability	2,051	967	2,406
Accidental injury	1,890	871	1,745
Other	3,196	1,808	3,351
	62,003	23,643	54,968
Net premiums earned			
Motor vehicle	35,802	13,525	26,930
Commercial property	6,402	2,915	6,437
Homeowners	452	429	1,045
Cargo	2,940	1,106	2,314
Liability	1,850	977	2,116
Accidental injury	1,688	464	514
Other	1,494	507	1,053
	50,628	19,923	40,409
Interest and dividend income, net			
Homeowners	179	(73)	26
Net gains/(losses) on trading and non-trading securities			
Homeowners	(95)	6	64

5. SEGMENT INFORMATION *(CONTINUED)*

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Net claims incurred			
Motor vehicle	**(30,713)**	(10,641)	(21,618)
Commercial property	**(3,981)**	(1,639)	(3,285)
Homeowners	**(236)**	(158)	(340)
Cargo	**(985)**	(520)	(1,107)
Liability	**(1,080)**	(591)	(1,401)
Accidental injury	**(923)**	(299)	(338)
Other	**(987)**	(596)	(974)
	(38,905)	(14,444)	(29,063)
Amortisation of deferred acquisition costs			
Motor vehicle	**(2,691)**	(1,140)	(2,053)
Commercial property	**(262)**	(64)	(125)
Homeowners	**(29)**	(56)	(134)
Cargo	**(227)**	(84)	(147)
Liability	**(111)**	(81)	(124)
Accidental injury	**(65)**	(76)	(80)
Other	**(175)**	74	184
	(3,560)	(1,427)	(2,479)
Insurance protection expense			
Motor vehicle	**(409)**	(150)	(323)
Commercial property	**(66)**	(17)	(59)
Homeowners	**(12)**	(10)	(17)
Cargo	**(25)**	(9)	(22)
Liability	**(18)**	(8)	(20)
Accidental injury	**(16)**	(12)	(19)
Other	**(17)**	2	(8)
	(563)	(204)	(468)
Interest expense credited to policyholders' deposits			
Homeowners	**(144)**	(65)	(123)
Segment profit before unallocated income and expenses			
Motor vehicle	**1,989**	1,594	2,936
Commercial property	**2,093**	1,195	2,968
Homeowners	**115**	73	521
Cargo	**1,703**	493	1,038
Liability	**641**	297	571
Accidental injury	**684**	77	77
Other	**315**	(13)	255
	7,540	3,716	8,366

5. SEGMENT INFORMATION *(CONTINUED)*

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Unallocated operating income and expenses			
Interest and dividend income, net	**1,073**	462	664
Net gains/(losses) on trading and non-trading securities	**(853)**	24	196
General and administrative expenses	**(7,135)**	(3,837)	(6,903)
Finance costs	**(120)**	(23)	(35)
	(7,035)	(3,374)	(6,078)
Profit before tax	**505**	342	2,288
Tax	**(297)**	(235)	(837)
Net profit attributable to shareholders	**208**	107	1,451

Interest and dividend income and net gains/(losses) on trading and non-trading securities attributed to the homeowners insurance product (see note 29), which can be separately identified based on the results of its designated pool of investments, are separately disclosed. The remaining amounts that are not attributed to particular insurance products are not allocated and are included under unallocated operating income and expenses.

5. SEGMENT INFORMATION *(CONTINUED)*

	2004 *RMB million*	2003 *RMB million*
Segment assets		
Motor vehicle	7,122	6,764
Commercial property	3,547	3,567
Homeowners	4,921	3,712
Cargo	412	564
Liability	437	572
Accidental injury	419	253
Other	3,416	4,338
	20,274	19,770
Unallocated assets	67,988	64,802
Total assets	88,262	84,572
Segment liabilities		
Motor vehicle	36,048	30,622
Commercial property	6,391	9,688
Homeowners	11,861	8,789
Cargo	1,246	1,972
Liability	1,640	2,022
Accidental injury	1,657	1,335
Other	4,429	6,792
	63,272	61,220
Unallocated liabilities	6,472	4,595
Total liabilities	69,744	65,815

Assets that are used by more than one segment have not been allocated as their related expenses cannot be separately identified and allocated to particular insurance products. They are included under unallocated assets.

6. TURNOVER AND REVENUE

Turnover represents direct premiums written and reinsurance premiums assumed, net of government levies and surcharges.

An analysis of turnover, interest and dividend income and net gains/(losses) on trading and non-trading securities is as follows:

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Turnover			
Direct premiums written	65,577	24,969	58,074
Reinsurance premiums assumed	6	7	11
	65,583	24,976	58,085
Less: Government levies and surcharges	(3,580)	(1,333)	(3,117)
	62,003	23,643	54,968
Net premiums earned			
Turnover	62,003	23,643	54,968
Less: Reinsurance premiums ceded	(9,283)	(5,289)	(11,116)
Net premiums written	52,720	18,354	43,852
Less: Changes in net unearned premium reserves	(2,092)	1,569	(3,443)
Net premiums earned	50,628	19,923	40,409
Interest and dividend income, net			
Interest income from trading and non-trading securities	436	35	164
Interest income from deposits with banks and other financial institutions	504	332	474
Interest income from held-to-maturity securities	68	–	–
Dividend income from trading and non-trading securities	244	22	52
	1,252	389	690
Net gains/(losses) on trading and non-trading securities			
Realised gains/(losses) on trading securities – Mutual funds	(12)	3	11
Realised gains/(losses) on trading securities – Debt	(14)	(4)	3
Unrealised gains/(losses) on trading securities – Mutual funds	(745)	22	192
Unrealised gains/(losses) on trading securities – Debt	(67)	(17)	10
Net gains/(losses) on disposals of non-trading securities:			
Realisation of revaluation reserve previously recognised	(5)	(5)	–
Recognised gains arising in the year/period	62	31	44
Impairment loss on trading and non-trading securities	(167)	–	–
	(948)	30	260

7. NET CLAIMS INCURRED

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Gross claims expenses	**42,257**	17,295	35,114
Less: Loss recovered from reinsurance	**(6,994)**	(4,067)	(7,444)
Net claims expenses	**35,263**	13,228	27,670
Add: Change in net loss and loss adjustment expense reserves *(note 28)*	**3,642**	1,217	1,395
Add: Change in net provision for premium deficiency	**–**	(1)	(2)
Net claims incurred	**38,905**	14,444	29,063

8. GENERAL AND ADMINISTRATIVE EXPENSES

The Company's operating profit is arrived at after charging:

	Notes	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Personnel expenses		**1,422**	515	921
Depreciation	24	**1,348**	680	1,560
Office expenses		**1,943**	806	1,516
Provision for doubtful accounts		**81**	63	66
Repairs and maintenance		**293**	141	259
Impairment loss on construction in progress	25	**6**	21	21
Net loss on disposals of fixed assets		**17**	6	7
Minimum lease payments under operating leases – land and buildings		**293**	172	221
Auditors' remuneration		**13**	9	9
Others		**1,719**	1,424	2,323
		7,135	3,837	6,903

8. GENERAL AND ADMINISTRATIVE EXPENSES *(CONTINUED)*

Total personnel expenses of the Company for the year/period are as follows:

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Included in net claims incurred	966	310	794
Included in deferred acquisition costs	2,022	604	1,538
Included in general and administrative expenses	1,422	515	921
Total personnel expenses	4,410	1,429	3,253

9. FINANCE COSTS

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Interest on bank loans wholly repayable within five years	–	14	25
Interest on subordinated loan *(note 35)*	105	9	9
Other finance costs	15	–	1
	120	23	35

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year/period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2004 *RMB'000*	7 July to 31 December 2003 *RMB'000*	Pro forma 2003 *RMB'000*
Fees	1,838	1,739	1,739
Other emoluments:			
Salaries, allowances and benefits in kind	2,394	1,215	1,638
Performance related bonuses	4,175	2,111	2,969
Pension scheme contributions	98	41	99
	8,505	5,106	6,445

10. DIRECTORS' AND SUPERVISORS' REMUNERATION *(CONTINUED)*

The number of directors and supervisors whose remuneration fell within the following bands is as follows:

	2004	7 July to 31 December 2003	Pro forma 2003
Nil to HK$1,000,000 (equivalent to approximately RMB1,065,700)	12	14	14
HK$1,000,000 to HK$1,500,000 (equivalent to approximately RMB1,065,700 to RMB1,598,500)	3	–	–
	15	14	14

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during 2004 and 2003.

Fees include approximately RMB637,740 (2003: RMB639,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during 2004 (2003: Nil).

On 22 July 2004, the Company granted 8.31 million units of share appreciation rights to 11 directors and supervisors at an exercise price of HK$1.8 each under the share appreciation rights scheme *(note 15)*.

11. FIVE HIGHEST PAID EMPLOYEES

All of the five (2003: three) highest paid employees during the year are directors and supervisors of the Company, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two highest paid employees in the prior year are as follows:

	2004 *RMB'000*	7 July to 31 December 2003 *RMB'000*	Pro forma 2003 *RMB'000*
Salaries, allowances and benefits in kind	–	331	470
Performance related bonuses	–	559	861
Pension scheme contributions	–	12	18
	–	902	1,349

11. FIVE HIGHEST PAID EMPLOYEES *(CONTINUED)*

The remaining two highest paid employees whose remuneration fell within the following bands in the prior year are as follows:

	Number of employees		
	2004	7 July to 31 December 2003	Pro forma 2003
Nil to HK$1,000,000 (equivalent to approximately RMB1,065,700)	–	2	2

There was no arrangement under which any of these highest paid employees waived or agreed to waive any remuneration during 2004 and 2003.

12. TAX

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Current – PRC			
Charge for the year/period	379	323	367
Deferred *(note 33)*	(82)	(88)	470
Total tax charge for the year/period	297	235	837

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the PRC, in which the Company is domiciled, to the tax expense at the effective tax rate is as follows:

	2004 *RMB million*	*%*	7 July to 31 December 2003 *RMB million*	*%*	Pro forma 2003 *RMB million*	*%*
Profit before tax	505		342		2,288	
Tax at the statutory tax rate of 33% *(note (i))*	167	33.0	113	33.0	755	33.0
Income not subject to tax *(note (ii))*	(144)	(28.5)	(13)	(3.8)	(59)	(2.6)
Expenses not deductible for tax *(note (iii))*	274	54.3	135	39.5	141	6.2
Tax charge for the year/period	297	58.8	235	68.7	837	36.6

Notes:

(i) The provision for PRC income tax is calculated based on the statutory rate of 33% in accordance with the relevant PRC income tax rules and regulations for all periods presented.

(ii) This primarily comprises interest income from government bonds and distributions from open-ended mutual funds which are not subject to PRC income tax.

(iii) This primarily represents expenses in excess of statutory deductible amounts which are not tax deductible.

13. DIVIDEND

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Special	–	650	650

Pursuant to the Reorganisation and the "Provisional Regulation Relating to Corporate Reorganisation of Enterprises and Related Management of State-owned Capital and Financial Treatment," which was issued by the PRC Ministry of Finance and became effective on 27 August 2002, the Company agreed to distribute special dividends equivalent to the net profit arising from the commercial insurance business injected into the Company pursuant to the Reorganisation for the period from 1 October 2002 (being the first day after the effective date of the Reorganisation) to 6 July 2003 (being the day immediately prior to the date of its incorporation) determined in accordance with PRC GAAP in two installments as follows:

- The Company distributed RMB5.4 million on 28 October 2003 in cash, representing the net profit under PRC GAAP for the three-month period ended 31 December 2002, to PICC Holding Company; and

- During the year, the Company distributed RMB644 million in cash to PICC Holding Company, representing the net profit for the period from 1 January 2003 to 6 July 2003 calculated as 187/365 of the net profit for 2003 under PRC GAAP.

The board of directors did not recommend the payment of a dividend for the year ended 31 December 2004 (2003: Nil).

14. EARNINGS PER SHARE

The calculations of basic earnings per share for the year ended 31 December 2004, the period from 7 July to 31 December 2003 and the year ended 31 December 2003, are based on:

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
Earnings			
Net profit attributable to shareholders used in the basic earnings per share calculation	208	107	1,451

		Number of shares	
	2004 *million*	7 July to 31 December 2003 *million*	Pro forma 2003 *million*
Shares			
Weighted average number of ordinary shares used in the basic earnings per share calculation	11,142	9,000	8,482

The weighted average number of ordinary shares in issue used for the year ended 31 December 2003 have taken into account the issue of 8,000 million ordinary shares upon the incorporation of the Company, as if such shares had been outstanding since 1 January 2003. The Company had no dilutive potential shares outstanding from 1 January 2003.

15. EMPLOYEE BENEFITS

Retirement benefits

As stipulated by the labour regulations of the PRC, the Company participates in various defined contribution retirement plans organised by provincial and municipal governments for its employees. The Company is required to make contributions to the retirement plans at rates ranging from 13% to 39.5% of the aggregate amount of salaries, bonuses and certain allowances payable to its employees. Under the plans, the Company's employees are entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Company has no other material obligation for the payment of its employees' retirement and other post-retirement benefits other than the contributions described above. The Company's contributions for the year ended 31 December 2004, the period from 7 July to 31 December 2003, and the year ended 31 December 2003 were RMB440 million, RMB191 million and RMB362 million, respectively.

15. EMPLOYEE BENEFITS *(CONTINUED)*

Share appreciation rights

The shareholders of the Company approved the adoption of a scheme of share appreciation rights for senior management on 30 July 2003. The scheme is designed to link the interest of the Company's senior management with the Company's results of operations and the Company's share value (market price of its H Shares). The Board of Directors of the Company is responsible for making decisions under the scheme and administering the scheme. No shares will be issued under the scheme. Therefore, the shareholdings of shareholders will not be diluted as a result of the issuance of share appreciation rights.

Under the share appreciation rights scheme, members of the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee, president, vice presidents, chief financial officer, division managers of the Company, presidents of provincial/municipal level branch offices, employees with special contribution to the Company as determined by the Company's Nomination, Remuneration and Review Committee, and other senior management at equivalent levels are eligible to receive share appreciation rights.

Share appreciation rights will be granted in units with each unit representing one H Share. Share appreciation rights granted in aggregate may not exceed 10% of the issued share capital from time to time, and share appreciation rights granted to any individual may not exceed 1% of the issued share capital in any 12-month period. The number of share appreciation rights units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation.

Under the share appreciation rights scheme, all share appreciation rights are valid for five years, but are not exercisable in the first year after the date of grant. As of each of the second, third, fourth and fifth anniversary of the date of grant, the total number of units of share appreciation rights exercised may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total number of units of share appreciation rights granted to such person. Thereafter, share appreciation rights which have not been exercised will lapse. If a grantee deceases or becomes severely disabled during the five-year period, his or her share appreciation rights will be fully vested immediately.

The exercise price of the share appreciation rights initially granted was equal to the offer price of the initial public offering of the company. The exercise price of the share appreciation rights subsequently granted is equal to the higher of (i) the closing price of the H Shares on the date of grant and (ii) the average closing price of the H Shares on the five consecutive trading days before the date of grant. Upon exercise of the share appreciation rights, the person will receive cash payment, subject to any applicable withholding tax, equal to the product of the number of units of share appreciation rights exercised and the difference between the exercise price and market price of H Shares at the time of exercise.

On 22 July 2004, the Company granted 28,928,000 share appreciation rights to 76 senior management personnel at an exercise price of HK$1.8 each under the share appreciation rights scheme. The estimated value of these share appreciation rights was RMB32 million as at the date of the grant. After the aforesaid share appreciation rights were granted, 300,000 Share appreciation rights were exercised as a result of the decease of a senior management personel and RMB0.3 million was charged to the profit and loss account. Apart from this, no value in respect of the share appreciation rights granted during the year has been charged to the profit and loss account.

16. CASH AND CASH EQUIVALENTS AND TERM DEPOSITS

	2004 *RMB million*	2003 *RMB million*
Demand deposits	14,942	11,529
Cash in hand	25	32
Securities purchased under resale agreements with original maturity of less than three months	50	3,327
Deposits with banks and other financial institutions with original maturity of less than three months	1,258	3,116
Cash and cash equivalents	16,275	18,004
Deposits with banks and other financial institutions with original maturity of more than three months	11,723	12,562
Total	27,998	30,566

At 31 December 2004, RMB1,099 million (2003: RMB522 million) was included in deposits with banks and other financial institutions as accrued insurance protection fund. The amount was maintained in accordance with relevant PRC insurance law and regulations for insurance protection and restricted in use. Details of the restrictions are disclosed in note 31 to the financial statements.

At 31 December 2004, included in deposits with banks and other financial institutions was a clearing account deposit of RMB57 million (2003: Nil) deposited with a PRC securities company, the details of which are set out in note 17 to the financial statements.

17. TRADING SECURITIES

	2004 *RMB million*	2003 *RMB million*
Listed investments:		
Debt securities issued by the PRC central government, net *(note)*	583	1,813
Debt securities issued by corporate entities	117	66
Mutual funds	2,781	3,690
	3,481	5,569
Unlisted investments:		
Debt securities issued by the PRC central government	47	525
Debt securities issued by corporate entities	1,453	–
	1,500	525
Total	4,981	6,094

None of the above listed investments are listed in Hong Kong.

The maturity profile of trading debt securities analysed by the remaining period according to their contractual maturity date is as follows:

	2004 *RMB million*	2003 *RMB million*
Less than 3 months but not on demand	1	199
Less than 1 year but more than 3 months	1,453	326
Less than 5 years but more than 1 year	687	1,813
More than 5 years	59	66
	2,200	2,404

17. TRADING SECURITIES *(CONTINUED)*

Note:

In September 2004, a PRC securities company engaged by the Company's investment manager, PICC Assets Management Company Limited ("PICC AMC", a fellow subsidiary of the Company), was placed under operational control by a special manager as instructed by the China Securities Regulatory Commission. As at 31 December 2004, the Company had an outstanding amount of RMB415 million deposited at this securities company, comprising trading and non-trading debt securities and their accrued interest amounting to RMB110 million and RMB248 million, respectively, and a clearing account deposit of RMB57 million.

As at 31 December 2004, certain debt securities of the Company were registered under the exchange trading seats of another PRC securities company. The total amounts of debt securities classified as trading and non-trading securities at 31 December 2004 were RMB546 million (2003: RMB967 million) and RMB53 million (2003: RMB102 million), respectively. During 2004, the Company and PICC AMC have instructed the securities company to either dispose of the debt securities, or to transfer the registration of the debt securities to the exchange trading seats of PICC AMC. The securities company has confirmed in writing to the Company that it would execute the said instructions and, as at the date of approving the Company's financial statements for the year ended 31 December 2004, debt securities totalling RMB16 million were disposed of by the securities company. The Company's management believe that the abovementioned debt securities will be fully recovered, and is continuously monitoring the progress of execution by the securities company.

The Company's management has assessed the expected net recoverable amount of the abovementioned debt securities and their accrued interest and necessary provisions have been made to cover any potential shortfall between the expected net recoverable amount and the carrying amount as at 31 December 2004.

18. NON-TRADING SECURITIES

	2004 *RMB million*	2003 *RMB million*
Listed investments:		
Debt securities issued by the PRC central government, net *(note 17)*	2,983	1,864
Debt securities issued by corporate entities	842	280
	3,825	2,144
Unlisted investments:		
Debt securities issued by the PRC central government	4,313	4,441
Debt securities issued by banks and other financial institutions	2,397	1,142
Debt securities issued by corporate entities	1,914	1,373
Mutual funds	2,787	1,665
	11,411	8,621
	15,236	10,765

18. NON-TRADING SECURITIES *(CONTINUED)*

None of the above listed investments are listed in Hong Kong.

The unlisted non-trading investments are traded on over-the-counter markets in the PRC.

The maturity profile of non-trading debt securities analysed by the remaining period according to their contractual maturity dates is as follows:

	2004 *RMB million*	2003 *RMB million*
Less than 1 year but more than 3 months	205	201
Less than 5 years but more than 1 year	5,317	3,696
More than 5 years	6,927	5,203
	12,449	9,100

19. HELD-TO-MATURITY SECURITIES

	2004 *RMB million*	2003 *RMB million*
Unlisted investments:		
Subordinated debt securities issued by banks and other financial institutions	2,910	–

The maturity profile of held-to-maturity debt securities analysed by the remaining period according to their contractual maturity dates is as follows:

	2004 *RMB million*	2003 *RMB million*
Less than 5 years but more than 1 year	1,220	–
More than 5 years	1,690	–
	2,910	–

20. PREMIUMS RECEIVABLE AND AGENTS' BALANCES, NET

	2004 *RMB million*	2003 *RMB million*
Premiums receivable and agents' balances	2,633	2,095
Less: Allowance for doubtful accounts	(161)	(83)
	2,472	2,012

An aged analysis of the premiums receivable and agents' balances as at the balance sheet date, based on payment due date, and net of provisions, is as follows:

	2004 *RMB million*	2003 *RMB million*
Within 3 months	2,249	1,622
Over 3 months but less than 6 months	140	345
Over 6 months	83	45
	2,472	2,012

Movement in the allowance for doubtful accounts are as follows:

	2004 *RMB million*	7 July to 31 December 2003 *RMB million*	Pro forma 2003 *RMB million*
At beginning of the year/period	83	14	11
Provision for the year/period	78	69	72
At end of the year/period	161	83	83

21. RECEIVABLE FROM REINSURERS

An aged analysis of the receivable from reinsurers as at the balance sheet date is as follows:

	2004 *RMB million*	2003 *RMB million*
Within 3 months	755	536
Over 3 months but less than 6 months	80	70
Over 6 months	154	50
	989	656

21. RECEIVABLE FROM REINSURERS *(CONTINUED)*

As at 31 December 2004 and 2003, the amount of receivable from reinsurers net of reinsurance premiums ceded was current and in accordance with the terms of the relevant reinsurance contracts. None of the Company's reinsurance contracts contains any contractual provisions for the delay of any reimbursement of incurred losses to the Company. The Company did not receive any reinsurance adjustment commission and profit commission for the year ended 31 December 2004. Reinsurance adjustment commission and profit commission amounting to RMB318 million as at 31 December 2003 were included in the receivable from reinsurers. Such amounts were due from certain reinsurers when the underwriting year of account closed, which under the terms of the relevant reinsurance contracts was normally on a three-year basis.

22. PREPAYMENTS AND OTHER RECEIVABLE

	2004 *RMB million*	2003 *RMB million*
Amount due from provincial and municipal governments *(note (i))*	1,210	1,210
Amount due from PICC Holding Company *(note (ii))*	138	–
Amounts due from other third parties	27	151
Interest receivable	444	190
Prepayments and deposits	115	77
Others	581	439
	2,515	2,067

Notes:

(i) During 1999, pursuant to the instruction from the State Council as part of the restructuring of the PRC insurance industry, the Company acquired the commercial insurance business of certain provincial and municipal governments. On the date of the acquisition, the net liabilities assumed amounted to RMB1,210 million, which mainly consisted of unearned premium reserves and loss and loss adjustment expense reserves, net of cash and cash equivalents.

PICC Holding Company has undertaken to the Company that the amount will be fully recovered by the Company. In July 2004, PICC Holding Company, which represents the Company in negotiating the settlement of the amount, received a notice from the Ministry of Finance approving the settlement of such amount by offsetting against the Company's accrued insurance protection fund. In addition, the China Insurance Regulatory Commission (the "CIRC") set out in its notice to PICC Holding Company that the Company is permitted to utilise the accumulated insurance protection fund, to the extent not exceeding the balance accumulated up to 30 June 2005, to offset the amount due from provincial and municipal governments. The Company is in the process of negotiating the settlement arrangement in detailed terms. It is anticipated that the amount will be fully recovered by 31 December 2005, and accordingly, no provision has been made against this amount as at 31 December 2004 (2003: Nil).

(ii) The amount due from PICC Holding Company is unsecured, interest-free and repayable on demand.

23. CAPITAL SECURITY FUND

In accordance with the PRC Insurance Law, the Company is required to maintain a deposit equivalent to 20% of its registered capital with banks designated by the CIRC as a security fund. The use of the security fund is subject to the approval of the CIRC.

24. FIXED ASSETS

	Land and buildings *RMB million*	**Motor vehicles** *RMB million*	**Office equipment, furniture and fixtures** *RMB million*	**Total** *RMB million*
Cost:				
At 1 January 2004	14,103	1,477	1,909	17,489
Additions	70	118	546	734
Transfers *(note 25)*	165	–	–	165
Disposals	(12)	(123)	(300)	(435)
At 31 December 2004	14,326	1,472	2,155	17,953
Accumulated depreciation:				
At 1 January 2004	(578)	(631)	(635)	(1,844)
Depreciation	(450)	(364)	(534)	(1,348)
Disposals	4	115	289	408
At 31 December 2004	(1,024)	(880)	(880)	(2,784)
Net book value:				
As 31 December 2004	13,302	592	1,275	15,169
As 31 December 2003	13,525	846	1,274	15,645

The land and buildings are all located in the PRC and are held under medium term leases.

24. FIXED ASSETS *(CONTINUED)*

The gross carrying amounts, accumulated depreciation and net book value of fixed assets which are leased out for rental income are as the follows:

2004	**Cost** ***RMB million***	**Accumulated depreciation** ***RMB million***	**Net book value** ***RMB million***
Land and buildings	**228**	**29**	**199**

2003	Cost *RMB million*	Accumulated depreciation *RMB million*	Net book value *RMB million*
Land and buildings	228	23	205

As at 31 December 2004, the title certificates of certain newly acquired land and buildings with a net book value of RMB141 million (2003: RMB1,062 million) were in the process of obtaining title registration.

25. CONSTRUCTION IN PROGRESS

	2004 ***RMB million***	2003 *RMB million*
At beginning of the year	**642**	714
Additions	**478**	112
Transfers *(note 24)*	**(165)**	(163)
Impairment	**(6)**	(21)
At end of the year	**949**	642

The buildings under construction are all located in the PRC and are held under medium term leases.

26. DEFERRED ACQUISITION COSTS

The movements in deferred acquisition costs during the year ended 31 December 2004, the period from 7 July 2003 to 31 December 2003 and for the year ended 31 December 2003 are as follows:

	Gross *RMB million*	**Reinsurance** *RMB million*	**Net** *RMB million*
At 1 January 2004	3,382	(2,098)	1,284
Deferred acquisition costs	7,338	(2,809)	4,529
Amortisation	(6,314)	2,754	(3,560)
At 31 December 2004	4,406	(2,153)	2,253
At 7 July 2003	3,219	(1,936)	1,283
Deferred acquisition costs	3,109	(1,681)	1,428
Amortisation	(2,946)	1,519	(1,427)
At 31 December 2003	3,382	(2,098)	1,284
Pro forma			
At 1 January 2003	3,091	(2,015)	1,076
Deferred acquisition costs	6,242	(3,555)	2,687
Amortisation	(5,951)	3,472	(2,479)
At 31 December 2003	3,382	(2,098)	1,284

27. UNEARNED PREMIUM RESERVES

	2004 *RMB million*	2003 *RMB million*
Gross unearned premium reserves	**30,803**	30,422
Less: Unearned premium reserves reinsurers' share	**(4,319)**	(6,030)
Net unearned premium reserves	**26,484**	24,392

Unearned premium reserves and loss and loss adjustment expense reserves (note 28) of the Company's commercial insurance business as at 31 December 2003 and 31 December 2004, respectively, were reviewed by a firm of independent internationally based consulting actuaries. Save for RMB3,102 million as at 31 December 2004 (2003: RMB1,985 million), all of the unearned premium reserves are expected to be realised within one year from the balance sheet date.

28. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

	Gross loss and loss adjustment expense reserves *RMB million*	Reinsurance recoverable on unpaid losses *RMB million*	Net loss and loss adjustment expense reserves *RMB million*
At 1 January 2004	17,956	(6,283)	11,673
Incurred loss and loss adjustment expenses:			
– Current year	43,365	(6,914)	36,451
– Prior year	2,208	246	2,454
Loss and loss adjustment expenses paid:			
– Current year	(26,296)	2,942	(23,354)
– Prior year	(15,961)	4,052	(11,909)
At 31 December 2004	21,272	(5,957)	15,315
At 7 July 2003	17,467	(7,011)	10,456
Incurred loss and loss adjustment expenses:			
– Current period	16,278	(2,406)	13,872
– Prior period	981	(924)	57
Loss and loss adjustment expenses paid:			
– Current period	(6,752)	1,552	(5,200)
– Prior period	(10,018)	2,506	(7,512)
At 31 December 2003	17,956	(6,283)	11,673
Pro forma			
At 1 January 2003	16,597	(6,319)	10,278
Incurred loss and loss adjustment expenses:			
– Current year	34,641	(7,015)	27,626
– Prior year	473	(429)	44
Loss and loss adjustment expenses paid:			
– Current year	(20,528)	3,910	(16,618)
– Prior year	(13,227)	3,570	(9,657)
At 31 December 2003	17,956	(6,283)	11,673

28. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES *(CONTINUED)*

The Company establishes reserves for claims and claims expense on reported and unreported claims of insured losses. These reserve estimates are based on known facts and interpretations of circumstances and internal factors including the Company's experience with similar cases, historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, loss management programs and product mix. In addition, the reserve estimates are influenced by external factors including law changes, changes to regulatory requirements, economic conditions, and public attitudes. The Company, in the normal course of business, may also supplement its claims processes by utilising third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle. The effects of inflation are implicitly considered in the reserving process.

Because reserves are estimates of losses that have occurred, including incurred but not reported losses, the establishment of appropriate reserve is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims.

Net claims incurred for the year ended 31 December 2004 increased by RMB2,454 million as a result of adverse development of reserves from prior years, primarily on motor insurance business, due to claim settlement patterns being slower than originally expected.

Save for RMB1,778 million as at 31 December 2004 (2003: RMB1,801 million), all of the loss and loss adjustment expense reserves are expected to be settled within one year.

29. POLICYHOLDERS' DEPOSITS

Policyholders' deposits consist of interest-bearing and non-interest-bearing deposits placed by policyholders. The remaining maturities of policyholders' deposits are analysed as follows:

	2004 ***RMB million***	2003 *RMB million*
Due within 1 year	**794**	1,964
Due after 1 year but within 5 years	**6,869**	4,430
Due after 5 years or more	**1,123**	2,896
	7,992	7,326
	8,786	9,290

29. POLICYHOLDERS' DEPOSITS *(CONTINUED)*

Certain commercial insurance policies offered by the Company require that the policyholders place a deposit with the Company which is refundable upon maturity or termination and bears no interest. Policy terms range from one year to perpetuity. A policyholder can terminate the insurance policy before the maturity date without penalties. The main feature of this insurance product is that the insurance coverage is fixed at the inception of the policy and remains in effect during the policy period or until terminated by the policyholder.

From 2002, the Company has underwritten policies of another kind of homeowners insurance product containing both insurance and investment features. Policyholders deposit a fixed principal amount which is only refundable upon the maturity of the policy of three years or five years and the policyholder receives a fixed rate of interest. Penalties on early termination are charged according to the terms stated in the insurance contract. The amount of interest credited to policyholder deposits for the year ended 31 December 2004, the period from 7 July to 31 December 2003, and for the year ended 31 December 2003 were RMB144 million, RMB65 million and RMB123 million, respectively. The balances of this type of insurance deposit product as at 31 December 2004 and 31 December 2003 amounted to RMB5,938 million and RMB6,142 million, respectively.

30. PAYABLE TO REINSURERS

Payable to reinsurers are analysed as follows:

	2004	2003
	RMB million	*RMB million*
Reinsurance balances payable	**641**	1,132
Reinsurance funds withheld	**670**	846
	1,311	1,978

Amounts payable to reinsurers as at 31 December 2004 and 31 December 2003 are due within three months from the balance sheet date or are repayable on demand. The reinsurance funds withheld as at 31 December 2004 and 31 December 2003 are repayable upon the expiration of the related reinsurance contracts.

Amounts due to American International Group and its subsidiaries (collectively known as "AIG", a 9.9% strategic shareholder of the Company) included in the above amounted to RMB56 million at 31 December 2004 (31 December 2003: Nil)

31. ACCRUED INSURANCE PROTECTION FUND

The Company is obligated to pay into an insurance protection fund based on 1% of its annual retained premiums in accordance with the relevant PRC insurance law and regulations. No further provision is required once the accumulated balance has reached 6% of the Company's total assets determined in accordance with the PRC GAAP. The amount provided for is payable to the CIRC to finance the resolution of failed insurance companies in the PRC and is required to be set aside by investments in debt securities issued by the central government of the PRC and placements of deposits with the four state-owned national commercial banks.

As at 31 December 2004 and 2003, the Company's accrued insurance protection amount maintained in accordance with relevant PRC insurance law and regulations was held in form of deposits with banks. The deposits with banks are restricted in use until the accrual has been settled with the CIRC. The balance as at balance sheet date represented the amounts accrued for since 1 October 2002 and the accrued related interest income.

All of the accrued insurance protection amounts are payable at the request of the CIRC. Pursuant to a new regulation (CIRC[2004] No.16) issued by the CIRC, which became effective on 1 January 2005, all insurance companies in the PRC are required to deposit their accumulated insurance protection fund in CIRC's designated bank account. Notwithstanding this, as explained in note 22(i) to the financial statements, the Company is permitted by the CIRC to utilise the accumulated insurance protection fund, to the extent not exceeding the balance accumulated up to 30 June 2005, to offset the Company's the amount due from provincial and municipal governments.

32. OTHER LIABILITIES AND ACCRUALS

	2004 ***RMB million***	2003 *RMB million*
Amount due to PICC Holding Company *(note (i))*	**–**	616
Amount due to a fellow subsidiary *(note (ii))*	**8**	4
Salaries and staff welfare payable	**1,402**	1,549
Securities sold under agreements to repurchase	**611**	300
Accrued capital expenditure	**109**	178
Premiums received in advance	**2,222**	952
Others	**1,801**	1,548
	6,153	5,147

Notes:

(i) The amount due to PICC Holding Company at 31 December 2003 included a special dividend payable of RMB644 million (note 13).

(ii) The amount due to a fellow subsidiary is unsecured, interest-free and has no fixed repayment terms.

33. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Deferred income recognition of trading securities *RMB million*	Deferred acquisition costs *RMB million*	Total *RMB million*
At 1 January 2004	1	424	425
Deferred tax charged to the profit and loss account during the year	34	320	354
Gross deferred tax liabilities at 31 December 2004	35	744	779

Deferred tax assets

	Revaluation/ provision of trading securities *RMB million*	Revaluation/ provision of non-trading securities *RMB million*	Depreciation of fixed assets *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2004	(29)	3	149	(31)	92
Deferred tax credited to the profit and loss account/ reserve during the year	310	248	60	40	658
Gross deferred tax assets at 31 December 2004	281	251	209	9	750
Net deferred tax liabilities at 31 December 2004					29

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The change in respect of the deferred tax asset recognised arising from the revaluation of non-trading securities is taken to the non-trading securities revaluation reserve.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities as they relate to the same tax authority.

33. DEFERRED TAX *(CONTINUED)*

Deferred tax liabilities

	Revaluation of trading securities *RMB million*	Deferred income recognition of trading securities *RMB million*	Deferred acquisition costs *RMB million*	Others *RMB million*	Total *RMB million*
At 7 July 2003	(24)	31	422	(5)	424
Deferred tax (credited)/charged to the profit and loss account during the period	53	(30)	2	36	61
Gross deferred tax liabilities at 31 December 2003	29	1	424	31	485

Deferred tax assets

	Revaluation of non-trading securities *RMB million*	Depreciation of fixed assets *RMB million*	Total *RMB million*
At 7 July 2003	19	–	19
Deferred tax (charged)/credited to the profit and loss account/reserve during the period	(16)	149	133
Gross deferred tax assets at 31 December 2003	3	149	152
Net deferred tax liabilities at 31 December 2003			333

33. DEFERRED TAX *(CONTINUED)*

Pro forma

Deferred tax liabilities

	Revaluation of trading securities *RMB million*	Deferred income recognition of trading securities *RMB million*	Deferred acquisition cost *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2003	(37)	39	355	–	357
Deferred tax (credited)/charged to the profit and loss account during the year	66	(38)	69	31	128
Gross deferred tax liabilities at 31 December 2003	29	1	424	31	485

Deferred tax assets

	Revaluation of non-trading securities *RMB million*	Tax value of losses carried forward *RMB million*	Depreciation of fixed assets *RMB million*	Total *RMB million*
At 1 January 2003	46	491	–	537
Deferred tax (charged)/credited to the profit and loss account/reserve during the year	(43)	(491)	149	(385)
Gross deferred tax assets at 31 December 2003	3	–	149	152
Net deferred tax liabilities at 31 December 2003				333

34. ISSUED CAPITAL

	2004 *million*	2003 *million*
Shares		
Registered, issued and fully paid:		
7,685,820,000 domestic shares of RMB1.00 each	7,686	7,686
3,455,980,000 H Shares of RMB1.00 each	3,456	3,456
	11,142	11,142

The Company does not have a share option scheme.

A summary of the transactions from 7 July 2003 to 31 December 2003 analysing the movements in the Company's share capital is as follows:

	Number of shares in issue		Issued share capital		
	Domestic shares	H Shares	Domestic shares *RMB'000*	H Shares *RMB'000*	Total *RMB'000*
Upon incorporation on 7 July 2003 *(note (a))*	8,000,000,000	–	8,000,000	–	8,000,000
Issue of H Shares upon listing *(note (b))*	–	2,732,000,000	–	2,732,000	2,732,000
Sale of domestic shares by the ultimate holding Company and conversion into H Shares upon listing *(note (b))*	(273,200,000)	273,200,000	(273,200)	273,200	–
Issue of H Shares upon exercise of over-allotment option *(note (c))*	–	409,800,000	–	409,800	409,800
Sale of domestic shares by the ultimate holding Company and conversion into H Shares upon exercise of over-allotment option *(note (c))*	(40,980,000)	40,980,000	(40,980)	40,980	–
At 31 December 2003	7,685,820,000	3,455,980,000	7,685,820	3,455,980	11,141,800

There was no movement in issued capital during the year.

Notes:

(a) As part of the Reorganisation (note 1), the Company issued 8,000 million domestic shares at a par value of RMB1.00 each to PICC Holding Company, and the Company's registered and paid-up capital became RMB8,000 million accordingly.

(b) The Company's shares were listed on the HKSE on 6 November 2003 and 3,005.2 million H Shares with a par value of RMB1.00 each were issued to the public by way of a placement and offer at a price HK$1.80 (equivalent to approximately RMB1.92) per share. The domestic shares and the H Shares rank pari passu with each other in all respects and, in particular, rank equally for all dividends or distributions declared, paid or made except for the distribution of the special dividends set out in note 13.

(c) The Company's shares were oversubscribed in its initial public offering and hence a further 450.8 million H Shares with a par value of RMB1.00 each were issued to the public pursuant to an over-allotment option.

35. SUBORDINATED LOAN

On 10 October 2003, the Company signed a loan agreement with China Development Bank which advanced a subordinated loan of RMB2,000 million to the Company. The loan is unsecured, bears interest at 90% of the People's Bank of China five-year borrowing interest rate per annum and is repayable in November 2023.

36. NOTES TO THE CASH FLOW STATEMENT

(a) Major non-cash transactions

	7 July to 31 December 2003 *RMB million*
Net assets acquired upon the Reorganisation (note 1 to the financial statements)	
Investment in securities	2,331
Trading securities	11,896
Deposits with banks and other financial institution with original maturity more than three months	10,344
Cash and cash equivalents	17,797
Premium receivable and agents' balance, net	2,874
Unearned premium reserves – reinsurers' share	7,162
Receivable from reinsurers	463
Reinsurance recoverable on unpaid losses	7,011
Prepayments and other receivable	2,388
Fixed assets	15,728
Construction in progress	791
Deferred acquisition costs	1,283
Other non-current assets	248
Unearned premium reserves	(33,112)
Loss and loss adjustment expenses reserves	(17,467)
Provision for premium deficiency	(1)
Policyholders' deposits	(8,021)
Payable to reinsurers	(2,309)
Accrued insurance protection fund	(340)
Tax payable	(44)
Other liabilities and accruals	(6,922)
Deferred tax liabilities	(405)
	11,695
Satisfied by:	
Shares issued	8,000
Share premium account	2,271
Other reserves	1,424
	11,695

36. NOTES TO THE CASH FLOW STATEMENT *(CONTINUED)*

(b) An analysis of the net inflow of cash and cash equivalents in respect of the net assets acquired upon the Reorganisation is as follows:

	7 July to 31 December 2003 *RMB million*
Cash and cash equivalent acquired	17,797
Net cash inflow of cash and cash equivalents in respect of the net assets acquired upon the Reorganisation	17,797

37. CONTINGENT LIABILITIES

(a) Pursuant to the Reorganisation, except for liabilities constituting or arising out of or relating to business undertaken by the Company after the Reorganisation, no other liabilities were assumed by the Company and the Company is not liable, whether severally or jointly and severally, for debts and obligations incurred prior to the Reorganisation. PICC Holding Company has also undertaken to indemnify the Company in respect of any loss or damage incurred in connection with or arising from the transfer of the assets and liabilities to the Company in the Reorganisation, any loss or damage suffered or incurred by the Company in relation to the novation of insurance contracts and reinsurance contracts from PICC Holding Company to the Company, and as a result of any breach by PICC Holding Company of any provision of the Reorganisation.

(b) Owing to the nature of insurance business, the Company is involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Company's insurance policies. While the outcome of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Company.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Company leases its land and buildings under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2004, the Company had total future minimum lease receivable under non-cancellable operating leases with its tenants falling due as follows:

	2004 *RMB million*	2003 *RMB million*
Within one year	25	21
In the second to fifth years, inclusive	38	49
	63	70

(b) As lessee

The Company leases certain of its land and buildings and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to twenty years, and those for motor vehicles for terms ranging between one to three years.

At 31 December 2004, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 *RMB million*	2003 *RMB million*
Within one year	310	296
In the second to fifth years, inclusive	466	681
After five years	40	54
	816	1,031

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Company had the following capital commitments at the balance sheet date:

	2004 *RMB million*	2003 *RMB million*
Contracted, but not provided for		
Land and buildings	1,471	81
Plant and machinery	2	–
	1,473	81
Authorised, but not contracted for		
Land and buildings	72	236
Plant and machinery	13	–
	85	236

40. RELATED PARTY TRANSACTIONS

The Company conducts businesses with enterprises directly or indirectly owned or controlled by the PRC government ("State-owned enterprises"). Furthermore, the PRC government itself represents a significant customer of the Company both directly through its numerous authorities and indirectly through its numerous affiliates and other organisations. The Company considers that the sale of insurance products to the PRC government authorities and affiliates and other State-owned enterprises are in the ordinary and normal course of business in the PRC and has not disclosed such transactions as related party transactions.

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company and PICC Holding Company, PICC Asset Management Company Limited and American International Group ("AIG"), a strategic shareholder of the Company, entered into a number of agreements during the period in connection with the Reorganisation. These agreements impact the results of the operations of the Company beginning from the respective dates. The terms of the principal agreements are summarised as follows:

	Notes	2004 *RMB million*	7 July to 31 December 2003 *RMB million*
Property rental expenses to PICC Holding Company	(a)	211	106
Property rental income from PICC Holding Company	(a)	11	5
Motor vehicle rental expenses to PICC Holding Company	(b)	22	11
Motor vehicle rental income from PICC Holding Company	(b)	4	2
Management fee to PICC Asset Management Company Limited	(c)	34	4
Services fees income from PICC Holding Company	(d)	4	2
Management fees income from PICC Holding Company	(e)	3	–
Special dividends to PICC Holding Company *(note 13)*		–	650
Reinsurance premiums ceded to AIG	(f)	266	–
Claims recoverable from AIG	(f)	21	–
Reinsurance commission received/receivable from AIG	(f)	53	–

Notes:

(a) The Company entered into a Property Leasing Agreement with PICC Holding Company on 9 October 2003 under which the Company rented certain properties from PICC Holding Company and PICC Holding Company rented certain properties from the Company. The rental charges in respect of these properties are based on market rates. The term of the Property Leasing Agreement is four years and it became effective on 7 July 2003.

(b) The Company entered into a Motor Vehicle Rental Agreement with PICC Holding Company on 9 October 2003 under which the Company rented certain motor vehicles from PICC Holding Company and PICC Holding Company rented certain motor vehicles from the Company. The rental charges for the motor vehicles are based on market rates. The term of the Motor Vehicle Rental Agreement is four years and it became effective on 7 July 2003.

(c) On 10 October 2003, the Company and PICC Asset Management Company Limited, a wholly-owned subsidiary of PICC Holding, entered into an asset management agreement which became effective on the same date. Pursuant to the asset management agreement, PICC Asset Management Company Limited provides investment management services in respect of certain cash assets of the Company. The Company pays an annual management fee to PICC Asset Management Company Limited, which is calculated based on the average daily net asset value of the assets under the management of PICC Asset Management Company Limited in a particular year and the applicable annual rate. The term of the asset management agreement is four years.

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

Notes: (continued)

(d) The Company entered into an Information System Services Agreement with PICC Holding Company on 9 October 2003, pursuant to which the Company agreed to provide PICC Holding Company with certain information services, including (i) facilities leasing services and network services; (ii) software and application services; (iii) other computer-related facilities maintenance services; and (iv) other information system services agreed by both parties. The services fee payable to the Company by PICC Holding Company are to be no less than market rates, and are determined with reference to the costs associated with the labour and the equipment required to provide the services and support pursuant to the Information System Services Agreement between the Company and PICC Holding Company. The term of the Information System Services Agreement is four years.

(e) The Company entered into an agreement with PICC Holding Company on 9 August 2004, under which the Company took the responsibility of managing the payments of retirement benefits to the retired employees of PICC Holding Company's provincial and municipal offices. Management fee is calculated based on RMB300 per retired employee of PICC Holding Company. The term of the agreement is three years and it became effective on 1 January 2004.

(f) The Company entered into a Technical Assistance and Co-operation Agreement with AIG on 29 September 2003, pursuant to which the Company and one of AIG's wholly-owned subsidiaries will co-operate in the development of accident and health insurance products and the Company will cede quota share reinsurance at fixed cession percentages. This obligation was reflected in a separate reinsurance agreement, which was entered in the Company's ordinary and usual course of business. The intention of the parties is for the co-operation to continue indefinitely. Either party may request to review the key terms of the co-operation six months prior to the 15th anniversary of the date of the Technical Assistance and Co-operation Agreement and every 15 years thereafter, and unless the parties disagree to these terms, the agreement automatically renews for a further 15 years. Moreover, the Company entered into a quota share reinsurance arrangement with AIG in respect of its aviation and accidental injury business on a normal and commercial basis.

Other than the above agreements, the Company also entered into a Trademark Licence Agreement with PICC Holding Company on 9 October 2003, under which the Company has been granted the right to use the trademark bearing the "PICC" logo. The use of the trademark is on a royalty-free basis. The term of the Trademark Licence Agreement is 10 years and the agreement automatically renews for a further 10 years after the expiry of each 10 year term.

Balances with PICC Holding Company and AIG outstanding at the balance sheet date are summarised in notes 22 and 30 to the financial statements, respectively.

The transactions mentioned in (a) to (e) above also constitute connected transactions under the HKSE Listing Rules. For items (a) to (d) above, a waiver has been granted by the HKSE to the Company from strict compliance with requirements of connected transaction rules of the HKSE Listing Rules in respect of the connected transactions set out above.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2005.

NOTICE IS HEREBY GIVEN that an annual general meeting of PICC Property and Casualty Company Limited (the "Company") will be held at Beijing Hotel, 33 East Chang An Avenue, Beijing, the PRC on 15 June 2005 (Wednesday) at 9:30 a.m. for the purposes of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. to consider and approve the Report of the Directors for 2004;

2. to consider and approve the Report of the Supervisory Committee for 2004;

3. to consider and approve the Report of the Auditors and audited financial statements for 2004;

4. to consider and approve the profit distribution plan and dividend recommendation for 2004;

5. to consider and approve the re-appointment of Ernst & Young as the international auditors and Ernst & Young Hua Ming as the domestic auditors of the Company to hold office until the conclusion of the next annual general meeting, and authorize the board of directors to fix their remuneration;

6. to consider and approve directors' fee and supervisors' fee for 2005 (information is set out in the appendix);

SPECIAL RESOLUTION

7. to grant a general mandate to the Board of Directors to separately or concurrently issue, allot or deal with additional domestic shares and H shares in the Company not exceeding 20% of each of the aggregate nominal amount of the domestic shares and H shares of the Company in issue within 12 months from the date on which shareholders' approval is obtained and to authorize the Board of Directors to make corresponding amendments to the Articles of Association as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares.

By Order of the Board
Fu Zhu
Secretary of the Board

Beijing, the PRC, 29 April 2005

Notes:

1. According to the Articles of Association of the Company, the resolutions will be determined by a show of hands unless a poll is required under the Listing Rules or demanded before or after any vote by show of hands. A poll may be demanded by the chairman of the meeting or at least two shareholders entitled to vote, present in person or by proxy, or by one or more shareholders present in person or by proxy representing more than 10% of all shares carrying the voting rights at the meeting. Irrespective of whether the voting is carried out by show of hands or by poll, the votes counted will be based on the number of shares represented by such votes.

2. The register of members will be closed from 17 May 2005 (Tuesday) to 15 June 2005 (Wednesday), both days inclusive, during which period no transfer of shares will be effected. Holders of the Company's H shares and domestic shares whose names appear on the register of members on 13 May 2005 (Friday) at 4:00 p.m. are entitled to attend this meeting.

3. A shareholder entitled to attend and vote at this meeting may appoint one or more proxies to attend and vote in his stead. A proxy need not be a shareholder of the Company.

4. The instrument appointing a proxy must be in writing under the hand of a shareholder or his attorney duly authorized in writing. If the shareholder is a corporation, that instrument must be either under its common seal or under the hand of its director(s) or duly authorized attorney(s). If that instrument is signed by an attorney of the shareholder, the power of attorney authorizing that attorney to sign or other authorization document must be notarized.

5. In order to be valid, the proxy form together with the power of attorney or other authorization document (if any) must be deposited at the Secretariat of the Board of Directors of the Company for holders of domestic shares and at the Company's place of business in Hong Kong for holders of H shares not less than 24 hours before the time fixed for holding this meeting or any adjournment thereof (as the case may be). Completion and return of a proxy form will not preclude a shareholder from attending and voting in person at this meeting if he so wishes. The Company's place of business in Hong Kong is 15th Floor, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong, tel: (852) 2517 2332, fax: (852) 2540 6260/2540 6377.

6. Shareholders who intend to attend this meeting in person or by proxy should return the reply slip to the Company's place of business in Hong Kong on or before 25 May 2005 (Wednesday) by hand, by post or by fax.

7. This meeting is expected to last for half a day. Shareholders (in person or by proxy) attending this meeting are responsible for their own transportation and accommodation expenses. Shareholders or their proxies attending this meeting shall produce their identity documents.

8. Regarding the proposed resolution 7, the purpose of seeking approval of the mandate is to give the board of directors flexibility and discretion to issue new shares in the event that it becomes desirable for the Company, and the directors have no present plan to issue new shares pursuant to the mandate.

Appendix

The directors' fee (excluding independent non-executive director) and supervisors' fee for 2005 are proposed to be RMB100,000 each (after tax), and the independent non-executive directors' fee for 2005 is proposed to be HK$200,000 each (after tax).

Corporate Information

REGISTERED NAME

Chinese name:	中國人民財產保險股份有限公司
Abbreviated form of Chinese name:	人保財險
English name:	PICC Property and Casualty Company Limited
Abbreviated form of English name:	PICC P&C

PLACE OF LISTING OF H SHARE

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H share

STOCK NAME

PICC P&C

STOCK CODE

2328

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

PLACE OF BUSINESS

No. 69 Dong He Yan Street, Xuanwu District,
Beijing 100052, PRC

LEGAL REPRESENTATIVE

Tang Yunxiang

SECRETARY OF THE BOARD OF DIRECTORS

Fu Zhu

COMPANY SECRETARY

Man Kam Ching

INFORMATION INQUIRY DEPARTMENT

Secretariat of the Board of Directors
Tel: (8610) 83157607
Fax: (8610)83157607
E-mail: IR@picc.com.cn
Website: www.picc.com.cn

AUDITORS

Ernst & Young

CONSULTING ACTUARIES

Milliman Asia Limited

LEGAL ADVISORS

as to Hong Kong law:
Linklaters

as to PRC law:
King and Wood