PICC 中国人保财险 (Stock Code: 2328)

Beijing 2008

北京2008年奥运会保险合作伙伴

OFFICIAL INSURANCE PARTNER OF THE BEIJING 2008 OLYMPIC GAMES

Annual Report 2005

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

Annual Report 2005

Company Profile

PICC Property and Casualty Company Limited (the "Company") was established in July 2003 with The People's Insurance Company of China, later renamed as PICC Holding Company ("PICC Holding") as its sole promoter. The Company became the first domestic financial enterprise to list overseas when the Company successfully listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 6 November 2003 through the issuance of 3,455,980,000 H Shares. The Company currently has a total share capital of 11,141,800,000 shares, of which 69% are held by PICC Holding and 9.9% are held by American International Group, Inc. ("AIG"), a strategic investor of the Company. As of the end of 2005, the Company had 61,448 employees.

Strategy and Target for Development

To develop the Company, in ten to fifteen years, into a modern, knowledge-based public non-life insurance company which is the market leader in the People's Republic of China ("PRC") and ranks among the top non-life insurance companies around the world.

Scope of Business

Motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, hull insurance, surety insurance, which are denominated in RMB and foreign currencies, together with the reinsurance of the above insurance products, and investment and fund application permitted under the relevant laws and regulations of the PRC.

Corporate Culture

- Mission: people's insurance benefits people's livelihood.
- Corporate Spirit: practicality, integrity, devotion and innovation.
- Core Values: build on the principle of integrity, operate from a solid and healthy foundation, achieve eminence, requite the society.
- Approach to Operation: market-oriented and customer-centered.

Competitive Advantages

- Brand Recognition. With 57 years of operating history, the "PICC" brand enjoys a prominent reputation in the PRC market and has influences in the international insurance market.
- Leading Market Position. The Company has a leading position in the non-life insurance market in mainland China, with a market share of 51.5% in 2005.
- Personnel Advantages. The Company has nurtured and trained a large number of insurance specialists and has an outstanding workforce with extensive expertise, proficient technical skills and distinctive commitment.
- Extensive Network. With more than 4,500 branches nationwide, the Company has the most extensive distribution network among all property and casualty insurance companies in the PRC. The service line 95518 and e-picc.com electronic commerce platform of the Company provide various insurance services 7 days 24 hours to customers.
- Solid Customer Base. The Company has strong capabilities in product development and customer service to meet customer needs, and has the largest and the most stable customer base in the non-life insurance market in mainland China.
- Technical Advantages. The Company has comprehensive and mature technical expertise in and information platform for core capabilities such as underwriting, claims management and product development.
- Data Advantages. The extensive operational data accumulated by the Company over the years provides a solid foundation for analysis and decision-making, and furthers the Company to have a thorough understanding of the non-life insurance market in mainland China.

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				
	2001	2002	2003	2004	**2005**
	RMB million	*RMB million*	*RMB million*	*RMB million* (Restated)	***RMB million***
Turnover	47,949	50,571	54,968	62,003	**62,332**
Underwriting Profit	2,209	1,045	1,496	436	**1,766**
Net investment income	574	648	690	1,326	**1,478**
Net realised and unrealised losses on investments	(10)	(645)	260	(988)	**(336)**
Profit before tax	2,773	994	2,288	395	**2,203**
Net profit attributable to shareholders	1,391	278	1,451	134	**1,113**

Only certain material items of the income statement are extracted and presented in the table above.

ASSETS AND LIABILITIES

	31 December				
	2001	2002	2003	2004	**2005**
	RMB million	*RMB million*	*RMB million*	*RMB million* (Restated)	***RMB million***
Total assets	63,612	71,626	84,572	90,757	**93,380**
Total liabilities	55,383	61,333	67,815	74,604	**76,544**
Thereinto: subordinated loan	–	–	2,000	2,000	**2,000**
Net assets	8,229	10,293	16,757	16,153	**16,836**

The figures for 2001 and 2002 were extracted from the Company's prospectus dated 27 October 2003. The results of the Company for 2003 were based on its pro forma income statement for the year then ended. The figures for 2001, 2002 and 2003 are not retrospectively adjusted for the changes in accounting policies made in 2005.

Mr Tang Yunxiang *Chairman*

Dear Shareholders,

The year 2005 witnessed the significant achievement of the Company of its further promoted reform and continuously strengthened foundation of development.

In 2005, the Company's turnover was RMB62,332 million, representing an increase of 0.5% over 2004. Net premiums earned was RMB49,802 million, representing a decrease of 1.6% from 2004. Underwriting profit was RMB1,766 million, representing an increase of 305.0% over 2004. Combined ratio was 96.5%, representing a decrease of 2.6 percentage points from 2004. Investment return was RMB1,142 million, representing an increase of 237.9% over 2004. Net profit was RMB1,113 million, representing an increase of RMB979 million over 2004. Return on net assets was 6.6%, representing an increase of 5.8 percentage points over 2004. In 2005, the Company held a market share of 51.5% and continued its leading position in the non-life insurance market in mainland China.

In 2005, the Company substantially improved its operating results despite of intensified market competition by persistently adhering to its priority of profitability, further promoting its reform, enhancing its basic management, optimising business structure and promoting a balanced development.

Adjustment of business structure: The Company improved the evaluation of its major non-motor-vehicle insurance businesses and formed professional sales forces to encourage and promote the non-motor-vehicle insurance businesses. With respect to its motor vehicle insurance business, the Company implemented a dynamic monitoring system, reinforced the insurance category-specific supervision and guidance, flexibly adjusted competition strategies and vigorously sought to improve the profitability of motor vehicle insurance business.

Innovation of systems and mechanisms: The Company tried out the "business unit" system for motor vehicle insurance business in selected provincial branches, promoted financial reporting based on product line for all businesses and uplifted the refined management capacity based on product line. It strived to improve the reinsurance mechanism and excess of loss coverage mechanism, effectively diversified the catastrophic risks and improved its underwriting capacity. The Company also vigorously conducted pilot programs regarding the exclusive agent system.

Enhancement of basic management: The Company strengthened data management, gradually centralized business operation at the provincial level, and implemented seamless inter-connection of its business processing system, premiums collection/loss payment system and financial system. The Company also enhanced the management of loss reserves and promoted quarterly actuarial assessment of reserves breakdown by provinces with a view to improving the quality of acturial work and the accuracy in reserves provisioning. The Company acted upon the principle of standardized, unified and centralized management to optimise the "three centres" business flow, and enhanced the standardization and the operating efficiency.

Improvement of service quality: The Company launched the campaign of "Year of Quality Claims Management" and the "Gold Medal Service Project" in earnest, implemented the "Care-free Claim - Expedite Service for Motor Vehicle Insurance" program, optimised claim processing, quantified assessment criteria, strengthened management of key steps in claim processing, improved claim verification quality and loss determination and shortened the claim processing period, so as to continuously improve efficiency and service standards of claims settlement.

Promotion of brand image: In 2005, the Company became the official Insurance Partner of 2008 Beijing Olympic Games. We seized this opportunity and launched several promotion and marketing activities to enhance our brand image.

In 2005, we continued to improve corporate governance, and reinforced the structure of the board of directors of the Company (the "Board of Directors" or the "Board") by increasing the seats of independent non-executive directors. We also established the Investment Decision-making Committee under the Board, formulated and consolidated the terms of reference of various committees and strengthened their functions.

The global economy will continue to grow moderately in 2006. Soaring oil price, imbalanced development and public debts of high-income countries and so on are the major uncertainties that would affect the economic growth. Due to increasing catastrophic risks such as floods and storms and terrorist attacks risks, premium rates in the global non-life insurance market will continue to stay at a relatively high level. The Asian region will continue to be the insurance market with most potential and liability insurance will become a new growth area.

During the Tenth Five-Year Plan period, the insurance industry in mainland China continued to develop rapidly. In 2005, premiums income of the insurance industry reached RMB492.73 billion, representing an increase of 14.1% from the previous year. Premiums income of the property and casualty insurance sector reached RMB128.11 billion, representing an increase of 13.92% from the previous year. The number of non-life insurance companies in mainland China increased to 35. The intensified market competition has spread from eastern to central and western regions. At present, the Company is facing both opportunities and challenges. The Chinese economy will maintain a fast and steady growth. With the implementation of the Eleventh Five-Year Plan, the adoption of scientific outlook on development, the establishment of a harmonious society and the construction of a new socialist countryside, China will give high priority in achieving harmonious and fair economic development, which will result in increasing demand for insurance products. With the implementation of mandatory motor vehicle third party liability insurance from 1 July 2006, more opportunities are expected in our motor vehicle insurance business. Moreover, the continued and intensified progress in the share segregation reform in the capital market will help create more favourable investment environment for insurance funds. On the other hand, when the market is entirely open, domestic insurance companies will have to encounter increasingly fierce market competition. However, uncertainties exist in the future performance of the mandatory motor vehicle third party liability insurance business.

In 2006, we will continue to attach primary importance to profitability, prevent and overcome operational risks while striving to achieve sustainable development and higher profitability, so as to create more value for shareholders.

Strengthening innovation in management mechanism: The Company will conduct restructuring by integrating the business operation and management functions on a product-line basis, clearly define the responsibilities and accountability for business development and profitability of each product line, and implement pilot schemes for the product business unit management system to ensure good results of the underwriting business.

Improvement of basic management: The Company will promote the consolidated data system and improve the accuracy of the basic actuarial data; enhance the reinsurance capability and refine the reinsurance management system and risks balancing mechanism. Moreover, the Company will put a vertical claims management system in place to further improve the quality of claims processing.

Intensifying efforts in marketing and services: The Company will establish a rapid market response system, mobilize its sales forces, explore more distribution channels and consolidate the customer base. The Company will also launch marketing campaigns under the theme of "Olympic Insurance" to promote the brand recognition and to enhance reputation. Moreover, the Company will continue to build on the "Year of Quality Claims Management" campaign and further refine the unified claims management policy, service standards and quality control system.

Enhancement of sustainable development capability: The Company will take advantage of its strong competitive edge in the branch network and make more efforts to develop products tailored to regional conditions. The Company will also optimise resources allocation and allow reasonable and appropriate delegation of power to motivate the field staff. Moreover, the Company will exploit extensively the traditional products market, such as commercial property insurance, cargo insurance and aviation and aerospace insurance. The Company will also actively develop the liability insurance business, insurance targeting at counties and rural areas and short-term health insurance and accidental injury insurance and implement competition strategies in different regions.

Strengthening fund allocation management: The Company will formulate plans to appropriately allocate assets, explore more investment channels, improve the evaluation mechanism on investment performance, as well as risk control mechanism so as to generate higher investment return.

Tang Yunxiang
Chairman

Beijing, PRC
21 April 2006

DIRECTORS

Tang Yunxiang, age 59, 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 assistant president of the People's Bank of China and the vice chairman of the China Insurance Regulatory Commission. Mr Tang graduated from Shaoyang Normal College of Hunan Province and has 42 years of experience in business operation and management and an in-depth knowledge of the PRC financial and insurance industries.

Wang Yi, age 50, 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 School with a bachelor's degree in economics and management in 2000 and a master's degree in political science in 2004. He has 27 years of operation and management experience in the PRC insurance industry.

Wang Yincheng, age 45, 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 in economics. He has 24 years of experience in economic and financial management in the PRC insurance industry.

Liu Zhenghuan, age 55, a senior economist, Executive Director, Executive Vice President and Secretary of the Board of Directors 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 in economics. She has 22 years of operation and management experience in the PRC insurance industry.

Ding Yunzhou, age 53, a senior economist, Non-executive Director of the Company, and a deputy general manager of PICC Holding. 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. Mr Ding graduated from Dalian University of Foreign Languages and has 30 years of operation and management experience in the domestic and global insurance industries.

Zhou Shurui, age 53, a senior administrative engineer, Non-executive Director of the Company, and a deputy general manager of PICC Holding. Mr Zhou previously worked in the Hebei Provincial People's Government. Mr Zhou joined PICC in 1992 and was previously the manager, assistant general manager, deputy general manager and general manager of PICC's human resources department. Mr Zhou graduated from 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 24 years of experience in management.

Tse Sze-Wing, Edmund, GBS, age 68, Non-executive Director of the Company. Mr Tse is the senior vice chairman of Life Insurance of AIG as well as the 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 in Mathematics from The University of Hong Kong, which later conferred on him an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences. Mr Tse also holds diplomas from the College of Insurance and the Graduate School of Business of Stanford University. He has 45 years of extensive management experience in the insurance market, both in Asia and globally.

Cheng Wai Chee, Christopher, GBS, OBE, JP, age 58, 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 also an independent non-executive director of several listed and unlisted companies in Hong Kong, including NWS Holdings Limited, New World China Land Limited and DBS Bank (Hong Kong) Limited. Mr Cheng plays an active role in public service. He currently serves as a non-executive director of the Board of the Hong Kong Securities and Futures Commission 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 and the Hong Kong Trade Development Council. He is also the chairman of the Competition Policy Review Committee and a former chairman of the Hong Kong General Chamber of Commerce. Mr Cheng also has a keen interest in management of the public service. He is the chairman of the Standing Committee on Judicial Salaries and Conditions of Service of the HKSAR Government. As a long-serving former member of the Public Service Commission, he provided advice to the HKSAR Government on the formulation of human resources management policies and practices for the civil service. Mr Cheng is also a Steward of the Hong Kong Jockey Club and a Council member of The University of Hong Kong. Mr Cheng holds a bachelor's degree in business administration from the University of Notre Dame, Indiana, USA, and a master's degree in business administration from Columbia University, New York. He was appointed as a Justice of the Peace in 1985, and was awarded an O.B.E. in 1992 and the Gold Bauhinia Star in 2004.

Lu Zhengfei, age 43, a professor and a 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 China Accounting Standards Committee, 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 in economics, and completed the post-doctoral research on economics (accounting) at Renmin University of China.

Luk Kin Yu, Peter, age 65, Independent Non-executive Director of the Company. Mr Luk is a fellow member of the Institute of Actuaries in England, Institute of Actuaries of Australia, Society of Actuaries in the United States of America and Royal Statistical Society in England respectively. Mr Luk was the chief actuary of American International Assurance Co., Ltd., chief financial officer of the Pacific-Asia Division of Manufacturers Life Insurance Co. Ltd., appointed actuary of Australian Casualty and Life Insurance Co. Ltd., a principal of Mercer, Campbell, Cook & Knight, an executive director and the chief financial officer of Pacific Century Insurance Holdings Limited. Mr Luk is the founding president of the Actuarial Society of Hong Kong and was president of that society for several sessions, chairman of the Advisory Committee of Insurance, Financial and Actuarial Analysis of The Chinese University of Hong Kong and advisor to the Actuarial Committee of Shanghai Insurance Institute. He is the chief executive officer of Plan-B Consulting Limited. Mr Luk has substantial experience in the insurance industry.

Ding Ningning, age 58, Independent Non-executive Director of the Company. Mr Ding is a director of the Department of Social Development Research of the Development Research Center ("DRC") of the State Council of the PRC and a member of the Academic Committee of the DRC, a member of China Energy Research Society and China Labor Association. Mr Ding has been conducting research at the DRC for 23 years since 1982 and was a director of the Department of Enterprise Economic Research of the DRC from 1993 to 1998. He was a member of the Listed Company Supervisory Committee of China Securities Regulatory Commission from 1993 to 2000. Mr Ding graduated from Tsinghua University with a bachelor's degree in electric engineering, and from the Chinese Communist Party School with a doctorate degree in economics. Mr Ding studied and conducted research on British economic history at The Center of Chinese Study of Oxford University in England and has substantial experience in the area of economic research.

SUPERVISORS

Deng Zhaoyu, age 59, Chairman of the Supervisory Committee of the Company, and a deputy general manager of PICC Holding. Mr Deng joined PICC in 2002 as a 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 the 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 38 years of extensive experience in management.

Tang Wei, age 58, a senior economist, Supervisor of the Company, and manager of the asset management department of PICC Holding. Mr Tang joined PICC in 1989 and was previously the general manager of PICC's audit 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 26 years of management experience.

Liu Qilong, age 58, a senior economist, Supervisor, senior professional and general manager of the supervisory department of the Company. Mr Liu was elected by employees of the Company as their representative in the Supervisory Committee. 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 department. Mr Liu graduated from Submarine Naval College of the Chinese People's Liberation Army with a college diploma. He has 22 years of management experience in the PRC insurance industry.

OTHER SENIOR OFFICERS

Guo Shengchen, age 51, 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 32 years of operation and management experience in the PRC financial and insurance industries.

Zhao Shuxian, age 54, 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 28 years of operation and management experience in the PRC insurance industry.

Jia Haimao, age 52, 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 22 years of operation and management experience in the PRC insurance industry.

Li Yuquan, age 41, 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 17 years of experience in research in PRC insurance law and in the operation and management in the PRC insurance industry.

Wang He, age 49, Ph.D, a senior economist, Executive Vice President of the Company. He joined PICC in 1988 and was the manager of the operations department of PICC's Fujian branch, deputy general manager of PICC's Xiamen branch and executive deputy director of PICC's products development center. He has 18 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 2005, the Company held 51.5% share of the non-life insurance market in the PRC.

The Company achieved favourable operating results in 2005. The improvement in the results was primarily due to a decrease in loss ratio of the motor vehicle insurance segment. The underwriting profit of the Company increased to RMB1,766 million in 2005 by 305.0% from 2004. Meanwhile, the Company achieved an increase in net investment income to RMB1,478 million by 11.5%, and a decrease of 66.0% in net realised and unrealised losses on investments in 2005.

The following table sets forth the net premiums earned, underwriting profit, net investment income, net realised and unrealised losses on investments, net profit and total assets of the Company for the relevant periods.

	Year ended 31 December	
	2005	2004
	RMB million	*RMB million*
Net premiums earned	49,802	50,628
Underwriting profit	1,766	436
Net investment income	1,478	1,326
Net realised and unrealised losses on investments	(336)	(988)
Net profit	1,113	134
Total assets	93,380	90,757

RESULTS OF OPERATIONS

In 2005, due to the intense market competition, the Company's turnover increased slightly, whereas underwriting profit and investment income improved remarkably. The following table sets forth selected financial ratios shown as percentages of net premiums earned for the relevant periods.

	Year ended 31 December	
	2005	2004
	(%)	*(%)*
Net premiums earned	100.0	100.0
Net claims incurred	(73.0)	(77.1)
Amortisation of deferred acquisition costs, net	(9.6)	(7.0)
Insurance protection expense	(1.1)	(1.1)
General and administrative expenses	(12.8)	(13.9)
Underwriting profit	3.5	0.9
Net investment income	3.0	2.6
Net realised and unrealised losses on investments	(0.7)	(2.0)
Finance costs	(0.4)	(0.3)
Interest expenses credited to policyholders' deposits	(0.3)	(0.3)
Exchange losses, net	(0.6)	(0.03)
Sundry income	0.1	0.1
Sundry expenses	(0.2)	(0.2)
Profit before tax	4.4	0.8
Tax	(2.2)	(0.5)
Net profit	2.2	0.3
Loss ratio	73.0	77.1
Expense ratio	23.5	22.0
Combined ratio	96.5	99.1

RESULTS OF OPERATIONS *(CONTINUED)*

The following table sets forth the net premiums earned, net claims incurred and amortisation of deferred acquisition costs, net, by segment, analysed as a percentage of the respective aggregate amount, for the relevant periods.

	Year ended 31 December	
	2005	2004
	(%)	*(%)*
Net premiums earned		
Motor vehicle insurance	73.2	70.7
Commercial property insurance	11.3	12.6
Homeowners insurance	1.4	0.9
Other insurance	14.1	15.8
Total	100.0	100.0
Net claims incurred		
Motor vehicle insurance	75.9	79.3
Commercial property insurance	12.4	10.3
Homeowners insurance	0.6	0.6
Other insurance	11.1	9.8
Total	100.0	100.0
Amortisation of deferred acquisition costs, net		
Motor vehicle insurance	83.5	75.6
Commercial property insurance	9.4	7.4
Homeowners insurance	2.6	0.8
Other insurance	4.5	16.2
Total	100.0	100.0

TURNOVER

Turnover of the Company was RMB62,332 million in 2005, representing an increase of RMB329 million, or 0.5%, over RMB62,003 million in 2004. The increase was primarily due to the increases in the turnover of the Company's liability insurance, accidental injury insurance and commercial property insurance segments. However, the effect of such increases was partially offset by a RMB852 million decrease in turnover of the motor vehicle insurance segment and a RMB206 million decrease in turnover of the homeowners insurance segment.

NET PREMIUMS EARNED

Net premiums earned of the Company was RMB49,802 million in 2005, representing a decrease of 1.6% from RMB50,628 million in 2004. This decrease in net premiums earned was primarily due to a substantial increase in reinsurance premiums ceded. Reinsurance premiums ceded increased by RMB3,191 million from RMB9,283 million in 2004 to RMB12,474 million in 2005, primarily due to the increase in the ceding proportion of commercial reinsurance for effective risk control.

NET INVESTMENT INCOME

Net investment income of the Company was RMB1,478 million in 2005, representing an increase of 11.5% over RMB1,326 million in 2004. This increase was primarily due to increases in interest income from cash and cash equivalents and term deposits and debt securities of RMB172 million and RMB105 million, respectively. The effect of such increases was, however, partially offset by a decrease in dividend income of RMB208 million from equity securities. The increase in interest income from debt securities was primarily due to a substantial increase in investments in debt securities in 2005 compared to 2004 and an increase in average yield on investment in debt securities. The decrease in dividend income from equity securities was primarily due to a decrease in dividends from the mutual funds.

NET REALISED AND UNREALISED LOSSES ON INVESTMENTS

As of 31 December 2005, the Company's net realised and unrealised losses on investments was RMB336 million, representing a decrease of RMB652 million from RMB988 million in 2004. This decrease was primarily due to the gradual recovery of the domestic equity markets, which led to a RMB766 million increase in net unrealised gains on investment in equity securities and a RMB199 million increase in net realised gains on investment in debt securities. However, the Company's provision for impairment loss on available-for-sale securities as of 31 December 2005 was RMB245 million, representing an increase of RMB78 million over RMB167 million in 2004.

NET CLAIMS INCURRED

The Company's net claims incurred was RMB36,335 million in 2005, representing a decrease of 6.9% from RMB39,015 million in 2004. Loss ratio of the Company decreased to 73.0% in 2005 from 77.1% in 2004. The decrease in net claims incurred was primarily due to a decrease in net claims incurred of the motor vehicle insurance segment of 10.8% from RMB30,927 million in 2004 to RMB27,593 million in 2005, and partly due to a decrease in net claims incurred in the accidental injury insurance segment by RMB241 million to RMB695 million in 2005. However, the decreases in net claims incurred in the motor vehicle insurance and the accidental injury insurance segments were partially offset by the increases in net claims incurred in the commercial property insurance and liability insurance segments in 2005. Net loss and loss adjustment expense reserve as of 31 December 2005 increased by RMB981 million as compared to 31 December 2004. Such increase was partly due to an increase of RMB1,063 million in the loss and loss adjustment expense reserve for claims that occurred prior to 31 December 2004, after comparing the latest actuarial results as of 31 December 2005 to the actuarial results as of 31 December 2004.

AMORTISATION OF DEFERRED ACQUISITION COSTS, NET

Net amortisation of deferred acquisition costs of the Company was RMB4,792 million in 2005, representing an increase of 34.6% over RMB3,560 million in 2004. This increase was primarily due to a RMB614 million increase in commission expenses paid to insurance intermediaries and a RMB174 million increase in salaries paid to underwriting personnel in 2005 compared to 2004. However, such increases in commission expenses paid to insurance intermediaries and in salaries paid to underwriting personnel were partially offset by a RMB136 million increase in reinsurance commission receivable. The increase in commission expenses was primarily due to an increase in the Company's commission rate by 0.9 percentage point to 9.0% as a result of the intensified market competition. The increase in salaries paid to underwriting personnel was primarily due to an increase in the overall compensation level after the adoption of a new compensation and incentive system by the Company in response to the increasingly intensified market competition. The increase in reinsurance commission receivable was primarily due to an increase in reinsurance premiums ceded.

INSURANCE PROTECTION EXPENSE

According to the relevant PRC insurance laws 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 RMB537 million in 2005, representing a decrease of 4.6% from RMB563 million in 2004. The decrease was due to a decrease in retained premiums.

INTEREST EXPENSE CREDITED TO POLICYHOLDERS' DEPOSITS

Interest expense of the Company credited to policyholders' deposits was RMB143 million in 2005, close to RMB144 million in 2004. This was primarily due to a basically same level of the average balance of policyholders' deposits from the Company's Golden Bull homeowners insurance products in 2005 compared to 2004.

FINANCE COSTS

Finance costs of the Company was RMB181 million in 2005, representing an increase of RMB12 million over RMB169 million in 2004. The increase was primarily due to an increase in interest expenses of the Company credited to reinsurers' deposits.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the Company were RMB6,372 million in 2005, representing a decrease of 9.7% from RMB7,054 million in 2004. This decrease was primarily due to a RMB150 million decrease in depreciation expenses for property, plant and equipment and decreases in other remaining expenses as a result of enhanced control over the scale of fixed assets and operating expenses in 2005.

PROFIT BEFORE TAX

Profit before tax of the Company was RMB2,203 million in 2005, representing an increase of RMB1,808 million from RMB395 million in 2004. This increase was primarily due to a RMB1,330 million increase in underwriting profit and a RMB652 million decrease in net realised and unrealised losses in investments in 2005.

TAX

Income tax expense of the Company was RMB1,090 million in 2005, representing an increase of RMB829 million from RMB261 million in 2004. The Company's effective tax rate decreased to 49.5% in 2005 from 66.1% in 2004. The decrease in effective tax rate was primarily due to a decrease in the proportion of non-tax deductible expenses related to profit before tax in 2005 compared to 2004.

NET PROFIT

As a result of the foregoing, the Company's net profit was RMB1,113 million in 2005, representing an increase of RMB979 million from RMB134 million in 2004. Basic earning per share in 2005 was RMB0.100.

COMBINED RATIO

The Company's combined ratio decreased from 99.1% in 2004 to 96.5% in 2005, primarily due to a decrease in the Company's loss ratio from 77.1% in 2004 to 73.0% in 2005, but the increase in the expense ratio from 22.0% in 2004 to 23.5% in 2005 partially offset the effect of the lowered loss ratio.

RESULTS OF SEGMENT OPERATIONS

Motor Vehicle Insurance

	Year ended 31 December 2005 RMB million	2004 RMB million
Turnover	42,046	42,898
Net premiums earned	36,443	35,802
Net claims incurred	(27,593)	(30,927)
Amortisation of deferred acquisition costs, net	(3,999)	(2,691)
Insurance protection expense	(390)	(409)
Segment profit before unallocated income and expenses	4,461	1,775
Loss ratio	75.7%	86.4%
Segment expense ratio	12.0%	8.7%
Segment combined ratio	87.7%	95.1%

Turnover of the motor vehicle insurance segment in 2005 was RMB42,046 million, representing a decrease of 2.0% from RMB42,898 million in 2004. This decrease was primarily due to a decrease in premium rates of the motor vehicles insured by the Company, partially offset by an increase in the number of motor vehicles insured. Premium rates of the Company's motor vehicle insurance segment decreased by 4.1% in 2005 from 2004. The Company insured 22.89 million motor vehicles in 2005, representing an increase of 0.61 million motor vehicles (or 2.7%) over 2004.

Net premiums earned from the motor vehicle insurance segment was RMB36,443 million in 2005, representing an increase of 1.8% from RMB35,802 million in 2004. This increase was primarily due to an increase of RMB22 million in the balance of unearned premium reserves in 2005, representing a decrease of RMB2,532 million compared to the increase of RMB2,554 million in the balance of unearned premium reserves in 2004. However, the effect of the decrease in the change in unearned premium reserves was partially offset by a RMB1,040 million increase in reinsurance premiums ceded over 2004 and a RMB852 million decrease in turnover from 2004 in the motor vehicle insurance segment.

Net claims incurred of the motor vehicle insurance segment decreased by 10.8% from RMB30,927 million in 2004 to RMB27,593 million in 2005, and loss ratio decreased to 75.7% in 2005 from 86.4% in 2004. The decreases were primarily due to an increase of RMB519 million in the loss and loss adjustment expense reserve of the motor vehicle insurance segment as of 31 December 2005 from that as of 31 December 2004, in comparison of an increase of RMB3,520 million as of 31 December 2004 from that as of 31 December 2003. The effect of the decrease in the change in the loss and loss adjustment expense reserve was partially offset by a decrease in loss recovered from reinsurance and an increase in claim expenses of the motor vehicle insurance segment in 2005.

Net amortisation of deferred acquisition costs of the motor vehicle insurance segment increased by 48.6% from RMB2,691 million in 2004 to RMB3,999 million in 2005. The increase was primarily due to corresponding increases in commission expenses and underwriting personnel salary expenses as a result of the intensified market competition.

Insurance protection expense charged to the motor vehicle insurance segment decreased by 4.6% from RMB409 million in 2004 to RMB390 million in 2005 due to a decrease in retained premiums.

The segment expense ratio for the motor vehicle insurance segment increased from 8.7% in 2004 to 12.0% in 2005, primarily due to an increase in net amortisation of deferred acquisition costs.

Overall, profit before unallocated income and expenses of the motor vehicle insurance segment was RMB4,461 million in 2005, representing an increase of 151.3% compared to RMB1,775 million in 2004.

Commercial Property Insurance

	Year ended 31 December	
	2005	2004
	RMB million	*RMB million*
Turnover	8,199	7,987
Net premiums earned	5,629	6,402
Net claims incurred	(4,519)	(4,003)
Amortisation of deferred acquisition costs, net	(451)	(262)
Insurance protection expense	(60)	(66)
Segment profit before unallocated income and expenses	599	2,071
Loss ratio	80.3%	62.5%
Segment expense ratio	9.1%	5.1%
Segment combined ratio	89.4%	67.6%

Turnover of the commercial property insurance segment increased by 2.7% from RMB7,987 million in 2004 to RMB8,199 million in 2005, primarily due to a substantial increase in the number of commercial properties insured compared to 2004. The effect of the increase in the number insured was partially offset by a decrease in average premium rates resulting from the intensified market competition.

Net premiums earned from the commercial property insurance segment decreased by 12.1% from RMB6,402 million in 2004 to RMB5,629 million in 2005. The decrease was primarily due to an increase in reinsurance premiums ceded, but the effect of the increase in reinsurance premiums ceded was partially offset by an increase in turnover and a decrease in the change of unearned premium reserves.

Net claims incurred of the commercial property insurance segment increased by 12.9% from RMB4,003 million in 2004 to RMB4,519 million in 2005. The increase in net claims incurred was primarily due to material losses to the commercial properties insured caused by a number of natural disasters in 2005, such as typhoon and flood, resulting in a substantial increase in claims. Such negative impact was partially offset by an increase in loss recovered from reinsurance compared to 2004. Due to the substantial increase in net claims incurred, loss ratio of the commercial property insurance segment increased to 80.3% in 2005 from 62.5% in 2004.

Net amortisation of deferred acquisition costs of the commercial property insurance segment increased by 72.1% from RMB262 million in 2004 to RMB451 million in 2005, primarily due to an increase in commission expenses and underwriting personnel salary expenses caused by the intensified market competition for commercial property insurance business in 2005.

Insurance protection expense charged to the commercial property insurance segment decreased by 9.1% from RMB66 million in 2004 to RMB60 million in 2005, due to a decrease in retained premiums.

Due to the above increase in net amortisation of deferred acquisition costs, the segment expense ratio of the commercial property insurance segment increased from 5.1% in 2004 to 9.1% in 2005.

As a result of the foregoing, profit before unallocated income and expenses of the commercial property insurance segment was RMB599 million in 2005, representing a decrease of 71.1% compared to RMB2,071 million in 2004.

Homeowners Insurance

	Year ended 31 December	
	2005	2004
	RMB million	*RMB million*
Turnover	**1,051**	1,257
Net premiums earned	**714**	452
Net claims incurred	**(228)**	(240)
Amortisation of deferred acquisition costs, net	**(126)**	(29)
Net investment income	**255**	179
Net realised and unrealised losses on investments	**(123)**	(104)
Interest expense credited to policyholders' deposits	**(143)**	(144)
Insurance protection expense	**(10)**	(12)
Segment profit before unallocated income and expenses	**339**	102
Loss ratio	**31.9%**	53.1%
Segment expense ratio	**19.0%**	9.1%
Segment combined ratio	**50.9%**	62.2%

Turnover of the homeowners insurance segment decreased by 16.4% from RMB1,257 million in 2004 to RMB1,051 million in 2005. The decrease was primarily due to an increase in homeowners residential mortgage loan insurance policy terminations caused by an increase in interest rates and the expectation of further increases.

Net premiums earned from the homeowners insurance segment increased by 58.0% from RMB452 million in 2004 to RMB714 million in 2005. This increase was primarily due to a decrease of RMB457 million in the change of unearned premium reserves in 2005 compared to 2004, however, the impact of such decrease was partially offset by the decrease in turnover.

Net claims incurred for the homeowners insurance segment decreased by 5.0% from RMB240 million in 2004 to RMB228 million in 2005. Loss ratio of the homeowners insurance segment decreased from 53.1% in 2004 to 31.9% in 2005 primarily due to a substantial increase in net premiums earned.

Net amortisation of deferred acquisition costs of the homeowners insurance segment increased by RMB97 million from RMB29 million in 2004 to RMB126 million in 2005. This increase was primarily due to a decrease in reinsurance recoveries caused by a decrease in reinsurance premiums ceded in the homeowners insurance segment in 2005.

Insurance protection expense charged to the homeowners insurance segment decreased from RMB12 million in 2004 to RMB10 million in 2005, due to a decrease in retained premiums.

The segment expense ratio for the homeowners insurance segment increased from 9.1% in 2004 to 19.0% in 2005 primarily due to an increase in net amortisation of deferred acquisition costs.

The net investment income derived from policyholders' deposits of the homeowners insurance segment increased by RMB76 million from RMB179 million in 2004 to RMB255 million in 2005. This increase was primarily due to an increase in interest received in respect of the investment fund portfolio using deposits from the Golden Bull homeowners insurance product.

Interest expense credited to policyholders' deposits of the homeowners insurance segment was RMB143 million in 2005, close to the level of RMB144 million in 2004.

As a result of the foregoing, profit before unallocated income and expenses of the homeowners insurance segment was RMB339 million in 2005, representing an increase of 232.4% compared to RMB102 million in 2004.

Other Insurance

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

	Year ended 31 December	
	2005	2004
	RMB million	*RMB million*
Turnover		
Cargo insurance	**2,665**	2,724
Liability insurance	**2,420**	2,051
Accidental injury insurance	**2,247**	1,890
Other insurance	**3,704**	3,196
Total	**11,036**	9,861
Net premiums earned		
Cargo insurance	**2,141**	2,940
Liability insurance	**1,783**	1,850
Accidental injury insurance	**1,653**	1,688
Other insurance	**1,439**	1,494
Total	**7,016**	7,972
Net claims incurred	**(3,995)**	(3,845)
Amortisation of deferred acquisition costs, net	**(216)**	(578)
Insurance protection expense	**(77)**	(76)
Segment profit before unallocated income and expense	**2,728**	3,473
Loss ratio	**56.9%**	48.2%
Segment expense ratio	**4.2%**	8.2%
Segment combined ratio	**61.1%**	56.4%

Turnover of the other insurance segment increased by 11.9% from RMB9,861 million in 2004 to RMB11,036 million in 2005. This increase was primarily due to the increase of 18.9% and 18.0% in turnover of accidental injury insurance and liability insurance, respectively, as compared to those in 2004. Turnover of accidental injury insurance increased mainly because the Company boosted its promotion and marketing through its cooperation with AIG. Turnover of liability insurance increased mainly because turnover of public liability insurance increased substantially, partly caused by an increase in turnover of product liability insurance and professional liability insurance.

Net premiums earned from the other insurance segment decreased by 12.0% from RMB7,972 million in 2004 to RMB7,016 million in 2005. This decrease was primarily due to a decrease of RMB799 million in net premiums earned from cargo insurance.

Net claims incurred for the other insurance segment increased by 3.9% from RMB3,845 million in 2004 to RMB3,995 million in 2005. In the other insurance segment of the Company, net claims incurred for accidental injury insurance decreased by RMB241 million, but such decrease was offset by the increase of RMB205 million in net claims incurred for liability insurance.

Mainly due to the decrease of net premiums earned, the loss ratio of the other insurance segment increased to 56.9% from 48.2% in 2004.

Net amortisation of deferred acquisition costs of the other insurance segment was RMB216 million in 2005, representing a decrease of RMB362 million compared to RMB578 million in 2004. This decrease was primarily due to an increase in unearned premium reserves deferred to future years as a result of the change in the term structure of the premiums.

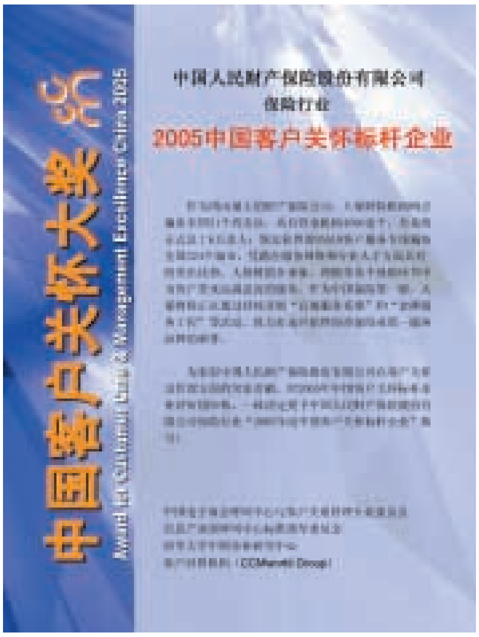
Insurance protection expense charged to the other insurance segment increased by 1.3% to RMB77 million in 2005 as compared to RMB76 million in 2004. This increase was due to an increase in retained premiums.

As a result of the foregoing, the other insurance segment recorded an RMB2,728 million profit before unallocated income and expenses in 2005, representing a decrease of 21.5% compared to RMB3,473 million in 2004.

DEVELOPMENT OF NEW PRODUCTS

In 2005, the Company developed 221 new insurance products mainly in the areas of commercial property insurance, liability insurance and homeowners insurance, of which 140 are national products (including 27 stand-alone coverages and 113 supplementary coverages) and 81 are regional products (including 44 stand-alone coverages and 37 supplementary coverages).

In 2005, based on the research of new characteristics and demand of the market, the Company developed and improved a number of highly adaptable and fast growing products with improved saleability customised to better address specific needs of the market. These products involved all areas of non-life insurance other than health insurance, offering customers a wider range of choices with respect to the types and coverages of the products. The Company also actively strengthened its cooperation with its strategic partner, AIG, in improving its products in accidental injury insurance and short-term health insurance. The development of the new products will enhance the continuous development of new businesses and is anticipated to drive a continuous growth in turnover and other operating results of the Company.



CASH FLOW

	Year ended 31 December	
	2005	2004
	RMB million	*RMB million*
Net cash inflow from operating activities	**2,651**	6,786
Net cash outflow from investing activities	**(956)**	(7,509)
Net cash outflow from financing activities	**(2,075)**	(1,006)
Net decrease in cash and cash equivalents	**(380)**	(1,729)

Net cash generated from operating activities of the Company was RMB2,651 million in 2005, representing a decrease of 60.9% compared to 2004. The decrease was primarily due to a substantial increase in premiums receivables and a rapid growth in cash payment to reinsurers in 2005.

Net cash outflow from the Company's investing activities in 2005 was RMB956 million, representing a decrease of RMB6,553 million compared to 2004. Such decrease was primarily due to a substantial decrease in net cash outflow for investments in equity and debt securities.

Net cash outflow from the Company's financing activities in 2005 was RMB2,075 million, representing an increase of RMB1,069 million compared to 2004. The substantial increase in net cash outflow was primarily due to an increase of RMB1,222 million in cash expenses in relation to the securities sold under repurchase agreements. The increase was also partially due to an increase of RMB158 million in the dividend payment in 2005. However, the impact of such increases was partially offset by a decrease of RMB300 million in the cash outflow in relation to the securities purchased under resale agreements.

Net decrease in cash and cash equivalents of the Company in 2005 was RMB380 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 needs.

The Company entered into a subordinated loan agreement with China Development Bank on 10 October 2003, whereby the Company obtained a subordinated loan of RMB2,000 million from China Development Bank. This loan is unsecured and bears interest at a rate which is equal to 90% of the long term lending rate fixed by the People's Bank of China. The loan will 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 report, 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 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 RMB1,677 million in 2005.

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 76,000 square meters for RMB1,647 million, for which the Company prepaid RMB1,037 million at the end of 2005, there was 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 minimum solvency margin of RMB7,998 million in 2005. The Company's actual solvency margin for 2005 calculated pursuant to the regulations of the China Insurance Regulatory Commission ("CIRC") was RMB10,920 million and solvency margin adequacy ratio was 137% *(Note)*

Pursuant to the CIRC regulations, if an insurance company fails to meet 4 out of the 11 benchmarks regarding solvency, the CIRC has the right to demand an explanation and investigate into the reasons for non-compliance. In 2005, 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 2005 was 3.33 times *(Note)*.

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

GEARING RATIO

As of 31 December 2005, the Company's gearing ratio *(Note)* was 79.8%, representing a decrease of 0.2 percentage point from 80.0% in 2004.

Note: Gearing ratio is represented by total liabilities (excluding 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, as plaintiff or defendant. Such legal proceedings mostly involve claims on the Company's insurance policies. While the outcomes of such contingencies or legal proceedings 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 or fixed interest rate liabilities 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 interest payment for the subordinated loan of the Company will fluctuate due to changes in interest rates fixed by the central bank. 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. The goal is to maintain liquidity and generate stable returns.

CREDIT RISK

Credit risk is the risk of an economic loss incurred by the Company resulting from the inability of debtors of the Company to make any principal or interest payment when due.

The Company's investment assets, reinsurance assets and deposits with commercial banks are subject to credit risk.

The Company is subject to credit risk on investments such as corporate bonds and mutual funds. The Company diligently 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 its 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 A- or above, and pays particular attention to their creditworthiness and financial condition.

The Company manages and lowers credit risk affecting its bank deposits mainly by depositing most of its deposits with state-owned or state-controlled banks.

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 a portion of commercial property insurance, international cargo insurance and aviation insurance) is conducted in foreign currencies, typically US dollars. A portion of its claims, account receivables and liabilities is also denominated in foreign currencies, typically US dollars. In addition, a portion of its investment assets and cash which is denominated in foreign currencies, typically in US dollars, is also subject to exchange rate risk.

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 exchange rates to vary.

HEDGING INSTRUMENTS

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

EMPLOYEES

As of 31 December 2005, the Company had 61,448 employees. Staff salaries payment by the Company in 2005 was RMB3,422 million which includes basic salaries and performance related bonus. In addition, the Company makes contributions to pension schemes and social medical insurance plans for its employees. Details of the retirement benefits of the Company are set out in notes 2.5 and 11 to the financial statements. Senior management of the Company are entitled to share appreciation rights. Details of the share appreciation rights scheme of the Company are set out in note 41 to the financial statements. The Company enhances the performance and efficiency of employees by providing various career development paths, strengthening personnel training and implementing performance review. The Company is of the view that it maintains a good relationship with its employees.

In 2005, the Company became official insurance partner of the Beijing 2008 Olympic Games.

The Board of Directors presents their report and the audited financial statements of the Company for the year ended 31 December 2005 (the "Year").

PRINCIPAL ACTIVITIES

The Company engages in motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, hull insurance, surety insurance, which are denominated in RMB and foreign currencies, together with the reinsurance of the above insurance products, and investment and fund application permitted under the relevant laws and regulations of the PRC.

FINANCIAL RESULTS AND DIVIDEND

The results of the Company for the Year and the state of the Company's financial affairs as at 31 December 2005 are set out on pages 50 to 119 of this annual report.

The payment of an interim dividend of RMB0.072 per share was approved at the special general meeting of the Company held on 25 October 2005. The Board of Directors did not propose any final dividend for the Year.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the property, plant and equipment and investment properties of the Company during the Year are set out in notes 27 and 28 to the financial statements respectively.

SHARE CAPITAL

There were no movements in the share capital of the Company during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions regarding pre-emptive rights in respect of the transfer of shares or issue of new shares of joint-stock limited companies under the Company Law of the People's Republic of China (the "Company Law").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of the reserves of the Company and their changes during the Year are set out in the Statement of Changes in Equity on page 52 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company did not have any distributable reserves based on the PRC accounting regulations.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company in the Year amounted to RMB20.38 million.

MAJOR CUSTOMERS

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

FIVE LARGEST REINSURERS

The reinsurance premiums ceded to the five largest reinsurers of the Company in the Year, and the ratings given by A.M. Best and Standard & Poor's are as follows *(Note 1)*:

Reinsurer	**Reinsurance premiums ceded (RMB million)**	**A.M. Best Rating**	**Standard & Poor's Rating**
CHINA RE	6,378	Not applicable	Not applicable
MUNICH RE	2,388	A+	A+
SWISS RE	844	A+	AA
AIG *(Note 2)*	619	A++	AA+
Lloyd's Syndicates	485	A	A

Notes:

1. Credit ratings as of 31 December 2005.

2. The accumulated reinsurance premiums ceded to the subsidiaries of AIG.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the Year and the change in directorship for the period from 1 January 2006 to the date of this report are set out in the Corporate Governance Report. There is no change in the members of the Supervisory Committee from 1 January 2006 to the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

Biographical details of the directors, supervisors and other senior management of the Company are set out on pages 6 to 9 of this annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

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

Details of the remuneration of the directors and supervisors of the Company are set out in note 12 to the financial statements.

HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid individuals of the Company are set out in note 13 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the directors and supervisors had a material interest, whether directly or indirectly, in any contracts which were significant to the business of the Company and subsisted at the end of the Year or at any time during the 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 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 transactions, vertification of books and records, valuation of assets, supervision on investments and evaluation on investment performance. The custodian agreement expired on 8 October 2005 and on the same day, the parties to the custodian agreement agreed to extend the agreement by one year.

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

The following sets out 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 Hong Kong Securities and Futures Ordinance ("SFO") held by the directors, supervisors and chief executive of the Company as at 31 December 2005, which were recorded in the register required to be kept under section 352 of the SFO and required to be notified to the Company and the Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"):

Name of director	Capacity	Number of H Shares
Cheng Wai Chee, Christopher	Controlled corporations	50,000

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. These companies were controlled corporations of Mr Cheng. 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 of the Company 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 2005 as recorded in the register required to be kept under section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTOR'S INTEREST IN COMPETING BUSINESS

PICC Life Insurance Company Limited ("PICC Life") and PICC Health Insurance Company Limited ("PICC Health"), subsidiaries of PICC Holding, the controlling shareholder of the Company, also engage in accidental injury insurance and short-term health insurance business.

Mr Tang Yunxiang, the Chairman of the Company, is the chairman and president of PICC Life and the chairman of PICC Health. Mr Ding Yunzhou and Mr Zhou Shurui, the Non-executive Directors of the Company, are the chairman of the supervisory committee and a non-executive director of PICC Health, respectively.

Pursuant to the reorganization agreement entered into between the Company and PICC Holding, PICC Holding has undertaken not to carry on any insurance business in the PRC which is of the same or similar nature as, or competes with, the core business of the Company.

Save as disclosed above, none of the directors of the Company is or was interested in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business from 1 January 2005 to the date of this report.

MATERIAL CONTRACTS

The Company entered into various agreements with PICC Holding (the controlling shareholder of the Company), PICC Asset Management Company Limited (a wholly-owned subsidiary of the controlling shareholder of the Company) and AIG (the strategic investor of the Company). Details of the transactions pursuant to these agreements during the Year are set out in note 47 to the financial statements.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2005, the following shareholders had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity	Number of domestic shares	Percentage of total number of domestic shares in issue	Percentage of total number of shares in issue
PICC Holding	Beneficial owner	7,685,820,000	100%	69.0%

Name of shareholder	Capacity	Number of H Shares	Percentage of total number of H Shares in issue	Percentage of total number of shares in issue
AIG *(Note 1)*	Controlled corporations	1,103,038,000	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania *(Note 1)*	Beneficial owner	562,549,380	16.28%	5.05%
Commerce and Industry Insurance Company *(Note 1)*	Beneficial owner	330,911,400	9.58%	2.97%
Lexington Insurance Company *(Note 1)*	Beneficial owner	209,577,220	6.06%	1.88%
Matthews International Capital Management, LLC	Investment manager	208,446,000	6.03%	1.87%

Notes:

1. Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company, Lexington Insurance Company were controlled corporations of AIG.

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

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2005 required to be recorded in the register kept under section 336 of the SFO.

PUBLIC FLOAT

As at the date of this report, 31% of the issued share capital of the Company is held by the public.

CONNECTED TRANSACTIONS

The connected transactions of the Company for the Year are set out in note 47 to the financial statements.

The independent non-executive directors of the Company have reviewed all the 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 were 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 the continuing connected transactions and confirmed to the Board of Directors that:

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

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

3. for items (i) to (iii) and (v) set out in note 47 to the financial statements, none of the transactions exceeded the annual upper limits approved by the Stock Exchange.

CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the Corporate Governance Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements for the Year. The duties and composition of the Audit Committee and a summary of its work performed during the Year are set out in the Corporate Governance Report.

AUDITORS

Ernst & Young and Ernst & Young Hua Ming shall retire as the international auditors and domestic auditors of the Company respectively. A resolution for their re-appointments will be proposed at the forthcoming annual general meeting.

By Order of the Board
Tang Yunxiang
Chairman

Beijing, PRC
21 April 2006

Dear Shareholders:

In 2005, the Supervisory Committee of the Company duly carried out its supervisory duties and protected the interests of the Company, its shareholders and its employees strictly in compliance with the relevant provisions of the Company Law and the Articles of Association of the Company ("Articles of Association").

During the Year, the Supervisory Committee convened two meetings, at which five proposals, including the Auditors' Report and Audited Financial Statements for 2004, Profit Distribution Plan for 2004 proposed by the Board of Directors, Report of the Supervisory Committee for 2004, were considered and approved. Two hearings were held, in which the Chief Financial Officer and the Finance Department of the Company, together with Ernst & Young, gave presentations on the financial conditions, business operations and the audit of the Company for 2004.

The Supervisory Committee attended four meetings of the Board of Directors and two meetings of the Audit Committee, participated in three shareholders' general meetings and submitted the Report of the Supervisory Committee for 2004 to the shareholders' general meeting, at which it was approved.

In June and September 2005, the Supervisory Committee organised an inspection team to inspect the financial and business operations of the Company's Yunnan, Shaanxi and Tianjin branches, cover over twenty of their sub-branches. In December 2005, the Supervisory Committee organised an investigation and research team to visit the Company's Guangdong, Sichuan and Xiamen branches to carry out research on the premium receivables. The Supervisory Committee made pragmatic recommendations to the management of the Company in relation to the operational and management deficiencies of certain branches identified in the process of the inspections, investigations and researches. Through these activities, the Supervisory Committee functioned as a regulator and a promotor in ensuring the compliant operation and financial management and also the improvement of the operational and management capabilities of the Company.

The Supervisory Committee is of the view that:

In 2005, the Board committees' work was further strengthened. The decision-making process of the Board of Directors was scientific and within its delegated authority. The Board duly carried out its duties and responsibilities.

The President Office of the Company had done substantial work to adjust the business structure and improve the business quality, and effectively enhanced the basic management and profitability of the Company.

The directors and senior management of the Company acted in diligence and good faith. During the reporting period, no director or 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 reviewed financial statements of the Company for the interim period of 2005 and the audited financial statements of the Company for 2005 were prepared strictly in accordance with the financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants. Having consistently applied the accounting treatments, the financial statements gave a true and fair view of the financial conditions and operating results of the Company.

The connected transactions of the Company were conducted on an arm's length basis and 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 2006, the Supervisory Committee will continue to comply with the Articles of Association and the relevant laws and regulations strictly, increase its efforts in improving itself, carry out its supervisory duties and practically protect the interests of the Company, its shareholders and its employees. The Supervisory Committee will further strengthen its supervision over the decision-making process, the truthfulness of financial information and the supervision and inspection of the establishment of the internal control system, conduct specialised inspections, investigations and researches as regarding major operational issues of the Company.

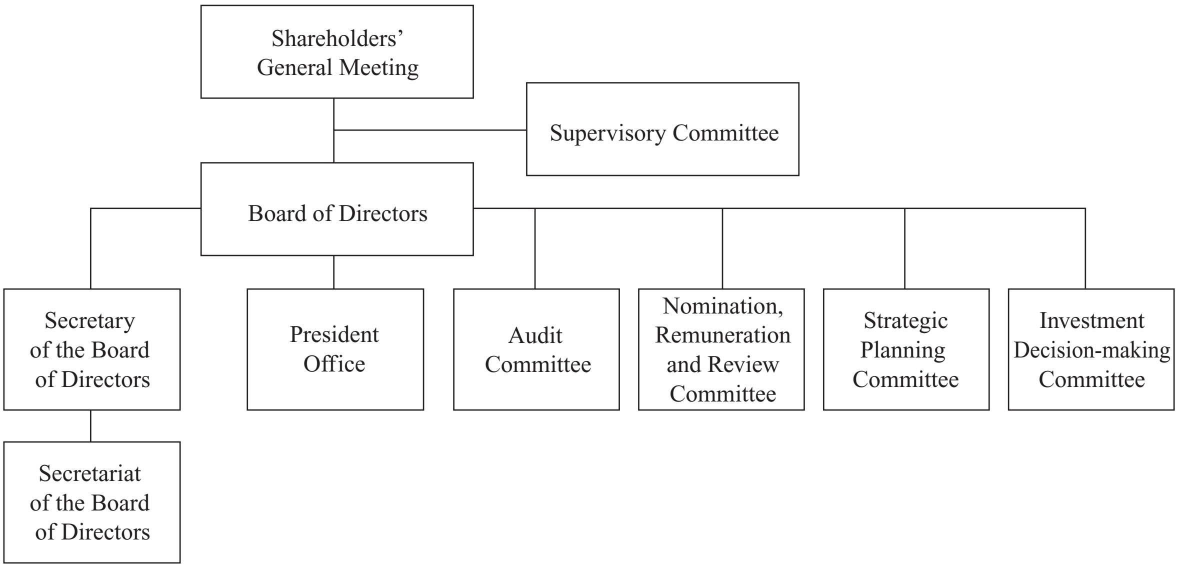
By Order of the Supervisory Committee
Deng Zhaoyu
Chairman of the Supervisory Committee

Beijing, PRC
19 April 2006

OVERVIEW

The Company believes that maintaining a sound corporate governance is in the interest of the Company, its shareholders and stakeholders. On the basis of the Company Law, the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies, the Mandatory Provisions for the Articles of Association of Companies Listing Overseas, the Listing Rules, the Articles of Association and other relevant laws and regulations, the Company has persisted in improving its corporate governance, with a view to establishing a proficient Board of Directors and an effective internal control system.

In 2005, the Company applied the principles and code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules ("Code on Corporate Governance Practices") through refining the duties and responsibilities as well as the operating mechanism of the Board of Directors and the board committees.



Save as the composition of the Nomination, Remuneration and Review Committee of the Company which did not meet the requirement under code provision B.1.1 of the Code on Corporate Governance Practices that the majority of the remuneration committee members shall be independent non-executive directors, the Company complied with all the other code provisions of the Code on Corporate Governance Practices in 2005. As at the date of this report, the composition of the Nomination, Remuneration and Review Committee of the Company has met the requirement under code provision B.1.1.

BOARD OF DIRECTORS

Overview

The Board of Directors is responsible for providing leadership for monitoring and controlling the operations of the Company, formulating the overall strategies and policies of the Company, determining the annual operational plans and investment plans of the Company, assessing the performance of the Company and supervising the work of the management. Four board committees are established under the Board of Directors, namely the Audit Committee, the Nomination, Remuneration and Review Committee, the Strategic Planning Committee and the Investment Decision-making Committee. The duties and responsibilities of and operating procedures for each of the above board committees are clearly defined. The board committees submit proposals to the Board of Directors on the matters within their respective scope of duties and responsibilities. The Board of Directors delegates the daily business operations and management of the Company to the management.

The Board of Directors meets regularly at least four times a year, and holds special meetings when necessary. Notice and meeting materials for regular board meetings are given to the directors at least fourteen days and three days prior to the meetings, respectively. All the directors are entitled to submit proposals to be listed as part of the agenda of the board meetings. Detailed minutes of each board meeting are kept.

In 2005, in accordance with the principles and code provisions set out in A.1, A.3, A.4 and A.6 of the Code on Corporate Governance Practices, the Board of Directors continued to regulate its operations and enhance the corporate governance. The Board of Directors has complied with all the code provisions under A.1, A.3, A.4 and A.6.

Given that the Board of Directors had only two independent non-executive directors during the period from 18 January 2005 to 29 April 2005, the requirement under Rule 3.10 of the Listing Rules that the board must have a minimum of three independent non-executive directors was not complied with. The Company appointed two independent non-executive directors on 29 April 2005 and 18 January 2006, respectively and as a result, the Board of Directors currently has four independent non-executive directors, representing more than one-third of all the members of the Board.

Composition

In 2005, the Board of Directors comprised the following directors:

Name	Position	Term
Mr Tang Yunxiang	Chairman	From 6 July 2003 to 5 July 2006
Mr Wang Yi	Vice Chairman, Executive Director	From 6 July 2003 to 5 July 2006
Mr Wang Yincheng	Executive Director	From 6 July 2003 to 5 July 2006
Md Liu Zhenghuan	Executive Director, Secretary of the Board of Directors (current)	From 6 July 2003 to 5 July 2006
Mr Fu Zhu (resigned)	Executive Director, Secretary of the Board of Directors	Resigned on 29 November 2005
Mr Ding Yunzhou	Non-executive Director	From 6 July 2003 to 5 July 2006
Mr Zhou Shurui	Non-executive Director	From 6 July 2003 to 5 July 2006
Mr Tse Sze Wing, Edmund	Non-executive Director	From 15 June 2004 to 5 July 2006
Mr Cheng Wai Chee, Christopher	Independent Non-executive Director	From 30 July 2003 to 29 July 2006
Mr Wong Tung Shun, Peter (resigned)	Independent Non-executive Director	Resigned on 18 January 2005
Mr Lu Zhengfei	Independent Non-executive Director	From 24 February 2004 to 23 February 2007
Mr Luk Kin Yu, Peter	Independent Non-executive Director	From 29 April 2005 to 28 April 2008

Change of directors for the period from 1 January 2006 to the date of this report is as follow:

Mr Ding Ningning was appointed an independent non-executive director of the Company on 18 January 2006.

Duties and Responsibilities

- convene shareholders' general meetings, report its work to the shareholders' general meetings;
- implement the resolutions of the shareholders' general meetings;
- determine the annual business plans and annual investment plans of the Company;
- formulate the annual preliminary and final budget;
- formulate the Company's plan for distribution of profits and recovery of losses;
- formulate proposals for the increase in or reduction of the registered capital of the Company and the issue of corporate bonds;
- draw up plans for the merger, division or dissolution of the Company;
- determine the internal management structure of the Company;
- appoint or remove the Company's President and the Secretary of the Board of Directors; appoint or remove the vice president(s), Chief Financial Officer and the President's assistant(s) in accordance with the President's nominations, and determine their remuneration, rewards and disciplinary matters;
- approve the basic management system of the Company;
- formulate proposals for any amendment to the Articles of Association;
- elect members to the board committees;
- exercise other powers and duties conferred by the shareholders' general meetings and the Articles of Association.

Summary of Work Undertaken

In 2005, the Board of Directors convened five meetings and considered forty-nine proposals. The attendance rate of each director reached 100% and the attendance is recorded as follows:

Name	Number of meetings attended/ Number of meetings that require attendance	Attendance rate
Tang Yunxiang	4/4	100%
Wang Yi	4/4	100%
Wang Yincheng	4/4	100%
Liu Zhenghuan	4/4	100%
Fu Zhu	4/4	100%
Ding Yunzhou	4/4	100%
Zhou Shurui	4/4	100%
Tse Sze-Wing, Edmund	4/4	100%
Cheng Wai Chee, Christopher	4/4	100%
Wong Tung Shun, Peter	0/0	not applicable
Lu Zhengfei	4/4	100%
Luk Kin Yu, Peter	3/3	100%

Notes:

(1) The board meeting held on September 2005 was convened by way of resolutions in writing.

(2) Mr Wong Tung Shun, Peter resigned as an independent non-executive director of the Company on 18 January 2005.

(3) Mr Luk Kin Yu, Peter was appointed as an independent non-executive director of the Company on 29 April 2005.

During 2005, the main tasks accomplished by the Board of Directors included:

- convened three shareholders' general meetings and submitted eight proposals to the shareholders' general meetings including the Directors' Report for 2004, audited financial statements for 2004, profit distribution plans and dividend recommendations for 2004 and for the interim period of 2005;

- considered and approved the business development plan, fixed asset investment plan, strategic allocation of and investment policies on custodian assets of the Company for 2005;

- established the Investment Decision-making Committee and formulated the Work Manual for the Investment Decision-making Committee. In accordance with the relevant regulations of the China Insurance Regulatory Commission, the Board of Directors set up the Investment Decision-making Committee in January 2005, which is responsible for considering the Company's fund utilisation strategies and investment policies, examining the establishment and implementation of the risk control system for insurance fund utilisation, and formulating strategic allocation plans for insurance fund utilisation. The Board elected seven directors as members of the Investment Decision-making Committee;

- appointed the current Secretary of the Board of Directors, and elected two independent non-executive directors as members of the Nomination, Remuneration and Review Committee. At the same time of the resignation of Mr Fu Zhu (the former Secretary of the Board of Directors) on 29 November 2005, appointed Md Liu Zhenghuan in due time as Secretary of the Board of Directors based on nomination of the Chairman of the Board;

- considered and approved the total amount of remuneration of the Company for 2005, amended the Measures on Linking Remuneration to Performance of the Management of the Company and conducted the annual performance appraisal on the Company's senior management including directors, President and vice presidents;

- considered and approved the guidance on trading of the Company's securities by employees which is formulated in accordance with the Model Code;

- amended the respective work manuals for the Audit Committee, the Nomination, Remuneration and Review Committee and the Strategic Planning Committee so that the duties and responsibilities of and operating procedures for all the board committees of the Company comply with the Code on Corporate Governance Practices;

- considered and authorised the President to exercise certain powers of the legal representative when dealing with external matters on behalf of the Company, with a view to enhancing the operational and management proficiency of the Company.

DIRECTORS

Responsibilities with respect to Financial Statements

Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall give a true and fair view of the business operations of the Company in accordance with the financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants and through the adoption of appropriate accounting policies.

Securities Transactions

The Company has formulated guidelines on transactions of the Company's securities that are applicable to the directors and all the employees, and the terms of such guidelines are no less exacting than those set out in the Model Code. The Company has made enquiries with all the directors and they all have confirmed that they have complied with the requirements under the Model Code during the Year.

Independence of Independent Directors

The Company has received the annual confirmation letters pursuant to Rule 3.13 of the Listing Rules from Mr Cheng Wai Chee, Christopher, Mr Lu Zhengfei and Mr Luk Kin Yu, Peter, independent non-executive directors of the Company, in relation to their independence. Mr Ding Ningning, an independent non-executive director, provided to the Company a letter confirming his independence before his appointment in January 2006. As at the date of this report, the Company is of the view that all the independent non-executive directors are independent.

CHAIRMAN/PRESIDENT

The Chairman of the Board is Mr Tang Yunxiang, and the President is Mr Wang Yi. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively and discharges its responsibilities properly. The President is responsible for managing the daily business operations of the Company and implementing the resolutions passed by the Board of Directors.

Duties and Responsibilities of the Chairman

- preside over shareholders' general meetings and convene and preside over board meetings;
- monitor the implementation of Board resolutions;
- sign securities issued by the Company;
- perform other duties and powers conferred by the Board of Directors.

Duties and Responsibilities of the President

- administer the operations and management of the Company and implement the Board resolutions;
- implement the annual operational plans and annual investment plans of the Company;
- execute contracts and agreements and issue daily administrative documents on behalf of the Company;
- propose the plans for internal management organisation of the Company and determine general organisational restructuring based on the operating needs;
- propose the basic management system of the Company;
- formulate the basic rules and regulations of the Company;

- make recommendations to the Board of Directors on the appointment and removal of the Company's vice president(s), Chief Financial Officer and the President's assistant(s);

- appoint and remove management personnel other than those personnel whose appointments or removals are determined by the Board of Directors;

- formulate salaries, benefit and rewards and disciplinary plan for employees, determine or authorise heads of the subordinate departments to determine the employment and dismissal of the Company's employees;

- propose to convene special board meetings;

- perform other duties and powers conferred by the Articles of Association and the Board of Directors.

AUDIT COMMITTEE

Overview

During 2005, the Company continued to consolidate the establishment of the Audit Committee of the Board of Directors in accordance with the principles and code provisions under C.3 of the Code on Corporate Governance Practices. The Board of Directors passed a resolution in April 2005 to amend the Work Manual for the Audit Committee, thereby clarifying the Audit Committee's three aspects of its scope of responsibilities, namely its relations with the external auditors, its review of the financial information of the Company and its monitoring and inspection of the financial reporting procedures and internal control system of the Company. In 2005, the Audit Committee refined its management of external auditors and emphasised supervision over their audit process. The Audit Committee also reviewed the annual report and accounts for 2004 and the interim report for 2005. Furthermore, the Audit Committee reviewed the Management Letter for 2004 provided by the external auditors and the management's response.

Composition

Chairman: Lu Zhengfei

Members: Ding Yunzhou, Cheng Wai Chee, Christopher (resigned on 29 April 2005), Luk Kin Yu, Peter (appointed on 29 April 2005)

Duties and Responsibilities

- relations with the external auditors of the Company:

  > make recommendations to the Board of Directors in relation to the appointment, removal or reappointment of the external auditors, and dealing with any matters concerning the resignation or removal of such auditors;

  > consider the remuneration and terms of engagement of the external auditors;

  > assess the independence of the external auditors and the effectiveness of their audit procedures, discuss with the external auditors the nature and scope of the audit and the relevant reporting obligations before commencement of the audit;

> assess and ascertain the independence and objectivity of the external auditors in respect of providing non-audit services, decide whether to retain such auditors for non-audit services, and formulate relevant policies and monitor implementation of such policies;

> meet at least once a year with the external auditors to discuss matters concerning the audit and the auditors' remuneration;

- examine the completeness of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports and review material opinions on financial reporting matters set out in such statements and reports:

> in examining the relevant statements and reports, the Audit Committee should focus on examining the changes in accounting policies and practices, material judgment, material audit adjustment, assumptions of going concern and qualified opinions (if any), and whether the Company has complied with the provisions relating to financial reporting under the applicable accounting standards, the Listing Rules and other laws and regulations;

> in examining the relevant statements, reports and accounts, the Audit Committee should consider the material or unusual matters that are reflected or should be reflected in such statements, reports and accounts, and consider appropriately the matters raised by the Company's qualified accountant or assistants, head of the finance and accounting department, head of the supervisory department, head of the internal audit department or the external auditors;

- monitor and inspect the financial reporting procedures and internal control system of the Company:

> examine the financial control, internal control and risk management systems of the Company;

> discuss with the management on the internal control system of the Company and ensure that the management establishes an effective internal control system;

> study major findings of investigations into matters relating to the internal control and the management's response;

> coordinate the work undertaken by the internal audit department and the external auditors;

> monitor the implementation of the internal audit system of the Company, examine the effectiveness of the internal audit, and ensure that the internal audit department is adequately resourced and has appropriate positioning within the Company;

> review 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, accounts or the internal control system and the management's response in relation thereto, and ensure timely response by the Board of Directors to the matters raised in the Management Letters;

> examine and verify material connected transactions of the Company;

> evaluate the work of the personnel in charge of the finance and accounting department and internal audit department of the Company;

> monitor and provide guidance on the special audit projects carried out by the internal audit department;

- other matters authorised by the Board of Directors.

Remuneration of Auditors

In 2005, the Company paid RMB15.10 million to the auditors, including payment for the audit of the financial statements for 2004 and review of the interim report for 2005. In 2005, the Company did not engage the auditors in any non-audit services.

Summary of Work Undertaken

In accordance with the Work Manual for the Audit Committee, the Audit Committee should meet twice a year regularly and also hold special meetings subject to work commitment. During 2005, the Audit Committee held five meetings and considered nineteen proposals. The attendance rate of each committee member reached 100% and the attendance is recorded as follows:

Name	Lu Zhengfei	Ding Yunzhou	Cheng Wai Chee, Christopher	Luk Kin Yu, Peter
Number of meetings attended/ Number of meetings that require attendance	4/4	4/4	2/2	2/2
Attendance rate	100%	100%	100%	100%

Notes:

(1) Mr Cheng Wai Chee, Christopher, an independent non-executive director, resigned as a member of the Audit Committee on 29 April 2005.

(2) Mr Luk Kin Yu, Peter, an independent non-executive director, was appointed a member of the Audit Committee on 29 April 2005.

(3) The fourth meeting of the Audit Committee in 2005 was convened by way of resolutions in writing.

In 2005, the Audit Committee amended the Work Manual for the Audit Committee, and duly performed its duties of and played an active role in the supervision and provision of guidance on internal and external audit, the monitoring of financial reporting procedures, the strengthening of internal control and risk management and the reviewing of financial reports. In 2005, the main tasks accomplished by the Audit Committee included:

- amended the Work Manual for the Audit Committee. After prudent consideration of the relevant principles and code provisions under the Code on Corporate Governance Practices, and taking into account the Company's own practical situations, the Audit Committee amended the Work Manual for the Audit Committee which was considered and approved by the Board of Directors. The amended Work Manual for the Audit Committee further defined the Audit Committee's duties and responsibilities in respect of its relations with the external auditors, supervision and control over the financial reporting procedures, strengthening internal control and risk management and reviewing financial reports, thereby laying down a solid foundation in terms of system for the effective operation of the Audit Committee;

- enhanced the monitoring of and guidance on the external audit of the Company. The Audit Committee emphasised its communications with the external auditors, fully considered the opinions of the external auditors and the Company's management on the annual audit and interim review fees, considered the engagement terms, and proposed to the Board of Directors on the continuous engagement of the auditors and the remuneration in relation thereto. The Audit Committee discussed with the external auditors in a timely manner regarding the nature, scope and responsibilities of the audit, took the external auditors' report on the work arrangement of the audit, problems discovered during the audit process and the audit results into consideration and gave its opinions and suggestions on the requirements and quality of the audit. The Audit Committee also exchanged views with the external auditors on matters such as the changes in the accounting policies, material audit adjustment and internal control risks;

- monitored and inspected the financial reporting procedures of the Company, reviewed the financial statements, annual report and accounts, and interim report and accounts. The Audit Committee reviewed the financial statements for 2004 and for the interim period of 2005, and exchanged views with the management on the material matters such as changes in the accounting principles accepted in Hong Kong and the accounting policies, material audit adjustment and internal control risks;

- supervised and inspected the internal control risks of the Company. The Audit Committee reviewed the Management Letter for 2004 issued by the external auditors and the management's response, proposed requirements for improvement in certain matters such as premiums receivable, commission expenses, investment risk control and improvement of data accuracy, instructed the management to request the internal audit department of the Company to monitor the progress of improvement in a timely manner and submit the special report, thereby effectively enhancing the Company's internal risk control;

- provided effective guidance on the internal audit of the Company. The Audit Committee took the reports of the audit department of the Company on the work summary for 2004 and the work plan for 2005 into consideration and approved two special audit projects in relation to mortgage loan guarantee insurance and insurance certificate management.

THE NOMINATION, REMUNERATION AND REVIEW COMMITTEE

Overview

The Nomination, Remuneration and Review Committee is responsible for matters relating to the remuneration and nomination of directors. During 2005, pursuant to the principle and code provisions set out in B.1 of the Code on Corporate Governance Practices, the Company continued to reinforce the establishment of the Nomination, Remuneration and Review Committee. The Board of Directors passed a resolution in April 2005 to revise the Work Manual for the Nomination, Remuneration and Review Committee, thereby clarifying the scope of responsibilities of the Nomination, Remuneration and Review Committee. In 2005, the Nomination, Remuneration and Review Committee made constructive suggestions to the Board of Directors on various matters including the nomination of directors, the remuneration policy for senior management and the overall remuneration structure of the Company.

During 2005, the composition of the Nomination, Remuneration and Review Committee did not comply with the requirement set forth in code provision B.1.1 of the Code on Corporate Governance Practices that a majority of the members of the remuneration committee shall be independent non-executive directors. In 2005, two independent non-executive directors of the Company, namely Mr Luk Kin Yu, Peter and Mr Lu Zhengfei, were appointed by the Board as members of the Nomination, Remuneration and Review Committee, thereby increasing the proportion of independent non-executive directors in the committee to 50%. Since the appointment of Mr Ding Ningning (an independent non-executive director) on 18 January 2006, the composition of the Nomination, Remuneration and Review Committee has complied with code provision B.1.1 of the Code on Corporate Governance Practices.

Composition

Chairman: Cheng Wai Chee, Christopher

Members: Wang Yincheng, Liu Zhenghuan, Zhou Shurui, Luk Kin Yu, Peter (appointed on 29 April 2005), Lu Zhengfei (appointed on 29 November 2005) and Ding Ningning (appointed on 18 January 2006)

Duties and Responsibilities

- evaluate the structure of the Board, its size and composition (taking into account factors such as skills, knowledge and experiences) at regular intervals, and make corresponding proposals to the Board;
- recommend to the Board candidates for directorship;
- evaluate the independence of the independent non-executive directors;
- propose to the Board in respect of the overall policy and structure for the remuneration of directors, the President and other senior management and the procedures for formulating remuneration policy;
- evaluate and approve 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;
- evaluate and approve 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;
- formulate appraisal standards for directors, the President and other senior management, conduct annual appraisals and make recommendations in relation thereto;
- other matters authorised by the Board.

Nomination of Directors

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates as new directors, then propose the appointment of such candidates as directors to the Board. The Board shall then determine whether such candidates' appointments should be proposed for approval at the shareholders' general meeting. The major factors considered by the Nomination, Remuneration and Review Committee and the Board are the educational background, the management and research experience in the finance industry, especially in the insurance sector, of the candidates and the candidates' commitment to the Company. Regarding the nomination of the independent non-executive directors, the Nomination, Remuneration and Review Committee will also give special consideration to the independence of the relevant candidates.

Remuneration of Directors and Other Senior Management

The fixed salary of the executive directors and other senior management is determined in accordance with market levels and their respective positions, and the amount of their performance-related bonuses is determined according to the results of performance appraisal. The amount of directors' fees and supervisors' fees and the units granted to the directors and supervisors under the Share Appreciation Rights Scheme are determined with reference to market levels. Details of the remuneration of the directors and supervisors for 2005 are set out in note 12 to the financial statements.

Summary of Work Undertaken

Pursuant to the Work Manual for the Nomination, Remuneration and Review Committee, the committee shall hold two meetings at regular intervals each year and special meetings subject to work commitment. During 2005, the Nomination, Remuneration and Review Committee held four meetings, among which three meetings were held for discussing remuneration related matters, and fourteen resolutions were considered. The meeting attendance rate of each committee member reached 100%. Attendance record of the meetings is as follows:

Name	Cheng Wai Chee, Christopher	Wang Yincheng	Liu Zhenghuan	Zhou Shurui	Luk Kin Yu, Peter	Lu Zhengfei
Number of meetings attended/Number of meetings that require attendance	4/4	4/4	4/4	4/4	2/2	0/0
Attendance rate	100%	100%	100%	100%	100%	Not applicable

Note: Mr Lu Zhengfei, an independent non-executive director, was appointed as a member of the Nomination, Remuneration and Review Committee on 29 November 2005. For the period from 29 November 2005 to the end of 2005, no meeting of the Nomination, Remuneration and Review Committee was held.

During 2005, the Nomination, Remuneration and Review Committee revised the Work Manual for the Nomination, Remuneration and Review Committee, thereby clarifying the scope of its responsibilities. The Nomination, Remuneration and Review Committee made constructive suggestions to the Board of Directors on various matters including the nomination of directors, the remuneration policy for senior management, the overall remuneration structure of the Company and the appraisal of senior management. In 2005, the main tasks accomplished by the Nomination, Remuneration and Review Committee included:

- revised the Work Manual for the Nomination, Remuneration and Review Committee. The Nomination, Remuneration and Review Committee seriously studied the principles and code provisions contained in the Code on Corporate Governance Practices and, after taking into account the Company's own practical conditions, revised the Work Manual for the Nomination, Remuneration and Review Committee which was approved by the Board. The revised Work Manual for the Nomination, Remuneration and Review Committee clarified the scope of responsibilities of the Nomination, Remuneration and Review Committee, thereby laying a solid system foundation for the committee to proceed with its work effectively;

- proposed the appointment of two independent non-executive directors to the Board. The Nomination, Remuneration and Review Committee proposed the appointment of Mr Luk Kin Yu, Peter and Mr Ding Ningning as independent non-executive directors to the Board in the first and the fourth meeting of 2005, respectively. The nominations were submitted to and approved by the Board and the shareholders;

- made recommendations to the Board in respect of the fees of the directors and supervisors. The Nomination, Remuneration and Review Committee considered the level of salaries paid by comparable companies in the market and the Company's own practical conditions and made recommendations in respect of the fees of the directors and supervisors. These recommendations were considered and approved by the Board and the shareholders' general meetings;

- reviewed and approved the Company's overall remuneration plan for 2005 and made recommendations to the Board in respect thereof. Taking into account the change in the market environment, the Nomination, Remuneration and Review Committee agreed the overall remuneration plan of the Company for 2005 proposed by the President Office and proposed amendments to the plan which were approved by the Board;

- formulated the Implementation Plan for the Second Grant under the Share Appreciation Rights Scheme for the Senior Management of the Company. In accordance with the Share Appreciation Rights Scheme for the Senior Management of the Company as approved at the first special general meeting in 2003, the Nomination, Remuneration and Review Committee, after taking into account the Implementation Plan for the Initial Grant under the Share Appreciation Rights Scheme for the Senior Management of the Company and the Company's own practical conditions, formulated the Implementation Plan for the Second Grant under the Share Appreciation Rights Scheme for the Senior Management of the Company which was approved by the Board;

- reviewed the performance review and appraisal proposal for 2004 for the senior management of the Company and made recommendations to the Board in respect thereof. The Nomination, Remuneration and Review Committee carried out annual review and appraisal on the Chairman and the directors, and reviewed the quantitative indicators for evaluating the performance of the President and the vice presidents and made recommendations to the Board in respect thereof, which were approved by the Board.

STRATEGIC PLANNING COMMITTEE

Overview

In 2005, the Company continued to increase its efforts in improving the Strategic Planning Committee. In April 2005, the Board of Directors approved a resolution to revise the Work Manual for the Strategic Planning Committee, thereby clarifying the duties of the Strategic Planning Committee which include the formulation of strategy for medium and long term development, the reviewing of major investment and financing plans and the reviewing of the annual budget of the Company, and such amendments have eradicated the overlapping between its duties and those of the newly-established Investment Decision-making Committee. In 2005, the Strategic Planning Committee focused on the strengthening of the review of major investment, annual budget and development plans.

Composition

Chairman: Tang Yunxiang

Members: Wang Yi, Fu Zhu (resigned on 29 November 2005), Wong Tung Shun, Peter (resigned on 18 January 2005), Ding Ningning (appointed on 18 January 2006)

Duties and Responsibilities

- consider strategic development plans for the Company, formulate strategic objectives and strategic implementation measures;

- consider the Company's plans to make equity investments by acting as a promoter or by purchasing equity interest in a company;

- consider the Company's plans for mergers and acquisitions;

- consider the Company's business plans, annual budgets, financial reports, profit distribution plans and loss recovery plans;

- consider the Company's annual, medium-term and long-term investment plans in fixed assets;
- consider the Company's plans for the disposition of its material assets;
- consider the Company's plans for the issue of shares and bonds;
- consider the Company's plans to increase or reduce its registered capital and to repurchase its own shares;
- consider the Company's plans for mergers, divisions, dissolution and liquidation;
- consider the Company's plans for amendments to its Articles of Association;
- consider any delegation by the Board to the management;
- consider the Company's plans for material modification to its organisation structure;
- other matters authorised by the Board.

Summary of Work Undertaken

Pursuant to the Work Manual for the Strategic Planning Committee, meetings of the Strategic Planning Committee include regular meetings and special meetings, and regular meetings shall be convened at least once a year. In 2005, the Strategic Planning Committee held four meetings, all of which were convened by way of resolutions in writing, and considered thirteen proposals.

In 2005, the main tasks accomplished by the Strategic Planning Committee included:

- revised the Work Manual for the Strategic Planning Committee and refined its duties and work procedures;
- considered the development plans of the Company for the years from 2006 to 2010;
- considered the Company's business development plans for 2006, budget for 2006, profit distribution plans and dividend recommendations for 2004 and the interim period of 2005;
- considered the proposal regarding the modification to the organisation structure of the Company;
- considered the proposal regarding the Company's pilot project on exclusive agency.

INVESTMENT DECISION-MAKING COMMITTEE

Overview

In 2005, the Board of Directors established the Investment Decision-making Committee and formulated the Work Manual for the Investment Decision-making Committee in order to strengthen the management of fund application of the Company and to refine the risk control system for fund application. The main duties of the Investment Decision-making Committee include the determination of fund application strategies and major investment matters, the reviewing of the establishment and implementation of the risk control system for insurance fund application, and the determination of investment portfolio for insurance funds.

Composition

Chairman: Tang Yunxiang

Members: Wang Yi, Wang Yincheng, Liu Zhenghuan, Ding Yunzhou, Zhou Shurui, Luk Kin Yu, Peter (appointed on 29 April 2005)

Duties and Responsibilities

- examine the management of the use of insurance funds, and plans for the delegation and custody of insurance funds;
- examine regulations, decision-making procedures and delegation policies in respect of the use of insurance funds;
- examine the delegation by the Board to the management in respect of the use of insurance funds;
- formulate 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;
- formulate investment strategies and plans for new investment products;
- review at regular intervals findings of the Company's risk control inspection on its use of funds, and understand at regular intervals the risks faced by the Company in its use of funds;
- review the Reports on Assets and Liabilities Matching of the Company;
- examine matters in respect of changes in the accounting policies regarding the use of insurance funds;
- other matters authorised by the Board.

Summary of Work Undertaken

Pursuant to the Work Manual for the Investment Decision-making Committee, the meetings of the Investment Decision-making Committee include regular meetings and special meetings, and regular meetings shall be convened at least once a year. In 2005, the Investment Decision-making Committee held three meetings, all of which were convened by way of resolutions in writing, and considered five proposals.

In 2005, the main tasks accomplished by the Investment Decision-making Committee included:

- formulated the Work Manual for the Investment Decision-making Committee which specifically laid down the duties of the Investment Decision-making Committee and its operating procedures;
- examined the proposals regarding the determination of the asset manager and custodian for the Company's overseas investment;
- examined the proposal regarding the Company's investment in the secondary stock market;
- examined the Report on the Strategic Allocation of and Investment Policies on Custodian Assets for 2006.

SUPERVISORY COMMITTEE

Overview

In 2005, the Supervisory Committee continued to discharge its supervisory duties and increased its efforts in supervision and inspection. The Supervisory Committee conducted specialised investigations and researches in respect of premium receivables and inspected the financial and operational conditions of certain branches, and made suggestions to the management regarding the strengthening of the control of premiums receivable, compliant operation and financial management.

Composition

Chairman: Deng Zhaoyu

Supervisors: Tang Wei, Liu Qilong

Duties and Responsibilities

- examine the financial affairs of the Company;
- take supervisory actions against the directors, the President and other senior management for breaching the laws, administrative regulations or the Articles of Association while carrying out their duties;
- request the directors, the President or other senior management to rectify their actions in the event that such actions infringe the interests of the Company;
- verify the financial information to be submitted by the Board of Directors at general meetings including financial reports, business reports and profit distribution plans, appointing registered accountants or practicing auditors to re-examine such information if such information is in doubt;
- make proposals to convene special general meetings;
- negotiate with or initiate proceedings against the directors on behalf of the Company;
- make recommendations in relation to the appointment of auditors of the Company and, if necessary, appoint another auditor in the name of the Company to conduct an independent audit of the financial affairs of the Company or report directly to the securities regulators and other relevant authorities;
- attend board meetings;
- report its supervisory work of the preceding year at annual general meetings, including:
    - > results of examination of the financial affairs of the Company;
    - > status of diligence of and compliance with laws, regulations and the Articles of Association by the directors, the President and other senior management;

> other major events which the Supervisory Committee considers necessary to report at shareholders' general meetings;

- other duties conferred by the Articles of Association.

Summary of Work Undertaken

In 2005, the Supervisory Committee of the Company duly carried out its supervisory duties and protected the interests of the Company, its shareholders and its employees strictly in compliance with the relevant provisions of the Company Law and the Articles of Association. During the reporting period, the Supervisory Committee convened two meetings and held two hearings, considered and approved five proposals. The meeting attendance rate of each supervisor reached 100% and the record of their attendance is as follows:

Name	Deng Zhaoyu	Tang Wei	Liu Qilong
Number of meetings attended/ Number of meetings that require attendance	2/2	2/2	2/2
Attendance Rate	100%	100%	100%

In 2005, the main tasks accomplished by the Supervisory Committee included:

- attended four board meetings, two meetings of the Audit Committee and three shareholders' general meetings;
- organised an investigation and research team to conduct specialised investigations and researches in respect of premiums receivables of the Guangdong, Sichuan and Xiamen branches of the Company;
- organised an inspection team to inspect the financial conditions and operations of the Yunnan, Shaanxi and Tianjin branches of the Company, cover over twenty of their sub-branches;
- made pragmatic suggestions to the management of the Company to remedy the operational and management risks and deficiencies of the branches found during the investigations and researches, thereby played a positive role in ensuring the compliant operation and financial management, the due protection of the interests of shareholders, and the improvement of the operational and management capabilities of the Company.

RIGHTS OF SHAREHOLDERS

Methods of Convening Special General Meetings

According to the Articles of Association and the Rules of Conduct for General Meetings of the Company, any shareholder(s) holding 10% or more of the voting shares of the Company may request in writing to convene a special general meeting and such shareholder(s) shall submit the complete resolution(s) to the Board of Directors in writing. If the Board of Directors is satisfied that the resolution(s) complies with the requirements under the laws, regulations and the Articles of Association, it shall issue the notice of special general meeting within fifteen days of receipt of the written resolution(s).

Enquiry Procedures

According to the Articles of Association, shareholders may obtain the following information by contacting the Information Inquiry Department (whose contact details are set out in the "Corporate Information" section of this annual report):

- the Articles of Association (subject to the payment of its cost);
- subject to the payment of a reasonable fee, shareholders are entitled to review and make copies of:
  - register of shareholders;
  - personal details of directors, supervisors, the President and other senior management of the Company, including their present and former names and aliases, principal (residential) addresses, nationalities, positions held in the Company and their other concurrent occupations and positions held, identification documents and the numbers thereof;
  - details of the Company's share capital;
  - report on repurchases of each class of shares by the Company (containing details of the total nominal value, quantity, the highest price and the lowest price of the repurchase, and the total amount paid by the Company therefor) since the previous accounting year;
  - minutes of shareholders' general meetings.

Procedures for Proposing Resolutions at Annual General Meetings

Any shareholder(s), whether individually or collectively, holding 5% or more of the voting shares of the Company is entitled to propose resolution(s) at annual general meetings in writing.

INVESTOR RELATIONS

The Company communicates its operating results timely with investors after the announcements of annual and interim results by way of results briefings and roadshows. Through attending visits of investors and major investment forums, making timely replies to enquiries made by telephone and electronic mail and providing relevant information to investors proactively through the Company's website, the Company is strengthening its day-to-day communications with investors with a view to establishing and maintaining a good relationship with investors.

PARTICULARS OF THE LATEST SHAREHOLDERS' GENERAL MEETING

The latest shareholders' general meeting was the special general meeting held on 18 January 2006 at Wanchunyuan Villa, Beijing. The meeting considered the resolution regarding the appointment of Mr Ding Ningning as an independent non-executive director of the Company. The resolution was decided by a show of hands and was approved by 100% of the shareholders present with shares conferring a right to vote.

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 50 to 119 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 Hong Kong Standards on Auditing 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 2005 and of its profit and cash flows 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
21 April 2006

INCOME STATEMENT

Year ended 31 December 2005

	Notes	2005 RMB million	2004 RMB million (Restated)
TURNOVER	4, 5	**62,332**	62,003
Net premiums earned	4, 5	**49,802**	50,628
Net claims incurred	4, 6	**(36,335)**	(39,015)
Amortisation of deferred acquisition costs, net	4, 24	**(4,792)**	(3,560)
Insurance protection expense	4, 32	**(537)**	(563)
General and administrative expenses		**(6,372)**	(7,054)
UNDERWRITING PROFIT		**1,766**	436
Net investment income	7	**1,478**	1,326
Net realised and unrealised losses on investments	8	**(336)**	(988)
Interest expense credited to policyholders' deposits		**(143)**	(144)
Exchange losses, net	9	**(305)**	(15)
Sundry income		**26**	28
Sundry expenses		**(102)**	(79)
Finance costs	10	**(181)**	(169)
PROFIT BEFORE TAX	11	**2,203**	395
Tax	14	**(1,090)**	(261)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**1,113**	134
BASIC EARNINGS PER SHARE (in RMB)	15	**0.100**	0.012
DIVIDEND PER SHARE (in RMB)	16	**0.072**	–

	Notes	2005 RMB million	2004 RMB million (Restated)
ASSETS			
Cash and cash equivalents	17	15,895	16,275
Term deposits	18	11,641	11,723
Debt securities	19	18,524	14,649
Equity securities	20	2,840	5,568
Subordinated debts	21	2,910	2,910
Capital security fund	22	2,228	2,228
Premiums receivable and agents' balances, net	23	3,767	2,472
Unearned premium reserves – reinsurers' share	35	5,967	4,319
Deferred acquisition costs	24	3,987	4,406
Other non-current assets		178	286
Receivables from reinsurers	25	2,500	989
Reinsurance recoverable on unpaid losses	36	5,185	5,957
Prepayments and other receivables	26	1,213	2,705
Deferred tax assets	34	–	152
Property, plant and equipment	27	10,576	10,965
Investment properties	28	213	139
Construction in progress	29	1,756	949
Prepaid land premiums	30	4,000	4,065
TOTAL ASSETS		93,380	90,757
LIABILITIES			
Payables to reinsurers	31	3,531	1,311
Accrued insurance protection fund	32	195	1,099
Tax payable		404	291
Other liabilities and accruals	33	6,009	6,344
Deferred tax liabilities	34	78	–
Reinsurers' share of deferred acquisition costs	24	1,345	2,153
Unearned premium reserves	35	32,507	30,803
Loss and loss adjustment expense reserves	36	22,026	21,817
Policyholders' deposits	37	8,449	8,786
Subordinated loan	38	2,000	2,000
TOTAL LIABILITIES		76,544	74,604
CAPITAL AND RESERVES			
Issued share capital	40	11,142	11,142
Reserves		5,694	5,011
		16,836	16,153
TOTAL EQUITY AND LIABILITIES		93,380	90,757

Mr Tang Yunxiang
Chairman

Mr Wang Yincheng
Executive Director

Statement of Changes in Equity
Year ended 31 December 2005

	Issued share capital *RMB million*	Share premium account *RMB million*	Available-for-sale/ non-trading securities revaluation reserve *RMB million*	Statutory surplus reserve *RMB million*	Statutory public welfare fund *RMB million*	(Note) Other reserves *RMB million*	Retained profits/ (Accumulated losses) *RMB million*	Total *RMB million*
At 1 January 2004								
As previously reported	11,142	4,739	(5)	6	3	774	98	16,757
Prior year adjustment – on adoption of HKFRS 4	–	–	–	–	–	–	(291)	(291)
As restated	11,142	4,739	(5)	6	3	774	(193)	16,466
Revaluation of non-trading securities	–	–	(674)	–	–	–	–	(674)
Realised on disposals of non-trading securities	–	–	5	–	–	–	–	5
Change of deferred tax assets recognised	–	–	222	–	–	–	–	222
Net loss for the year recognised directly in equity	–	–	(447)	–	–	–	–	(447)
Net profit for the year (as restated)	–	–	–	–	–	–	134	134
At 31 December 2004	11,142	4,739	(452)	6	3	774	(59)	16,153
At 1 January 2005								
As previously reported	11,142	4,739	(452)	6	3	774	306	16,518
Prior year adjustment – on adoption of HKFRS 4	–	–	–	–	–	–	(365)	(365)
As restated	11,142	4,739	(452)	6	3	774	(59)	16,153
Net fair value gain of available-for-sale financial instruments	–	–	188	–	–	–	–	188
Realised on disposals of available-for-sale financial instruments	–	–	120	–	–	–	–	120
Impairment loss	–	–	245	–	–	–	–	245
Change of deferred tax assets recognised	–	–	(181)	–	–	–	–	(181)
Net gain for the year recognised directly in equity	–	–	372	–	–	–	–	372
Net profit for the year	–	–	–	–	–	–	1,113	1,113
2005 Interim dividend	–	–	–	–	–	–	(802)	(802)
Transfer from/(to) reserves	–	–	–	95	48	–	(143)	–
At 31 December 2005	11,142	4,739	(80)	101	51	774	109	16,836

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 dividends payable, pursuant to the reorganisation of the Company on 30 September 2002. Details of this 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 ("HKSE"). According to a legal opinion obtained from the Company's lawyer, this amount is distributable, subject to the provisions as set out under "Profit appropriation" in note 2.5 to the financial statements.

	Notes	2005 RMB million	2004 RMB million (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,203	395
Adjustments for:			
Net investment income	7	(1,478)	(1,326)
Net realised and unrealised losses on investments	8	336	988
Interest expense credited to policyholders' deposits		143	144
Exchange losses, net	9	305	15
Depreciation for property, plant and equipment	11, 27	1,096	1,246
Depreciation for investment properties	11, 28	6	4
Amortisation for prepaid land premiums	11, 30	93	98
Impairment loss on construction in progress	11, 29	–	6
Net loss on disposals of items of property, plant and equipment and construction in progress	11	8	17
Finance costs	10	181	169
Impairment loss on premiums receivable	11	136	81
Increase in premiums receivable and agents' balances		(1,431)	(538)
Increase in deferred acquisition costs, net		(389)	(969)
Decrease in other non-current assets		108	14
Increase in receivables from reinsurers		(1,511)	(333)
Decrease/(increase) in prepayments and other receivables		1,468	(297)
Increase/(decrease) in payables to reinsurers		2,220	(667)
(Decrease)/increase in accrued insurance protection expenses		(904)	577
(Decrease)/increase in other liabilities and accruals		(47)	1,575
Increase in unearned premium reserves, net		56	2,092
Increase in loss and loss adjustment expense reserves, net		981	3,752
Cash generated from operations		3,580	7,043
PRC income tax paid		(929)	(257)
Net cash inflow from operating activities		2,651	6,786
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,450	612
Dividends received from listed investments		52	228
Payment for investment management fee		(41)	(32)
Payment for capital expenditure		(1,677)	(1,281)
Proceeds from disposals of items of property, plant and equipment and construction in progress		66	10
Payment for purchases of debt and equity securities		(19,713)	(35,051)
Proceeds from sales of debt and equity securities		18,825	27,166
Placement of deposits with banks and other financial institutions with original maturity of more than three months		(11,725)	(13,626)
Maturity of deposits with banks and other financial institutions with original maturity of more than three months		11,807	14,465
Net cash outflow from investing activities		(956)	(7,509)
Net cash inflow/(outflow) before financing activities		1,695	(723)

	Notes	2005 *RMB million*	2004 *RMB million* (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Securities sold under agreements to repurchase		**(611)**	611
Securities purchased under agreements to resell		**–**	(300)
Decrease in policyholders' deposits		**(480)**	(504)
Interest paid		**(182)**	(169)
Interim dividend paid		**(802)**	–
Special dividend paid to PICC Holding		**–**	(644)
Net cash outflow from financing activities		**(2,075)**	(1,006)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(380)**	(1,729)
Cash and cash equivalents at beginning of year		**16,275**	18,004
CASH AND CASH EQUIVALENTS AT END OF YEAR		**15,895**	16,275
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash in hand	17	**25**	25
Demand deposits	17	**13,116**	14,942
Securities purchased under resale agreements with original maturity of less than three months	17	**–**	50
Deposits with bank and other financial institutions with original maturity of less than three months	17	**2,754**	1,258
		15,895	16,275

1. CORPORATE INFORMATION

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

The registered office of the Company is located at No. 69, Dongheyan Street, Xuanwumen, Beijing, the PRC.

The principal activities of the Company are providing property and casualty insurance. The details of the business lines are set out in note 4 of the financial statements.

In the opinion of the directors, the parent and the ultimate holding company of the Company is PICC Holding Company (the "Holding Company"), which is incorporated in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") 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 certain debt securities, equity securities and structured deposits, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Company and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 4	Insurance Contracts

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

The adoption of HKASs 1, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 32, 33, 36 and 37 has had no material impact on the accounting policies of the Company and the methods of computation in the Company's financial statements. HKAS 24 has expanded the definition of related parties and affected the Company's related party disclosures. The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Company's leasehold interest in land and buildings is separated into leasehold land and buildings. The Company's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Company by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on a straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the income statement and accumulated losses. The comparative amounts in the balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 39 – Financial Instruments

Classification of financial instruments

In prior years, investments were classified into trading, non-trading and held-to-maturity securities.

Trading securities were stated at their fair values at the balance sheet date, on an individual basis, and their gains or losses arising from changes in the fair value of a security were credited or charged to the income statement.

Non-trading securities were stated at their fair values with their gains or losses arising from changes in fair value of a security dealt with in the non-trading securities revaluation reserve, until the security was sold, collected, or otherwise disposed of, or until the security was determined to be impaired, when the cumulative gains or losses derived from the security recognised in the non-trading securities revaluation reserve, together with the amount of any further impairment, was charged to the income statement in the period in which the impairment arises. Upon the adoption of HKAS 39, securities held by the Company as at 1 January 2005 in the amount of RMB5,265 million and RMB14,952 million were designated as financial assets at fair value through profit or loss and available-for-sale financial assets, respectively, under the transitional provisions of HKAS 39.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

(b) HKAS 39 – Financial Instruments *(continued)*

Upon the adoption of HKAS 39, term deposits of RMB3,664 million (note 18), which were previously stated at amortised cost, were also designated as financial assets at fair value through profit or loss.

Held-to-maturity securities were stated at amortised costs less any impairment losses. Upon the adoption of HKAS 39, these securities held by the Company at 1 January 2005 in the amount of RMB2,910 million (note 21) were classified as loans and receivables. Comparative amounts have been reclassified for presentation purposes.

(c) HKAS 40 – Investment Property

In prior years, the Company made use of the exemption available to insurance companies under Hong Kong Statement of Standard Accounting Practice 13 "Accounting for investment properties" and did not separately present investment properties. Upon the adoption of HKAS 40, investment properties are reclassified and separately presented in the balance sheet. The comparative amounts in the balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of these properties.

(d) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share appreciation rights were required until such rights were exercised or fully exercisable by employees.

The main impact of HKFRS 2 is the recognition of the cost of these transactions at fair value when these share appreciation rights are initially granted. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The revised accounting policy for share-based payment transaction is described in more details in note 2.5 "Summary of significant accounting policies".

As the adoption of HKFRS 2 did not have material impact on the prior year's financial statements, it was prospectively applied.

(e) HKFRS 4 – Insurance Contracts

In prior years, loss and loss adjustment expense reserves included loss adjustment expenses that can be directly attributable to individual claims but excluded indirect, unallocated loss adjustment expenses. Unallocated loss adjustment expenses include any part of the general administrative costs directly attributable to the claims function. Upon the adoption of HKFRS 4, in order to comply with the requirements for a liability adequacy test, unallocated loss adjustment expenses are included in the loss and loss adjustment expense reserves. The reinsurers' share of deferred acquisitions costs are also separately presented as liabilities in the financial statements.

The effects of the above changes are summarised in note 2.4 to the financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures on qualitative information about the Company's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

HKAS 39 & HKFRS 4 Amendments – Financial Guarantee Contracts does not apply to the Company as the Company regards such contracts as insurance contracts and has used accounting policies applicable to insurance contracts.

HKAS 19 and HKAS 39 Amendments do not apply to the activities of the Company.

Except as stated above, the Company expects that the adoption of the pronouncements listed above will not have any significant impact on the Company's financial statements in the periods of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the balance sheet

	Effect of adopting				
At 1 January 2005	HKAS 17	HKAS 40	HKFRS 4	HKFRS 4	
Effect of new policies	Prepaid land premiums	Investment properties	Unallocated loss adjustment expenses	Grossing-up of deferred acquisition costs	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Assets (Increase/(decrease))					
Deferred acquisition costs	–	–	–	2,153	2,153
Property, plant and equipment	(4,065)	(139)	–	–	(4,204)
Investment properties	–	139	–	–	139
Prepaid land premiums	4,065	–	–	–	4,065
Deferred tax assets	–	–	180	–	180
	–	–	180	2,153	2,333
Liabilities (Increase)					
Reinsurers' share of deferred acquisition costs	–	–	–	(2,153)	(2,153)
Loss and loss adjustment expense reserves	–	–	(545)	–	(545)
	–	–	(545)	(2,153)	(2,698)
					(365)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

(a) Effect on the balance sheet *(continued)*

At 31 December 2005	Effect of adopting					
	HKAS 17	HKAS 40	HKFRS 2	HKFRS 4	HKFRS 4	
Effect of new policies	Prepaid land premiums	Investment properties	Share-based payment	Unallocated loss adjustment expenses	Grossing-up of deferred acquisition costs	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Assets (Increase/(decrease))						
Deferred acquisition costs	–	–	–	–	1,345	1,345
Property, plant and equipment	(4,000)	(213)	–	–	–	(4,213)
Investment properties	–	213	–	–	–	213
Prepaid land premiums	4,000	–	–	–	–	4,000
Deferred tax assets	–	–	3	182	–	185
	–	–	3	182	1,345	1,530
Liabilities (Increase)						
Reinsurers' share of deferred acquisition costs	–	–	–	–	(1,345)	(1,345)
Loss and loss adjustment expense reserves	–	–	–	(553)	–	(553)
Other liabilities and accruals	–	–	(10)	–	–	(10)
	–	–	(10)	(553)	(1,345)	(1,908)
						(378)

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(CONTINUED)*

(b) Effect on the income statement for the years ended 31 December 2005 and 2004

	Effect of adopting				
		HKAS 39	HKFRS 2	HKFRS 4	
Effect of new policies	New presentation of income statement*	Impairment loss of available-for-sale financial assets**	Share-based payment	Unallocated loss adjustment expenses	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Year ended 31 December 2005					
Increase in net claims incurred	–	–	–	(8)	(8)
Increase in net investment income	65	–	–	–	65
Increase in realised and unrealised losses on investments	(42)	(228)	–	–	(270)
Increase in exchange losses, net	(305)	–	–	–	(305)
Increase in sundry income	26	–	–	–	26
Increase in sundry expenses	(102)	–	–	–	(102)
Decrease/(increase) in general and administrative expenses	388	–	(10)	–	378
Increase in finance costs	(30)	–	–	–	(30)
Decrease in tax	–	75	3	2	80
Total decrease in profit	–	(153)	(7)	(6)	(166)
Decrease in basic earnings per share (in RMB)	–	(0.014)	(0.001)	(0.001)	(0.016)
Year ended 31 December 2004					
Increase in net claims incurred	–	–	–	(110)	(110)
Increase in net investment income	74	–	–	–	74
Increase in realised and unrealised losses on investments	(40)	–	–	–	(40)
Increase in exchange losses, net	(15)	–	–	–	(15)
Increase in sundry income	28	–	–	–	28
Increase in sundry expenses	(79)	–	–	–	(79)
Decrease in general and administrative expenses	81	–	–	–	81
Increase in finance costs	(49)	–	–	–	(49)
Decrease in tax	–	–	–	36	36
Total decrease in profit	–	–	–	(74)	(74)
Decrease in basic earnings per share (in RMB)	–	–	–	(0.007)	(0.007)

* During the year, the Company changed its presentation of the income statement. The directors are of the opinion the new presentation better reflects the operating results of the Company. In particular, underwriting results are separately presented in the income statement under this new presentation.

** The impairment has no impact on any asset or liability account as the amount is transferred from equity to income statement.

The effect of these new policies is presented in the statement of changes in equity.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Company if:

(a) the party directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;

(b) the party is a member of the key management personnel of the Company or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b); or

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis so as to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2.77% – 19.40%
Motor vehicles	16.17% – 24.25%
Office equipment, furniture and fixtures	8.82% – 32.30%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date. Useful lives of certain property, plant and equipment have been revised during the year and the change in this accounting estimate was considered immaterial to the financial statements.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement of the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Construction in progress

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs, less accumulated depreciation and any impairment losses at the balance sheet date.

Depreciation is computed on a straight-line basis, after taking into account the estimated residual value (3% of the original cost), over the estimated useful lives. The estimated useful lives of investment properties vary from 30 to 35 years.

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the individual investment properties.

Any gains or losses on retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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 property, plant and equipment, and rentals receivable under the operating leases are credited to the income statement 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 income statement on a straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leases *(continued)*

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on a straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and the buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Applicable to the year ended 31 December 2004

The Company classified its investments as trading securities, non-trading securities and held-to-maturity securities.

Trading securities

Trading securities were investments in securities held for trading purposes and were 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 were credited or charged to the income statement in the period in which they arise.

Non-trading securities

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

Listed securities were 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 were stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments were 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 were dealt with as movements in the non-trading securities revaluation reserve, until the security was sold, collected, or otherwise disposed of, or until the security was determined to be impaired, when the cumulative gains or losses derived from the security recognised in the non-trading securities revaluation reserve, together with the amount of any further impairment, were charged to the income statement in the period in which the impairment arises.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2004 *(continued)*

Non-trading securities (continued)

Securities sold under sale and repurchase agreements in which the Company maintains effective control of the securities were accounted for as secured borrowings. Such securities were maintained in 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 was 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 were investments in dated debt securities which the Company has the expressed intention and ability to hold to maturity, and were stated at amortised cost less any impairment losses which reflect their credit risk. Amortised cost was cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount. An impairment loss was charged to the investment and income statement in the period in which it arose, on an individual investment basis. In situations where the circumstances and events which led to an impairment of a held-to-maturity security ceased to exist and there was persuasive evidence that the new circumstances and events will persist for the foreseeable future, the reversal of the impairment was credited to the income statement, on an individual investment basis, to the extent of the amount previously charged.

Applicable to the year ended 31 December 2005

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses are recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments and other financial assets *(continued)*

Applicable to the year ended 31 December 2005 *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost and amortised using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gains or losses previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and option pricing models.

Impairment of financial assets

Applicable to the year ended 31 December 2005

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly or through use of an allowance account. The amount of the loss is recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

Applicable to the year ended 31 December 2005 ***(continued)***

Financial assets carried at amortised cost (continued)

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Derecognition of financial assets and liabilities

Applicable to the year ended 31 December 2005

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment of other assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of an asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction cost.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Cash and cash equivalents

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

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits with maturity of generally within three months when acquired, and assets similar in nature to cash, which are not restricted as to use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Product classification

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remaining of its life time, even if the insurance risk reduces significantly during such period.

Investment contracts

Any contracts issued to policyholders but not considered insurance contracts under HKFRS 4 are classified as investment contracts.

Where contracts contain both a deposit component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Any premiums relating to the insurance component are accounted for through the income statement and the remaining element is accounted for as a deposit through the balance sheet as described above.

Insurance contract liabilities

Unearned premium reserves

Unearned premium reserves are recognised to cover the unexpired portion of the risks written. Premiums are earned over the terms of the related insurance contracts on a 365-day basis.

Loss and loss adjustment expense reserves

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 direct and indirect, unallocated loss adjustment expenses.

The loss and loss adjustment expense reserves are calculated at a 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Insurance contract liabilities *(continued)*

Policyholders' deposits

Policyholders' deposits represent deposits received from policyholders which are refundable at maturities of the individual policyholder's insurance policy. These deposits are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition cost assets. In performing these tests, current best estimates of future contractual cash flows, loss adjustment and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement initially by writing off deferred acquisition cost assets and by subsequently establishing a provision for losses arising from the liability adequacy tests. The amount of provision is made for each class of business individually. Any deferred acquisition cost asset written off cannot subsequently be reinstated.

Deferred acquisition costs

Policy acquisition costs which vary with and are primarily related to the production of new and renewing business (consisting principally of commission expenses and underwriting personnel expenses) are deferred and amortised over the terms of the related insurance policies. Reinsurers' share of deferred acquisition costs are separately presented in the balance sheet as a liability item.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carryforward of unused tax credits 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.

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 reassessed at each balance sheet date and are recognised to the extent that they are probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Reinsurance

The Company assumes and/or cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance was considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the terms of the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Employee benefits

Pension scheme

The employees of the Company are required to participate in a central pension scheme operated by the local municipal government. The Company is required to contribute 13.0% to 39.5% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Share-based payment transactions

Senior executives working in the Company are granted share appreciation rights, which are settleable only in cash (cash-settled transactions). The cost of cash-settled transactions is measured initially at fair value using the Black-Scholes formula at the grant date taking into account the terms and conditions upon which the instruments were granted (see note 41). This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

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, on policy inception and earned on a pro rata basis over the term of the related policy coverage;

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

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Claims

Claims incurred include all claim losses occurring during the year, whether reported or not, including the related loss adjustment expenses and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all general administrative costs directly attributable to the claims function.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

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.

(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.

As a result of the amendment to the PRC Company Law, the Company was no longer required to appropriate net profit after tax (after offsetting any prior years' loss) with effect on 1 January 2006.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity 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 dividends are simultaneously proposed and declared. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Company's accounting policies, corporate management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification of financial assets

The Company classifies its financial assets in accordance with HKAS 39 as either financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. Certain of these classifications require judgements. In making these judgements, the Company considers the intention of holding these financial assets, compliance with the requirements of HKAS 39 and their implications to the presentation in the financial statements.

Impairment of available-for-sale equity financial assets

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

Judgements *(continued)*

Impairment of reinsurance assets

The Company performs an impairment review on its reinsurance assets when an indication of impairment occurs. In considering whether a reinsurance asset is impaired, the Company considers whether (a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract; and (b) the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Claims liability arising from insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty, including legislative changes and speed of settlement, that need to be considered in the estimation of the liability that the Company will ultimately pay for those claims. The Company uses a number of different actuarial techniques and assumptions to estimate the liability.

The directors believe that the loss and loss adjustment expense reserves at the balance sheet date are adequate to cover the ultimate costs 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.

Financial assets registered under the exchange trading seats of securities companies

For debt securities subject to restriction on either disposal or transfer of the registration as explained in note 19 to the financial statements and an amount due from a securities company under liquidation as at 31 December 2005 as explained in note 26 to the financial statements, estimation is required when the Company determines the fair values of these financial assets or the extent of impairment, if they are classified as available-for-sale financial assets.

4. SEGMENT INFORMATION

Segment information is presented by way of the Company's primary reporting basis, by business segment. No further geographical segment information is presented as all of the Company's customers and operations are located 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' liabilities;
(f) the accidental injury segment provides insurance products covering accidental injuries; 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:

	2005 ***RMB million***	2004 *RMB million* (Restated)
Turnover		
Motor vehicle	**42,046**	42,898
Commercial property	**8,199**	7,987
Homeowners	**1,051**	1,257
Cargo	**2,665**	2,724
Liability	**2,420**	2,051
Accidental injury	**2,247**	1,890
Other	**3,704**	3,196
	62,332	62,003
Net premiums earned		
Motor vehicle	**36,443**	35,802
Commercial property	**5,629**	6,402
Homeowners	**714**	452
Cargo	**2,141**	2,940
Liability	**1,783**	1,850
Accidental injury	**1,653**	1,688
Other	**1,439**	1,494
	49,802	50,628
Net investment income		
Homeowners	**255**	179
Net realised and unrealised losses on investments		
Homeowners	**(123)**	(104)

4. SEGMENT INFORMATION *(CONTINUED)*

	2005 *RMB million*	2004 *RMB million* (Restated)
Net claims incurred		
Motor vehicle	(27,593)	(30,927)
Commercial property	(4,519)	(4,003)
Homeowners	(228)	(240)
Cargo	(986)	(963)
Liability	(1,300)	(1,095)
Accidental injury	(695)	(936)
Other	(1,014)	(851)
	(36,335)	(39,015)
Amortisation of deferred acquisition costs, net		
Motor vehicle	(3,999)	(2,691)
Commercial property	(451)	(262)
Homeowners	(126)	(29)
Cargo	(274)	(227)
Liability	(183)	(111)
Accidental injury	(149)	(65)
Other	390	(175)
	(4,792)	(3,560)
Insurance protection expense		
Motor vehicle	(390)	(409)
Commercial property	(60)	(66)
Homeowners	(10)	(12)
Cargo	(21)	(25)
Liability	(19)	(18)
Accidental injury	(18)	(16)
Other	(19)	(17)
	(537)	(563)
Interest expense credited to policyholders' deposits		
Homeowners	(143)	(144)
Segment profit before unallocated income and expenses		
Motor vehicle	4,461	1,775
Commercial property	599	2,071
Homeowners	339	102
Cargo	860	1,725
Liability	281	626
Accidental injury	791	671
Other	796	451
	8,127	7,421

4. SEGMENT INFORMATION *(CONTINUED)*

	2005 *RMB million*	2004 *RMB million* (Restated)
Unallocated operating income and expenses		
Net investment income	1,223	1,147
Net realised and unrealised losses on investments	(213)	(884)
General and administrative expenses	(6,372)	(7,054)
Exchange losses, net	(305)	(15)
Sundry income	26	28
Sundry expenses	(102)	(79)
Finance costs	(181)	(169)
	(5,924)	(7,026)
Profit before tax	2,203	395
Tax	(1,090)	(261)
Net profit attributable to shareholders	1,113	134

Net investment income and net realised and unrealised losses on investments attributable to homeowners' insurance products, which can be separately identified based on the results of its designated pool of investments, are separately disclosed. Depreciation and capital expenditure, which are not attributable to particular insurance products, are not allocated and are included under unallocated operating income and expenses.

	2005 *RMB million*	2004 *RMB million* (Restated)
Segment assets		
Motor vehicle	9,408	7,822
Commercial property	4,460	3,811
Homeowners	843	709
Cargo	530	456
Liability	761	508
Accidental injury	617	530
Other	4,787	4,307
	21,406	18,143
Unallocated assets	71,974	72,614
Total assets	93,380	90,757

4. SEGMENT INFORMATION *(CONTINUED)*

	2005 RMB million	2004 RMB million (Restated)
Segment liabilities		
Motor vehicle	38,296	37,135
Commercial property	6,766	6,723
Homeowners	11,861	11,934
Cargo	1,346	1,306
Liability	2,211	1,728
Accidental injury	1,747	1,784
Other	5,464	5,360
	67,691	65,970
Unallocated liabilities	8,853	8,634
Total liabilities	76,544	74,604

5. TURNOVER AND NET PREMIUMS EARNED

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

	2005 RMB million	2004 RMB million
Turnover		
Direct premiums written	65,898	65,577
Reinsurance premiums assumed	16	6
	65,914	65,583
Less: Government levies and surcharges	(3,582)	(3,580)
	62,332	62,003
Net premiums earned		
Turnover	62,332	62,003
Less: Reinsurance premiums ceded	(12,474)	(9,283)
Net premiums written	49,858	52,720
Less: Changes in net unearned premium reserves	(56)	(2,092)
Net premiums earned	49,802	50,628

6. NET CLAIMS INCURRED

	2005 RMB million	2004 RMB million (Restated)
Gross claims paid	42,426	42,257
Less: Paid losses recoverable from reinsurers	(7,072)	(6,994)
Net claims paid	35,354	35,263
Add: Change in net loss and loss adjustment expense reserves *(note 36)*	981	3,752
Net claims incurred	36,335	39,015

7. NET INVESTMENT INCOME

	2005 RMB million	2004 RMB million (Restated)
Interest income from cash and cash equivalents and term deposits	725	553
Interest income from debt securities	541	436
Interest income from subordinated debts	141	68
Dividend income from equity securities	36	244
Rental income from investment properties	35	25
	1,478	1,326

8. NET REALISED AND UNREALISED LOSSES ON INVESTMENTS

	2005 RMB million	2004 RMB million (Restated)
Debt securities:		
Realised gains/(losses)	180	(19)
Unrealised losses	(40)	(5)
Equity securities:		
Realised losses	(210)	(12)
Unrealised gains/(losses)	21	(745)
Impairment loss on available-for-sale securities	(245)	(167)
	(294)	(948)
Add: investment management fee	(42)	(40)
	(336)	(988)

9. EXCHANGE LOSSES, NET

Exchange (losses)/gains can be attributable to the following functions:

	2005 *RMB million*	2004 *RMB million* (Restated)
Net realised and unrealised losses on investments	**(310)**	–
Net premiums earned	**(15)**	–
Net claims incurred	**7**	–
General and administrative expenses	**13**	(15)
	(305)	(15)

10. FINANCE COSTS

	2005 *RMB million*	2004 *RMB million* (Restated)
Interest on subordinated loan	**110**	105
Interest on securities sold under sale and repurchase agreements	**30**	49
Other finance costs	**41**	15
	181	169

11. PROFIT BEFORE TAX

The Company's profit before tax is arrived at after charging:

	Notes	2005 RMB million	2004 RMB million (Restated)
Auditors' remuneration, including interim review		15	13
Depreciation for property, plant and equipment	27	1,096	1,246
Depreciation for investment properties	28	6	4
Amortisation for prepaid land premiums	30	93	98
Employee expenses (including directors' remuneration):			
Wages salaries and staff welfare		4,634	4,267
Cash-settled share appreciation rights expense		10	–
Pension scheme contributions		432	440
Impairment loss on premiums receivable		136	81
Impairment loss on construction in progress		–	6
Minimum lease payments under operating leases – land and buildings		336	367
Net loss on disposals of items of property, plant and equipment and construction in progress		8	17

12. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2005 RMB'000	2004 RMB'000
Fees	2,436	2,494
Other emoluments:		
Salaries, allowances and benefits in kind	3,999	4,043
Performance related bonuses	2,272	2,467
Cash-settled share appreciation rights expense	1,833	–
Pension scheme contributions	754	588
	11,294	9,592

Certain directors and supervisors are entitled to bonuses which are determined by a number of factors including the operating results of the Company.

Certain directors and supervisors were granted share appreciation rights, in respect of their services to the Company, further details of which are set out in note 41 to the financial statements. The fair value of such rights, which has been amortised to the income statement, was determined as at the date of granted and remeasured at each balance sheet date and included in the above directors' and supervisors' remuneration disclosures.

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

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 *RMB'000*	2004 *RMB'000*
Mr. Cheng Wai Chee, Christopher	303	274
Mr. Lu Zhengfei	302	302
Mr. Luk Kin Yu, Peter	303	–
Mr. Wang Tung Shun, Peter	21	274
	929	850

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

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

(b) Chairman of Board, executive directors, non-executive directors and supervisors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Cash-settled share appreciation rights expense *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2005						
Chairman of Board						
Mr. Tang Yunxiang	137	737	505	220	132	1,731
Executive directors:						
Mr. Wang Yi (President)	137	700	480	220	127	1,664
Mr. Wang Yincheng	137	537	299	158	103	1,234
Mdm. Liu Zhenghuan	137	567	316	158	108	1,286
Mr. Fu Zhu	137	493	104	107	95	936
Non-executive directors:						
Mr. Ding Yunzhou	137	–	–	158	–	295
Mr. Zhou Shurui	137	–	–	158	–	295
Mr. Tse Sze-Wing, Edmund	137	–	–	118	–	255
Supervisors:						
Mr. Deng Zhaoyu (Chairman)	137	700	480	220	127	1,664
Mr. Tang Wei	137	–	–	158	–	295
Mr. Liu Qilong	137	265	88	158	62	710
	1,507	3,999	2,272	1,833	754	10,365
2004						
Chairman of Board						
Mr. Tang Yunxiang	137	737	505	–	101	1,480
Executive directors:						
Mr. Wang Yi (President)	137	700	480	–	97	1,414
Mr. Wang Yincheng	137	537	299	–	80	1,053
Mdm. Liu Zhenghuan	137	567	316	–	83	1,103
Mr. Fu Zhu	137	537	299	–	80	1,053
Non-executive directors:						
Mr. Ding Yunzhou	137	–	–	–	–	137
Mr. Zhou Shurui	137	–	–	–	–	137
Mr. Tse Sze-Wing, Edmund	137	–	–	–	–	137
Mr. Qiao Lin	137	–	–	–	–	137
Supervisors:						
Mr. Deng Zhaoyu (Chairman)	137	700	480	–	97	1,414
Mr. Tang Wei	137	–	–	–	–	137
Mr. Liu Qilong	137	265	88	–	50	540
	1,644	4,043	2,467	–	588	8,742

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

13. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees during the year and the prior year were either directors or supervisors of the Company.

14. TAX

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.

	2005 ***RMB million***	2004 *RMB million* (Restated)
Current – charge for the year	**1,042**	380
Deferred *(note 34)*	**48**	(119)
Total tax charge for the year	**1,090**	261

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate for the PRC, in which the Company is domiciled, to the tax expense at the effective tax rate and a reconciliation of the applicable rates i.e. statutory tax rates to the effective tax rates, are as follows:

	2005 ***RMB million***	***%***	2004 *RMB million* (Restated)	*%*
Profit before tax	**2,203**		395	
Tax at the statutory tax rate of 33%	**727**	**33.0**	130	33.0
Income not subject to tax	**(98)**	**(4.4)**	(144)	(36.5)
Expenses not deductible for tax	**461**	**20.9**	275	69.6
Tax charge for the year	**1,090**	**49.5**	261	66.1

15. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of RMB1,113 million (2004: RMB134 million) and the 11,142 million (2004: 11,142 million) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2005 and 2004 have not been disclosed as no diluting events existed during these years.

16. DIVIDEND PER SHARE

During the year ended 31 December 2005, the Board of Directors declared an interim dividend of RMB802 million (2004: Nil). This declaration was approved by a Shareholders' meeting on 25 October 2005. The Board of Directors did not propose any final dividend for the year.

17. CASH AND CASH EQUIVALENTS

	2005 *RMB million*	2004 *RMB million*
Cash in hand	25	25
Demand deposits	13,116	14,942
Securities purchased under resale agreements with original maturity of less than three months	–	50
Deposits with banks and other financial institutions with original maturity of less than three months	2,754	1,258
	15,895	16,275

Demand deposits earn interest at floating rates based on daily bank deposit rates. Securities purchased under resale agreements and short term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit/agreed rates. The carrying amount of the cash and cash equivalents approximate to its fair value.

At 31 December 2005, RMB195 million (2004: RMB1,099 million) was included in deposits with banks and other financial institutions as accrued insurance protection fund. The amount was maintained in accordance with relevant the PRC insurance law and regulations for insurance protection and restricted in use. Details of the restrictions are disclosed in note 32 to the financial statements.

At 31 December 2005, included in deposits with banks and other financial institutions was a clearing account deposit of RMB64 million (2004: RMB57 million) deposited with a PRC securities company.

18. TERM DEPOSITS

	2005 *RMB million*	2004 *RMB million*
Structured deposits with banks and other financial institutions:		
– at fair value	3,107	–
– at amortised cost	838	3,664
Deposits with banks and other financial institutions with original maturity of more than three months, at amortised cost	7,696	8,059
	11,641	11,723

18. TERM DEPOSITS *(CONTINUED)*

Certain structured deposits maintained with PRC banks and other financial institutions are designated as fair value through profit or loss financial instruments on initial adoption of HKAS 39. The returns of certain structured deposits are linked to certain US dollar-denominated debt instruments or the London inter-bank offered rate. Embedded in some of these structured deposits are options to enter into new and different structured deposit arrangements at their maturity dates. Their fair values are estimated by certain interest option pricing models.

The carrying amounts of term deposits stated at amortised cost approximate to their fair values.

19. DEBT SECURITIES

	2005 *RMB million*	2004 *RMB million* (Restated)
Listed debt securities, at fair value:		
Debt securities issued by the PRC central government	9,630	3,566
Debt securities issued by corporate entities	544	959
	10,174	4,525
Unlisted debt securities, at fair value:		
Debt securities issued by the PRC central government	4,053	4,360
Debt securities issued by banks and other financial institutions	1,889	2,397
Debt securities issued by corporate entities	2,408	3,367
	8,350	10,124
	18,524	14,649
Classification of debt securities:		
Fair value through profit or loss – held for trading	3,398	–
Available-for-sale	15,126	–
Trading	–	2,200
Non-trading	–	12,449
	18,524	14,649

The fair values are based on market prices or broker/dealer price quotations.

19. DEBT SECURITIES *(CONTINUED)*

As at 31 December 2005, certain debt securities of the Company were registered under the exchange trading seats of a PRC securities company. The total amounts of debt securities at fair value through profit or loss and available-for-sale securities at 31 December 2005 were RMB508 million and RMB55 million (31 December 2004: trading and non-trading securities of RMB546 million and non-trading securities of RMB53 million), respectively. Since 2004, the Company and the Company's investment manager, PICC Assets Management Company Limited ("PICC AMC"), a fellow subsidiary of the company, 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 instruction and, as at the date of approving these financial statements, debt securities totalling RMB34 million (31 December 2004: RMB16 million) were disposed of by the securities company. In August 2005, a state-owned investment holding company injected capital in this securities company. In December 2005, an amount of RMB5 million was withdrawn from the securities company. The Company's management has been liaising with the securities company and the relevant regulatory authorities to ensure that the Company's assets are protected.

The Company's management has assessed the fair values and impairment of the above-mentioned debt securities, together with their accrued interests, by taking into account the restriction on disposals.

20. EQUITY SECURITIES

	2005 ***RMB million***	2004 *RMB million* (Restated)
Listed investments, at fair value:		
Mutual funds	**2,262**	2,781
Shares	**189**	–
	2,451	2,781
Unlisted investments, at fair value:		
Mutual funds	**389**	2,787
	2,840	5,568

	2005 ***RMB million***	2004 *RMB million*
Fair value through profit or loss – held for trading	**2,840**	–
Trading	**–**	2,781
Non-trading	**–**	2,787
	2,840	5,568

The fair values are based on market prices or bid prices quoted by mutual fund management companies.

21. SUBORDINATED DEBTS

	2005 *RMB million*	2004 *RMB million* (Restated)
Unlisted subordinated debts issued by banks and other financial institutions, at amortised cost	2,910	2,910

The fair value of these subordinated debts is RMB3,180 million (2004: RMB3,191 million). Fair values have been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

22. 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 China Insurance Regulatory Commission ("CIRC") as a security fund. The use of the security fund is subject to the approval of the CIRC.

23. PREMIUMS RECEIVABLE AND AGENTS' BALANCES, NET

	2005 *RMB million*	2004 *RMB million*
Premiums receivable and agents' balances	4,064	2,633
Less: Impairment loss on premiums receivable	(297)	(161)
	3,767	2,472

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

	2005 *RMB million*	2004 *RMB million*
Within 3 months	3,163	2,249
Over 3 months but less than 6 months	457	140
Over 6 months	147	83
	3,767	2,472

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

24. DEFERRED ACQUISITION COSTS

	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*
At 1 January 2005	**4,406**	**(2,153)**	**2,253**
Costs deferred during the year	**8,126**	**(2,945)**	**5,181**
Amortisation	**(8,545)**	**3,753**	**(4,792)**
At 31 December 2005	**3,987**	**(1,345)**	**2,642**
At 1 January 2004	3,382	(2,098)	1,284
Costs deferred during the year	7,338	(2,809)	4,529
Amortisation	(6,314)	2,754	(3,560)
At 31 December 2004	4,406	(2,153)	2,253

	2005			2004		
	Gross amount *RMB million*	**Reinsurers' share** *RMB million*	**Net amount** *RMB million*	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*
Current	**3,470**	**(1,171)**	**2,299**	3,877	(1,895)	1,982
Non-current	**517**	**(174)**	**343**	529	(258)	271
	3,987	**(1,345)**	**2,642**	4,406	(2,153)	2,253

25. RECEIVABLES FROM REINSURERS

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

	2005 *RMB million*	2004 *RMB million*
Within 3 months	**2,316**	755
Over 3 months but less than 6 months	**31**	80
Over 6 months	**153**	154
	2,500	989

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

26. PREPAYMENTS AND OTHER RECEIVABLES

	2005 *RMB million*	2004 *RMB million*
Amount due from provincial government	–	1,210
Interests receivable	434	444
Prepayments and deposits	163	115
Amount due from the Holding Company *(note 47(c))*	155	329
Other receivables	461	607
	1,213	2,705

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 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.

During the year, in accordance with notices issued by Ministry of Finance and the CIRC, the Company fully offset the balance of RMB1,210 million due from provincial and municipal governments against the accrued insurance protection fund.

In September 2004, a PRC securities company engaged by PICC AMC was placed under operational control by a special manager as instructed by the China Securities Regulatory Commission ("CSRC"). As at 31 December 2004, the Company had an outstanding amount of RMB415 million deposited at this securities company, including accrued interest amounting to RMB11 million and a clearing account deposit of RMB57 million. As the securities company went into liquidation in September 2005, the balance of RMB104 million, net of impairment, was reclassified to prepayment and other receivables.

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

27. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB million*	Motor vehicles *RMB million*	Office equipment, furniture and fixtures *RMB million*	Total *RMB million*
Cost:				
At 1 January 2005	**9,850**	**1,472**	**2,155**	**13,477**
Additions	**5**	**122**	**574**	**701**
Transfers *(note 29)*	**60**	**–**	**–**	**60**
Disposals	**(42)**	**(148)**	**(119)**	**(309)**
At 31 December 2005	**9,873**	**1,446**	**2,610**	**13,929**
Accumulated depreciation:				
At 1 January 2005	**(752)**	**(880)**	**(880)**	**(2,512)**
Depreciation	**(345)**	**(257)**	**(494)**	**(1,096)**
Disposals	**5**	**143**	**107**	**255**
As 31 December 2005	**(1,092)**	**(994)**	**(1,267)**	**(3,353)**
Net book value:				
As 31 December 2005	**8,781**	**452**	**1,343**	**10,576**
Cost:				
At 1 January 2004	9,675	1,477	1,909	13,061
Additions	22	118	546	686
Transfers *(note 29)*	165	–	–	165
Disposals	(12)	(123)	(300)	(435)
At 31 December 2004	9,850	1,472	2,155	13,477
Accumulated depreciation:				
At 1 January 2004	(408)	(631)	(635)	(1,674)
Depreciation	(348)	(364)	(534)	(1,246)
Disposals	4	115	289	408
At 31 December 2004	(752)	(880)	(880)	(2,512)
Net book value:				
As 31 December 2004	9,098	592	1,275	10,965

The Company's land and buildings are situated in Mainland China and held under medium term leases.

27. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

As at 31 December 2005, the title certificates of certain acquired buildings with a net book value of RMB385 million (2004: RMB367 million) were in the process of obtaining title registration.

The net book value of the Company's property, plant and equipment held under finance leases included in the total amount of property, plant and equipment at 31 December 2005, amounted to RMB1,938 million (2004: RMB1,975 million).

28. INVESTMENT PROPERTIES

	2005 *RMB million*	2004 *RMB million* (Restated)
Cost:		
At 1 January		
As previously reported	–	–
Effect of adopting HKAS 40 *(note 2.4(a))*	189	146
As restated	189	146
Additions	80	43
At 31 December	269	189
Accumulated depreciation:		
At 1 January		
As previously reported	–	–
Effect of adopting HKAS 40 *(note 2.4(a))*	(50)	(46)
As restated	(50)	(46)
Charge for the year	(6)	(4)
At 31 December	(56)	(50)
Net book value at 31 December	213	139

The fair value of the investment properties is RMB294 million (2004: RMB229 million). The fair value of the properties is determined by the directors with reference to recent market transactions.

The Company's investment properties are situated in Mainland China and held under medium term leases.

29. CONSTRUCTION IN PROGRESS

	2005 RMB million	2004 RMB million
At 1 January	949	642
Additions	887	478
Transfers to property, plant and equipment *(note 27)*	(60)	(165)
Disposals	–	–
Impairment	–	(6)
At 31 December	1,756	949

The Company's construction in progress is situated in Mainland China and held under medium term leases.

30. PREPAID LAND PREMIUMS

	2005 RMB million	2004 RMB million (Restated)
At 1 January		
As previously reported	–	–
Effect of adopting HKAS 17 *(note 2.4(a))*	4,065	4,158
As restated	4,065	4,158
Additions	28	5
Amortisation for the year	(93)	(98)
At 31 December	4,000	4,065

The leasehold land is situated in Mainland China and held under the following terms:

	2005 RMB million	2004 RMB million (Restated)
Long term leases	92	94
Medium term leases	3,908	3,971
	4,000	4,065

31. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	2005 *RMB million*	2004 *RMB million*
Reinsurance payables	3,169	641
Reinsurance funds withheld	362	670
	3,531	1,311

The reinsurance payables are non-interest-bearing and are due within three months from the balance sheet date or are repayable on demand. The reinsurance funds withheld as at 31 December 2005 and 2004 are repayable upon the expiration of the related reinsurance contracts.

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

32. ACCRUED INSURANCE PROTECTION FUND

	2005 *RMB million*	2004 *RMB million*
At 1 January	1,099	536
Accrued during the year	537	563
Offset against the amount due from provincial government *(note 26)*	(1,210)	–
Paid during the year	(231)	–
At 31 December	195	1,099

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% (2004: 6%) of the Company's total assets determined in accordance with the PRC GAAP.

All of the accrued insurance protection amounts are payable at 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 a CIRC's designated bank account.

33. OTHER LIABILITIES AND ACCRUALS

	2005 *RMB million*	2004 *RMB million*
Premiums received in advance	**1,827**	2,222
Salaries and staff welfare payable	**1,710**	1,402
Amount due to the Holding Company *(note 47(c))*	**116**	190
Accrued capital expenditure	**128**	109
Amount due to a fellow subsidiary *(note 47(c))*	**9**	8
Securities sold under agreements to repurchase	**–**	611
Others	**2,219**	1,802
	6,009	6,344

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

34. DEFERRED TAX

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

	Revaluation of fair value through profit or loss (trading securities) *RMB million*	Revaluation of available-for-sale financial instruments (non-trading securities) *RMB million*	Depreciation of property, plant and equipment *RMB million*	Deferred income recognition of fair value through profit or loss (trading securities) *RMB million*	Deferred acquisition costs *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2005							
As previously reported	281	251	209	–	–	9	750
Effect of adopting HKAS 39 and HKFRS 4	53	(88)	–	–	710	180	855
As restated at 1 January 2005	334	163	209	–	710	189	1,605
Deferred tax (charged)/credited to the income statement during the year *(note 14)*	(67)	55	16	–	(266)	79	(183)
Deferred tax debited to equity during the year	–	(181)	–	–	–	–	(181)
Gross deferred tax assets at 31 December 2005	267	37	225	–	444	268	1,241
At 1 January 2005							
As previously reported	–	–	–	(35)	(744)	–	(779)
Effect of adopting HKAS 39 and HKFRS 4	–	–	–	35	(710)	–	(675)
As restated at 1 January 2005	–	–	–	–	(1,454)	–	(1,454)
Deferred tax credited/(charged) to the income statement during the year *(note 14)*	–	–	–	(3)	138	–	135
Gross deferred tax liabilities at 31 December 2005	–	–	–	(3)	(1,316)	–	(1,319)
Net deferred tax liabilities at 31 December 2005							(78)

34. DEFERRED TAX *(CONTINUED)*

	Revaluation of trading securities *RMB million*	Revaluation of non-trading securities *RMB million*	Depreciation of property, plant and equipment *RMB million*	Deferred income recognition of trading securities *RMB million*	Deferred acquisition costs *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2004							
As previously reported	(29)	3	149	–	–	(31)	92
Effect of adopting HKFRS 4	–	–	–	–	692	144	836
As restated at 1 January 2004	(29)	3	149	–	692	113	928
Deferred tax credited to the income statement during the year *(note 14)*	310	26	60	–	18	77	491
Deferred tax credited to equity during the year	–	222	–	–	–	–	222
Gross deferred tax assets at 31 December 2004	281	251	209	–	710	190	1,641
At 1 January 2004							
As previously reported	–	–	–	(1)	(424)	–	(425)
Effect of adopting HKFRS 4	–	–	–	–	(692)	–	(692)
As restated at 1 January 2004	–	–	–	(1)	(1,116)	–	(1,117)
Deferred tax charged to the income statement during the year *(note 14)*	–	–	–	(34)	(338)	–	(372)
Gross deferred tax liabilities at 31 December 2004	–	–	–	(35)	(1,454)	–	(1,489)
Net deferred tax assets at 31 December 2004							152

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 available-for-sale/non-trading securities is taken to the available-for-sale/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.

35. UNEARNED PREMIUM RESERVES

	2005			2004		
	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*
At 1 January	30,803	(4,319)	26,484	30,422	(6,030)	24,392
Increase during the year	29,952	(5,498)	24,454	24,988	(3,504)	21,484
Release during the year	(28,248)	3,850	(24,398)	(24,607)	5,215	(19,392)
At 31 December	32,507	(5,967)	26,540	30,803	(4,319)	26,484
Current	28,305	(5,204)	23,101	27,269	(3,887)	23,382
Non-current	4,202	(763)	3,439	3,534	(432)	3,102
	32,507	(5,967)	26,540	30,803	(4,319)	26,484

36. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

	2005			2004		
	Gross amount *RMB million*	Reinsurers' share *RMB million*	Net amount *RMB million*	Gross amount *RMB million* (Restated)	Reinsurers' share *RMB million* (Restated)	Net amount *RMB million* (Restated)
At 1 January	21,817	(5,957)	15,860	18,391	(6,283)	12,108
Claims incurred during the year						
– Current year	41,290	(6,018)	35,272	43,219	(6,546)	36,673
– Prior year	1,345	(282)	1,063	2,464	(122)	2,342
Claims paid during the year						
– Current year	(24,852)	3,821	(21,031)	(25,342)	3,096	(22,246)
– Prior year	(17,574)	3,251	(14,323)	(16,915)	3,898	(13,017)
At 31 December	22,026	(5,185)	16,841	21,817	(5,957)	15,860
Current	16,033	(3,059)	12,974	16,148	(3,329)	12,819
Non-current	5,993	(2,126)	3,867	5,669	(2,628)	3,041
	22,026	(5,185)	16,841	21,817	(5,957)	15,860

Net claims incurred for the year ended 31 December 2005 increased by RMB1,063 million (2004: RMB2,342 million) as a result of adverse development of reserves from prior years, primarily on the motor insurance business, due to claim settlement patterns being slower than originally expected.

37. POLICYHOLDERS' DEPOSITS

An analysis of interest-bearing and non-interest-bearing deposits is set out below:

	2005 *RMB million*	2004 *RMB million*
Interest-bearing deposits	6,158	6,256
Non-interest-bearing deposits	2,291	2,530
	8,449	8,786

Policyholders' deposits consist of interest-bearing and non-interest-bearing deposits placed by policyholders.

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

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 policyholders receive a fixed rate of interest. Penalties on early termination are charged according to the terms stated in the contract.

The carrying amounts disclosed above reasonably approximate to their fair values at year end.

38. 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 long term borrowing interest rate per annum and is repayable in November 2023.

The fair value of the subordinated loan is RMB2,674 million (2004: RMB2,702 million). Fair value has been estimated using quoted market prices for securities with similar credit, maturity and characteristics.

39. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

(a) Insurance contracts

Terms

Loss and loss adjustment expense reserves are refined on a half-yearly basis as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. The reserve is not discounted for the time value of money.

The measurement process primarily includes projection of future claim costs through a combination of actuarial and statistical projection techniques.

Gross loss and loss adjustment expense reserves for aviation and oil and gas businesses are estimated by using incurred claim loss development and the incurred claim Bornheutter-Ferguson methodology. Gross loss and loss adjustment expense reserves for other lines of business are estimated by using incremental/cumulative claim loss developments, payment per claim incurred and cumulative loss Bornheutter-Ferguson methodologies for each major class of business. Larger claims are usually separately assessed.

Reinsurance recoveries on unpaid claims are separately estimated for statutory, non-statutory treaty and facultative reinsurance arrangements. Statutory reinsurance recoveries are estimated as a certain percentage of gross claim liabilities; non-statutory reinsurance recoveries are estimated by using the claim incurred Bornheutter-Ferguson methodology; facultative reinsurance recoveries are estimated by using large-claim recovery information provided by the claims department.

Assumptions and sensitivities

The principal assumption underlying the estimates is the Company's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

As different statistical projection techniques may produce different estimates, the directors choose results that are considered appropriate for the observed claim development patterns. The range of reasonable estimates of loss and loss adjustment expense reserves, projected by different statistical techniques and varying key assumptions, represent different views of the impact of fluctuations in the speed of settlements, changes in premium rates and underwriting controls over ultimate losses.

The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify with any degree of confidence. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, loss and loss adjustment reserves are not quantified with certainty at the balance sheet date.

39. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(CONTINUED)*

(a) Insurance contracts *(continued)*

Assumptions and sensitivities *(continued)*

Reproduced below is an exhibit that shows the development of claims over a period of time on gross and net bases:

Accident year	2001 *RMB million*	2002 *RMB million*	2003 *RMB million*	2004 *RMB million*	2005 *RMB million*	Total *RMB million*
Gross basis						
Estimate of ultimate claims costs						
At the end of accident year			35,469	41,015	39,768	
One year later		33,297	37,724	40,758		
Two years later	28,078	34,081	38,706			
Three years later	28,198	34,192				
Four years later	28,229					
Current estimate of cumulative claims	28,229	34,192	38,706	40,758	39,768	181,653
Cumulative payments to date	(28,078)	(33,395)	(37,708)	(37,095)	(24,045)	(160,321)
Liability recognised in the balance sheet	151	797	998	3,663	15,723	21,332
Liability in respect of prior years and unallocated loss adjustment expenses						694
Total gross liability included in the balance sheet						22,026

39. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(CONTINUED)*

(a) Insurance contracts *(continued)*

Assumptions and sensitivities *(continued)*

Accident year	2001 *RMB million*	2002 *RMB million*	2003 *RMB million*	2004 *RMB million*	2005 *RMB million*	Total *RMB million*
Net basis						
Estimate of ultimate claims costs						
At the end of accident year			27,215	33,316	32,788	
One year later		25,631	29,421	33,119		
Two years later	21,779	26,357	30,225			
Three years later	21,863	26,274				
Four years later	21,877					
Current estimate of cumulative claims	21,877	26,274	30,225	33,119	32,788	144,283
Cumulative payments to date	(21,846)	(25,897)	(29,605)	(30,621)	(20,124)	(128,093)
Liability recognised in the balance sheet	31	377	620	2,498	12,664	16,190
Liability in respect of prior years and unallocated loss adjustment expenses						651
Total net liability included in the balance sheet						16,841

39. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(CONTINUED)*

(a) Insurance contracts *(continued)*

Assumptions and sensitivities *(continued)*

The liabilities as at 31 December 2001 and 2002, which are based on an actuarial valuation performed on 27 October 2003, are extracted from the Company's prospectus dated 27 October 2003 issued in respect of the listing of its shares on the HKSE.

Ultimate liabilities will vary as a result of subsequent developments. Differences resulting from re-assessment of the ultimate liabilities are recognised in subsequent years' financial statements.

(b) Reinsurance – Terms, assumptions and methods

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota share basis or surplus line basis with retention limits varying by product line. The Company is required to cede 5% (2004: 10%) of most its business to a state-owned reinsurance company in according with the PRC Insurance Law. Excess of loss catastrophic reinsurance is also arranged to limit the Company's exposure to certain catastrophic events.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. The Company's premiums ceded to the top three reinsurance companies amounted to RMB9,610 million (2004: RMB7,613 million) and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any of these reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

40. ISSUED SHARE CAPITAL

	2005 *RMB million*	2004 *RMB 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

41. SHARE APPRECIATION RIGHTS

The shareholders of the Company approved the adoption of a scheme of share appreciation rights ("SAR") 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 SAR scheme, the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee (excluding independent supervisors), 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.

SAR will be granted in units with each unit representing one H Share. SAR granted in aggregate may not exceed 10% of the issued share capital at any 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 SAR units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation.

Under the SAR scheme, all SAR are valid for five years, but are not exercisable in the first year after the date of grant. As at each of the second, third, fourth and fifth anniversary of the date of grant, the total number of units of SAR exercised may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total number of units of SAR granted to such person. Thereafter, SAR 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 SAR initially granted was equal to the offer price of the initial public offering of the Company. The exercise price of the SAR 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 SAR, the person will receive cash payment, subject to any applicable withholding tax, equal to the product of the number of units of SAR exercised and the difference between the exercise price and market price of H Shares at the time of exercise.

41. SHARE APPRECIATION RIGHTS *(CONTINUED)*

The following table illustrates the number and weighted average exercise price of, and movements in, SAR during the year.

	2005		2004	
	Number of units '000	Weighted average exercise price (HK$)	Number of units '000	Weighted average exercise price (HK$)
As at 1 January	28,356	1.80	–	–
Granted during the year	109,698	1.93	29,278	1.80
Forfeited	(614)	1.80	(622)	1.80
Exercised	(925)	1.80	(300)	1.80
As at 31 December	136,515	1.90	28,356	1.80
Exercisable at 31 December	7,244		–	
Liabilities arising from SAR at 31 December (RMB million)	10		–	
Intrinsic value of vested SAR as at 31 December (RMB million)	3		–	
Weighted average remaining contractual life for outstanding SAR	4.30		4.50	
Range of exercise price for outstanding SAR		1.80-1.93		1.80
Weighted average share price at the date of exercise		2.58		2.75

41. SHARE APPRECIATION RIGHTS *(CONTINUED)*

The fair value of SAR granted during the year was RMB76 million.

The fair value of SAR is measured by using the Black-Scholes option pricing model taking into account the term and conditions at the balance sheet date. The following table lists the inputs to the model used for the computation as at 31 December 2005:

Dividend yield (%)	1.850
Expected volatility (%)	32.70
Historical volatility (%)	32.70
Risk-free interest rate (%)	3.240
Expected life of share appreciation rights (years)	3 – 4
Share price at the balance sheet date (HK$)	2.225

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of the SAR granted were incorporated into the measurement of the fair value.

42. NOTE TO THE CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Company offset a receivable of RMB1,210 million due from provincial and municipal governments against the accrued insurance protection fund.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES

Similar to other insurance entities, the Company holds substantial financial assets including debt securities, equity securities and bank deposits as an integral part of its operations. The Company obtained a subordinated loan from China Development Bank which enhanced the solvency position of the Company. The Company has various other financial assets and liabilities such as premiums receivable and agents' balances, net, and reinsurance funds withheld, which arise directly from its operations. The main risks from the Company's financial instruments are credit risk, liquidity risk and market risk. The details of these risks, together with insurance risk, and the Company's management policies are set out below:

(a) Financial Risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company is exposed to deposits placed with security firms, banks and similar institutions. As at 31 December 2005, the aggregate balance of cash and term deposits placed with the three most major banks amounted to RMB16,811 million (2004: RMB19,700 million).

43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(1) Credit risk *(continued)*

The Company is also subject to credit risk of debt securities. The Company heavily invests in debt securities issued by the PRC government, banks and financial institutions. Details of these debt investments are set out in note 19 to the financial statements. The Company only invests in corporate debt securities with a PRC rating higher than AA.

The Company only issues insurance policies on credit to corporate customers or to individuals who purchase policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged. One of our major performance indicators is the ability to collect premiums receivable on a timely basis. The Company's premiums receivable relate to a large number of diversified customers and therefore there is no significant concentration of credit risk.

Except for a state-owned reinsurance company, reinsurance is mainly placed with reinsurers with A.M. Best rating of A– or above. Premiums ceded to the state-owned reinsurance company are withheld as reinsurance funds by the Company to mitigate the credit risk of the Company. Management performs regularly assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertaining suitable allowances for impairment of reinsurance assets. As at 31 December 2005, the top three insurance companies owed an aggregate amount of RMB2,111 million (2004: RMB501 million) to the Company.

(2) Liquidity or funding risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing on repayment of a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

It is unusual for a Company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

The Company holds 17% (2004: 18%) of the total assets as demand deposits and term deposits with original maturity less than three months to ensure sufficient liquid assets are available. 55% (2004: 31%) of debt securities are listed on stock exchanges. Additions of illiquid assets, in particular properties, were closely monitored by management.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(3) Market risk

Market risk is the risk of changes in fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether any such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company mitigates its market risk through proper diversification of its investment portfolio. An investment mandate was also approved by an investment committee to direct investment decisions.

(i) Currency risk

The Company's principal transactions are carried out in Renminbi.

Certain policies issued by the Company, however, in particular cargo, commercial properties and aviation insurance, were denominated in US dollars. Therefore, premiums received, reinsurance premiums ceded, claims paid and paid losses recovered from reinsurers in respect of these policies are transacted in US dollars.

Moreover, the Company holds deposits of RMB12,089 million (2004: RMB9,660 million) of which their carrying values were mainly exposed to fluctuations of foreign exchange rates.

(ii) Interest rate risk

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

The Company mainly invests in short to medium term, of which the maturities vary from one to seven years, financial assets in view of the short durations of insurance liabilities. The Company intends to maintain a duration of the investment portfolio below the market level of financial assets with similar characteristics. A high proportion of interest-sensitive financial assets are also held by the Company to reduce its interest rate risk.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(3) Market risk *(continued)*

(ii) Interest rate risk (continued)

The following tables sets out the interest rates that the Company's financial instruments are exposed to during the reporting periods:

Items	2005	2004
Assets:		
Cash and cash equivalents	0.72% – 4.38%	0.72% – 2.52%
Term deposits	1.89% – 11.50%	1.09% – 12.08%
Debt securities	0.34% – 11.83%	1.00% – 11.83%
Subordinated debts	4.87% – 5.17%	4.87% – 5.17%
Capital security fund	2.25%	2.33% – 2.87%
Liabilities:		
Payables to reinsurers		
– reinsurance funds withheld	2.25%	1.98% – 2.25%
Policyholders' deposits		
– interest-bearing	2.20% – 2.63%	2.20% – 2.63%
Subordinated loan	5.51%	5.18%

The following tables sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

31 December 2005

Fixed rate	Within 1 year *RMB million*	1-2 years *RMB million*	2-3 years *RMB million*	3-4 years *RMB million*	4-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	2,754	–	–	–	–	–	2,754
Term deposits	7,076	300	20	–	300	–	7,696
Debt securities	1,248	2,087	3,081	3,891	1,162	4,011	15,480
Capital security fund	2,228	–	–	–	–	–	2,228
Liabilities:							
Payables to reinsurers							
– reinsurance funds withheld	(362)	–	–	–	–	–	(362)
Policyholders' deposits							
– interest bearing	(2,275)	(3,883)	–	–	–	–	(6,158)

43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(3) Market risk *(continued)*

(ii) Interest rate risk (continued)

Floating rate	Within 1 year *RMB million*	1-2 years *RMB million*	2-3 years *RMB million*	3-4 years *RMB million*	4-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	13,141	–	–	–	–	–	13,141
Term deposits	923	241	40	320	173	2,248	3,945
Debt securities	–	1,204	–	24	1,127	689	3,044
Subordinated debts	–	–	–	1,220	1,690	–	2,910
Liabilities:							
Subordinated loan	–	–	–	–	–	(2,000)	(2,000)

31 December 2004

Fixed rate	Within 1 year *RMB million*	1-2 years *RMB million*	2-3 years *RMB million*	3-4 years *RMB million*	4-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	1,258	–	–	–	–	–	1,258
Term deposits	4,908	2,851	300	–	–	–	8,059
Debt securities	1,659	654	646	2,454	1,428	6,316	13,157
Capital security fund	2,228	–	–	–	–	–	2,228
Liabilities:							
Payables to reinsurers							
– reinsurance funds withheld	(670)	–	–	–	–	–	(670)
Policyholders' deposits							
– interest-bearing	–	(2,331)	(3,925)	–	–	–	(6,256)

43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(a) Financial Risks *(continued)*

(3) Market risk *(continued)*

(ii) Interest rate risk (continued)

Floating rate	Within 1 year *RMB million*	1-2 years *RMB million*	2-3 years *RMB million*	3-4 years *RMB million*	4-5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:							
Cash and cash equivalents	15,017	–	–	–	–	–	15,017
Term deposits	1,186	87	247	41	328	1,775	3,664
Debt securities	–	–	771	–	51	670	1,492
Subordinated debts	–	–	–	–	1,220	1,690	2,910
Liabilities:							
Subordinated loan	–	–	–	–	–	(2,000)	(2,000)

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are not subject to interest rate risk.

(b) Insurance Risk

The risk under an insurance contract is the possibility of occurrence of an insured event and uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims payments and the costs of claims settlement exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk – the possibility that the number of insured events will differ from those expected.

Severity risk – the possibility that the costs of the events will differ from those expected.

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

(b) Insurance Risk *(continued)*

The Company has an objective to control and minimise insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanism:

- Launch of any new product has to be approved by appropriate authorities;
- Underwriting and claim handling authorities at different levels are properly established;
- Treaty reinsurance and most facultative reinsurance arrangements are centrally managed at the head office level; and
- Catastrophic reinsurance is used to limit the Company's exposure to flooding, earthquakes and typhoons.

Claims of certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claim payments on a portfolio basis. The Company has achieved geographical diversification by accepting risks in different provinces of the PRC.

The Company's concentration of insurance risk before and after reinsurance, measured by geographical turnover and net premiums written is as follows:

	Gross *RMB million*	**Net** *RMB million*
31 December 2005		
Coastal and developed provinces/cities	28,439	21,975
Western China	5,387	4,307
North China	9,298	7,730
Central China	7,363	6,089
Northeastern China	11,845	9,757
Total	62,332	49,858

Gross and net premiums written by type of business are disclosed in note 4 to the financial statements.

44. CONTINGENT LIABILITIES

(a) Pursuant to the reorganisation of the People's Insurance Company of China as at 30 September 2002, 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. The 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 the Holding Company to the Company, and as a result of any breach by the 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 and any losses arising therefrom will probably be indemnified by reinsurers or other recoveries including salvages and subrogation. 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.

45. OPERATING LEASE COMMITMENTS

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 are negotiated for terms ranging from one to three years.

At 31 December 2005, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2005 *RMB million*	2004 *RMB million*
Within one year	310	310
In the second to fifth years, inclusive	292	466
After five years	46	40
	648	816

46. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 45 above, the Company had the following commitments at the balance sheet date:

	2005 *RMB million*	2004 *RMB million*
Contracted, but not provided for:		
– property, plant and equipment	835	1,473
Authorised, but not contracted for:		
– property, plant and equipment	44	85
– acquisition of an investment	160	–
	1,039	1,558

47. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Notes	2005 *RMB million*	2004 *RMB million*
Transactions with the Holding Company:			
Property rental expenses	(i)	211	211
Property rental income	(i)	11	11
Motor vehicle rental expenses	(ii)	22	22
Motor vehicle rental income	(ii)	4	4
Services fee income	(iii)	4	4
Management fee	(iv)	3	3
Transactions with a fellow subsidiary:			
Management fee	(v)	36	34
Transactions with a major shareholder:			
Reinsurance premiums ceded	(vi)	619	266
Claims recoverable	(vi)	139	21
Reinsurance commission received/receivables	(vi)	174	53

47. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Transactions with related parties *(continued)*

Notes:

(i) The Company entered into a Property Leasing Agreement with the Holding Company on 9 October 2003 under which the Company rented certain properties from the Holding Company and the 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 effective from 7 July 2003.

(ii) The Company entered into a Motor Vehicle Rental Agreement with the Holding Company on 9 October 2003 under which the Company rented certain motor vehicles from the Holding Company and the 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 effective from 7 July 2003.

(iii) The Company entered into an Information System Services Agreement with the Holding Company on 9 October 2003 pursuant to which the Company agreed to provide the 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 the 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 the Holding Company. The term of the Information System Services Agreement is four years.

(iv) The Company entered into an agreement with the 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 the Holding Company's provincial and municipal offices. Management fee is calculated based on RMB300 per annum for every retired employee of the Holding Company. The term of the agreement is three years effective from 1 January 2004.

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

(vi) 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 Agreement every 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.

The transactions mentioned in (i) to (v) above constitute connected transactions under the HKSE Listing Rules. For items (i) to (iii) and (v) 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.

47. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Transactions with other state-owned enterprises in the PRC

The Company operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "State-owned Enterprises"). During the year, the Company had transactions with State-owned Enterprises including but not limited to sales of insurance policies. The directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the Company's business, and that the dealings of the Company have not been significantly or unduly affected by the fact that the Company and the other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Company has also established pricing policies for insurance products, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(c) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	2005	2004	**2005**	2004
	RMB Million	*RMB Million*	***RMB Million***	*RMB Million*
The Holding Company	**155**	329	**116**	190
A fellow subsidiary	**–**	–	**9**	8
A major shareholder	**12**	57	**46**	113
	167	386	**171**	311

The balances with the Holding Company, a fellow subsidiary and a major shareholder are unsecured, interest-free and settled on a quarterly basis.

(d) Compensation of key management personnel (including Chairman of Board and executive directors)

	2005	2004
	RMB'000	*RMB'000*
Short term employee benefits	**5,423**	5,662
Post-employment benefits	**565**	441
Cash-settled share appreciation rights expense	**863**	–
Total compensation paid to key management personnel	**6,851**	6,103

Further details of directors' emoluments are included in note 12 to the financial statements.

48. COMPARATIVE FIGURES

As further explained in notes 2.2 and 2.4 to these financial statements, due to the adoption of new and revised HKFRSs and the new presentation of the income statement during the current year, the accounting treatment and presentation of certain items and balances in these financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening adjustments have been made and certain comparative amounts have been reclassified or restated to conform to the current year's presentation and accounting treatment.

49. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 21 April 2006.

INVESTMENT PROPERTIES

Location	Use	Tenure	Attributable interest of the Company
PICC Plaza No. 151, Yao Wang Street, Haishu Territories Ningbo, the PRC	Office building	Medium term lease	100%
Xihu Plaza 8th, 10th, 11th and 12th Floors, Baoanbei Street Shenzhen, the PRC	Office building	Medium term lease	100%
Nanfang Plaza, Flat B, 16th and 17th Floors No. 122, Luofang Street, Luohu Territories Shenzhen, the PRC	Office building	Medium term lease	100%
10th Floor, No. 1085, Pudong South Street Shanghai, the PRC	Office building	Medium term lease	100%
No. 263, Xingzhou South Street Qiaodong Territories Xingtai Hebei Province, the PRC	Office building	Medium term lease	100%

PROPERTIES UNDER DEVELOPMENT

Location	Use	Site area *(sq.m.)*	Gross floor area *(sq.m.)*	Stage of completion	Expected completion date	Attributable interest of the Company
PICC Beijing Building Dongsi Street Beijing, the PRC	Commercial	5,382	30,289	95%	March 2006	100%
PICC Building Guangzhou Street Yuexiu District Guangzhou, the PRC	Commercial	2,300	33,000	95%	May 2006	100%
Yin Tai Commercial Building, East Office No.4, Jianguomenwai Street Chaoyang District Beijing, the PRC	Commercial	6,836	76,362	62%	March 2007	100%

In the opinion of the directors, disclosure of all investment properties and properties under development would result in particulars of excessive length. Therefore, only material properties are listed in the schedule.

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 SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H share

NAME OF STOCK

PICC P&C

STOCK CODE

2328

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

REGISTERED ADDRESS

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

LEGAL REPRESENTATIVE

Tang Yunxiang

SECRETARY OF THE BOARD OF DIRECTORS

Liu Zhenghuan

COMPANY SECRETARY

Man Kam Ching

INFORMATION INQUIRY DEPARTMENT

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AUDITORS

International Auditors
Ernst & Young

Domestic Auditors
Ernst & Young Hua Ming

CONSULTING ACTUARIES

Milliman Asia Limited

LEGAL ADVISORS

as to Hong Kong Law
Linklaters

as to PRC Law
King and Wood