



PICC 中国人保财险

(Stock Code: 2328)

北京 2008 年奥运会保险合作伙伴
OFFICIAL INSURANCE PARTNER OF THE BEIJING 2008 OLYMPIC GAMES



Interim Report
2006

CORPORATE INFORMATION

Registered name:	Chinese name: 中國人民財產保險股份有限公司 English name: PICC Property and Casualty Company Limited
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 business, and investment and fund application business permitted under the relevant laws and regulations of the PRC.
Place of listing of shares:	The Stock Exchange of Hong Kong Limited
Type of stock:	H Shares
Name of stock:	PICC P&C
Stock code:	2328
H share registrar and transfer office:	Computershare Hong Kong Investor Services Limited
Registered office:	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:	Secretariat of the Board of Directors Tel: (8610) 83157607 Fax: (8610) 83157607 E-mail: IR@picc.com.cn Website: www.picc.com.cn
Auditors	International Auditors: Ernst & Young Domestic Auditors: Ernst & Young Hua Ming
Consulting actuaries:	Milliman Asia Limited
Legal advisors	as to Hong Kong Laws: Linklaters as to PRC Laws: King and Wood

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CONDENSED INCOME STATEMENT

For the six months ended 30 June 2006

The Board of Directors (the “Board of Directors”) of PICC Property and Casualty Company Limited (the “Company”) is pleased to announce the unaudited condensed income statement for the six months ended 30 June 2006, the unaudited condensed balance sheet as at 30 June 2006, the unaudited condensed statement of changes in equity and the unaudited condensed cash flow statement for the six months ended 30 June 2006.

	<i>Notes</i>	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million (Restated)
TURNOVER	3, 4	36,983	34,882
Net premiums earned	3, 4	24,792	24,939
Net claims incurred	3, 5	(18,426)	(18,050)
Amortisation of deferred acquisition costs, net	3	(2,523)	(2,178)
Insurance protection expense	3	(338)	(302)
General and administrative expenses		(2,970)	(2,844)
UNDERWRITING PROFIT		535	1,565
Net investment income	6	781	691
Net realised and unrealised gains/(losses) on investments	7	885	(727)
Interest expense credited to policyholders’ deposits	3	(63)	(67)
Exchange losses, net		(178)	(3)
Sundry income		12	9
Sundry expenses		(44)	(26)
Finance costs	8	(75)	(68)
PROFIT BEFORE TAX	9	1,853	1,374
Tax	10	(744)	(485)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		1,109	889
PROPOSED INTERIM DIVIDEND	11	—	802
BASIC EARNINGS PER SHARE (in RMB)	12	0.100	0.080

CONDENSED BALANCE SHEET

30 June 2006

	Notes	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
ASSETS			
Cash and cash equivalents	13	19,993	15,895
Term deposits	14	11,135	11,641
Debt securities	15	21,968	18,524
Equity securities	16	4,025	2,840
Subordinated debts	17	2,910	2,910
Capital security fund	18	2,228	2,228
Premiums receivable and agents' balances, net	19	7,673	3,767
Unearned premium reserves – reinsurers' share		6,386	5,967
Deferred acquisition costs		4,410	3,987
Other non-current assets		178	178
Receivables from reinsurers	20	3,735	2,500
Reinsurance recoverable on unpaid losses		5,585	5,185
Prepayments and other receivables	21	2,587	1,213
Interests in subsidiaries	22	3	–
Property, plant and equipment	23	10,497	10,576
Investment properties		237	213
Construction in progress		1,625	1,756
Prepaid land premiums		3,954	4,000
TOTAL ASSETS		109,129	93,380
LIABILITIES			
Payables to reinsurers	24	5,506	3,531
Accrued insurance protection fund		300	195
Tax payable		363	404
Other liabilities and accruals		6,174	6,009
Securities sold under agreements to repurchase		4,350	–
Deferred tax liabilities		148	78
Reinsurers' share of deferred acquisition costs		1,341	1,345
Unearned premium reserves		39,194	32,507
Loss and loss adjustment expense reserves		23,622	22,026
Policyholders' deposits	25	8,176	8,449
Subordinated loan		2,000	2,000
TOTAL LIABILITIES		91,174	76,544
CAPITAL AND RESERVES			
Issued share capital	26	11,142	11,142
Reserves		6,813	5,694
		17,955	16,836
TOTAL EQUITY AND LIABILITIES		109,129	93,380

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Issued share capital <i>RMB million</i>	Share premium account <i>RMB million</i>	Available- for-sale revaluation reserve <i>RMB million</i>	Statutory surplus reserve <i>RMB million</i>	(Note 1) Statutory public welfare fund <i>RMB million</i>	(Note 2) Other reserves <i>RMB million</i>	Retained profits/ (Accumulated losses) <i>RMB million</i>	Proposed interim dividend <i>RMB million</i>	Total <i>RMB million</i>
Unaudited									
At 1 January 2006	11,142	4,739	(80)	101	51	774	109	–	16,836
Net fair value gain of available-for-sale financial instruments	–	–	26	–	–	–	–	–	26
Realised on disposals of available-for-sale financial instruments	–	–	(10)	–	–	–	–	–	(10)
Change of deferred tax assets recognised	–	–	(6)	–	–	–	–	–	(6)
Net gain for the period recognised directly in equity	–	–	10	–	–	–	–	–	10
Net profit for the period	–	–	–	–	–	–	1,109	–	1,109
Transfer from/(to) reserves	–	–	–	51	(51)	–	–	–	–
At 30 June 2006	11,142	4,739	(70)	152	–	774	1,218	–	17,955
Unaudited									
At 1 January 2005	11,142	4,739	(452)	6	3	774	(59)	–	16,153
Net fair value gain of available-for-sale financial instruments	–	–	177	–	–	–	–	–	177
Realised on disposals of available-for-sale financial instruments	–	–	100	–	–	–	–	–	100
Impairment loss	–	–	228	–	–	–	–	–	228
Change of deferred tax assets recognised	–	–	(167)	–	–	–	–	–	(167)
Net gain for the period recognised directly in equity	–	–	338	–	–	–	–	–	338
Net profit for the period	–	–	–	–	–	–	889	–	889
Proposed 2005 Interim dividend	–	–	–	–	–	–	(802)	802	–
Transfer from/(to) reserves	–	–	–	95	48	–	(143)	–	–
At 30 June 2005	11,142	4,739	(114)	101	51	774	(115)	802	17,380

Notes:

- As a result of the adoption of amendments to the PRC Company Law, the balance of statutory public welfare fund was transferred to the statutory surplus reserve on 1 January 2006.
- 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 (the "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 Company's financial statements for the year ended 31 December 2005.

CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Unaudited Six months ended 30 June 2006 <i>RMB million</i>	Unaudited Six months ended 30 June 2005 <i>RMB million</i>
Net cash inflow from operating activities	3,174	6,839
Net cash outflow from investing activities	(3,015)	(1,297)
Net cash inflow/(outflow) from financing activities	3,939	(2,413)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,098	3,129
Cash and cash equivalents at beginning of the period	15,895	16,275
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	19,993	19,404

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed financial statements of the Company are unaudited, but have been reviewed by Ernst & Young in accordance with Hong Kong Statement of Auditing Standard 700 issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young's independent review report to the Board of Directors is set out on page 24.

The interim condensed financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2005, except for the adoption of the following accounting policy in respect of the Company's interests in subsidiaries:

Interests in subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Consolidated financial statements are not prepared as the operating results, financial position and cash flows of these subsidiaries are immaterial.

3. SEGMENT INFORMATION

Segment information is presented by way of the Company's primary reporting basis, by business segment.

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 and conveyances;
- (e) the liability segment provides insurance products covering policyholders' liability;
- (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.

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

3. SEGMENT INFORMATION (continued)

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

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million (Restated)
Turnover		
Motor vehicle	24,739	22,872
Commercial property	5,164	5,330
Homeowners	492	585
Cargo	1,488	1,578
Liability	1,645	1,377
Accidental injury	1,193	1,070
Other	2,262	2,070
	36,983	34,882
Net premiums earned		
Motor vehicle	18,494	18,384
Commercial property	2,642	2,712
Homeowners	237	397
Cargo	986	1,147
Liability	942	848
Accidental injury	805	789
Other	686	662
	24,792	24,939
Net investment income		
Homeowners	130	126
Net realised and unrealised gains/(losses) on investments		
Homeowners	66	(132)

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

3. SEGMENT INFORMATION (continued)

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million (Restated)
Net claims incurred		
Motor vehicle	(15,036)	(14,423)
Commercial property	(1,702)	(1,604)
Homeowners	(101)	(72)
Cargo	(206)	(579)
Liability	(571)	(611)
Accidental injury	(474)	(314)
Other	(336)	(447)
	(18,426)	(18,050)
Amortisation of deferred acquisition costs, net		
Motor vehicle	(1,979)	(2,007)
Commercial property	(214)	(170)
Homeowners	(85)	(140)
Cargo	(84)	(108)
Liability	(81)	(95)
Accidental injury	(65)	(77)
Other	(15)	419
	(2,523)	(2,178)
Insurance protection expense		
Motor vehicle	(243)	(211)
Commercial property	(38)	(41)
Homeowners	(5)	(5)
Cargo	(12)	(13)
Liability	(14)	(11)
Accidental injury	(9)	(9)
Other	(17)	(12)
	(338)	(302)
Interest expense credited to policyholders' deposits		
Homeowners	(63)	(67)

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

3. SEGMENT INFORMATION (continued)

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million (Restated)
Segment profit before unallocated income and expenses		
Motor vehicle	1,236	1,743
Commercial property	688	897
Homeowners	179	107
Cargo	684	447
Liability	276	131
Accidental injury	257	389
Other	318	622
	3,638	4,336
Unallocated operating income and expenses		
Net investment income	651	565
Net realised and unrealised gains/(losses) on investments	819	(595)
General and administrative expenses	(2,970)	(2,844)
Exchange losses, net	(178)	(3)
Sundry income	12	9
Sundry expenses	(44)	(26)
Finance costs	(75)	(68)
	(1,785)	(2,962)
Profit before tax	1,853	1,374
Tax	(744)	(485)
Net profit attributable to shareholders	1,109	889

Net investment income and net realised and unrealised gains/(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 expenses, which are not attributable to particular insurance products, are not allocated and are included under unallocated operating income and expenses.

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

4. TURNOVER AND NET PREMIUMS EARNED

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

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million
Turnover		
Direct premiums written	39,073	36,875
Reinsurance premiums assumed	16	4
	39,089	36,879
Less: Government levies and surcharges	(2,106)	(1,997)
	36,983	34,882
Net premiums earned		
Turnover	36,983	34,882
Less: Reinsurance premiums ceded	(5,923)	(6,670)
Net premiums written	31,060	28,212
Less: Changes in net unearned premium reserves	(6,268)	(3,273)
Net premiums earned	24,792	24,939

5. NET CLAIMS INCURRED

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million
Gross claims paid	20,262	19,416
Less: Paid losses recoverable from reinsurers	(3,032)	(3,115)
Net claims paid	17,230	16,301
Add: Change in net loss and loss adjustment expense reserves	1,196	1,749
Net claims incurred	18,426	18,050

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

6. NET INVESTMENT INCOME

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million (Restated)
Interest income from cash and cash equivalents and term deposits	354	318
Interest income from debt securities	303	259
Interest income from subordinated debts	70	70
Dividend income from equity securities	42	33
Rental income from investment properties	12	11
	781	691

7. NET REALISED AND UNREALISED GAINS/(LOSSES) ON INVESTMENTS

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million (Restated)
Debt securities:		
Realised gains	76	123
Unrealised gains/(losses)	(44)	25
Equity securities:		
Realised losses	(447)	(25)
Unrealised gains/(losses)	1,373	(589)
Structured deposits:		
Unrealised losses	(51)	—
Impairment loss on available-for-sale securities	—	(245)
	907	(711)
Less: investment management expenses	(22)	(16)
	885	(727)

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

8. FINANCE COSTS

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million (Restated)
Interest on a subordinated loan	55	55
Interest on securities sold under sale and repurchase agreements	20	12
Other finance costs	—	1
	75	68

9. PROFIT BEFORE TAX

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

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million (Restated)
Depreciation for property, plant and equipment	485	568
Depreciation for investment properties	7	3
Amortisation for prepaid land premiums	46	48
Impairment loss on premiums receivable	414	301

10. TAX

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million
Current – Mainland China		
Charge for the period	680	1,035
Deferred	64	(550)
Total tax charge for the period	744	485

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.

11. PROPOSED INTERIM DIVIDEND

During the period, the Board of Directors did not propose any interim dividend (six months ended 30 June 2005: RMB7.2 cents per ordinary share).

12. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders of RMB1,109 million for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB889 million) and the 11,142 million ordinary shares during the period (six months ended 30 June 2005: 11,142 million ordinary shares) in issue.

Diluted earnings per share for the six months ended 30 June 2006 and 2005 have not been disclosed as no diluting events existed during these periods.

13. CASH AND CASH EQUIVALENTS

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Cash on hand	66	25
Demand deposits	14,933	13,116
Securities purchased under resale agreements with original maturity of less than three months	600	—
Deposits with PRC banks and other financial institutions with original maturity of less than three months	4,394	2,754
	19,993	15,895

14. TERM DEPOSITS

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Structured deposits with banks and other financial institutions:		
At fair value	2,409	3,107
At amortised cost	1,585	838
Deposits with banks and other financial institutions with original maturity of more than three months:		
At amortised cost	7,141	7,696
	11,135	11,641

Certain structured deposits maintained with PRC banks and other financial institutions are designated as fair value through profit or loss financial instruments. 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.

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

14. TERM DEPOSITS (continued)

Certain structured deposits maintained with PRC banks and other financial institutions are designated as loans and receivables and therefore stated at amortised cost. Derivatives embedded in these structured deposits are separated from host contracts and accounted for as standalone derivatives, if their economic characteristics and risks are not closely related to the host contracts.

15. DEBT SECURITIES

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Listed debt securities, at fair value:		
Debt securities issued by the PRC central government	12,043	9,630
Debt securities issued by corporate entities	698	544
	12,741	10,174
Unlisted debt securities, at fair value:		
Debt securities issued by the PRC central government	3,703	4,053
Debt securities issued by banks and other financial institutions	1,878	1,889
Debt securities issued by corporate entities	3,646	2,408
	9,227	8,350
	21,968	18,524
Classification of debt securities:		
Fair value through profit or loss – held for trading	1,582	3,398
Available-for-sale	20,386	15,126
	21,968	18,524

As at 30 June 2006, 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 30 June 2006 were RMB533 million (31 December 2005: RMB508 million) and RMB55 million (31 December 2005: RMB55 million), respectively. Since 2004, the Company and the Company's investment manager, PICC Asset 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 transactions. 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 withdrawing proceeds arising from the disposals of these financial assets and the restructuring plan of the securities company.

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

16. EQUITY SECURITIES

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Listed investments, at fair value:		
Mutual funds	2,211	2,262
Shares	856	189
	3,067	2,451
Unlisted investments, at fair value:		
Mutual funds	584	389
Shares	374	—
	958	389
	4,025	2,840
Classification of equity securities:		
Fair value through profit or loss – held for trading	3,316	2,840
Available-for-sale	709	—
	4,025	2,840

17. SUBORDINATED DEBTS

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Unlisted subordinated debts issued by banks and other financial institutions, at amortised cost	2,910	2,910

18. 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 (the “CIRC”) as a security fund. The use of the security fund is subject to the approval of the CIRC.

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

19. PREMIUMS RECEIVABLE AND AGENTS' BALANCES, NET

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Premiums receivable and agents' balances	8,384	4,064
Less: Impairment loss on premiums receivable	(711)	(297)
	7,673	3,767

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:

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Within 3 months	6,442	3,163
Over 3 months but less than 6 months	996	457
Over 6 months	235	147
	7,673	3,767

A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis.

20. RECEIVABLES FROM REINSURERS

An aged analysis of the receivables from reinsurers as at the balance sheet date, based on invoice dates, is as follows:

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Within 3 months	3,463	2,316
Over 3 months but less than 6 months	94	31
Over 6 months	178	153
	3,735	2,500

21. PREPAYMENTS AND OTHER RECEIVABLES

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. As the securities company went into liquidation in September 2005, the balance of RMB116 million (31 December 2005: RMB120 million), net of impairment, was accounted for as an other receivable as at 30 June 2006.

22. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of registered share capital <i>RMB million</i>	Percentage of equity directly attributable to the Company
PICC Hebi Insurance Agency Company Limited	Mainland China	0.5	100%
PICC Qingdao Insurance Agency Company Limited	Mainland China	0.5	90%
PICC Hebei Insurance Agency Company Limited	Mainland China	1.0	100%

The principal activity of these subsidiaries is the provision of insurance agency services to the Company.

23. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2006, the Company acquired assets with a cost of RMB46 million (six months ended 30 June 2005: RMB110 million).

Assets with a net book value of RMB44 million were disposed of by the Company during the six months ended 30 June 2006 (six months ended 30 June 2005: RMB4 million), resulting in a net loss on disposal of RMB6 million (six months ended 30 June 2005: RMB3 million).

During the six months ended 30 June 2006, construction in progress with an aggregate amount of RMB403 million (six months ended 30 June 2005: RMB24 million) was transferred to property, plant and equipment.

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

24. PAYABLES TO REINSURERS

The payables to reinsurers are analysed as follows:

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Reinsurance payables	5,368	3,169
Reinsurance funds withheld	138	362
	5,506	3,531

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 30 June 2006 and 31 December 2005 are repayable upon the expiration of the related reinsurance contracts.

25. POLICYHOLDERS' DEPOSITS

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

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Interest-bearing deposits	5,963	6,158
Non-interest-bearing deposits	2,213	2,291
	8,176	8,449

26. ISSUED SHARE CAPITAL

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 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

27. MATURITY PROFILE OF FINANCIAL INSTRUMENTS

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

30 June 2006 (Unaudited)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Fixed rate							
Assets:							
Cash and cash equivalents	4,394	—	—	—	—	—	4,394
Term deposits	6,541	300	—	—	300	—	7,141
Debt securities	2,569	3,145	1,957	4,669	438	5,985	18,763
Capital security fund	2,228	—	—	—	—	—	2,228
Liabilities:							
Payables to reinsurers – reinsurance funds withheld	(138)	—	—	—	—	—	(138)
Policyholders' deposits – interest-bearing	(5,963)	—	—	—	—	—	(5,963)
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Floating rate							
Assets:							
Cash and cash equivalents	15,599	—	—	—	—	—	15,599
Term deposits	576	—	40	—	223	3,155	3,994
Debt securities	—	969	—	1,378	340	518	3,205
Subordinated debts	—	—	600	1,120	1,190	—	2,910
Liabilities:							
Subordinated loan	—	—	—	—	—	(2,000)	(2,000)

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

27. MATURITY PROFILE OF FINANCIAL INSTRUMENTS (continued)

31 December 2005 (Audited)

	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
Fixed rate							
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)
	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
Floating rate							
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)

28. CONTINGENT LIABILITIES

- (a) Pursuant to the reorganisation of the People's Insurance Company of China as at 30 September 2002, except for the liabilities constituting or arising out of or relating to business undertaken by the Company after the reorganisation, no other liabilities were assumed by the Company and the Company is not liable, whether severally or jointly and severally, for debts and obligations incurred prior to the reorganisation. PICC Holding Company (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.

28. CONTINGENT LIABILITIES (continued)

- (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, the management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Company.

29. 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 30 June 2006, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Within one year	346	310
In the second to fifth years, inclusive	131	292
After five years	57	46
	534	648

30. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Company had the following capital commitments at the balance sheet date:

	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
Contracted, but not provided for:		
Property, plant and equipment	560	835
Authorised, but not contracted for:		
Property, plant and equipment	46	44
Acquisition of an investment	160	160
	766	1,039

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2006

31. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Unaudited Six months ended 30 June 2006 RMB million	Unaudited Six months ended 30 June 2005 RMB million
Transactions with the Holding Company:		
Property rental expenses	105	105
Property rental income	5	5
Motor vehicle rental expenses	11	11
Motor vehicle rental income	2	2
Services fee income	2	2
Management fee	2	2
Transaction with a fellow subsidiary:		
Management fee	18	17
Transactions with a major shareholder:		
Reinsurance premiums ceded	273	222
Claims recoverable	95	95
Reinsurance commission received/receivables	90	87

(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 period, the Company had transactions with State-owned Enterprises including but not limited to the sale 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.

31. RELATED PARTY TRANSACTIONS (continued)**(c) Outstanding balances with related parties**

	Due from related parties		Due to related parties	
	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million	Unaudited 30 June 2006 RMB million	Audited 31 December 2005 RMB million
The Holding Company	288	155	128	116
A fellow subsidiary	—	—	10	9
A major shareholder	95	12	147	46
	383	167	285	171

32. POST BALANCE SHEET EVENT

On 25 July 2006, the Company entered into an agreement with the Holding Company, certain fellow subsidiaries and an independent third party to contribute to the enlarged registered capital of PICC AMC. After a capital contribution of RMB160 million, the Company will hold a 20% interest in PICC AMC. This transaction falls into the definition of a connected transaction according to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

33. COMPARATIVE FIGURES

The presentation of the condensed income statement was revised for the current interim period to bring it in line with that adopted for the annual financial statements. Certain comparative amounts have been reclassified or restated to conform with the current period's presentation.

The effect of these reclassifications on the income statement during the period from 1 January 2005 to 30 June 2005 is set out below:

	RMB million
Increase in net investment income	12
Increase in net realised and unrealised losses on investments	(16)
Increase in exchange losses, net	(3)
Increase in sundry income	9
Increase in sundry expenses	(26)
Decrease in general and administrative expenses	36
Increase in finance costs	(12)
Total effect in profit	—

34. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were approved and authorised for issue by the Board of Directors on 18 August 2006.



INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF PICC PROPERTY AND CASUALTY COMPANY LIMITED

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

We have been instructed by the Company to review the interim financial report set out on pages 2 to 23.

Respective responsibilities of directors and auditors

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

Review work performed

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

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Ernst & Young
Certified Public Accountants

Hong Kong
18 August 2006

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 the first half of 2006, the Company held 47.3% share of the non-life insurance market in the PRC.

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

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
Net premiums earned	24,792	24,939
Underwriting profit ¹	535	1,565
Net profit	1,109	889
Total assets ²	109,129	96,268

¹ Underwriting profit represents net premiums earned less net claims incurred, and after amortisation of deferred acquisition costs, insurance protection expense and general and administrative expenses. Underwriting profit for the first half of 2005 is restated according to the presentation of reporting for 2006.

² The figure of total assets as at 30 June 2005 is extracted from the data in the 2005 interim report.

RESULTS OF OPERATIONS

In the first half of 2006, the Company's turnover increased mildly, underwriting profit decreased and investment income improved remarkably. The following table sets forth selected financial ratios shown as percentages of net premiums earned for the periods indicated.

	Six months ended 30 June	
	2006	2005
	(%)	
Net premiums earned	100	100
Net claims incurred	(74.3)	(72.4)
Amortisation of deferred acquisition costs, net	(10.2)	(8.7)
Insurance protection expense	(1.3)	(1.2)
General and administrative expenses	(12.0)	(11.4)
Underwriting profit	2.2	6.3
Net investment income	3.2	2.8
Net realised and unrealised gains/(losses) on investments	3.6	(2.9)
Finance costs	(0.3)	(0.3)
Interest expense credited to policyholders' deposits	(0.3)	(0.3)
Profit before tax	7.5	5.5
Tax	(3.0)	(1.9)
Net profit	4.5	3.6
Loss ratio	74.3	72.4
Expense ratio	23.5	21.3
Combined ratio	97.8	93.7

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

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

	Six months ended 30 June	
	2006	2005
	(%)	
Net premiums earned		
Motor vehicle insurance	74.6	73.7
Commercial property insurance	10.6	10.9
Homeowners insurance	1.0	1.6
Other insurance	13.8	13.8
Total	100.0	100.0
Net claims incurred		
Motor vehicle insurance	81.6	79.9
Commercial property insurance	9.2	8.9
Homeowners insurance	0.6	0.4
Other insurance	8.6	10.8
Total	100.0	100.0
Amortisation of deferred acquisition costs, net		
Motor vehicle insurance	78.4	92.2
Commercial property insurance	8.5	7.8
Homeowners insurance	3.4	6.4
Other insurance	9.7	(6.4)
Total	100.0	100.0

TURNOVER

Turnover of the Company was RMB36,983 million in the first half of 2006, representing an increase of RMB2,101 million or 6.0% over RMB34,882 million in the first half of 2005. The increase was primarily due to an increase of RMB1,867 million in turnover of the motor vehicle insurance segment which showed substantial growth in the first half of 2006 and also increases in turnover of the Company's liability insurance and accidental injury insurance segments in the non-motor vehicle insurance business. However, the effect of such increase was partially offset by a RMB166 million decrease in turnover of the commercial property insurance segment, a RMB93 million decrease in turnover of the homeowners insurance segment and a RMB90 million decrease in turnover of the cargo insurance segment.

NET PREMIUMS EARNED

Net premiums earned of the Company was RMB24,792 million in the first half of 2006, representing a decrease of RMB147 million, or 0.6%, compared to RMB24,939 million in the first half of 2005. This decrease was primarily due to an increase of RMB2,995 million in the changes in net unearned premium reserves in the first half of 2006 compared to the first half of 2005, but the effect of the increase in net unearned premium reserves was partially offset by the increase in the gross premiums income.

NET INVESTMENT INCOME

Net investment income of the Company was RMB781 million in the first half of 2006, representing an increase of RMB90 million over RMB691 million in the first half of 2005. This increase was primarily due to increases in interest income of RMB36 million from cash and cash equivalents and term deposits and interest income of RMB44 million from debt securities. The increase in such interest income was primarily driven by the increase in the balance of cash and cash equivalents and investments in debt securities.

NET REALISED AND UNREALISED GAINS/(LOSSES) ON INVESTMENTS

In the first half of 2006, the Company's net realised and unrealised gains on investments was RMB885 million, representing an increase of RMB1,612 million compared to net losses of RMB727 million in the first half of 2005. This increase was primarily due to the recovery of the equity markets, which led to a RMB1,962 million increase in unrealised gains on investments in equity securities to RMB1,373 million compared to the corresponding period of 2005. Such increase was partially offset by an increase of RMB422 million in realised losses on investments in equity securities compared to the same period of last year.

NET CLAIMS INCURRED

The Company's net claims incurred was RMB18,426 million in the first half of 2006, representing an increase of RMB376 million or 2.1% from RMB18,050 million in the first half of 2005. Loss ratio of the Company increased to 74.3% in the first half of 2006 from 72.4% in the same period of 2005. The increase in net claims incurred was primarily due to an increase of RMB613 million in net claims incurred of the motor vehicle insurance segment from RMB14,423 million in the corresponding period of 2005 to RMB15,036 million in the first half of 2006, and increases in net claims incurred of the accidental injury insurance and homeowners insurance in the non-motor vehicle insurance business of RMB160 million and RMB29 million, respectively, compared to the same period of 2005. However, the effect of such increases was partially offset by a decrease of RMB373 million in net claims incurred in cargo insurance segment in the first half of 2006 compared to the same period of last year. Net loss and loss adjustment expense reserves as of 30 June 2006 increased by RMB1,196 million compared to 31 December 2005.

AMORTISATION OF DEFERRED ACQUISITION COSTS, NET

Net amortisation of deferred acquisition costs of the Company was RMB2,523 million in the first half of 2006, representing an increase of 15.8% over RMB2,178 million in the first half of 2005. This increase was primarily due to a substantial increase in commission expenses paid to insurance intermediaries and agents in the first half of 2006 compared to the corresponding period of last year and a decrease in reinsurance commission receivable.

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 RMB338 million in the first half of 2006, representing an increase of 11.9% from RMB302 million in the corresponding period of last year. This increase was due to an increase in retained premiums.

INTEREST EXPENSE CREDITED TO POLICYHOLDERS' DEPOSITS

Interest expense of the Company credited to policyholders' deposits was RMB63 million in the first half of 2006, representing a slight decrease from RMB67 million in the first half of 2005. This was primarily due to a decrease in policyholders' deposits from the Company's Golden Bull homeowners insurance products.

FINANCE COSTS

Finance costs of the Company were RMB75 million in the first half of 2006, representing an increase of RMB7 million over RMB68 million in the first half of 2005. This increase was primarily due to an increase of RMB8 million in interest expenses on securities sold under sale and repurchase agreements compared to the corresponding period of last year.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the Company were RMB2,970 million in the first half of 2006, representing an increase of 4.4% from RMB2,844 million in the first half of 2005. This increase was primarily due to a RMB113 million increase in bad debt losses compared to the same period of last year resulting from a RMB414 million bad debt provision on premiums receivable in the first half of 2006.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company was RMB1,853 million in the first half of 2006, representing an increase of RMB479 million from RMB1,374 million in the first half of 2005.

TAX

Income tax expense of the Company was RMB744 million in the first half of 2006, representing an increase of RMB259 million over RMB485 million in the first half of 2005. The Company's effective tax rate increased to 40.15% in the first half of 2006 from 35.3% in the first half of 2005.

NET PROFIT

As a result of the foregoing, the Company's net profit was RMB1,109 million in the first half of 2006, representing an increase of RMB220 million from RMB889 million in the first half of 2005. Basic earnings per share in the first half of 2006 was RMB0.100.

COMBINED RATIO

The Company's combined ratio increased from 93.7% in the first half of 2005 to 97.8% in the first half of 2006, primarily due to an increase in the Company's loss ratio from 72.4% in the first half of 2005 to 74.3% in the first half of 2006 and an increase in the expense ratio from 21.3% in the first half of 2005 to 23.5% in the first half of 2006.³

³ The figures for the first half of 2005 are restated according to the presentation of reporting for 2006.

RESULTS OF SEGMENT OPERATIONS

Motor Vehicle Insurance

	Six months ended 30 June	
	2006 RMB million	2005 RMB million
Turnover	24,739	22,872
Net premiums earned	18,494	18,384
Net claims incurred	(15,036)	(14,423)
Amortisation of deferred acquisition costs, net	(1,979)	(2,007)
Insurance protection expense	(243)	(211)
Segment profit before unallocated income and expenses	1,236	1,743
Loss ratio	81.3%	78.5%
Segment expense ratio	12.0%	12.1%
Segment combined ratio	93.3%	90.6%

Turnover of the motor vehicle insurance segment in the first half of 2006 was RMB24,739 million, representing an increase of RMB1,867 million or 8.2% from RMB22,872 million in the first half of 2005. This increase was primarily due to a 10.2% increase in the number of motor vehicles insured by the Company in the first half of 2006 compared to the same period of last year.

Net premiums earned from the motor vehicle insurance segment was RMB18,494 million in the first half of 2006, close to RMB18,384 million in the first half of 2005. This was primarily due to an increase of RMB1,955 million in gross premiums income of the motor vehicle insurance segment in the first half of 2006 compared to the first half of 2005 and a decrease of RMB1,075 million in reinsurance premiums ceded of the motor vehicle insurance segment over the same period of last year, but such effects were offset by an increase of RMB2,832 million in the changes in net unearned premium reserves of the motor vehicle insurance segment.

Net claims incurred of the motor vehicle insurance segment increased by RMB613 million or 4.3% from RMB14,423 million in the first half of 2005 to RMB15,036 million in the first half of 2006, and loss ratio increased to 81.3% in the first half of 2006 from 78.5% in the first half of 2005. The increase in net claims incurred was primarily due to an increase of RMB968 million in claim paid of the motor vehicle insurance segment in the first half of 2006 compared to the same period of last year, but the effect of the increase in claim paid was partially offset by a decrease of RMB181 million in the change in net loss and loss adjustment expense reserve and an increase of RMB174 million in paid losses recoverable from reinsurers compared to the same period of last year.

Net amortisation of deferred acquisition costs of the motor vehicle insurance segment was RMB1,979 million in the first half of 2006, close to RMB2,007 million in the first half of 2005.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

Insurance protection expense charged to the motor vehicle insurance segment increased by 15.2% from RMB211 million in the first half of 2005 to RMB243 million in the first half of 2006 due to an increase in retained premiums.

The expense ratio for the motor vehicle insurance segment decreased from 12.1% in the first half of 2005 to 12.0% in the first half of 2006, primarily due to a slight decrease in net amortisation of deferred acquisition costs.

Overall, profit before unallocated income and expenses of the motor vehicle insurance segment was RMB1,236 million in the first half of 2006, representing a decrease of 29.1% compared to RMB1,743 million in the first half of 2005.

Commercial Property Insurance

	Six months ended 30 June	
	2006	2005
	<i>RMB million</i>	<i>RMB million</i>
Turnover	5,164	5,330
Net premiums earned	2,642	2,712
Net claims incurred	(1,702)	(1,604)
Amortisation of deferred acquisition costs, net	(214)	(170)
Insurance protection expense	(38)	(41)
Segment profit before unallocated income and expenses	688	897
Loss ratio	64.4%	59.1%
Segment expense ratio	9.5%	7.8%
Segment combined ratio	73.9%	66.9%

Turnover of the commercial property insurance segment decreased by RMB166 million or 3.1% from RMB5,330 million in the first half of 2005 to RMB5,164 million in the first half of 2006. Such decrease in turnover was primarily due to a continued decrease in premium rates resulting from the intensified market competition in the first half of 2006.

Net premiums earned from the commercial property insurance segment decreased by RMB70 million or 2.6% from RMB2,712 million in the first half of 2005 to RMB2,642 million in the first half of 2006. This was primarily due to a decrease of RMB171 million in gross premiums income and an increase of RMB73 million in reinsurance premiums ceded compared to the same period of last year. However, such effect was partially offset by a decrease of RMB169 million in the changes in net unearned premium reserves compared to the first half of 2005.

Net claims incurred of the Company's commercial property insurance segment increased by 6.1% from RMB1,604 million in the first half of 2005 to RMB1,702 million in the first half of 2006. The increase in net claims incurred was primarily due to a decrease of RMB481 million in paid losses recoverable from reinsurers compared to the same period of last year. The impact of such decrease in paid losses recoverable from reinsurers was partially offset by a decrease of RMB382 million in claim paid compared to the same period of last year.

Net amortisation of deferred acquisition costs of the Company's commercial property insurance segment increased by 25.9% from RMB170 million in the first half of 2005 to RMB214 million in the first half of 2006, primarily due to an increase in commission expenses which was caused by the intensified market competition for commercial property insurance business in the first half of 2006.

Insurance protection expense charged to the commercial property insurance segment decreased by 7.3% from RMB41 million in the first half of 2005 to RMB38 million in the first half of 2006, due to a decrease in retained premiums.

Due to the above increase in net amortisation of deferred acquisition costs, the expense ratio of the commercial property insurance segment increased from 7.8% in the first half of 2005 to 9.5% in the first half of 2006.

As a result of the foregoing, profit before unallocated income and expenses of the commercial property insurance segment was RMB688 million in the first half of 2006, representing a decrease of 23.3% compared to RMB897 million in the first half of 2005.

Homeowners Insurance

	Six months ended 30 June	
	2006	2005
	RMB million	RMB million
Turnover	492	585
Net premiums earned	237	397
Net claims incurred	(101)	(72)
Amortisation of deferred acquisition costs, net	(85)	(140)
Net investment income	130	126
Net realised and unrealised gains/(losses) on investments	66	(132)
Interest expense credited to policyholders' deposits	(63)	(67)
Insurance protection expense	(5)	(5)
Segment profit before unallocated income and expenses	179	107
Loss ratio	42.6%	18.1%
Segment expense ratio	38.0%	36.5%
Segment combined ratio	80.6%	54.6%

Turnover of the homeowners insurance segment decreased by RMB93 million or 15.9% to RMB492 million in the first half of 2006 compared to RMB585 million in the first half of 2005. The decrease was primarily due to terminations of residential mortgage loan insurance policies caused by an increase in interest rates.

Net premiums earned from the homeowners insurance segment decreased by RMB160 million or 40.3% to RMB237 million in the first half of 2006 compared to RMB397 million in the first half of 2005. This decrease was primarily due to a decrease of RMB91 million in gross premiums income and an increase of RMB134 million in the changes in unearned premium reserves, however, the impact of these two factors on the decrease in net premiums earned was partially offset by a decrease of RMB68 million in reinsurance premiums ceded.

Net claims incurred for the homeowners insurance segment increased by 40.3% to RMB101 million in the first half of 2006 compared to RMB72 million in the first half of 2005. Loss ratio of the homeowners insurance segment increased from 18.1% in the first half of 2005 to 42.6% in the first half of 2006 primarily due to a substantial decrease in net premiums earned.

Net amortisation of deferred acquisition costs of the homeowners insurance segment decreased by RMB55 million to RMB85 million in the first half of 2006 compared to RMB140 million in the first half of 2005. This decrease was primarily due to the decrease in net premiums earned.

Insurance protection expense charged to the homeowners insurance segment was RMB5 million in the first half of 2006, close to the level in the first half of 2005. This was primarily because retained premiums of homeowners insurance segment in the first half of 2006 did not change much from that in the same period of 2005.

The expense ratio for the homeowners insurance segment increased from 36.5% in the first half of 2005 to 38.0% in the first half of 2006.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

The net investment income derived from policyholders' deposits of the homeowners insurance segment increased by RMB4 million from RMB126 million in the first half of 2005 to RMB130 million in the first half of 2006. 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 RMB63 million in the first half of 2006, representing a slight decrease compared to RMB67 million in the first half of 2005, primarily due to a decrease in the amount of the policyholders' investment fund compared to that in the same period of 2005.

As a result of the foregoing, profit before unallocated income and expenses of the homeowners insurance segment was RMB179 million in the first half of 2006, representing an increase of 67.3% compared to RMB107 million in the first half of 2005.

Other Insurance

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

	Six months ended 30 June	
	2006 RMB million	2005 RMB million
Turnover		
Cargo insurance	1,488	1,578
Liability insurance	1,645	1,377
Accidental injury insurance	1,193	1,070
Other insurance	2,262	2,070
Total	6,588	6,095
Net premiums earned		
Cargo insurance	986	1,147
Liability insurance	942	848
Accidental injury insurance	805	789
Other insurance	686	662
Total	3,419	3,446
Net claims incurred	(1,587)	(1,951)
Amortisation of deferred acquisition costs, net	(245)	139
Insurance protection expense	(52)	(45)
Segment profit before unallocated income and expenses	1,535	1,589
Loss ratio	46.4%	56.6%
Segment expense ratio	8.7%	-2.7%
Segment combined ratio	55.1%	53.9%

Turnover of the other insurance segment increased by 8.1% from RMB6,095 million in the first half of 2005 to RMB6,588 million in the first half of 2006. This increase was primarily due to the increase of 11.5% and 19.5% in turnover of accidental injury insurance and liability insurance, respectively, in the first half of 2006 as compared to those in the first half of 2005. Turnover of liability insurance increased primarily because turnover of carriers' liability insurance and employers' liability insurance increased substantially.

Net premiums earned from the other insurance segment decreased by 0.8% from RMB3,446 million in the first half of 2005 to RMB3,419 million in the first half of 2006. This decrease was primarily due to a decrease of RMB161 million in net premiums earned from cargo insurance.

Net claims incurred for the other insurance segment decreased by 18.7% from RMB1,951 million in the first half of 2005 to RMB1,587 million in the first half of 2006. Such decrease was primarily due to a decrease of RMB373 million in the net claims incurred for cargo insurance, the impact of the decrease in the net claims incurred for cargo insurance was, however, partially offset by an increase of RMB160 million in net claims incurred for accidental injury insurance.

Mainly due to the decrease of net claims incurred, the loss ratio of the other insurance segment decreased to 46.4% in the first half of 2006 from 56.6% in the first half of 2005.

Net amortisation of deferred acquisition costs of the other insurance segment was RMB245 million in the first half of 2006.

Insurance protection expense charged to the other insurance segment increased by 15.6% to RMB52 million in the first half of 2006 as compared to RMB45 million in the first half of 2005. This increase was due to an increase in retained premiums.

As a result of the foregoing, the other insurance segment recorded an RMB1,535 million profit before unallocated income and expenses in the first half of 2006, representing a decrease of 3.4% compared to RMB1,589 million in the first half of 2005.

DEVELOPMENT OF NEW PRODUCTS

In the first half of 2006, the Company developed 81 new insurance products mainly in the areas of the motor vehicle insurance, liability insurance, agriculture insurance and credit and guarantee insurance, of which 57 are national products (including 18 stand-alone coverages and 39 supplementary coverages) and 24 are regional products (including 15 stand-alone coverages and 9 supplementary coverages).

In the first half of 2006, in an effort to respond to the newly adopted requirement of compulsory traffic accident liability insurance in respect of motor vehicles, the Company revised its existing commercial third party liability insurance products and successfully procured a smooth transition of the motor vehicle insurance business. Based on the research of new demand of the market, the Company developed and re-designed a series of specifically targeted and highly adaptable products to meet the needs of diversified insurance coverages.

CASH FLOW

	Six months ended 30 June	
	2006	2005
	<i>RMB million</i>	<i>RMB million</i>
Net cash inflow from operating activities	3,174	6,839
Net cash outflow from investing activities	(3,015)	(1,297)
Net cash inflow/(outflow) from financing activities	3,939	(2,413)
Net increase in cash and cash equivalents	4,098	3,129

Net cash generated from operating activities of the Company was RMB3,174 million in the first half of 2006, representing a decrease of 53.6% compared to the first half of 2005. The decrease was primarily due to a rapid growth in cash payment of premiums ceded to reinsurers in the first half of 2006.

Net cash outflow from the Company's investing activities in the first half of 2006 was RMB3,015 million, representing an increase of RMB1,718 million compared to the first half of 2005. Such increase in cash outflow was primarily due to an increase of RMB3,544 million in cash inflow resulted from decreased proceeds from selling investments in securities, an increase of RMB7,654 million in cash outflow resulted from decreased cash expenses for investments in securities, and an increase of RMB2,142 million in cash inflow caused by increased deposits in banks and other financial institutions with original maturities of over three months.

Net cash inflow from the Company's financing activities in the first half of 2006 was RMB3,939 million, representing an increase of RMB6,352 million compared to the first half of 2005. The increase was primarily due to an increase of RMB4,961 million in cash inflow resulted from the change in the securities sold under the sale and repurchase agreements and an increase of RMB1,542 million in cash inflow resulted from the change in the securities purchased under purchase and resale agreements.

Net increase in cash and cash equivalents of the Company in the first half of 2006 was RMB4,098 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 five-year term lending rate fixed by the People's Bank of China. The loan will be 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 interim report, no amount has been drawn down under that facility. Save for the subordinated loan and the credit facility mentioned above, the Company has not obtained working capital by other means of 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 RMB310 million in the first half of 2006.

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 RMB8,435 million as of 30 June 2006. The Company's actual solvency margin as of 30 June 2006 calculated pursuant to the regulations of the CIRC was RMB11,440 million and solvency margin adequacy ratio was 136% ⁴.

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 the first half of 2006, the Company failed to meet fewer than 4 of such benchmarks.

⁴ 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 and surplus reserves. 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 the first half of 2006 was 3.52 times ⁵.

⁵ Calculated in accordance with the PRC Accounting Regulations for Financial Institutions, where the figure of retained premiums was calculated for the full year ended 30 June 2006.

GEARING RATIO

As of 30 June 2006, the Company's gearing ratio ⁶ was 81.7%, representing an increase of 1.9 percentage points from 79.8% as of 31 December 2005.

⁶ 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 investment advisers. 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 is subject to credit risk on its premiums receivable, investment assets, reinsurance assets and deposits with commercial banks. 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 primarily 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 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 30 June 2006, the Company had 60,628 employees. Staff salaries paid by the Company in the first half of 2006 were RMB1,629 million which mainly includes basic salaries and performance related bonuses. In addition, the Company makes contributions to pension schemes and social medical insurance plans for its employees. Senior management of the Company are entitled to share appreciation rights. The share appreciation rights scheme does not require any issue of shares and hence the rights of the shareholders will not be diluted. 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.

LATEST DEVELOPMENT

On 25 July 2006, the Company entered into an agreement with PICC Holding Company, fellow subsidiaries of PICC Holding Company and an independent third party, pursuant to which the Company agreed to contribute RMB160 million to the registered capital of PICC Asset Management Company Limited, and will be holding 20% of its equity interests. The Company is of the view that the transaction will benefit the refinement of the Company's asset management model and the enhancement of the Company's investment structure, so as to enable the Company to better control investment risk and to stabilize investment returns, and that the transaction is in the interests of the Company as a whole.

LOOKING FORWARD

With the sustained growth of China's economy, a comparatively rapid growth will be maintained in the domestic insurance market in the second half of 2006. The promulgation of the *Several Opinions of the State Council on the Reform and Development of the Insurance Industry* and the smooth implementation of the *Regulations on Mandatory Traffic Accident Liability Insurance for Motor Vehicles* will play an active role in promoting the development of the non-life insurance market. The PRC insurance regulatory authority is strengthening its efforts in regulating the insurance market and maintaining market order, which will promote a more rational competition in the non-life insurance market. The implementation of the administrative measures on investments of insurance funds, such as the *Interim Measures on the Administration of Stock Investments of Insurance Institutional Investors* and the *Administrative Measures on the Pilot Indirect Investments of Insurance Funds into Infrastructure Projects*, will play an active role in increasing investment returns of insurance companies.

In order to increase value for its shareholders, the Company will increase its efforts in the development of product lines and the promotion of business growth, strive to promote human resources reforms and employ experts on actuarial techniques. The Company will also comprehensively enhance costs management, strengthen marketing and broaden sales channels in order to promote its business development. The Company will enforce stringent claims management and control so as to enhance claims quality in a comprehensive manner, promote customer resources management and improve service quality. Furthermore, the Company will enhance risk control in using investment funds so as to improve investment returns.

OTHER INFORMATION

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 Securities and Futures Ordinance ("SFO")) held by the directors, supervisors and chief executive of the Company as at 30 June 2006, which was 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 of Hong Kong Limited under the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as contained 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	Interest of 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 30 June 2006 as recorded in the register required to be kept under section 352 of the SFO, or as notified pursuant to the Model Code.

CHANGES IN DIRECTORATE AND SUPERVISORY COMMITTEE

Change in the directorate from 1 January 2006 to the date of this interim report is as follows:

Mr Ding Ningning was appointed as an Independent Non-executive Director of the Company on 18 January 2006.

On the date of this interim report, the directors of the Company are:

Mr Tang Yunxiang (*Chairman of the Board*)
Mr Wang Yi (*Vice Chairman of the Board, Executive Director*)
Mr Wang Yincheng (*Executive Director*)
Md Liu Zhenghuan (*Executive Director, Secretary of the Board*)
Mr Ding Yunzhou (*Non-executive Director*)
Mr Zhou Shurui (*Non-executive Director*)
Mr Tse Sze-Wing, Edmund (*Non-executive Director*)
Mr Cheng Wai Chee, Christopher (*Independent Non-executive Director*)
Mr Lu Zhengfei (*Independent Non-executive Director*)
Mr Luk Kin Yu, Peter (*Independent Non-executive Director*)
Mr Ding Ningning (*Independent Non-executive Director*)

Change in the Supervisory Committee from 1 January 2006 to the date of this interim report is as follows:

Mr Li Dianjun was appointed as an Independent Supervisor of the Company on 9 May 2006.

On the date of this interim report, the supervisors of the Company are:

Mr Deng Zhaoyu (*Chairman of the Supervisory Committee*)

Mr Li Dianjun (*Independent Supervisor*)

Mr Tang Wei (*Supervisor*)

Mr Liu Qilong (*Supervisor*)

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has formulated and adopted the Guidance on Trading of the Company's Securities by Employees ("Guidance") which applies to directors and all employees, and the Guidance is no less exacting than the Model Code. All directors have confirmed, following the enquiry by the Company, that they had complied with the required standard set out in the Model Code and the Guidance during the first half of 2006.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 30 June 2006, 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	Nature of interest	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	Long position	100%	69.0%

Name of shareholder	Capacity	Number of H shares	Nature of interest	Percentage of total number of H shares in issue	Percentage of total number of shares in issue
American International Group, Inc. ("AIG") (Note 1)	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania (Note 1)	Beneficial owner	562,549,380	Long position	16.28%	5.05%
Commerce and Industry Insurance Company (Note 1)	Beneficial owner	330,911,400	Long position	9.58%	2.97%
Lexington Insurance Company (Note 1)	Beneficial owner	209,577,220	Long position	6.06%	1.88%
Morgan Stanley	Interest of controlled corporations	343,477,050 147,379,585	Long position Short position	9.94% 4.26%	3.08% 1.32%
JPMorgan Chase & Co.	Beneficial owner/ Investment manager/ Custodian corporation/ Approved lending agent	175,167,162 (Note 2)	Long position	5.07%	1.57%

OTHER INFORMATION

Notes:

1. Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company, Lexington Insurance Company were controlled corporations of AIG.
2. Included in the 175,167,162 shares were 66,639,532 shares held in the capacity as beneficial owner, 1,630 shares held in the capacity as investment manager and a lending pool of 108,526,000 shares.

Save as disclosed above, the Company is not aware of any other person having any interests or short positions in the shares or underlying shares of the Company as at 30 June 2006 required to be recorded in the register kept under section 336 of the SFO.

INTERIM DIVIDEND

The Board of Directors did not propose any interim dividend for 2006.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

The Company did not purchase, sell or redeem any of its listed securities in the first half of 2006.

CORPORATE GOVERNANCE

Save as the composition of the Nomination, Remuneration and Review Committee of the Company prior to 18 January 2006 which did not meet the requirement under code provision B.1.1 of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules (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 the first half of 2006. Since the appointment of Mr Ding Ningning as an Independent Non-executive Director and a member of the Nomination, Remuneration and Review Committee of the Company on 18 January 2006, the composition of the Nomination, Remuneration and Review Committee of the Company has met the requirement under code provision B.1.1 of the Code on Corporate Governance Practices.

REVIEW OF INTERIM RESULTS

Ernst & Young, the Company's auditors, and the Audit Committee of the Company have reviewed the Company's interim condensed financial statements for the six months ended 30 June 2006.

By Order of the Board
Tang Yunxiang
Chairman

Beijing, PRC
18 August 2006