

30 June 2004

1. BASIS OF PRESENTATION

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

The Company's unaudited interim financial statements have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Main Board Listing Rules"), including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" of the Hong Kong Financial Reporting Standards issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those set out in the Company's first set of financial statements for the period from 7 July 2003 (date of incorporation) to 31 December 2003 except for the first adoption of an accounting policy as set out below in relation to held-to-maturity securities due to the purchases of certain dated debt securities during the six months ended 30 June 2004.

The prior period comparative figures included in the interim financial statements are prepared as if the Company had been in existence throughout the six months ended 30 June 2003 and as if the Company's Reorganisation was effective prior to the earliest date presented therein.

The interim financial statements are unaudited, but have been reviewed by the Company's Audit Committee and Ernst & Young, the Company's auditors. Ernst & Young's independent review report to the Board of Directors is set out on page 22.

Held-to-maturity securities

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

2. CORPORATE INFORMATION

The registered office of the Company is located at 69 Donghayan Street, Xuanwumen, Beijing 100052, PRC. The Company is a provider of commercial insurance coverage in the PRC, and provides a wide range of property and casualty ("P&C") insurance consisting of property loss and damage insurance, liability insurance, credit and guarantee insurance, accidental injury insurance, short term health insurance and other P&C insurance as well as related reinsurance.

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

3. SEGMENT INFORMATION

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

Summary details of the business segments are as follows:

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

30 June 2004

3. SEGMENT INFORMATION (Continued)

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

	Unaudited Six months ended 30 June 2004 RMB million	Pro forma Six months ended 30 June 2003 RMB million
Turnover		
Motor vehicle	24,197	19,387
Commercial property	5,145	5,221
Homeowners	793	736
Cargo	1,527	1,555
Liability	1,094	1,412
Accidental injury	836	849
Other	1,797	1,491
	35,389	30,651
Net premiums earned		
Motor vehicle	16,377	13,028
Commercial property	3,238	3,441
Homeowners	378	604
Cargo	1,710	1,177
Liability	942	1,112
Accidental injury	851	37
Other	710	531
	24,206	19,930
Interest and dividend income		
Homeowners	53	99
Net gains/(losses) on trading and non-trading securities		
Homeowners	(7)	58

3. SEGMENT INFORMATION (Continued)

	Unaudited Six months ended 30 June 2004 RMB million	Pro forma Six months ended 30 June 2003 RMB million
Net claims incurred		
Motor vehicle	(14,096)	(10,708)
Commercial property	(1,248)	(1,605)
Homeowners	(103)	(178)
Cargo	(459)	(574)
Liability	(561)	(795)
Accidental injury	(553)	(31)
Other	(566)	(362)
	(17,586)	(14,253)
Amortisation of deferred acquisition costs		
Motor vehicle	(1,328)	(895)
Commercial property	(133)	(60)
Homeowners	(47)	(77)
Cargo	(118)	(61)
Liability	(72)	(41)
Accidental injury	(53)	(3)
Other	125	108
	(1,626)	(1,029)
Insurance protection expense		
Motor vehicle	(231)	(168)
Commercial property	(45)	(42)
Homeowners	(8)	(7)
Cargo	(14)	(13)
Liability	(10)	(12)
Accidental injury	(8)	(7)
Other	(9)	(9)
	(325)	(258)
Interest expense credited to policyholders' deposits		
Homeowners	(78)	(58)
Segment profit/(loss) before unallocated income and expenses		
Motor vehicle	722	1,257
Commercial property	1,812	1,734
Homeowners	188	441
Cargo	1,119	529
Liability	299	264
Accidental injury	237	(4)
Other	260	268
	4,637	4,489

30 June 2004

3. SEGMENT INFORMATION (Continued)

	Unaudited Six months ended 30 June 2004 RMB million	Pro forma Six months ended 30 June 2003 RMB million
Unallocated operating income and expenses		
Interest and dividend income	466	202
Net gains/(losses) on trading and non-trading securities	(507)	172
General and administrative expenses	(3,240)	(2,929)
Finance costs	(66)	(11)
	(3,347)	(2,566)
Profit before tax	1,290	1,923
Tax	(327)	(602)
Net profit	963	1,321

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

4. TURNOVER AND REVENUE

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

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

	Unaudited Six months ended 30 June 2004 RMB million	Pro forma Six months ended 30 June 2003 RMB million
Turnover		
Direct premiums written	37,395	32,392
Reinsurance premiums assumed	1	4
	37,396	32,396
Less: Government levies and surcharges	(2,007)	(1,745)
	35,389	30,651
Net premiums earned		
Turnover	35,389	30,651
Less: Reinsurance premiums ceded	(4,803)	(5,720)
Net premiums written	30,586	24,931
Less: Changes in net unearned premium reserves	(6,380)	(5,001)
Net premiums earned	24,206	19,930
Interest and dividend income		
Interest income from trading and non-trading securities	176	30
Interest income from deposits with banks and other financial institutions	203	129
Interest income from held-to-maturity securities	3	—
Dividend income from trading and non-trading securities	137	142
	519	301
Net gains/(losses) on trading and non-trading securities		
Realised gains on trading securities — Mutual funds	4	8
Realised gains on trading securities — Debts	3	7
Unrealised gains/(losses) on trading securities — Mutual funds	(471)	170
Unrealised gains/(losses) on trading securities — Debts	(80)	27
Net gains on disposal of non-trading securities:		
Realisation of revaluation reserve previously recognised	1	5
Recognised gain arising in the period	29	13
	(514)	230

30 June 2004

5. NET CLAIMS INCURRED

	Unaudited Six months ended 30 June 2004 RMB million	Pro forma Six months ended 30 June 2003 RMB million
Gross claims expenses	18,747	17,388
Less: Loss recovered from reinsurance	(3,106)	(3,312)
Net claims expenses	15,641	14,076
Add: Change in net loss and loss adjustment expense reserves	1,945	178
Add: Change in net provision for premium deficiency	—	(1)
Net claims incurred	17,586	14,253

6. OPERATING PROFIT

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

	Unaudited Six months ended 30 June 2004 RMB million	Pro forma Six months ended 30 June 2003 RMB million
Depreciation	706	854
Provision for doubtful accounts	78	11

7. TAX

	Unaudited Six months ended 30 June 2004 RMB million	Pro forma Six months ended 30 June 2003 RMB million
Current - PRC		
Charge for the period	456	44
Deferred	(129)	558
Total tax charge for the period	327	602

8. DIVIDEND

The Board of Directors does not recommend payment of an interim dividend in respect of the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

9. EARNINGS PER SHARE

The calculations of basic earnings per share for the six months ended 30 June 2004 and 2003 are based on:

	Unaudited Six months ended 30 June 2004 <i>RMB million</i>	Pro forma Six months ended 30 June 2003 <i>RMB million</i>
Earnings		
Net profit attributable to shareholders used in the basic earnings per share calculation	963	1,321
Number of shares		
	Unaudited Six months ended 30 June 2004 <i>million</i>	Pro forma Six months ended 30 June 2003 <i>million</i>
Shares		
Number of ordinary shares used in the basic earnings per share calculation	11,142	8,000

The pro forma basic earnings per share for the six months ended 30 June 2003 has been computed by dividing net profit by 8,000 million shares, the number of shares issued and outstanding upon the formation of the Company on 7 July 2003, as if such shares have been outstanding throughout the period. The Company has no dilutive potential shares outstanding during the six months ended 30 June 2004.

30 June 2004

10. CASH AND CASH EQUIVALENTS AND TERM DEPOSITS

	Unaudited 30 June 2004 <i>RMB million</i>	Audited 31 December 2003 <i>RMB million</i>
Demand deposits	16,960	11,529
Cash in hand	58	32
Securities purchased under resale agreements with original maturity of less than 3 months	1,200	3,327
Deposits with banks and other financial institutions with original maturity of less than 3 months	2,156	3,116
Investments in securities with original maturity of less than 3 months	1,761	—
Cash and cash equivalents	22,135	18,004
Deposits with banks and other financial institutions with original maturity of more than 3 months	9,448	12,562
Total	31,583	30,566

11. TRADING SECURITIES

	Unaudited 30 June 2004 <i>RMB million</i>	Audited 31 December 2003 <i>RMB million</i>
Listed investments:		
Debt securities issued by the PRC central government	1,818	1,813
Debt securities issued by corporate entities	62	66
Mutual funds issued by banks and other financial institutions	3,213	3,690
	5,093	5,569
Unlisted investments:		
Debt securities issued by the PRC central government	228	525
Debt securities issued by banks and other financial institutions	740	—
	968	525
Total	6,061	6,094

Trading securities are investments in securities held for trading purposes and are stated at their fair value on the basis of their quoted market prices at 30 June 2004 and 31 December 2003, on an individual investment basis.

11. TRADING SECURITIES *(Continued)*

A maturity profile of the debt securities classified as trading securities according to their contractual maturity dates is as follows:

	Unaudited 30 June 2004 <i>RMB million</i>	Audited 31 December 2003 <i>RMB million</i>
Less than 3 months but not on demand	298	199
Less than 1 year but more than 3 months	670	326
Less than 5 years but more than 1 year	1,749	1,813
More than 5 years	131	66
	2,848	2,404

12. NON-TRADING SECURITIES

	Unaudited 30 June 2004 <i>RMB million</i>	Audited 31 December 2003 <i>RMB million</i>
Listed investments:		
Debt securities issued by the PRC		
central government	2,900	1,864
Debt securities issued by corporate entities	666	280
	3,566	2,144
Unlisted investments:		
Debt securities issued by the PRC		
central government	4,528	4,441
Debt securities issued by banks and		
other financial institutions	1,238	1,142
Debt securities issued by corporate entities	1,691	1,373
Mutual funds issued by banks and		
other financial institutions	4,103	1,665
	11,560	8,621
	15,126	10,765

At 30 June 2004 and 31 December 2003, non-trading securities are carried at fair value. The unlisted investments are traded on over-the-counter market in the PRC.

30 June 2004

12. NON-TRADING SECURITIES (Continued)

A maturity profile of the debt securities classified as non-trading securities according to their contractual maturity dates is as follows:

	Unaudited 30 June 2004 <i>RMB million</i>	Audited 31 December 2003 <i>RMB million</i>
Less than 1 year but more than 3 months	162	201
Less than 5 years but more than 1 year	4,626	3,696
More than 5 years	6,235	5,203
	11,023	9,100

13. HELD-TO-MATURITY SECURITIES

	Unaudited 30 June 2004 <i>RMB million</i>	Audited 31 December 2003 <i>RMB million</i>
Unlisted investments:		
Subordinated debt securities issued by banks and other financial institutions	1,100	—

A maturity profile of the debt securities classified as held-to-maturity securities according to their contractual maturity dates is as follows:

	Unaudited 30 June 2004 <i>RMB million</i>	Audited 31 December 2003 <i>RMB million</i>
Less than 5 years but more than 1 year	600	—
More than 5 years	500	—
	1,100	—

14. PREMIUMS RECEIVABLES AND AGENTS' BALANCES, NET

	Unaudited 30 June 2004 RMB million	Audited 31 December 2003 RMB million
Premiums receivables and agents' balances	4,251	2,095
Less: Allowance for doubtful accounts	(161)	(83)
	4,090	2,012

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

	Unaudited 30 June 2004 RMB million	Audited 31 December 2003 RMB million
Within 3 months	3,409	1,622
Over 3 months but less than 6 months	681	345
Over 6 months	—	45
	4,090	2,012

15. RECEIVABLES FROM REINSURERS

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

	Unaudited 30 June 2004 RMB million	Audited 31 December 2003 RMB million
Within 3 months	631	536
Over 3 months but less than 6 months	110	70
Over 6 months	137	50
	878	656

30 June 2004

16. PREPAYMENTS AND OTHER RECEIVABLES

Included in prepayments and other receivables was an amount due from certain provincial and municipal governments totaling RMB1,210 million (31 December 2003: RMB1,210 million). During 1999, pursuant to the instruction from the State Council as part of the restructuring of the PRC insurance industry, the Company acquired the commercial insurance business of certain provincial and municipal governments. On the date of the acquisition, the net liabilities assumed amounted to RMB1,210 million, which mainly consisted of unearned premium reserves and loss and loss adjustment expense reserves, net of cash and cash equivalents.

On 30 May 2003, the Ministry of Finance issued a notice to the provincial and municipal governments instructing them to settle the amount with the Company by 31 December 2003. As of 30 June 2004, the Company was in the process of negotiating with the relevant provincial and municipal governments to settle the amount. PICC Holding Company has undertaken to the Company that the amount will be fully recovered by the Company. Accordingly, no provision has been made against this amount at 30 June 2004 (31 December 2003: nil).

17. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	Unaudited 30 June 2004 RMB million	Audited 31 December 2003 RMB million
Reinsurance balances payable	912	1,132
Reinsurance funds withheld	801	846
	1,713	1,978

18. ISSUED CAPITAL

	Unaudited 30 June 2004 RMB million	Audited 31 December 2003 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

The Company does not have a share option scheme.

19. SUBORDINATED LOAN

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

20. CONTINGENT LIABILITIES

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

21. 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 for terms ranging between one to three years.

At 30 June 2004, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited 30 June 2004 <i>RMB million</i>	Audited 31 December 2003 <i>RMB million</i>
Within one year	280	296
In the second to fifth years, inclusive	575	681
After five years	21	54
	876	1,031

30 June 2004

22. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 21 above, the Company had the following capital commitments at the balance sheet date:

	Unaudited 30 June 2004 <i>RMB million</i>	Audited 31 December 2003 <i>RMB million</i>
Contracted, but not provided for	228	81
Authorised, but not contracted for	118	236
	346	317

23. RELATED PARTY TRANSACTIONS

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

In addition to the transactions and balances detailed elsewhere in these interim financial statements, the Company and PICC Holding Company, PICC Asset Management Company Limited and American International Group, a strategic shareholder of the Company, entered into a number of agreements after the Company's incorporation in connection with the Reorganisation. These agreements impact the results of the operations of the Company beginning from the respective dates. The relevant transactions during the six months ended 30 June 2004 are summarised as follows:

	Unaudited Six months ended 30 June 2004 <i>RMB million</i>
Property rental expenses to PICC Holding Company	105
Property rental income from PICC Holding Company	5
Motor vehicle rental expenses to PICC Holding Company	11
Motor vehicle rental income from PICC Holding Company	2
Management fee to PICC Asset Management Company Limited	17
Services fee income from PICC Holding Company	2

23. RELATED PARTY TRANSACTIONS (Continued)

The above transactions took place after the incorporation of the Company. Accordingly, no comparative information is available. Details of the terms of principal agreements entered into relating to the above transactions are consistent with those disclosed in the Company's first set of financial statements for the period from 7 July 2003 (date of incorporation) to 31 December 2003.

The above transactions also constitute connected transactions under the Main Board Listing Rules. Such transactions are exempted from disclosure by press notices under a waiver obtained from HKSE.

24. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim financial statements for the six months ended 30 June 2004 were approved and authorised for issue by the Board of Directors on 20 August 2004.