1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed interim financial statements of the Company are unaudited, but has 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 Company's Board of Directors is set out on page 30.

The condensed interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) which are generally effective for accounting periods beginning on or after 1 January 2005 and are adopted the first time by the Company for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 4	Insurance Contracts

The adoption of HKASs 1, 8, 16, 19, 21 and 24 have no material impact on the accounting policies of the Company and the methods of computation in the Company's financial statements. The impact of adopting other HKFRSs is detailed as follows:

(a) HKAS 17 – Leases

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

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

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

(a) HKAS 17 – Leases (continued)

This change in accounting policy has no effect on the condensed profit and loss account and retained earnings. The comparatives on the condensed balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

(b) HKAS 32 and HKAS 39 – Financial Instruments

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosures of financial instruments. A summary of the significant impact arising from the adoption of HKAS 32 and HKAS 39 is set out below:

Disclosures

The adoption of HKAS 32 has resulted in changes in the disclosures of maturity profiles of financial assets and liabilities.

Classification of investments

In the prior periods, investments are classified into trading, non-trading and held-to-maturity investments. The accounting policies for these investments are set out in details in note 4 to the audited annual financial statements for the year ended 31 December 2004.

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

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

Financial assets at fair value through profit or loss comprise financial assets classified as held for trading or financial assets that upon initial recognition are designated by the Company as financial assets at fair value through profit or loss. Financial assets are held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the profit and loss account.

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

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

(b) HKAS 32 and HKAS 39 – Financial Instruments (continued)

Classification of investments (continued)

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

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

When the fair value of unlisted debt or equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment, or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The adoption of HKAS 39 results in re-designation of certain financial assets and the details are set out in notes 9 and 11 to these interim financial statements.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events that occur after the initial recognition of the asset ("loss events"), and that loss event has an impact on the estimated future cash flows that can be reliably estimated.

Assets carried at amortised cost

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

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

(b) HKAS 32 and HKAS 39 – Financial Instruments (continued)

Impairment of financial assets (continued)

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised in profit or loss.

Available-for-sale financial assets

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss. The amount of the loss recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment losses on that financial asset previously recognised in profit or loss. Any such impairment losses on equity instruments classified as held for sale are not reversed through profit or loss.

Reversal of impairment losses on debt instruments is reversed through profit or loss, if the increase in fair value of an instrument can be objectively related to an event occurring after the impairment loss is recognised in profit or loss.

Derivatives financial instruments

The Company did not use any stand-alone derivatives but certain derivatives are embedded in structured deposits and convertible debt financial instruments. An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract.

As all financial instruments with embedded derivatives were re-designated as financial assets at fair value through profit or loss on 1 January 2005, no embedded derivatives are separated from the host contract and accounted for as derivatives.

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

(c) HKAS 40 – Investment Property

The adoption of HKAS 40 has resulted in a change in accounting policies for investment properties. Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost, including transaction costs, less accumulated depreciation and any impairment losses.

In the prior period, the Company made use of the exemption in Hong Kong Statement of Standard Accounting Practice 13 "Accounting for investment properties" available to insurance companies and did not separately present investment properties. Investment properties were previously accounted for as fixed assets. On the adoption of HKAS 40, investment properties are separately presented in the balance sheet.

This change in accounting policy has no effect on the profit and loss account and retained earnings. The comparatives on the balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of investment properties.

(d) HKFRS 2 – Share-based Payment

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

The adoption of HKFRS 2 "Share-based Payment" results in changes in accounting policy for the share appreciation rights scheme of the Company. HKFRS 2 requires that cash-settled share-based transactions with employees should be measured when the services are acquired and a liability should be established at fair value at inception. The fair value is expensed over the period until vested with the recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss. As the adoption of HKFRS 2 did not materially impact the financial statements for the prior year, it was prospectively applied and accordingly its adoption decreased the Company's profit for the period by RMB2 million.

(e) HKFRS 4 – Insurance Contracts

According to HKFRS 4, insurance contracts are those contracts that transfer significant insurance risk. Contracts that transfer financial risk without significant insurance risk are classified as investment contracts. The adoption of HKFRS 4 did not materially impact the measurement and recognition of any asset, liability, income or expense in the financial statements.

2. SEGMENT INFORMATION

Line of business segment has 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 People's Republic of China.

Summary details of the business segments are as follows:

(a) the motor vehicle segment provides insurance products covering motor vehicles;

(b) the commercial property segment provides insurance products covering commercial properties;

(c) the homeowners segment provides insurance products covering homes and their contents;

(d) the cargo segment provides insurance products covering vessels, crafts or conveyances;

(e) the liability segment provides insurance products covering policyholders' liability;

(f) the accidental injury segment provides insurance products covering accidental injury; and

(g) the "other" segment mainly represents insurance products related to marine hull, aviation and oil and gas.

2. SEGMENT INFORMATION (continued)

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

	Unaudited Six months ended 30 June 2005 *RMB million*	Unaudited Six months ended 30 June 2004 *RMB million*
Turnover		
Motor vehicle	**22,872**	24,197
Commercial property	**5,330**	5,145
Homeowners	**585**	793
Cargo	**1,578**	1,527
Liability	**1,377**	1,094
Accidental injury	**1,070**	836
Other	**2,070**	1,797
	34,882	35,389
Net premiums earned		
Motor vehicle	**18,384**	16,377
Commercial property	**2,712**	3,238
Homeowners	**397**	378
Cargo	**1,147**	1,710
Liability	**848**	942
Accidental injury	**789**	851
Other	**662**	710
	24,939	24,206
Net investment income		
Homeowners	**126**	53
Net realised and unrealised losses on investments		
Homeowners	**(127)**	(7)

2. SEGMENT INFORMATION (continued)

	Unaudited Six months ended 30 June 2005 *RMB million*	Unaudited Six months ended 30 June 2004 *RMB million*
Net claims incurred		
Motor vehicle	**(14,423)**	(14,096)
Commercial property	**(1,604)**	(1,248)
Homeowners	**(72)**	(103)
Cargo	**(579)**	(459)
Liability	**(611)**	(561)
Accidental injury	**(314)**	(553)
Other	**(447)**	(566)
	(18,050)	(17,586)
Amortisation of deferred acquisition costs		
Motor vehicle	**(2,007)**	(1,328)
Commercial property	**(170)**	(133)
Homeowners	**(140)**	(47)
Cargo	**(108)**	(118)
Liability	**(95)**	(72)
Accidental injury	**(77)**	(53)
Other	**419**	125
	(2,178)	(1,626)
Insurance protection expense		
Motor vehicle	**(211)**	(231)
Commercial property	**(41)**	(45)
Homeowners	**(5)**	(8)
Cargo	**(13)**	(14)
Liability	**(11)**	(10)
Accidental injury	**(9)**	(8)
Other	**(12)**	(9)
	(302)	(325)
Interest expense credited to policyholders' deposits		
Homeowners	**(67)**	(78)

2. SEGMENT INFORMATION (continued)

	Unaudited Six months ended 30 June 2005 *RMB million*	Unaudited Six months ended 30 June 2004 *RMB million*
Segment profit before unallocated income and expenses		
Motor vehicle	**1,743**	722
Commercial property	**897**	1,812
Homeowners	**112**	188
Cargo	**447**	1,119
Liability	**131**	299
Accidental injury	**389**	237
Other	**622**	260
	4,341	4,637
Unallocated operating income and expenses		
Net investment income	**553**	477
Net realised and unrealised losses on investments	**(584)**	(507)
General and administrative expenses	**(2,880)**	(3,251)
Finance costs	**(56)**	(66)
	(2,967)	(3,347)
Profit before tax	**1,374**	1,290
Tax	**(485)**	(327)
Net profit attributable to shareholders	**889**	963

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

3. TURNOVER AND REVENUE

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

An analysis of turnover, net investment income and net realised and unrealised losses on investments is as follows:

	Unaudited Six months ended 30 June 2005 ***RMB million***	Unaudited Six months ended 30 June 2004 *RMB million*
Turnover		
Direct premiums written	**36,875**	37,395
Reinsurance premiums assumed	**4**	1
	36,879	37,396
Less: Government levies and surcharges	**(1,997)**	(2,007)
	34,882	35,389
Net premiums earned		
Turnover	**34,882**	35,389
Less: Reinsurance premiums ceded	**(6,670)**	(4,803)
Net premiums written	**28,212**	30,586
Less: Changes in net unearned premium reserves	**(3,273)**	(6,380)
Net premiums earned	**24,939**	24,206
Net investment income		
Interest income from cash and cash equivalents and term deposits, net	**306**	203
Interest income from debt securities, net	**259**	176
Interest income from loans	**70**	3
Dividend income from equity securities	**33**	137
Rental income from investment properties	**11**	11
	679	530
Net realised and unrealised losses on investments		
Realised gains on debt securities	**123**	4
Realised gains/(losses) on equity securities	**(25)**	4
Unrealised gains/(losses) on debt securities	**25**	(51)
Unrealised losses on equity securities	**(589)**	(471)
Impairment loss on equity and debt securities	**(245)**	–
	(711)	(514)

4. NET CLAIMS INCURRED

	Unaudited Six months ended 30 June 2005 ***RMB million***	Unaudited Six months ended 30 June 2004 *RMB million*
Gross claims expenses	**19,416**	18,747
Less: Loss recovered from reinsurance	**(3,115)**	(3,106)
Net claims expenses	**16,301**	15,641
Add: Change in net loss and loss adjustment expense reserves	**1,749**	1,945
Net claims incurred	**18,050**	17,586

5. OPERATING PROFIT

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

	Unaudited Six months ended 30 June 2005 ***RMB million***	Unaudited Six months ended 30 June 2004 *RMB million*
Depreciation and amortisation	**646**	717
Provision for doubtful accounts	**301**	78

6. TAX

	Unaudited Six months ended 30 June 2005 ***RMB million***	Unaudited Six months ended 30 June 2004 *RMB million*
Current – PRC		
Charge for the period	**1,035**	456
Deferred	**(550)**	(129)
Total tax charge for the period	**485**	327

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.

7. PROPOSED INTERIM DIVIDEND

The Board of Directors proposed an interim dividend of RMB7.2 cent (2004: Nil) per ordinary share. The proposed interim dividend for the period is subject to the approval at the special general meeting.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the six months ended 30 June 2005 of RMB889 million (six months ended 30 June 2004: RMB963 million) and the 11,142 million ordinary shares (six months ended 30 June 2004: 11,142 million ordinary shares) in issue during the period.

A diluted earnings per share for the six months ended 30 June 2005 has not been disclosed as no diluting events existed during the period.

9. INVESTMENT RE-DESIGNATION

All investments previously classified as trading securities are designated as financial assets at fair value through profit or loss.

The Company has taken the advantage of the transitional provisions on its first time adoption of HKAS 39 to re-designate certain investments previously classified as non-trading securities as financial assets at fair value through profit or loss or available-for-sale financial assets. Details of the re-designation are set out below:

	Unaudited 30 June 2005			
	Fair value through profit or loss	**Available-for-sale**	**Total**	Audited 31 December 2004
	RMB million	***RMB million***	***RMB million***	*RMB million*
Debt securities	**3,827**	**8,879**	**12,706**	12,449
Equity securities	**2,198**	**–**	**2,198**	2,787
	6,025	**8,879**	**14,904**	15,236
Balances at 1 January 2005, at fair value after re-designation	**5,085**	**10,151**	**15,236**	

Certain term deposits were also re-designated as financial assets at fair value through profit or loss and the details are set out in note 11.

10. CASH AND CASH EQUIVALENTS

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million*
Demand deposits	**16,558**	14,942
Cash in hand	**57**	25
Securities purchased under resale agreements with original maturity of less than three months	**1,592**	50
Deposits with PRC banks and other financial institutions with original maturity of less than three months	**1,197**	1,258
	19,404	16,275

11. TERM DEPOSITS

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million*
Structured deposits maintained with PRC banks and other financial institutions	**3,389**	3,664
Deposits with PRC banks and other financial institutions with original maturity of more than three months	**9,970**	8,059
	13,359	11,723

11. TERM DEPOSITS (continued)

The maturity profile of the term deposits analysed by remaining period according to their contractual maturity dates is as follows:

	Unaudited 30 June 2005 ***RMB million***	Audited 31 December 2004 *RMB million*
Fixed rate:		
Within 1 year	**7,615**	4,908
1 – 2 years	**2,055**	2,851
2 – 3 years	**300**	300
	9,970	8,059
Floating rate:		
Within 1 year	**1,116**	1,186
1 – 2 years	**164**	87
2 – 3 years	**81**	247
3 – 4 years	**287**	41
4 – 5 years	**82**	328
More than 5 years	**1,659**	1,775
	3,389	3,664
	13,359	11,723
Effective interest rate (% per annum)	**1.71% – 12.08%**	1.09% – 12.08%

On the initial adoption of HKAS 39, structured deposits maintained with PRC banks and other financial institutions containing one or more embedded derivatives are designated as financial assets at fair value through profit or loss.

12. DEBT SECURITIES

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million* (Restated)
Listed debt securities:		
Debt securities issued by the PRC central government, net	**5,174**	3,566
Debt securities issued by corporate entities	**635**	959
	5,809	4,525
Unlisted debt securities:		
Debt securities issued by the PRC central government	**4,032**	4,360
Debt securities issued by banks and other financial institutions	**3,516**	2,397
Debt securities issued by corporate entities	**1,703**	3,367
	9,251	10,124
	15,060	14,649

In September 2004, a PRC securities company engaged by the Company's investment manager, PICC Asset Management Company Limited ("PICC AMC"), a fellow subsidiary of the Company, was placed under operational control by a special manager as instructed by the China Securities Regulatory Commission ("CSRC"). In June 2005, the CSRC announced the commencement of liquidating the securities company in September 2005 and the appointment of the special manager as liquidator. As at 30 June 2005, the Company had an outstanding amount of RMB412 million (31 December 2004: RMB415 million) deposited at this securities company, comprising financial assets at fair value through profit or loss and available-for-sale debt securities, their accrued interest amounting to RMB314 million and RMB44 million (31 December 2004: trading and non-trading securities and their accrued interest amounting to RMB110 million and RMB248 million), respectively, and a clearing account deposit of RMB54 million (31 December 2004: RMB57 million).

As at 30 June 2005, certain debt securities of the Company were registered under the exchange trading seats of another PRC securities company. The total amounts of debt securities at fair value through profit or loss and available-for-sales securities at 30 June 2005 were RMB522 million and RMB55 million (31 December 2004: trading and non-trading securities of RMB546 million and RMB53 million), respectively. During 2004, the Company and PICC AMC have instructed the securities company to either dispose of the debt securities, or to transfer the registration of the debt securities to the exchange trading seats of PICC AMC. The securities company has confirmed in writing to the Company that it would execute the said instruction and, as at the date of approving the Company's interim financial statements for the period ended 30 June 2005, debt securities totalling RMB18 million (31 December 2004: RMB16 million) were disposed of by the securities company. In June 2005, the Company was notified that a state-owned investment holding company intended to inject capital in the securities company for its restructuring. The Company's management has liaised with the securities company and the relevant regulatory authorities to ensure that the Company's assets are protected.

12. DEBT SECURITIES (continued)

The Company's management has assessed the expected net recoverable amount of the above-mentioned debt securities and their accrued interest and necessary provision has been made to cover any potential shortfall between the expected net recoverable amount and the carrying amount as at 30 June 2005.

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

	Unaudited 30 June 2005		
	Fair value through profit or loss *RMB million*	Available-for-sale *RMB million*	Total *RMB million*
Fixed rate:			
Within 1 year	**1,807**	**82**	**1,889**
1 – 2 years	**88**	**300**	**388**
2 – 3 years	**469**	**611**	**1,080**
3 – 4 years	**–**	**1,636**	**1,636**
4 – 5 years	**867**	**1,549**	**2,416**
More than 5 years	**536**	**3,982**	**4,518**
	3,767	**8,160**	**11,927**
Floating rate:			
1 – 2 years	**203**	**–**	**203**
2 – 3 years	**689**	**–**	**689**
4 – 5 years	**1,522**	**–**	**1,522**
More than 5 years	**–**	**719**	**719**
	2,414	**719**	**3,133**
	6,181	**8,879**	**15,060**
Effective interest rate (% per annum)			**1.00% – 11.83%**

12. DEBT SECURITIES (continued)

	Audited 31 December 2004 (Restated)		
	Trading *RMB million*	Non-trading *RMB million*	Total *RMB million*
Fixed rate:			
Within 1 year	1,454	205	1,659
1 – 2 years	–	654	654
2 – 3 years	–	646	646
3 – 4 years	10	2,444	2,454
4 – 5 years	105	1,323	1,428
More than 5 years	–	6,316	6,316
	1,569	11,588	13,157
Floating rate:			
2 – 3 years	567	204	771
4 – 5 years	5	46	51
More than 5 years	59	611	670
	631	861	1,492
	2,200	12,449	14,649
Effective interest rate (% per annum)			1.00% – 11.83%

Interest rates of floating rate debt securities are refixed at intervals of less than one year. Interest rates of fixed rate debt securities are fixed during their tenors.

13. EQUITY SECURITIES

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million* (Restated)
Listed investments:		
Mutual funds	**2,264**	2,781
Shares	**35**	–
	2,299	2,781
Unlisted investments:		
Mutual funds	**2,198**	2,787
	2,198	2,787
	4,497	5,568
Fair value through profit or loss	**4,497**	–
Trading	**–**	2,781
Non-trading	**–**	2,787
	4,497	5,568

14. LOANS

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million*
Unlisted subordinated debts issued by PRC banks and other financial institutions	**2,910**	2,910

On the adoption of HKAS 39, the Company has reclassified all held-to-maturity subordinated debts issued by PRC banks and other financial institutions as loans according to the new classification requirement.

14. LOANS (continued)

The maturity profile of the subordinated debts held by the Company analysed according to their remaining maturities is as follows:

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million*
Floating rate:		
3 – 4 years	**600**	–
4 – 5 years	**1,120**	1,220
More than 5 years	**1,190**	1,690
	2,910	2,910
Effective interest rate (% per annum)	**4.86% – 5.07%**	4.86% – 5.07%

Interest rates of floating rate subordinated debts are refixed at intervals of less than one year.

15. PREMIUMS RECEIVABLE AND AGENTS' BALANCES, NET

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million*
Premiums receivable and agents' balances	**6,495**	2,633
Less: Allowance for doubtful accounts	**(462)**	(161)
	6,033	2,472

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

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million*
Within 3 months	**5,513**	2,249
Over 3 months but less than 6 months	**405**	140
Over 6 months	**115**	83
	6,033	2,472

16. RECEIVABLES FROM REINSURERS

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

	Unaudited 30 June 2005 ***RMB million***	Audited 31 December 2004 *RMB million*
Within 3 months	**1,557**	755
Over 3 months but less than 6 months	**190**	80
Over 6 months	**172**	154
	1,919	989

17. PREPAYMENTS AND OTHER RECEIVABLES

As at 31 December 2004, included in prepayments and other receivables was an amount due from certain provincial and municipal governments totalling 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 acquisition, the net liabilities assumed amounted to RMB1,210 million, which mainly consisted of unearned premium reserves and loss and loss adjustment expense reserves, net of cash and cash equivalents.

During the period ended 30 June 2005, in accordance with notices issued by Ministry of Finance and China Insurance Regulatory Commission ("CIRC"), the Company fully offset the balance of RMB1,210 million due from provincial and municipal governments against the accrued insurance protection fund.

18. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	Unaudited 30 June 2005 ***RMB million***	Audited 31 December 2004 *RMB million*
Reinsurance balances payable	**3,753**	641
Reinsurance funds withheld	**441**	670
	4,194	1,311

Amount payables to reinsurers as at 30 June 2005 and 31 December 2004 are due within three months from the balance sheet date or are repayable on demand. The reinsurance funds withheld as at 30 June 2005 and 31 December 2004 are repayable upon the expiration of the related reinsurance contracts.

19. POLICYHOLDERS' DEPOSITS

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

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million*
Within 1 year	**808**	794
1 – 2 years	**2,366**	2,365
2 – 3 years	**2,875**	2,867
3 – 4 years	**998**	977
4 – 5 years	**709**	660
More than 5 years	**826**	1,123
	8,582	8,786

20. SHARE CAPITAL

	Unaudited 30 June 2005 *RMB million*	Audited 31 December 2004 *RMB million*
Shares		
Registered, issued and fully paid:		
7,685,820,000 domestic shares of RMB1.00 each	**7,686**	7,686
3,455,980,000 H shares of RMB1.00 each	**3,456**	3,456
	11,142	11,142

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 are negotiated for terms ranging between one to three years.

At 30 June 2005, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited 30 June 2005 ***RMB million***	Audited 31 December 2004 *RMB million*
Within one year	**304**	310
In the second to fifth years, inclusive	**331**	466
After five years	**38**	40
	673	816

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 2005 ***RMB million***	Audited 31 December 2004 *RMB million*
Contracted, but not provided for	**1,099**	1,473
Authorised, but not contracted for	**75**	85
	1,174	1,558

23. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

	Unaudited Six months ended 30 June 2005 ***RMB million***	Unaudited Six month ended 30 June 2004 *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
Transactions with a fellow subsidiary:		
Management fee	**17**	17
Transactions with a major shareholder:		
Reinsurance premiums ceded	**222**	–
Claims recoverable	**95**	–
Reinsurance commission received/receivables	**87**	–

(b) Outstanding balances with related parties

	Due from related parties		**Due to related parties**	
	Unaudited 30 June 2005 ***RMB million***	Audited 31 December 2004 *RMB million*	**Unaudited 30 June 2005** ***RMB million***	Audited 31 December 2004 *RMB million*
Holding company	**36**	139	**–**	–
A fellow subsidiary	**–**	–	**3**	8
A major shareholder	**108**	57	**136**	113
	144	196	**139**	121

24. COMPARATIVE FIGURES

As further explained in note 1 to these interim financial statements, due to the adoption of new and revised HKFRSs during the current period, the accounting treatment and presentation of certain items and balances in these interim financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified or restated to conform with the current year's presentation.

25. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved and authorised for issue by the board of directors on 25 August 2005.