



**PICC 中国人保财险**

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



Interim Report  
**2007**

## 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
Principal activities:	Motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, hull insurance, agriculture insurance, surety insurance, which are denominated in RMB and foreign currencies, together with the reinsurance of the above insurance products, and investment and fund application business permitted under the relevant laws and regulations of the PRC.
Place of listing of H shares:	The Stock Exchange of Hong Kong Limited
Type of stock:	H Share
Name of stock:	PICC P&C
Stock code:	2328
H share registrar and transfer office:	Computershare Hong Kong Investor Services Limited
Registered office:	No. 69 Dong He Yan Street, Xuanwu District, Beijing 100052, the PRC
Legal representative:	Wu Yan
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.piccnet.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 LLP as to PRC Laws: King and Wood

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## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

The Board of Directors of PICC Property and Casualty Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated income statement for the six months ended 30 June 2007, the unaudited condensed consolidated balance sheet as at 30 June 2007, the unaudited condensed consolidated statement of changes in equity and the unaudited condensed consolidated cash flow statement for the six months ended 30 June 2007 of the Company and its subsidiaries.

	<i>Notes</i>	<b>Unaudited Six months ended 30 June 2007 RMB million</b>	Unaudited Six months ended 30 June 2006 RMB million (Restated)
<b>TURNOVER</b>	3, 4	<b>49,462</b>	39,089
Net premiums earned	3, 4	<b>33,062</b>	26,898
Net claims incurred	3, 5	<b>(22,185)</b>	(18,426)
Amortisation of deferred acquisition costs, net	3	<b>(4,852)</b>	(3,985)
Insurance protection expenses	3	<b>(423)</b>	(338)
General and administrative expenses		<b>(4,381)</b>	(3,274)
<b>UNDERWRITING PROFIT</b>		<b>1,221</b>	875
Net investment income	6	<b>1,647</b>	781
Net realised and unrealised gains on investments	7	<b>2,678</b>	878
Interest expenses credited to policyholders’ deposits	3	<b>(98)</b>	(63)
Exchange losses, net		<b>(325)</b>	(178)
Sundry income		<b>31</b>	12
Sundry expenses		<b>(21)</b>	(44)
Finance costs	8	<b>(98)</b>	(75)
Share of profits and losses of associates		<b>6</b>	–
<b>PROFIT BEFORE TAX</b>	9	<b>5,041</b>	2,186
Tax	10	<b>(1,853)</b>	(854)
<b>NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>3,188</b>	1,332
<b>DECLARED INTERIM DIVIDEND</b>	11	<b>1,014</b>	–
<b>BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB)</b>	12	<b>0.286</b>	0.120

## CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2007

	<i>Notes</i>	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
<b>ASSETS</b>			
Cash and cash equivalents	13	24,050	21,606
Term deposits	14	9,522	6,768
Derivative financial assets		6	6
Debt securities	15	26,801	22,889
Equity securities	16	11,255	7,962
Debts held by the Company	17	3,210	2,910
Capital security fund	18	2,228	2,228
Premiums receivable and agents' balances, net	19	8,215	3,960
Unearned premium reserves-reinsurers' share		6,726	4,881
Deferred acquisition costs		8,659	6,817
Other non-current assets		199	198
Receivables from reinsurers	20	4,050	2,709
Reinsurance recoverable on unpaid losses		5,022	4,864
Prepayments and other receivables	21	3,240	1,858
Interests in associates	22	988	162
Property, plant and equipment	23	9,664	10,031
Investment properties		453	443
Construction in progress		1,910	1,872
Prepaid land premiums		3,933	3,960
<b>TOTAL ASSETS</b>		<b>130,131</b>	106,124
<b>LIABILITIES</b>			
Payables to reinsurers	24	6,404	3,391
Accrued insurance protection fund		235	217
Tax payable		1,973	325
Other liabilities and accruals		5,968	6,628
Deferred tax liabilities		2,053	1,905
Deferred acquisition costs-reinsurers' share		1,741	1,315
Unearned premium reserves		47,821	36,842
Loss and loss adjustment expense reserves		26,848	22,880
Policyholders' deposits	25	9,430	8,894
Subordinated debts		3,000	3,000
<b>TOTAL LIABILITIES</b>		<b>105,473</b>	85,397
<b>EQUITY</b>			
Issued share capital	26	11,142	11,142
Reserves		12,502	9,585
Declared interim dividend		1,014	–
<b>TOTAL EQUITY</b>		<b>24,658</b>	20,727
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>130,131</b>	106,124

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Issued share capital RMB million	Share premium account RMB million	Available- for-sale financial instrument revaluation reserve RMB million	Cash flow hedging reserve RMB million	Statutory surplus reserve RMB million	(Note) Statutory public welfare fund RMB million	General reserve RMB million	Retained profits RMB million	Declared interim dividend RMB million	Total RMB million
<b>Unaudited</b>										
At 1 January 2007	11,142	4,739	763	4	152	-	-	3,927	-	20,727
Net fair value gain on available-for-sale financial instruments	-	-	1,711	-	-	-	-	-	-	1,711
Realised gains on disposal of available-for-sale financial instruments	-	-	(610)	-	-	-	-	-	-	(610)
Share of reserves of associates	-	-	8	-	-	-	-	-	-	8
Change of deferred tax assets recognised	-	-	(366)	-	-	-	-	-	-	(366)
Net gain for the period recognised directly in equity	-	-	743	-	-	-	-	-	-	743
Net profit for the period	-	-	-	-	-	-	-	3,188	-	3,188
Transfer from/(to) reserves	-	-	-	-	224	-	224	(448)	-	-
Declared 2007 interim dividend	-	-	-	-	-	-	-	(1,014)	1,014	-
At 30 June 2007	11,142	4,739	1,506	4	376	-	224	5,653	1,014	24,658
<b>Unaudited</b>										
At 1 January 2006	11,142	4,739	(80)	-	101	51	-	883	-	16,836
Net fair value gain on available-for-sale financial instruments	-	-	26	-	-	-	-	-	-	26
Realised gains on disposal 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	-	-	-	-	-	-	-	1,332	-	1,332
Transfer from/(to) reserves	-	-	-	-	51	(51)	-	-	-	-
At 30 June 2006	11,142	4,739	(70)	-	152	-	-	2,215	-	18,178

Note: As a result of the adoption of the amendments to the PRC Company Law, the balance of the statutory public welfare fund was transferred to the statutory surplus reserve on 1 January 2006.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	<b>Unaudited Six months ended 30 June 2007 RMB million</b>	Unaudited Six months ended 30 June 2006 RMB million
Net cash inflow from operating activities	<b>10,052</b>	3,174
Net cash outflow from investing activities	<b>(6,126)</b>	(3,015)
Net cash inflow/(outflow) from financing activities	<b>(1,482)</b>	3,939
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,444</b>	4,098
Cash and cash equivalents at beginning of the period	<b>21,606</b>	15,895
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>24,050</b>	19,993

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) are unaudited, but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 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 25.

The interim condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2006.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006, except for the adoption of the following new Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) and the accounting policies in respect of goodwill and intangible assets for the first time for the current period’s financial statements.

### New Hong Kong Financial Reporting Standards

HK (IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK (IFRIC)-Int 10	Interim Financial Reporting and Impairment

The Group adopted HK (IFRIC)-Int 9 as at 1 January 2007, which states the date to assess the existence of an embedded derivative that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

The Group adopted HK (IFRIC)-Int 10 as at 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in the previous interim period in respect of goodwill or an investment either an equity instrument or a financial asset carried at cost.

The Group has concluded that the adoption of these new HK (IFRIC)s did not have a significant impact on the Group’s results of operations and financial position.

### Goodwill and intangible assets

#### *Goodwill*

Goodwill arising on the acquisition of associates represents the excess of the cost of the business combination over the Group’s interest in the net fair value of the acquirees’ identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill and intangible assets (continued)

#### *Goodwill (continued)*

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

#### *Present Value of Acquired In-force Business (the "AVIF")*

When a portfolio of long-term insurance contracts and/or investment contracts with discretionary participation features are acquired either directly or through the acquisition of an investment in an associate, the difference between the fair value and the carrying amount of the insurance liabilities is recognised as the value of acquired in-force business.

Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses. It is amortised over the useful life time of the related contracts in the portfolio on a systematic rate. The amortisation is recorded in the income statement.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement. The AVIF is also taken into consideration when conducting liability adequacy tests for each reporting period.

# NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

## 3. SEGMENT INFORMATION

Segment information is presented by way of the Group'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 cargo segment provides insurance products covering vessels, crafts and conveyances;
- (d) the liability segment provides insurance products covering policyholders' liability;
- (e) the accidental injury segment provides insurance products covering accidental injuries; and
- (f) the "others" segment mainly represents insurance products related to marine hulls, homeowners, aviation and oil and gas.

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

	<b>Unaudited Six months ended 30 June 2007 RMB million</b>	Unaudited Six months ended 30 June 2006 RMB million (Restated)
<b>Turnover</b>		
Motor vehicle	34,590	26,163
Commercial property	5,867	5,456
Cargo	1,694	1,563
Liability	2,096	1,738
Accidental injury	1,432	1,261
Others	3,783	2,908
	<b>49,462</b>	39,089
<b>Net premiums earned</b>		
Motor vehicle	25,413	19,918
Commercial property	2,994	2,933
Cargo	1,144	1,061
Liability	1,250	1,035
Accidental injury	850	873
Others	1,411	1,078
	<b>33,062</b>	26,898

3. SEGMENT INFORMATION (continued)

	Unaudited Six months ended 30 June 2007 RMB million	Unaudited Six months ended 30 June 2006 RMB million (Restated)
<b>Net investment income</b>		
Others	123	130
<b>Net realised and unrealised gains on investments</b>		
Others	92	66
<b>Net claims incurred</b>		
Motor vehicle	(18,066)	(15,036)
Commercial property	(1,906)	(1,702)
Cargo	(461)	(206)
Liability	(649)	(571)
Accidental injury	(545)	(474)
Others	(558)	(437)
	(22,185)	(18,426)
<b>Amortisation of deferred acquisition costs, net</b>		
Motor vehicle	(3,971)	(3,058)
Commercial property	(321)	(374)
Cargo	(153)	(134)
Liability	(160)	(137)
Accidental injury	(86)	(119)
Others	(161)	(163)
	(4,852)	(3,985)
<b>Insurance protection expenses</b>		
Motor vehicle	(323)	(243)
Commercial property	(40)	(38)
Cargo	(13)	(12)
Liability	(16)	(14)
Accidental injury	(9)	(9)
Others	(22)	(22)
	(423)	(338)

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

### 3. SEGMENT INFORMATION (continued)

	Unaudited Six months ended 30 June 2007 RMB million	Unaudited Six months ended 30 June 2006 RMB million (Restated)
<b>Interest expenses credited to policyholders' deposits</b>		
Others	(98)	(63)
<b>Segment profit before unallocated income and expenses</b>		
Motor vehicle	3,053	1,581
Commercial property	727	819
Cargo	517	709
Liability	425	313
Accidental injury	210	271
Others	787	589
	5,719	4,282
<b>Unallocated operating income and expenses</b>		
Net investment income	1,524	651
Net realised and unrealised gains on investments	2,586	812
General and administrative expenses	(4,381)	(3,274)
Exchange losses, net	(325)	(178)
Sundry income	31	12
Sundry expenses	(21)	(44)
Finance costs	(98)	(75)
Share of profits and losses of associates	6	–
	(678)	(2,096)
Profit before tax	5,041	2,186
Tax	(1,853)	(854)
Net profit attributable to equity holders of the parent	3,188	1,332

Net investment income and net realised and unrealised gains 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 in unallocated operating income and expenses.

**4. TURNOVER AND NET PREMIUMS EARNED**

Turnover represents direct premiums written and reinsurance premiums assumed.

	<b>Unaudited Six months ended 30 June 2007 RMB million</b>	Unaudited Six months ended 30 June 2006 RMB million (Restated)
<b>Turnover</b>		
Direct premiums written	49,452	39,073
Reinsurance premiums assumed	10	16
	<b>49,462</b>	<b>39,089</b>
<b>Net premiums earned</b>		
Turnover	49,462	39,089
Less: Reinsurance premiums ceded	(7,266)	(5,923)
Net premiums written	42,196	33,166
Less: Change in net unearned premium reserves	(9,134)	(6,268)
Net premiums earned	<b>33,062</b>	<b>26,898</b>

**5. NET CLAIMS INCURRED**

	<b>Unaudited Six months ended 30 June 2007 RMB million</b>	Unaudited Six months ended 30 June 2006 RMB million
Gross claims paid	21,997	20,262
Less: Paid losses recoverable from reinsurers	(3,622)	(3,032)
Net claims paid	18,375	17,230
Change in net loss and loss adjustment expense reserves	3,810	1,196
Net claims incurred	<b>22,185</b>	<b>18,426</b>

**6. NET INVESTMENT INCOME**

	<b>Unaudited Six months ended 30 June 2007 RMB million</b>	Unaudited Six months ended 30 June 2006 RMB million
Interest income from cash and cash equivalents and term deposits	360	354
Interest income from debt securities	417	303
Interest income from debts held by the Company	79	70
Dividend income from equity securities	765	42
Rental income from investment properties	26	12
	<b>1,647</b>	<b>781</b>

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 7. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

	Unaudited Six months ended 30 June 2007 RMB million	Unaudited Six months ended 30 June 2006 RMB million (Restated)
Debt securities:		
Realised gains/(losses)	(12)	76
Unrealised gains/(losses)	110	(44)
Equity securities:		
Realised gains/(losses)	2,288	(447)
Unrealised gains	435	1,373
Structured deposits:		
Unrealised gains/(losses)	6	(51)
Reversal of impairment loss on available-for-sale securities	9	–
	2,836	907
Less: Investment management fee	(28)	(22)
Business tax and surcharges	(130)	(7)
	2,678	878

### 8. FINANCE COSTS

	Unaudited Six months ended 30 June 2007 RMB million	Unaudited Six months ended 30 June 2006 RMB million
Interest on subordinated debts	61	55
Interest on securities sold under agreements to repurchase	37	20
	98	75

### 9. PROFIT BEFORE TAX

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

	Unaudited Six months ended 30 June 2007 RMB million	Unaudited Six months ended 30 June 2006 RMB million
Depreciation of property, plant and equipment	441	485
Depreciation of investment properties	8	7
Amortisation of prepaid land premiums	63	46
Impairment loss on premiums receivable	381	414

**10. TAX**

	<b>Unaudited Six months ended 30 June 2007 RMB million</b>	Unaudited Six months ended 30 June 2006 RMB million (Restated)
Current – charge for the period	2,071	679
Deferred	(218)	175
<b>Total tax charge for the period</b>	<b>1,853</b>	<b>854</b>

The provision for PRC income tax is calculated based on the statutory rate of 33% (2006: 33%) in accordance with the relevant PRC income tax rules and regulations.

**11. DECLARED INTERIM DIVIDEND**

An interim dividend of RMB9.1 cents (six months ended 30 June 2006: Nil) per ordinary share was approved by the Board of Directors.

**12. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

The calculation of basic earnings per share attributable to ordinary equity holders of the parent amounts is based on the net profit attributable to equity holders of the parent of RMB3,188 million for the six months ended 30 June 2007 (six months ended 30 June 2006: RMB1,332 million) and the 11,142 million ordinary shares during the period (six months ended 30 June 2006: 11,142 million ordinary shares) in issue.

Diluted earnings per share amounts for the six months ended 30 June 2007 and 2006 have not been disclosed as no diluting events existed during these periods.

**13. CASH AND CASH EQUIVALENTS**

	<b>Unaudited 30 June 2007 RMB million</b>	Audited 31 December 2006 RMB million
Cash on hand	97	25
Demand deposits	17,852	12,623
Securities purchased under resale agreements with original maturity of less than three months	2,161	307
Deposits with banks and other financial institutions with original maturity of less than three months	3,940	8,651
	<b>24,050</b>	<b>21,606</b>

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

### 14. TERM DEPOSITS

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Structured deposits with banks and other financial institutions:		
At fair value	714	1,093
At amortised cost	3,567	2,785
Deposits with banks and other financial institutions with original maturity of more than three months, at amortised cost	5,241	2,890
	<b>9,522</b>	6,768

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

### 15. DEBT SECURITIES

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Listed debt securities, at fair value:		
Debt securities issued by the central governments	10,271	12,404
Debt securities issued by corporate entities	1,815	1,278
	<b>12,086</b>	13,682
Unlisted debt securities, at fair value:		
Debt securities issued by the central governments	1,840	1,527
Debt securities issued by banks and other financial institutions	8,479	3,507
Debt securities issued by corporate entities	4,396	4,173
	<b>14,715</b>	9,207
	<b>26,801</b>	22,889
Classification of debt securities:		
Fair value through profit or loss – held for trading	3,016	1,273
Available-for-sale	23,785	21,616
	<b>26,801</b>	22,889



**16. EQUITY SECURITIES**

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Listed investments, at fair value:		
Mutual funds	2,687	3,043
Shares	6,752	3,871
	<b>9,439</b>	6,914
Unlisted investments, at fair value:		
Mutual funds	1,816	1,048
	<b>11,255</b>	7,962
Classification of equity securities:		
Fair value through profit or loss – held for trading	4,457	4,167
Available-for-sale	6,798	3,795
	<b>11,255</b>	7,962

**17. DEBTS HELD BY THE COMPANY**

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Debts held by the Company, at amortised cost	3,210	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 CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

### 19. PREMIUMS RECEIVABLE AND AGENTS' BALANCES, NET

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Premiums receivable and agents' balances	8,979	4,343
Less: Impairment loss on premiums receivable	(764)	(383)
	<b>8,215</b>	3,960

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:

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Within three months	6,933	3,287
Over three months but less than six months	1,038	466
Over six months	244	207
	<b>8,215</b>	3,960

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 the invoice date, is as follows:

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Within three months	2,504	2,554
Over three months but less than six months	1,414	41
Over six months	132	114
	<b>4,050</b>	2,709

**21. PREPAYMENTS AND OTHER RECEIVABLES**

Included in the balance as at 30 June 2007 was an amount of RMB366 million (31 December 2006: RMB366 million) due from a PRC securities company, which was placed under liquidation. An impairment provision of RMB250 million (31 December 2006: RMB250 million) was provided for this receivable.

As at the balance sheet date, the balance also included an amount of RMB588 million (31 December 2006: RMB468 million) paid to another securities company in consideration for a right to an equity interest in a new securities company, including rights to receive dividends and any sales proceeds from disposal of the shares of the new securities company and a right to register as a shareholder.

Up to the date of approval of these interim financial statements, the Company has not yet registered as a shareholder of this new securities company. The right to register has not yet expired. Management is making various efforts to ensure the interests of the Company are protected and is of the opinion that no impairment provision is required at this stage.

**22. INTERESTS IN ASSOCIATES**

	<b>Unaudited 30 June 2007 RMB million</b>	Audited 31 December 2006 RMB million
Goodwill	16	–
AVIF	38	–
Share of net assets	934	162
	<b>988</b>	162

During the period, the Company entered into an agreement to contribute RMB812 million to the enlarged registered capital of PICC Life Insurance Company Limited (“PICC Life”), a fellow subsidiary.

Particulars of the associates are as follows:

Name	Place of registration and operations	Nominal value of registered share capital RMB million	Percentage of equity directly attributable to the Group
PICC Asset Management Company Limited	Mainland China	800	20
PICC Life Insurance Company Limited	Mainland China	2,708	28

**22. INTERESTS IN ASSOCIATES (Continued)**

The principal activities of the associates are the provision of asset management services and life insurance products.

The Group's management fees payable of RMB12 million to an associate as at 30 June 2007 (31 December 2006: RMB10 million) are disclosed in note 32(c) to the financial statements.

**23. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2007, the Group acquired assets with a cost of RMB90 million (six months ended 30 June 2006: RMB46 million).

Assets with a net book value of RMB12 million were disposed of by the Group during the six months ended 30 June 2007 (six months ended 30 June 2006: RMB44 million), resulting in a net loss on disposal of RMB4 million (six months ended 30 June 2006: RMB6 million).

During the six months ended 30 June 2007, construction in progress with an aggregate amount of RMB15 million (six months ended 30 June 2006: RMB403 million) was transferred to property, plant and equipment.

**24. PAYABLES TO REINSURERS**

The payables to reinsurers are analysed as follows:

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Reinsurance payables	6,335	3,322
Reinsurance funds withheld	69	69
	<b>6,404</b>	3,391

The reinsurance payables are non-interest-bearing and are due within three months from the balance sheet date or repayable on demand. The reinsurance funds withheld as at 30 June 2007 and 31 December 2006 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:

	<b>Unaudited 30 June 2007 RMB million</b>	Audited 31 December 2006 RMB million
Interest-bearing deposits	7,361	6,742
Non-interest-bearing deposits	2,069	2,152
	<b>9,430</b>	8,894

**26. ISSUED SHARE CAPITAL**

	<b>Unaudited 30 June 2007 RMB million</b>	Audited 31 December 2006 RMB million
<b>Shares</b>		
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
	<b>11,142</b>	11,142

**27. SHARE APPRECIATION RIGHTS**

The shareholders of the Company approved the adoption of a scheme of share appreciation rights (the "SAR") for senior management on 30 July 2003. The scheme is designed to link the interests of the Company's senior management with the Group's results of operations and the Company's share value (market price of its H Shares). The fair value of the SAR is measured by using the Black-Scholes option pricing model taking into account the terms and conditions at the balance sheet date. The following table lists the inputs to the model used for the computation as at 30 June 2007:

	<b>Unaudited 30 June 2007</b>	Audited 31 December 2006
Dividend yield (%)	—	—
Expected volatility (%)	89.41	38.78
Historical volatility (%)	89.41	38.78
Risk-free interest rate (%)	3.434	3.316
Expected life of share appreciation rights (years)	2-3	2-3
Share price at the balance sheet date (HK\$)	6.370	3.990

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

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

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

### 28. MATURITY PROFILE OF FINANCIAL INSTRUMENTS

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

#### 30 June 2007 (Unaudited)

	Within					More than		Total
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	5 years		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	
<b>Fixed rate</b>								
Assets:								
Cash and cash equivalents	3,943	-	-	-	-	-	3,943	
Term deposits	4,283	-	8	300	650	-	5,241	
Debt securities	4,233	1,332	4,380	442	5,341	8,210	23,938	
Capital security fund	2,228	-	-	-	-	-	2,228	
Liabilities:								
Payables to reinsurers – reinsurance funds withheld	(69)	-	-	-	-	-	(69)	
Policyholders' deposits – interest-bearing	(5,339)	-	(761)	-	(1,261)	-	(7,361)	
Subordinated debts	-	-	-	-	-	(3,000)	(3,000)	

	Within					More than		Total
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	5 years		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	
<b>Floating rate</b>								
Assets:								
Cash and cash equivalents	20,107	-	-	-	-	-	20,107	
Term deposits	37	-	-	124	274	3,846	4,281	
Debt securities	6	3	1,439	345	264	806	2,863	
Debts held by the Company	-	600	1,420	1,100	-	90	3,210	

**28. MATURITY PROFILE OF FINANCIAL INSTRUMENTS (continued)**

31 December 2006 (Audited)

	Within					More than		Total
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	5 years		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	
<b>Fixed rate</b>								
Assets:								
Cash and cash equivalents	8,958	-	-	-	-	-	8,958	
Term deposits	2,139	-	-	300	200	250	2,889	
Debt securities	2,855	2,708	5,158	607	3,305	6,081	20,714	
Capital security fund	2,228	-	-	-	-	-	2,228	
Liabilities:								
Payables to reinsurers – reinsurance funds withheld	(69)	-	-	-	-	-	(69)	
Securities sold under agreements to repurchase	(200)	-	-	-	-	-	(200)	
Policyholders' deposits – interest-bearing	(5,597)	-	(443)	-	(702)	-	(6,742)	
Subordinated debts	-	-	-	-	-	(3,000)	(3,000)	

	Within					More than		Total
	1 year	1-2 years	2-3 years	3-4 years	4-5 years	5 years		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	
<b>Floating rate</b>								
Assets:								
Cash and cash equivalents	12,648	-	-	-	-	-	12,648	
Term deposits	206	-	39	77	50	3,507	3,879	
Debt securities	73	-	-	1,493	114	495	2,175	
Debts held by the Company	-	-	1,220	1,600	-	90	2,910	

**29. CONTINGENT LIABILITIES**

Owing to the nature of insurance business, the Group 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 Group'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 Group.

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

### 30. OPERATING LEASE COMMITMENTS

The Group 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 four years.

At 30 June 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Within one year	360	257
In the second to fifth years, inclusive	107	143
After five years	41	48
	<b>508</b>	448

### 31. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at the balance sheet date:

	<b>Unaudited</b> <b>30 June 2007</b> <i>RMB million</i>	Audited 31 December 2006 <i>RMB million</i>
Contracted, but not provided for:		
– property, plant and equipment	440	473
Authorised, but not contracted for:		
– property, plant and equipment	3	28
	<b>443</b>	501



**32. RELATED PARTY TRANSACTIONS****(a) Transactions with related parties**

	<b>Unaudited Six months ended 30 June 2007 RMB million</b>	Unaudited Six month ended 30 June 2006 RMB million
Transactions with the Holding Company:		
Property rental expenses	109	105
Property rental income	6	5
Motor vehicle rental expenses	12	11
Motor vehicle rental income	2	2
Services fee income	2	2
Management fee	2	2
Transactions with an associate/fellow subsidiary:		
Management fee	24	18
Acquisition of an associate	812	–
Transactions with a major shareholder:		
Reinsurance premiums ceded	491	273
Claims recoverable	184	95
Reinsurance commission received/receivables	156	90

**(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 the “State-owned Enterprises”). During the period, the Company had transactions with the 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 the 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.

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2007

### 32. RELATED PARTY TRANSACTIONS (continued)

#### (c) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	Unaudited 30 June 2007 RMB million	Audited 31 December 2006 RMB million	Unaudited 30 June 2007 RMB million	Audited 31 December 2006 RMB million
The Holding Company	56	–	–	26
An associate	–	–	12	10
A major shareholder	185	172	336	240
	241	172	348	276

### 33. COMPARATIVE FIGURES

The presentation of the condensed consolidated income statement was revised for the current interim period to bring it in line with that adopted for the change in an accounting policy in the annual financial statements in 2006. Certain comparative amounts have been reclassified or restated to conform with the current period's presentation.

The effect on the condensed consolidated income statement during the period from 1 January 2006 to 30 June 2006 is set out below:

	<i>RMB million</i>
Increase in net premiums earned	2,106
Increase in amortisation of deferred acquisition costs, net	(1,462)
Increase in general and administrative expenses	(304)
Decrease in net realised and unrealised gains on investments	(7)
Increase in tax	(110)
Total increase in profit	223

### 34. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 21 August 2007.



**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)*

**INTRODUCTION**

We have reviewed the interim financial information set out on pages 2 to 24 which comprises the condensed consolidated balance sheet of the Group as of 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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.

**SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Ernst & Young**  
*Certified Public Accountants*

18/F, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

21 August 2007

## 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 2007, the Company held 43.8% share of the non-life insurance market in the PRC.

The following table sets forth the net premiums earned, underwriting profit, net profit attributable to equity holders of the parent and total assets of the Company and its subsidiaries for the relevant periods.

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<i>RMB million</i>	<i>RMB million</i>
Net premiums earned	<b>33,062</b>	26,898
Underwriting profit	<b>1,221</b>	875
Net profit attributable to equity holders of the parent	<b>3,188</b>	1,332
Total assets	<b>130,131</b>	106,124 <sup>1</sup>

<sup>1</sup> The balance is as of 31 December 2006.

## RESULTS OF OPERATIONS

In the first half of 2007, the turnover of the Company and its subsidiaries increased considerably, underwriting profit increased and investment income improved remarkably. The following table sets forth the selected financial ratios of the Company and its subsidiaries shown as percentages of net premiums earned for the relevant periods.

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<i>(%)</i>	<i>(%)</i>
Net premiums earned	<b>100</b>	100
Net claims incurred	<b>(67.1)</b>	(68.5)
Amortisation of deferred acquisition costs, net	<b>(14.7)</b>	(14.8)
Insurance protection expenses	<b>(1.3)</b>	(1.3)
General and administrative expenses	<b>(13.3)</b>	(12.2)
Underwriting profit	<b>3.7</b>	3.3
Net investment income	<b>5.0</b>	2.9
Net realised and unrealised gains on investments	<b>8.1</b>	3.3
Finance costs	<b>(0.3)</b>	(0.3)
Interest expenses credited to policyholders' deposits	<b>(0.3)</b>	(0.2)
Profit before tax	<b>15.2</b>	8.1
Tax	<b>(5.6)</b>	(3.2)
Net profit attributable to equity holders of the parent	<b>9.6</b>	5.0
Loss ratio	<b>67.1</b>	68.5
Expense ratio	<b>29.2</b>	28.2
Combined ratio	<b>96.3</b>	96.7

Note: The figures in the above table may show a difference after consolidation as a result of rounding (same below).

## 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 of the Company and its subsidiaries by segment, analysed as a percentage of the respective aggregate amounts, for the relevant periods.

	Six months ended 30 June	
	2007 (%)	2006 (%)
<b>Net premiums earned</b>		
Motor vehicle	76.9	74.1
Commercial property	9.1	10.9
Cargo	3.5	3.9
Liability	3.8	3.9
Accidental injury	2.6	3.2
Other	4.1	4.0
<b>Total</b>	<b>100</b>	100
<b>Net claims incurred</b>		
Motor vehicle	81.4	81.6
Commercial property	8.6	9.2
Cargo	2.1	1.1
Liability	2.9	3.1
Accidental injury	2.5	2.6
Other	2.5	2.4
<b>Total</b>	<b>100</b>	100
<b>Amortisation of deferred acquisition costs, net</b>		
Motor vehicle	81.8	76.7
Commercial property	6.6	9.4
Cargo	3.2	3.4
Liability	3.3	3.4
Accidental injury	1.8	3.0
Other	3.3	4.1
<b>Total</b>	<b>100</b>	100

### TURNOVER

Turnover of the Company and its subsidiaries was RMB49,462 million in the first half of 2007, representing an increase of RMB10,373 million, or 26.5%, from RMB39,089 million in the first half of 2006. The increase was primarily due to the considerable growth in the motor vehicle insurance segment of the Company and its subsidiaries in the first half of 2007, which recorded an increase of RMB8,427 million in terms of turnover. The increase in turnover of the motor vehicle insurance segment was primarily driven by the business development of the compulsory motor vehicle third party liability insurance. The increase in turnover was also partly due to the relatively rapid increase in the turnover of the commercial property insurance and liability insurance segments in the non-motor vehicle insurance business.

### NET PREMIUMS EARNED

Net premiums earned of the Company and its subsidiaries was RMB33,062 million in the first half of 2007, representing an increase of RMB6,164 million, or 22.9%, from RMB26,898 million in the first half of 2006. This increase was primarily due to the increase of RMB10,373 million turnover in the first half of 2007 compared to the first half of 2006. However, the effect of the increase was partially offset by the increase in the change in the balance of net unearned premium reserves.

### NET INVESTMENT INCOME

Net investment income of the Company and its subsidiaries was RMB1,647 million in the first half of 2007, representing an increase of RMB866 million from RMB781 million in the first half of 2006. This increase was primarily due to the increases in the dividend income from equity securities and the interest income from debt securities of RMB723 million and RMB114 million, respectively. The increase in dividend income from equity securities was primarily driven by the increased dividend payout ratios of the investment in equity securities.

### NET REALISED AND UNREALISED GAINS ON INVESTMENTS

Net realised and unrealised gains on investments of the Company and its subsidiaries was RMB2,678 million in the first half of 2007, representing an increase of RMB1,800 million compared to the net gains of RMB878 million in the first half of 2006. This was primarily due to the increase of RMB2,735 million in the realised gains on investments in equity securities over the first half of 2006 to RMB2,288 million in the first half of 2007. However, such increase was partially offset by the decrease of RMB938 million in the unrealised gains on investments in equity securities compared to the first half of 2006.

### NET CLAIMS INCURRED

Net claims incurred of the Company and its subsidiaries was RMB22,185 million in the first half of 2007, representing an increase of RMB3,759 million, or 20.4%, from RMB18,426 million in the first half of 2006. Loss ratio of the Company decreased from 68.5% in the first half of 2006 to 67.1% in the first half of 2007, primarily as a result of the increase in net premiums earned being greater than the increase in net claims incurred. The increase in net claims incurred was primarily due to the increase of RMB3,030 million in net claims incurred of the motor vehicle insurance segment from RMB15,036 million in the first half of 2006 to RMB18,066 million in the first half of 2007, and the increases of RMB204 million and RMB255 million in net claims incurred of the commercial property insurance and the cargo insurance segments in the non-motor vehicle insurance business over the first half of 2006, respectively. Net loss and loss adjustment expense reserves as of 30 June 2007 increased by RMB3,810 million compared to 31 December 2006.

### AMORTISATION OF DEFERRED ACQUISITION COSTS, NET

Net amortisation of deferred acquisition costs of the Company and its subsidiaries was RMB4,852 million in the first half of 2007, representing an increase of 21.8% from RMB3,985 million in the first half of 2006. This increase was primarily due to a substantial increase in commission expenses paid to insurance intermediaries and agents in the first half of 2007 compared to the first half of 2006, and the increase in the payment of business tax and surcharges.

### INSURANCE PROTECTION EXPENSES

According to the relevant PRC insurance laws and regulations, the Company and its subsidiaries are required to accrue an insurance protection fund based on 1% of their retained premiums. Insurance protection expenses of the Company and its subsidiaries was RMB423 million in the first half of 2007, representing

an increase of 25.1% from RMB338 million in the first half of 2006. The increase was due to an increase in retained premiums.

### INTEREST EXPENSES CREDITED TO POLICYHOLDERS' DEPOSITS

Interest expenses of the Company and its subsidiaries credited to policyholders' deposits was RMB98 million in the first half of 2007, representing an increase of RMB35 million from RMB63 million in the first half of 2006. This was primarily due to an increase in policyholders' deposits from the Company's Golden Bull homeowners insurance and Golden Baby accidental injury insurance products.

### FINANCE COSTS

Finance costs of the Company and its subsidiaries was RMB98 million in the first half of 2007, representing an increase of RMB23 million from RMB75 million in the first half of 2006. This increase was primarily due to the increase in the interest expenses on securities sold under agreements to repurchase, and the increase in interest expenses as a result of the increased balance of subordinated debts.

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the Company and its subsidiaries was RMB4,381 million in the first half of 2007, representing an increase of 33.8% from RMB3,274 million in the first half of 2006. This increase was primarily due to the continuous growth in the major administrative expenses of the Company as a result of the rapid development of the Company's business.

### PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB5,041 million in the first half of 2007, representing an increase of RMB2,855 million over RMB2,186 million in the first half of 2006.

### TAX

Income tax expenses of the Company and its subsidiaries was RMB1,853 million in the first half of 2007, representing an increase of RMB999 million over RMB854 million in the first half of 2006. The effective tax rate of the Company and its subsidiaries decreased from 39.1% in the first half of 2006 to 36.8% in the first half of 2007.

### NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

As a result of the foregoing, net profit attributable to equity holders of the parent of the Company and its subsidiaries was RMB3,188 million in the first half of 2007, representing an increase of RMB1,856 million from RMB1,332 million in the first half of 2006. Basic earnings per share attributable to ordinary equity holders of the parent in the first half of 2007 was RMB0.286.

### COMBINED RATIO

Combined ratio of the Company and its subsidiaries in the first half of 2007 was 96.3%, representing a slight decrease from 96.7% in the first half of 2006. This decrease was primarily due to the decrease in the loss ratio of the Company and its subsidiaries from 68.5% in the first half of 2006 to 67.1% in the first half of 2007. However, the effect of the decrease in loss ratio was partially offset by the increase in the expense ratio from 28.2% in the first half of 2006 to 29.2% in the first half of 2007.

RESULTS OF SEGMENT OPERATIONS

Motor Vehicle Insurance

	Six months ended 30 June	
	2007	2006
	<i>RMB million</i>	<i>RMB million</i>
Turnover	34,590	26,163
Net premiums earned	25,413	19,918
Net claims incurred	(18,066)	(15,036)
Amortisation of deferred acquisition costs, net	(3,971)	(3,058)
Insurance protection expenses	(323)	(243)
Segment profit before unallocated income and expenses	3,053	1,581
Loss ratio	71.1%	75.5%
Expense ratio	16.9%	16.6%
Combined ratio	88.0%	92.1%

Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB34,590 million in the first half of 2007, representing an increase of RMB8,427 million, or 32.2%, over RMB26,163 million in the first half of 2006. This increase was primarily due to the business development driven by the compulsory motor vehicle third party liability insurance. The number of motor vehicles insured by the Company and its subsidiaries in the first half of 2007 increased by 22.9% compared to the first half of 2006.

Net premiums earned from the motor vehicle insurance segment of the Company and its subsidiaries was RMB25,413 million in the first half of 2007, representing an increase of RMB5,495 million, or 27.6%, over RMB19,918 million in the first half of 2006. This increase was primarily due to an increase of RMB8,427 million in turnover in the first half of 2007 compared to the first half of 2006. However, the effect of increase in turnover was partially offset by an increase of RMB2,566 million in the change in the balance of net unearned premium reserves of the motor vehicle insurance segment of the Company and its subsidiaries in the first half of 2007.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB18,066 million in the first half of 2007, representing an increase of RMB3,030 million, or 20.2%, over RMB15,036 million in the first half of 2006. The loss ratio was 71.1%, representing a decrease of 4.4 percentage points from 75.5% in the first half of 2006. The increase in net claims incurred was primarily due to the increase of RMB1,987 million in the change in net loss and loss adjustment expense reserves of the motor vehicle insurance segment of the Company and its subsidiaries in the first half of 2007 compared to the first half of 2006, the decrease of RMB571 million in the losses recovered from reinsurance compared to the first half of 2006, and the increase of RMB472 million in claim expenses compared to the first half of 2006.

Net amortisation of deferred acquisition costs of the motor vehicle insurance segment of the Company and its subsidiaries was RMB3,971 million in the first half of 2007, representing an increase of RMB913 million over RMB3,058 million in the first half of 2006. This increase was primarily due to the increase in commission expenses paid to insurance intermediaries and agents and the increase in the payment of business tax and surcharges.



Insurance protection expenses charged to the motor vehicle insurance segment of the Company and its subsidiaries increased by 32.9% from RMB243 million in the first half of 2006 to RMB323 million in the first half of 2007 due to the increase in retained premiums.

The expense ratio of the motor vehicle insurance segment of the Company and its subsidiaries was 16.9% in the first half of 2007, representing a slight increase from 16.6% in the first half of 2006, primarily due to the increases in net amortisation of deferred acquisition costs and insurance protection expenses charged.

As a result of the foregoing, the segment profit before unallocated income and expenses of the motor vehicle insurance segment of the Company and its subsidiaries was RMB3,053 million in the first half of 2007, representing an increase of 93.1% compared to RMB1,581 million in the first half of 2006.

### Commercial Property Insurance

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>5,867</b>	5,456
Net premiums earned	<b>2,994</b>	2,933
Net claims incurred	<b>(1,906)</b>	(1,702)
Amortisation of deferred acquisition costs, net	<b>(321)</b>	(374)
Insurance protection expenses	<b>(40)</b>	(38)
Segment profit before unallocated income and expenses	<b>727</b>	819
Loss ratio	<b>63.7%</b>	58.0%
Expense ratio	<b>12.1%</b>	14.1%
Combined ratio	<b>75.8%</b>	72.1%

Turnover of the commercial property insurance segment of the Company and its subsidiaries increased by RMB411 million, or 7.5%, from RMB5,456 million in the first half of 2006 to RMB5,867 million in the first half of 2007, primarily due to the relatively rapid increase in all risks property insurance policies underwritten.

Net premiums earned from the commercial property insurance segment of the Company and its subsidiaries increased by RMB61 million, or 2.1%, from RMB2,933 million in the first half of 2006 to RMB2,994 million in the first half of 2007, primarily due to the increase of RMB411 million in turnover compared to the first half of 2006. However, this effect was partially offset by the increase of RMB186 million in the change in net unearned premium reserves compared to the first half of 2006 and the increase of RMB164 million in reinsurance premiums ceded compared to the first half of 2006.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries increased by RMB204 million, or 12.0%, from RMB1,702 million in the first half of 2006 to RMB1,906 million in the first half of 2007. This increase was primarily due to the increase of RMB210 million in the change in net loss and loss adjustment expense reserves compared to the first half of 2006 and the increase of RMB127 million in claim expenses compared to the first half of 2006. However, the effect of such increase was partially offset by a RMB133 million increase in losses recovered from reinsurance compared to the first half of 2006.

Net amortisation of deferred acquisition costs of the commercial property insurance segment of the Company and its subsidiaries decreased by RMB53 million, or 14.2%, from RMB374 million in the first half of 2006 to RMB321 million in the first half of 2007, primarily due to a decrease in amortisation of the opening balance of deferred acquisition costs during the first half of 2007. However, this effect was partially offset by the increase in commission expenses paid to insurance intermediaries and agents.

Insurance protection expenses charged to the commercial property insurance segment of the Company and its subsidiaries increased by 5.3% from RMB38 million in the first half of 2006 to RMB40 million in the first half of 2007 due to the increase in retained premiums.

The expense ratio of the commercial property insurance segment of the Company and its subsidiaries decreased from 14.1% in the first half of 2006 to 12.1% in the first half of 2007, primarily due to the aforesaid decrease in net amortisation of deferred acquisition costs and the slight increase in net premiums earned.

As a result of the foregoing, the segment profit before unallocated income and expenses of the commercial property insurance segment of the Company and its subsidiaries was RMB727 million in the first half of 2007, representing a decrease of 11.2% compared to RMB819 million in the first half of 2006.

### Cargo Insurance

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>1,694</b>	1,563
Net premiums earned	<b>1,144</b>	1,061
Net claims incurred	<b>(461)</b>	(206)
Amortisation of deferred acquisition costs, net	<b>(153)</b>	(134)
Insurance protection expenses	<b>(13)</b>	(12)
Segment profit before unallocated income and expenses	<b>517</b>	709
Loss ratio	<b>40.3%</b>	19.4%
Expense ratio	<b>14.5%</b>	13.8%
Combined ratio	<b>54.8%</b>	33.2%

Turnover of the cargo insurance segment of the Company and its subsidiaries increased by RMB131 million, or 8.4%, from RMB1,563 million in the first half of 2006 to RMB1,694 million in the first half of 2007, primarily due to the increase in the number of domestic cargo insurance policies underwritten compared to the first half of 2006.

Net premiums earned from the cargo insurance segment of the Company and its subsidiaries increased by RMB83 million, or 7.8%, from RMB1,061 million in the first half of 2006 to RMB1,144 million in the first half of 2007, primarily due to a RMB131 million increase in turnover compared to the first half of 2006. However, this effect was partially offset by a RMB38 million increase in reinsurance premiums ceded.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries increased by RMB255 million from RMB206 million in the first half of 2006 to RMB461 million in the first half of 2007. This increase was primarily due to the increase of RMB240 million in the change in net loss and loss adjustment expense reserves compared to the first half of 2006.

Net amortisation of deferred acquisition costs of the cargo insurance segment of the Company and its subsidiaries increased by RMB19 million, or 14.2%, from RMB134 million in the first half of 2006 to RMB153 million in the first half of 2007, primarily due to the increase in commission expenses paid to insurance intermediaries and agents compared to the first half of 2006.

Insurance protection expenses charged to the cargo insurance segment of the Company and its subsidiaries was RMB13 million in the first half of 2007, representing a slight increase over RMB12 million charged in the first half of 2006, due to the increase in retained premiums.

The expense ratio of the cargo insurance segment of the Company and its subsidiaries increased from 13.8% in the first half of 2006 to 14.5% in the first half of 2007.

As a result of the foregoing, the segment profit before unallocated income and expenses of the cargo insurance segment of the Company and its subsidiaries was RMB517 million in the first half of 2007, representing a decrease of 27.1% compared to RMB709 million in the first half of 2006.

### Liability Insurance

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>2,096</b>	1,738
Net premiums earned	<b>1,250</b>	1,035
Net claims incurred	<b>(649)</b>	(571)
Amortisation of deferred acquisition costs, net	<b>(160)</b>	(137)
Insurance protection expenses	<b>(16)</b>	(14)
Segment profit before unallocated income and expenses	<b>425</b>	313
Loss ratio	<b>51.9%</b>	55.2%
Expense ratio	<b>14.1%</b>	14.6%
Combined ratio	<b>66.0%</b>	69.8%

Turnover of the liability insurance segment of the Company and its subsidiaries was RMB2,096 million in the first half of 2007, representing an increase of RMB358 million, or 20.6%, from RMB1,738 million in the first half of 2006. This increase was primarily due to the increasingly favourable external policies and the rapid business growth, especially the rapid growth in the turnover of the public liability insurance business.

Net premiums earned from the liability insurance segment of the Company and its subsidiaries was RMB1,250 million in the first half of 2007, representing an increase of RMB215 million, or 20.8%, from RMB1,035 million in the first half of 2006. This increase was primarily due to the increase of RMB358 million in turnover compared to the first half of 2006. However, the effect of such increase was partially offset by a RMB94 million increase in reinsurance premiums ceded over the first half of 2006.

Net claims incurred of the liability insurance segment of the Company and its subsidiaries was RMB649 million in the first half of 2007, representing an increase of RMB78 million, or 13.7%, from RMB571 million in the first half of 2006. This increase was primarily due to an increase of RMB77 million in claim expenses over the first half of 2006.

Net amortisation of deferred acquisition costs of the liability insurance segment of the Company and its subsidiaries was RMB160 million in the first half of 2007, representing an increase of RMB23 million, or 16.8%, from RMB137 million in the first half of 2006. This increase was primarily due to an increase of RMB51 million in the commission expenses paid to insurance intermediaries and agents compared to the first half of 2006. However, the effect of such increase was partially offset by a RMB25 million increase in the reinsurance commission recovered.

Insurance protection expenses charged to the liability insurance segment of the Company and its subsidiaries was RMB16 million in the first half of 2007, representing an increase of 14.3% from RMB14 million in the first half of 2006. This was due to an increase in the retained premiums.

The expense ratio of the liability insurance segment of the Company and its subsidiaries decreased from 14.6% in the first half of 2006 to 14.1% in the first half of 2007.

As a result of the foregoing, the segment profit before unallocated income and expenses of the liability insurance segment of the Company and its subsidiaries was RMB425 million in the first half of 2007, representing an increase of 35.8% from RMB313 million in the first half of 2006.

#### Accidental Injury Insurance

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>1,432</b>	1,261
Net premiums earned	<b>850</b>	873
Net claims incurred	<b>(545)</b>	(474)
Amortisation of deferred acquisition costs, net	<b>(86)</b>	(119)
Insurance protection expenses	<b>(9)</b>	(9)
Segment profit before unallocated income and expenses	<b>210</b>	271
Loss ratio	<b>64.1%</b>	54.3%
Expense ratio	<b>11.2%</b>	14.7%
Combined ratio	<b>75.3%</b>	69.0%

Turnover of the accidental injury insurance segment of the Company and its subsidiaries was RMB1,432 million in the first half of 2007, representing an increase of RMB171 million, or 13.6%, from RMB1,261 million in the first half of 2006. This was primarily due to the increase in the number of insurance policies underwritten in the first half of 2007.

Net premiums earned from the accidental injury insurance segment of the Company and its subsidiaries was RMB850 million in the first half of 2007, representing a decrease of RMB23 million, or 2.6%, from RMB873 million in the first half of 2006. This was primarily due to an increase of RMB191 million in reinsurance premiums ceded compared to the first half of 2006. However, this effect was partially offset by a RMB171 million increase in turnover over the first half of 2006.

Net claims incurred of the accidental injury insurance segment of the Company and its subsidiaries was RMB545 million in the first half of 2007, representing an increase of RMB71 million, or 15.0%, from RMB474 million in the first half of 2006. This increase was primarily due to the increase of RMB143 million in claim expenses over the first half of 2006. However, the effect of such increase was partially offset by a RMB74 million increase in losses recovered from reinsurance over the first half of 2006.

Net amortisation of deferred acquisition costs of the accidental injury insurance segment of the Company and its subsidiaries was RMB86 million in the first half of 2007, representing a decrease of RMB33 million, or 27.7%, from RMB119 million in the first half of 2006. This was primarily due to the increase in reinsurance commission recovered. However, this effect was partially offset by an increase in the commission expenses paid to insurance intermediaries and agents.

Insurance protection expenses charged to the accidental injury insurance segment of the Company and its subsidiaries was RMB9 million in the first half of 2007, close to that in the first half of 2006.

The expense ratio of the accidental injury insurance segment of the Company and its subsidiaries decreased from 14.7% in the first half of 2006 to 11.2% in the first half of 2007.

As a result of the foregoing, the segment profit before unallocated income and expenses of the accidental injury insurance segment of the Company and its subsidiaries was RMB210 million in the first half of 2007, representing a decrease of 22.5% from RMB271 million in the first half of 2006.

### DEVELOPMENT OF NEW PRODUCTS

In the first half of 2007, the Company developed a total of 174 new insurance products, including 57 national products and 117 regional products. The new products are mainly in the areas of the motor vehicle insurance, commercial property insurance, liability insurance and accidental injury insurance.

### CASH FLOW

	Six months ended 30 June	
	2007 <i>RMB million</i>	2006 <i>RMB million</i>
Net cash inflow from operating activities	10,052	3,174
Net cash outflow from investing activities	(6,126)	(3,015)
Net cash inflow/(outflow) from financing activities	(1,482)	3,939
Net increase in cash and cash equivalents	2,444	4,098

Net cash generated from operating activities of the Company and its subsidiaries was RMB10,052 million in the first half of 2007, representing an increase of RMB6,878 million over the first half of 2006. This was primarily due to an increase in cash premiums and a reduction in claim expenses paid in cash.

Net cash outflow from investing activities of the Company and its subsidiaries was RMB6,126 million in the first half of 2007, representing an increase of RMB3,111 million from RMB3,015 million in the first half of 2006. This was primarily due to the increase of RMB4,566 million in cash outflow caused by the increased deposits with banks or other financial institutions with original maturity of more than three months.

Net cash outflow from financing activities of the Company and its subsidiaries was RMB1,482 million in the first half of 2007, representing a decrease of RMB5,421 million compared to the first half of 2006. This was primarily due to a decrease of RMB4,350 million in cash inflow caused by the decrease in securities sold under sale and repurchase agreements and an increase of RMB1,854 million in cash outflow caused by the increase in securities purchased under purchase and resale agreements.

Net increase in cash and cash equivalents of the Company and its subsidiaries in the first half of 2007 was RMB2,444 million. The aggregate of cash and cash equivalents of the Company and its subsidiaries which were primarily denominated in RMB amounted to RMB24,050 million as of 30 June 2007.

### LIQUIDITY

The cash flow of the Company and its subsidiaries 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 and its subsidiaries' needs for the liquidity are principally for payment of claims and the fulfilment of other obligations under outstanding insurance policies, capital expenditures, operating expenses, tax payments, dividend payments and investment requirements.

The Company issued fixed-rate subordinated debts of RMB3,000 million with a term of 10 years to institutional investors in the PRC in December 2006 for the primary purpose of repaying the RMB2,000 million subordinated loan obtained from China Development Bank on 10 October 2003. This subordinated loan was fully settled by the Company on 21 December 2006. The remaining balance of subordinated debts was reserved for improving the Company's solvency.

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 debts and the credit facility mentioned above, the Company and its subsidiaries do not obtain working capital by borrowing.

The Company and its subsidiaries expect that they can fund their working capital needs in the future from cash generated from operating activities. The Board of Directors is of the opinion that the Company and its subsidiaries have sufficient working capital.

### CAPITAL EXPENDITURE

The capital expenditure of the Company and its subsidiaries was primarily for property construction, acquisition of motor vehicles for operations and development of information systems. The Company and its subsidiaries' capital expenditure was RMB204 million in the first half of 2007.

### 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 RMB10,499 million on 30 June 2007. The Company's actual solvency margin calculated pursuant to the regulations of CIRC was RMB16,571 million and the solvency margin adequacy ratio was 158% (Note).

Pursuant to the CIRC regulations, if an insurance company fails to meet 4 out of the 11 benchmarks regarding solvency, the CIRC has the right to demand an explanation and investigate into the reasons for non-compliance. In the first half of 2007, the Company failed to meet fewer than four of such benchmarks.

*Note:* Calculated in accordance with the PRC Accounting Standards for Business Enterprises.

### 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 2007 was 3.99 times (Note).

*Note:* Calculated in accordance with the PRC Accounting Standards for Business Enterprises, where retained premiums was represented by the figure for the full year ended 30 June 2007.

### GEARING RATIO

As of 30 June 2007, the gearing ratio of the Company and its subsidiaries (Note) was 78.7%, representing an increase of 1.1 percentage points from 77.6% as of 31 December 2006.

*Note:* Gearing ratio is represented by total liabilities (excluding fixed-term subordinated debts) divided by total assets under accounting principles generally accepted in Hong Kong.

### CONTINGENT LIABILITIES

Owing to the nature of the insurance business, the Company and its subsidiaries are involved in legal proceedings in the ordinary course of business, as plaintiff or defendant. Such legal proceedings mostly involve claims on the Company and its subsidiaries' insurance policies. While the outcomes of such contingencies or legal proceedings cannot be determined at present, the Company and its subsidiaries believe that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Company and its subsidiaries.

### INTEREST RATE RISK

The Company and its subsidiaries' holdings in fixed income investments or fixed interest rate liabilities are subject to interest rate risk. The Company and its subsidiaries also invest in floating rate instruments, interest income from which can increase or decrease due to changes in interest rates. The Company and its subsidiaries' holdings in mutual funds are also exposed to price fluctuations caused by changes in interest rates.

The Company and its subsidiaries manage exposure to risks associated with interest rate fluctuations by interest rate swap, active review of the investment portfolio and consultation with financial investment experts. The goal is to maintain liquidity and generate stable returns.

### CREDIT RISK

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

The investment assets, reinsurance assets and deposits with commercial banks of the Company and its subsidiaries are subject to credit risk.

The Company and its subsidiaries are subject to credit risk on investments such as corporate bonds and mutual funds. The Company and its subsidiaries diligently manage 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 and its subsidiaries are also subject to credit risk with respect to amounts owed to the Company and its subsidiaries by their reinsurers. As a result, except when dealing with national reinsurers such as China Property and Casualty Reinsurance Company Ltd., the Company and its subsidiaries primarily purchase reinsurance from reinsurers with A.M. Best ratings of A- or above, and pay particular attention to their creditworthiness and financial condition.

The Company and its subsidiaries manage and lower credit risk affecting their bank deposits mainly by depositing most of their deposits with state-owned or state-controlled banks.

### EXCHANGE RATE RISK

The Company and its subsidiaries conduct their business primarily in Renminbi, which is also their functional and financial reporting currency. However, a portion of their business (including a portion of commercial property insurance, international cargo insurance and aviation insurance) is conducted in foreign currencies, primarily in US dollars. A portion of their claims, account receivables and liabilities is also denominated in foreign currencies, primarily in US dollars. In addition, a portion of their investment assets and cash which is denominated in foreign currencies, primarily in US dollars, is also subject to exchange rate risk.

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

### INTEREST RATE SWAP

The Company is exposed to the variability of cash flows on financial assets which bear interest at a variable rate and therefore, uses interest rate swaps by receiving interest at a fixed rate from the counterparties and paying a variable rate interest payment to hedge its risks. As of 30 June 2007, the Company held interest rate swap contracts with aggregate notional amount of RMB900 million.

### INVESTMENT IN AN ASSOCIATE

In June 2007, the Company contributed RMB812 million to the registered capital of PICC Life Insurance Company Limited, a fellow subsidiary of the Company, for 28% of its equity interests. The directors consider that the investment will enable the Company to gain long-term income from the expanding life insurance sector in the PRC, and will have the benefit of promoting the cross-selling business of the Company with PICC Life Insurance Company Limited.

### EMPLOYEES

As of 30 June 2007, the Company had 60,348 employees. Staff salaries paid by the Company and its subsidiaries in the first half of 2007 was RMB1,760 million in total, which included basic salaries and performance related bonuses. In addition, the Company made contributions to the pension schemes and social medical insurance plans for its employees. Senior management of the Company are entitled to share appreciation rights. No shares will be issued under the scheme. Therefore, the shareholdings of shareholders will not be diluted. The Company has implemented various measures, including offering various career development paths, strengthening personnel training and implementing performance review, to enhance the performance and efficiency of employees. The Company is of the view that the Company maintains a good relationship with its employees.



### LOOKING FORWARD

With the continuing rapid growth of China's economy, the domestic insurance market will continue to benefit from favourable external factors and will maintain a rapid growth during the second half of 2007. The PRC insurance regulating authority will increase its efforts in regulating the insurance market so as to promote an orderly insurance market and to rationalise competition in the non-life insurance market.

In order to enhance the shareholders' value, the Company will continue to make its best efforts to accelerate the integration of resources and strengthen cooperation and coordination to promote business, strengthen team building and introduce the industry's sales elite, safeguard the compliance of the Company's operations with the applicable laws and regulations to prevent operational risks, strengthen the management of claims and improve the quality of services in relation to claims, and strengthen risk management in relation to the use of funds to increase return on investments.

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

The directors, supervisors and chief executive of the Company had not held any 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") as at 30 June 2007 that are required to be 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 set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

### CHANGES IN DIRECTORATE AND SUPERVISORY COMMITTEE

Changes in the directorate from 1 January 2007 to the date of this interim report are as follows:

Mr Tang Yunxiang resigned as the Chairman of the Board and Non-executive Director of the Company on 1 February 2007. Mr Lu Zhengfei was re-elected the Company's Independent Non-executive Director with effect from 24 February 2007. Mr Wu Yan was appointed the Company's Chairman and Executive Director with effect from 23 March 2007.

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

Mr Wu Yan (*Chairman of the Board, Executive Director*)  
Mr Wang Yi (*Vice Chairman of the Board, 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*)  
Mr Wu Gaolian (*Non-executive Director*)  
Mr Zhou Shurui (*Non-executive Director*)  
Mr Wang Yincheng (*Executive Director*)  
Md Liu Zhenghuan (*Executive Director, Secretary of the Board*)  
Mr Li Tao (*Non-executive Director*)

There was no change in the members of the Supervisory Committee from 1 January 2007 to the date of this interim report.

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

Mr Ding Yunzhou (*Chairman of the Supervisory Committee*)  
Mr Li Dianjun (*Independent Supervisor*)  
Mr Sheng Hetai (*Supervisor*)  
Mr He Bangshun (*Supervisor*)

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has formulated and adopted guidelines on transactions of the Company's securities that apply to all directors and employees of the Company, and the terms of the guidelines are no less exacting than those set out in the Model Code. The Company has made enquiries of all directors and they have all confirmed that they have complied with the requirements under the Model Code and the guidelines during the first half of 2007.

**DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO**

As at 30 June 2007, the following shareholders had interests or short positions 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 interests	Percentage of total number of domestic shares in issue	Percentage of total number of shares in issue
The People's Insurance Company (Group) of China (formerly known as PICC Holding Company)	Beneficial Owner	7,685,820,000	Long position	100%	69.0%

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total number of H shares in issue	Percentage of total number of shares in issue
American International Group, Inc. ("AIG") (Note)	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania (Note)	Beneficial owner	562,549,380	Long position	16.28%	5.05%
Commerce and Industry Insurance Company (Note)	Beneficial owner	330,911,400	Long position	9.58%	2.97%
Lexington Insurance Company (Note)	Beneficial owner	209,577,220	Long position	6.06%	1.88%
Morgan Stanley	Interest of controlled corporations	523,394,403 280,283,710	Long position Short position	15.14 % 8.11 %	4.70 % 2.52 %

Note:

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

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company as at 30 June 2007 that are required to be recorded in the register kept under section 336 of the SFO.

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board of Directors declared the payment of an interim dividend of RMB0.091 per share for the six months ended 30 June 2007. The interim dividend shall be paid to the shareholders whose names appear on the register of members of the Company on 11 September 2007 (Tuesday). Interim dividend for H shares will be paid in Hong Kong dollars. The exchange rate applicable for calculating the amount of interim dividend for H shares is HK\$1 = RMB0.9714, being the average middle exchange rate of Hong Kong dollars to Renminbi on the interbank foreign exchange market as announced by the China Foreign Exchange Trade System under the authorisation of the People's Bank of China for the calendar week prior to 21 August 2007. Based on the exchange rate referred to above, the amount of interim dividend per H share is HK\$0.09368, the payment of which is expected to be made on or about 3 October 2007.

### CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of shareholders of the Company who will be entitled to receive the interim dividend, the register of members of the Company will be closed from 6 September 2007 (Thursday) to 11 September 2007 (Tuesday), both days inclusive, during which period no transfer of shares will be effected. Holders of H shares and domestic shares whose names appear on the register of members of the Company on 11 September 2007 (Tuesday) shall be entitled to receive the interim dividend. In order for holders of H shares to qualify for the interim dividend payment, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on 5 September 2007 (Wednesday) for registration.

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

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities in the first half of 2007.

### CORPORATE GOVERNANCE

The Company complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules ("Code on Corporate Governance Practices") in the first half of 2007, save for the non-compliance with one of the requirements under code provision A.2.1 of the Code on Corporate Governance Practices during the period from 1 February 2007 to 22 March 2007. Pursuant to code provision A.2.1, the roles of chairman and chief executive officer should not be performed by the same individual. On 1 February 2007, the former Chairman of the Board, Mr Tang Yunxiang, resigned from his office and the Board of Directors authorised Mr Wang Yi, the Vice Chairman of the Board and the Chief Executive Officer, to carry out the duties of the Chairman of the Board until the new Chairman of the Board was elected. Mr Wu Yan was appointed the Chairman of the Board and an Executive Director of the Company on 23 March 2007 and since then, all the requirements under code provision A.2.1 have been met.

### REVIEW OF INTERIM RESULTS

Ernst & Young, the Company's auditors, and the Audit Committee of the Company have reviewed the Company's interim condensed consolidated financial statements for the six months ended 30 June 2007.

By Order of the Board  
**Wu Yan**  
Chairman

Beijing, the PRC  
21 August 2007