



**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  
**2008**

## 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:	<a href="http://www.piccnet.com.cn">www.piccnet.com.cn</a>
Auditors:	International Auditors: Ernst & Young Domestic Auditors: Ernst & Young Hua Ming
Consulting actuaries:	Milliman Asia Limited
Legal advisors:	as to Hong Kong Laws: Linklaters as to PRC Laws: King and Wood

# Contents

Condensed Consolidated Income Statement	2
Condensed Consolidated Balance Sheet	3
Condensed Consolidated Statement of Changes in Equity	4
Condensed Consolidated Cash Flow Statement	5
Notes to Unaudited Interim Condensed Consolidated Financial Statements	6
Independent Review Report	21
Management Discussion and Analysis of Operating Results and Financial Conditions	22
Other Information	35

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	<i>Notes</i>	<b>Unaudited Six months ended 30 June 2008 RMB million</b>	<b>Unaudited Six months ended 30 June 2007 RMB million</b>
<b>TURNOVER</b>	4	<b>58,970</b>	49,462
Net premiums earned	4	40,181	33,062
Net claims incurred	5	(30,481)	(22,185)
Amortisation of deferred acquisition costs, net		(5,695)	(4,852)
Insurance protection expenses		(506)	(423)
General and administrative expenses		(5,586)	(4,381)
<b>UNDERWRITING PROFIT/(LOSS)</b>		<b>(2,087)</b>	1,221
Net investment income	6	2,188	1,647
Net realised and unrealised gains on investments	7	668	2,836
Investment expenses		(190)	(158)
Interest expenses credited to policyholders' deposits		(88)	(98)
Exchange losses, net		(759)	(325)
Sundry income		23	31
Sundry expenses		(128)	(21)
Finance costs	8	(86)	(98)
Share of profit/(loss) of associates		(69)	6
<b>PROFIT/(LOSS) BEFORE TAX</b>	9	<b>(528)</b>	5,041
Tax	10	236	(1,853)
<b>PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>(292)</b>	3,188
<b>DECLARED INTERIM DIVIDEND</b>	11	—	1,014
<b>BASIC EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB)</b>	12	<b>(0.026)</b>	0.286

## CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

	<i>Notes</i>	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
<b>ASSETS</b>			
Cash and cash equivalents	13	30,465	30,789
Debt securities	14	33,958	28,465
Equity securities	15	8,151	16,978
Insurance receivables, net	16	21,912	13,898
Reinsurance assets	17	16,467	11,136
Deferred acquisition costs		9,420	7,490
Other financial assets and prepayments	18	10,467	8,365
Interests in associates		664	1,025
Property, plant and equipment	19	11,612	11,721
Investment properties		523	532
Prepaid land premiums		3,812	3,866
<b>TOTAL ASSETS</b>		<b>147,451</b>	134,265
<b>LIABILITIES</b>			
Derivative financial liabilities		37	35
Payables to reinsurers	20	11,703	9,813
Accrued insurance protection fund		348	296
Tax payable		756	1,314
Other liabilities and accruals		7,389	8,109
Deferred tax liabilities		377	2,777
Deferred acquisition costs-reinsurers' share		2,606	1,775
Insurance contract liabilities	17	93,295	73,115
Policyholders' deposits	21	7,455	7,953
Subordinated debts		3,000	3,000
<b>TOTAL LIABILITIES</b>		<b>126,966</b>	108,187
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued share capital	22	11,142	11,142
Reserves		9,343	14,936
<b>TOTAL EQUITY</b>		<b>20,485</b>	26,078
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>147,451</b>	134,265

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Issued share capital RMB million	Share premium account RMB million	Available- for-sale investment revaluation reserve RMB million	Cash flow hedging reserve RMB million	Statutory surplus reserve RMB million	General risk reserve RMB million	Retained profits RMB million	Declared interim dividend RMB million	Total RMB million
<b>Unaudited</b>									
At 1 January 2008	11,142	4,739	4,167	(26)	452	239	5,365	–	26,078
Net fair value loss on available-for-sale investments	–	–	(4,369)	–	–	–	–	–	(4,369)
Net fair value gain on cash flow hedges	–	–	–	(2)	–	–	–	–	(2)
Realised gains on disposals of available-for-sale investments	–	–	(2,322)	–	–	–	–	–	(2,322)
Change in deferred tax liabilities recognised	–	–	1,672	1	–	–	–	–	1,673
Change in associates' equity	–	–	(281)	–	–	–	–	–	(281)
Net loss for the period recognised directly in equity	–	–	(5,300)	(1)	–	–	–	–	(5,301)
Net loss for the period	–	–	–	–	–	–	(292)	–	(292)
At 30 June 2008	11,142	4,739	(1,133)	(27)	452	239	5,073	–	20,485
<b>Unaudited</b>									
At 1 January 2007	11,142	4,739	763	4	213	–	3,866	–	20,727
Net fair value gain on available-for-sale investments	–	–	2,139	–	–	–	–	–	2,139
Realised gains on disposals of available-for-sale investments	–	–	(1,038)	–	–	–	–	–	(1,038)
Change in deferred tax liabilities recognised	–	–	(366)	–	–	–	–	–	(366)
Change in associates' equity	–	–	8	–	–	–	–	–	8
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	437	224	5,592	1,014	24,658

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	<b>Unaudited Six months ended 30 June 2008 RMB million</b>	Unaudited Six months ended 30 June 2007 RMB million
Net cash inflow from operating activities	2,895	10,052
Net cash outflow from investing activities	(2,232)	(6,126)
Net cash outflow from financing activities	(611)	(1,482)
NET INCREASE IN CASH AND CASH EQUIVALENTS	52	2,444
Cash and cash equivalents at beginning of the period	25,314	21,606
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	25,366	24,050

## 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 21.

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 2007.

## 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 2007, except for the adoption of the following new Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations”) during the period.

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14 HKAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group’s equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. As the Group currently has no such transactions, the adoption of this interpretation did not have any effect on the financial position or performance of the Group.

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. Currently, no member of the Group is an operator and hence the interpretation had no impact on the Group.

HK(IFRIC)-Int 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under HKAS 19 *Employee Benefits*. As the Group did not have any such arrangement, the interpretation has no impact on the financial position or performance of the Group.



### 3. SEGMENT INFORMATION

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

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 and health segment provides insurance products covering accidental injuries and medical expenses; and
- (f) the "other" segment mainly represents insurance products related to marine hulls, homeowners, agriculture, aviation and energy.

# NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

## 3. SEGMENT INFORMATION (continued)

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

Six months ended 30 June 2008 (Unaudited)	Motor Commercial		Cargo	Accidental Liability and Health Injury		Other	Corporate	Total
	Vehicle	Property						
Income statement	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Turnover	39,498	6,438	1,965	2,535	2,053	6,481	–	58,970
Net premiums earned	30,569	2,980	1,308	1,488	1,157	2,679	–	40,181
Net claims incurred	(22,458)	(3,212)	(710)	(1,113)	(906)	(2,082)	–	(30,481)
Amortisation of deferred acquisition costs, net	(4,674)	(373)	(141)	(193)	(102)	(212)	–	(5,695)
Insurance protection expenses	(366)	(44)	(15)	(20)	(14)	(47)	–	(506)
Profit/(loss) before general and administrative expenses	3,071	(649)	442	162	135	338	–	3,499
General and administrative expenses	–	–	–	–	–	–	(5,586)	(5,586)
Net investment income	–	–	–	–	–	129	2,059	2,188
Net realised and unrealised gains/(losses) on investments	–	–	–	–	–	(64)	732	668
Investment expenses	–	–	–	–	–	(4)	(186)	(190)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(88)	–	(88)
Exchange losses, net	–	–	–	–	–	–	(759)	(759)
Finance costs	–	–	–	–	–	–	(86)	(86)
Sundry income and expenses	–	–	–	–	–	–	(105)	(105)
Share of loss of associates	–	–	–	–	–	–	(69)	(69)
Profit/(loss) before tax	3,071	(649)	442	162	135	311	(4,000)	(528)
Tax	–	–	–	–	–	–	236	236
Profit/(loss) attributable to equity holders of the parent	3,071	(649)	442	162	135	311	(3,764)	(292)

**3. SEGMENT INFORMATION (continued)**

Six months ended 30 June 2007 (Unaudited)	Motor Vehicle RMB million	Commercial Property RMB million	Cargo RMB million	Liability RMB million	Accidental Injury and Health RMB million	Other RMB million	Corporate RMB million	Total RMB million
Income statement								
Turnover	34,590	5,867	1,694	2,096	1,562	3,653	–	49,462
Net premiums earned	25,413	2,994	1,144	1,250	912	1,349	–	33,062
Net claims incurred	(18,066)	(1,906)	(461)	(649)	(580)	(523)	–	(22,185)
Amortisation of deferred acquisition costs, net	(3,971)	(321)	(153)	(160)	(84)	(163)	–	(4,852)
Insurance protection expenses	(323)	(40)	(13)	(16)	(10)	(21)	–	(423)
Profit before general and administrative expenses	3,053	727	517	425	238	642	–	5,602
General and administrative expenses	–	–	–	–	–	–	(4,381)	(4,381)
Net investment income	–	–	–	–	–	123	1,524	1,647
Net realised and unrealised gains on investments	–	–	–	–	–	92	2,744	2,836
Investment expenses	–	–	–	–	–	(5)	(153)	(158)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(98)	–	(98)
Exchange losses, net	–	–	–	–	–	–	(325)	(325)
Finance costs	–	–	–	–	–	–	(98)	(98)
Sundry income and expenses	–	–	–	–	–	–	10	10
Share of profit of associates	–	–	–	–	–	–	6	6
Profit/(loss) before tax	3,053	727	517	425	238	754	(673)	5,041
Tax	–	–	–	–	–	–	(1,853)	(1,853)
Profit/(loss) attributable to equity holders of the parent	3,053	727	517	425	238	754	(2,526)	3,188

Net investment income and net realised and unrealised gains/(losses) on investments attributable to certain 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.

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

### 4. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	<b>Unaudited Six months ended 30 June 2008 RMB million</b>	Unaudited Six months ended 30 June 2007 RMB million
<b>Turnover</b>		
Direct premiums written	58,912	49,452
Reinsurance premiums assumed	58	10
	<b>58,970</b>	49,462
<b>Net premiums earned</b>		
Turnover	58,970	49,462
Less: Reinsurance premiums ceded	(9,081)	(7,266)
Net premiums written	49,889	42,196
Less: Change in net unearned premium reserves	(9,708)	(9,134)
Net premiums earned	<b>40,181</b>	33,062

### 5. NET CLAIMS INCURRED

	<b>Unaudited Six months ended 30 June 2008 RMB million</b>	Unaudited Six months ended 30 June 2007 RMB million
Gross claims paid	30,447	21,997
Less: Paid losses recoverable from reinsurers	(5,107)	(3,622)
Net claims paid	25,340	18,375
Change in net loss and loss adjustment expense reserves	5,141	3,810
Net claims incurred	<b>30,481</b>	22,185

**6. NET INVESTMENT INCOME**

	<b>Unaudited Six months ended 30 June 2008 RMB million</b>	Unaudited Six months ended 30 June 2007 RMB million
Rental income from investment properties	35	26
Financial assets at fair value through profit or loss		
– Held for trading:		
Interest income	51	36
Dividend income	898	623
Financial assets at fair value through profit or loss		
– Designated upon initial recognition:		
Interest income	19	3
Available-for-sale financial assets:		
Interest income	519	381
Dividend income	102	142
Loans and receivables:		
Interest income	564	436
	<b>2,188</b>	1,647

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

	<b>Unaudited Six months ended 30 June 2008 RMB million</b>	Unaudited Six months ended 30 June 2007 RMB million
Available-for-sale financial assets:		
Realised gains	2,322	1,038
Reversal of impairment	–	9
Financial assets at fair value through profit or loss		
– Held for trading:		
Realised gains	368	1,238
Unrealised gains/(losses)	(2,033)	545
Financial assets at fair value through profit or loss		
– Designated upon initial recognition:		
Unrealised gains	11	6
	<b>668</b>	2,836

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

### 8. FINANCE COSTS

	<b>Unaudited</b> <b>Six months ended</b> <b>30 June 2008</b> <i>RMB million</i>	Unaudited Six months ended 30 June 2007 <i>RMB million</i>
Interest on subordinated debts	61	61
Interest on securities sold under agreements to repurchase	25	37
	<b>86</b>	98

### 9. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	<b>Unaudited</b> <b>Six months ended</b> <b>30 June 2008</b> <i>RMB million</i>	Unaudited Six months ended 30 June 2007 <i>RMB million</i>
Depreciation of property, plant and equipment	426	441
Depreciation of investment properties	12	8
Amortisation of prepaid land premiums	52	63
Impairment loss on insurance receivables	817	381

### 10. TAX

	<b>Unaudited</b> <b>Six months ended</b> <b>30 June 2008</b> <i>RMB million</i>	Unaudited Six months ended 30 June 2007 <i>RMB million</i>
Current-charge for the period	491	2,071
Deferred	(727)	(218)
Total tax (credit)/charge for the period	<b>(236)</b>	1,853

The provision for PRC income tax is calculated based on the statutory rate of 25% (2007: 33%) in accordance with the relevant PRC income tax rules and regulations.

**11. DECLARED INTERIM DIVIDEND**

During the period, the Board of Directors did not propose any interim dividend (six months ended 30 June 2007: RMB9.1 cents per ordinary share).

**12. BASIC EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

The calculation of basic loss per share attributable to ordinary equity holders of the parent amounts is based on the loss attributable to equity holders of the parent of RMB292 million for the six months ended 30 June 2008 (profit attributable to equity holders of the parent for six months ended 30 June 2007: RMB3,188 million) and the 11,142 million ordinary shares during the period (six months ended 30 June 2007: 11,142 million ordinary shares) in issue.

Diluted earnings per share amounts for the six months ended 30 June 2008 and 2007 have not been disclosed as no diluting events existed during these periods.

**13. CASH AND CASH EQUIVALENTS**

	<b>Unaudited 30 June 2008 RMB million</b>	Audited 31 December 2007 RMB million
Cash on hand, at amortised cost	72	27
Demand deposits, at amortised cost	18,600	14,761
Securities purchased under resale agreements with original maturity of less than three months, at amortised cost	400	2,896
Deposits with banks and other financial institutions with original maturity of less than three months, at amortised cost	6,294	7,630
Deposits with banks and other financial institutions with original maturity of more than three months, at amortised cost	2,677	2,054
Structured deposits with banks and other financial institutions:		
at fair value	430	729
at amortised cost	1,992	2,692
	<b>30,465</b>	30,789
Classification of cash and cash equivalents:		
Loans and receivables	30,035	30,060
Designated as fair value through profit or loss financial assets	430	729
	<b>30,465</b>	30,789

# NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

## 14. DEBT SECURITIES

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
Listed debt securities, at fair value:		
Debt securities issued by governments	11,685	10,828
Debt securities issued by corporate entities	1,968	1,928
	<b>13,653</b>	12,756
Unlisted debt securities, at fair value:		
Debt securities issued by governments	4,319	3,512
Debt securities issued by banks and other financial institutions	10,347	8,505
Debt securities issued by corporate entities	5,639	3,692
	<b>20,305</b>	15,709
	<b>33,958</b>	28,465
Classification of debt securities:		
Fair value through profit or loss	2,469	4,284
Available-for-sale	31,489	24,181
	<b>33,958</b>	28,465

## 15. EQUITY SECURITIES

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
Listed investments, at fair value:		
Mutual funds	1,202	2,435
Shares	4,628	11,590
	<b>5,830</b>	14,025
Unlisted investments, at fair value:		
Mutual funds	2,008	2,953
Unlisted investment, at cost:		
Shares and other equity investments	313	–
	<b>8,151</b>	16,978
Classification of equity securities:		
Fair value through profit or loss	2,968	5,886
Available-for-sale	5,183	11,092
	<b>8,151</b>	16,978



**16. INSURANCE RECEIVABLES, NET**

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
Premiums receivable and agents' balances	13,990	7,229
Receivables from reinsurers	9,761	7,691
	<b>23,751</b>	14,920
Less: Impairment losses on		
Premiums receivable and agents' balances	(1,834)	(1,017)
Receivables from reinsurers	(5)	(5)
	<b>21,912</b>	13,898

An aged analysis of the insurance receivables as at the balance sheet date, based on the policy effective date or invoice date and net of impairment, is as follows:

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
Within three months	18,485	11,094
Over three months but less than six months	2,746	1,905
Over six months	681	899
	<b>21,912</b>	13,898

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

**17. REINSURANCE ASSETS AND INSURANCE CONTRACT LIABILITIES**

An analysis of insurance contract liabilities and their corresponding reinsurance assets is set out as follows:

	<b>Unaudited</b> <b>30 June 2008</b>			Audited 31 December 2007		
	Gross amount <i>RMB million</i>	Reinsurers' share <i>RMB million</i>	Net amount <i>RMB million</i>	Gross amount <i>RMB million</i>	Reinsurers' share <i>RMB million</i>	Net amount <i>RMB million</i>
Unearned premium reserves	55,812	(7,982)	47,830	43,931	(5,809)	38,122
Loss and loss adjustment expense reserves	37,483	(8,485)	28,998	29,184	(5,327)	23,857
	<b>93,295</b>	<b>(16,467)</b>	<b>76,828</b>	73,115	(11,136)	61,979

**18. OTHER FINANCIAL ASSETS AND PREPAYMENTS**

Included in the other financial assets and prepayments as at 30 June 2008 was a consideration of RMB588 million (31 December 2007: RMB588 million) paid for a right to a 1.96% economic interest in the issued share capital of a new securities company. It represents the right to receive dividends, proceeds from the disposal of the equity interests of the securities company, and the right to register as a shareholder. The Company obtained this right under the restructuring scheme of another securities company, which sold its securities business and assets to this new securities company. The consideration represented the government bonds originally registered under the trading seats of the securities company under the restructuring.

**19. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2008, the Group acquired assets with a cost of RMB135 million (six months ended 30 June 2007: RMB90 million).

Assets with a net book value of RMB3 million were disposed of by the Group during the six months ended 30 June 2008 (six months ended 30 June 2007: RMB12 million), resulting in a net loss on disposal of RMB1 million (six months ended 30 June 2007: RMB4 million).

During the six months ended 30 June 2008, construction in progress with an aggregate amount of RMB29 million (six months ended 30 June 2007: RMB15 million) was transferred to property, plant and equipment.

**20. PAYABLES TO REINSURERS**

The payables to reinsurers are analysed as follows:

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
Reinsurance payables	<b>11,703</b>	9,813

The reinsurance payables as at 30 June 2008 and 31 December 2007 are non-interest-bearing and are due within three months from the balance sheet date or repayable on demand.

**21. POLICYHOLDERS' DEPOSITS**

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

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
Interest-bearing deposits	<b>5,111</b>	5,926
Non-interest-bearing deposits	<b>2,344</b>	2,027
	<b>7,455</b>	7,953

**22. ISSUED SHARE CAPITAL**

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
<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

**23. MINORITY INTERESTS**

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB yuan</i>	Audited 31 December 2007 <i>RMB yuan</i>
Minority interests	69,726	70,182

  

	<b>Unaudited</b> <b>Six months ended</b> <b>30 June 2008</b> <i>RMB yuan</i>	Unaudited Six months ended 30 June 2007 <i>RMB yuan</i>
Net profit/(loss) attributable to minority interests	(456)	276

**24. 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 2008:

	<b>Unaudited</b> <b>30 June 2008</b>	Audited 31 December 2007
Dividend yield (%)	1.81	–
Expected volatility (%)	67.17	63.21
Historical volatility (%)	67.17	63.21
Risk-free interest rate (%)	3.260	3.684
Expected life of share appreciation rights (years)	1 – 2	1 – 2
Share price at the balance sheet date (HK\$)	5.18	11.16

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 2008

### 25. MATURITY PROFILE OF FINANCIAL INSTRUMENTS

A maturity analysis for certain financial assets and liabilities that shows the remaining contractual maturities on an undiscounted basis is presented below:

#### 30 June 2008 (Unaudited)

	On demand <i>RMB million</i>	Within 3 months <i>RMB million</i>	3-12 months <i>RMB million</i>	1-5 years <i>RMB million</i>	More than 5 years <i>RMB million</i>	Total <i>RMB million</i>
<b>Assets:</b>						
Cash and cash equivalents	19,502	6,593	1,352	1,768	2,673	31,888
Debt securities						
– Available-for-sale	–	941	3,085	22,888	12,967	39,881
– Fair value through profit and loss	–	1,093	91	983	661	2,828
<b>Liabilities:</b>						
Derivative financial liabilities	–	–	8	36	1	45
Policyholders' deposits	1,669	331	942	4,479	34	7,455
Subordinated debts	–	–	123	732	3,547	4,402

#### 31 December 2007 (Audited)

	On demand <i>RMB million</i>	Within 3 months <i>RMB million</i>	3-12 months <i>RMB million</i>	1-5 years <i>RMB million</i>	More than 5 years <i>RMB million</i>	Total <i>RMB million</i>
<b>Assets:</b>						
Cash and cash equivalents	16,768	9,263	689	2,079	4,117	32,916
Debt securities						
– Available-for-sale	–	1,337	2,378	17,140	7,619	28,474
– Fair value through profit and loss	–	622	854	1,309	1,973	4,758
<b>Liabilities:</b>						
Derivative financial liabilities	–	–	–	35	5	40
Policyholders' deposits	982	664	1,081	5,189	37	7,953
Subordinated debts	–	–	123	732	3,547	4,402

**26. CONTINGENT LIABILITIES**

Owing to the nature of the 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 some losses arising therefrom will 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.

**27. 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 one year.

At 30 June 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
Within one year	89	234
In the second to fifth years, inclusive	98	130
After five years	61	57
	<b>248</b>	421

**28. CAPITAL COMMITMENTS**

In addition to the operating lease commitments detailed in note 27 above, the Group had the following capital commitments at the balance sheet date:

	<b>Unaudited</b> <b>30 June 2008</b> <i>RMB million</i>	Audited 31 December 2007 <i>RMB million</i>
Contracted, but not provided for:		
Property, plant and equipment	279	243
Acquisition of an investment	1,500	1,500
Authorised, but not contracted for:		
Property, plant and equipment	3	8
	<b>1,782</b>	1,751

## NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2008

### 29. RELATED PARTY TRANSACTIONS

#### (a) Transactions with related parties

	<b>Unaudited Six months ended 30 June 2008 RMB million</b>	Unaudited Six month ended 30 June 2007 RMB million
Transactions with the holding company:		
Property rental expenses	108	109
Property rental income	6	6
Motor vehicle rental expenses	12	12
Motor vehicle rental income	2	2
Service fee income	2	2
Transactions with associates:		
Management fees	37	24
Acquisition of an associate	—	812

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

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

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

	<b>Due from related parties</b>		<b>Due to related parties</b>	
	<b>Unaudited 30 June 2008 RMB million</b>	Audited 31 December 2007 RMB million	<b>Unaudited 30 June 2008 RMB million</b>	Audited 31 December 2007 RMB million
The Holding Company	51	36	—	—
An associate	—	—	18	20
	<b>51</b>	36	<b>18</b>	20

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

These financial statements were approved and authorised for issue by the Board of Directors on 19 August 2008.



**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 20 which comprises the condensed consolidated balance sheet of the Group as at 30 June 2008 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

19 August 2008

## 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 2008, the Company and its subsidiaries maintained the momentum of rapid growth in its business and achieved a turnover of RMB58,970 million, an increase of 19.2% compared to the first half of 2007. The Company held 43.3% share of the non-life insurance market in the PRC. Affected by the catastrophic snow storms in southern China and the super earthquake that took place in Wenchuan on 12 May, the Company and its subsidiaries recorded a loss in the first half of this year and the net loss was RMB292 million, with net profit falling by 109.2% compared to the same period of last year. As at 30 June 2008, the Company and its subsidiaries' total assets reached RMB147,451 million and shareholders' equity totalled RMB20,485 million.

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

	Six months ended 30 June	
	2008	2007
	RMB million	RMB million
Net premiums earned	40,181	33,062
Underwriting profit/(loss)	(2,087)	1,221
Profit/(loss) attributable to equity holders of the parent	(292)	3,188
Total assets	147,451	134,265 <sup>1</sup>

<sup>1</sup> Data as at 31 December 2007.

## RESULTS OF OPERATIONS

In the first half of 2008, the turnover of the Company and its subsidiaries increased significantly, but an underwriting loss was recorded and investment gains decreased. 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.

	Six months ended 30 June	
	2008	2007
	%	%
Net premiums earned	100.0	100.0
Net claims incurred	(75.9)	(67.1)
Amortisation of deferred acquisition costs, net	(14.2)	(14.7)
Insurance protection expenses	(1.3)	(1.3)
General and administrative expenses	(13.9)	(13.3)
Underwriting profit/(loss)	(5.2)	3.7
Net investment income	5.4	5.0
Net realised and unrealised gains on investments	1.7	8.6
Finance costs	(0.2)	(0.3)
Interest expenses credited to policyholders' deposits	(0.2)	(0.3)
Profit/(loss) before tax	(1.3)	15.2
Tax	0.6	(5.6)
Profit/(loss) attributable to equity holders of the parent	(0.7)	9.6
Loss ratio	75.9	67.1
Expense ratio	29.3	29.2
Combined ratio	105.2	96.3



## 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 amount, for the relevant periods.

	Six months ended 30 June	
	2008 %	2007 %
<b>Net premiums earned</b>		
Motor vehicle insurance	76.1	76.9
Commercial property insurance	7.4	9.1
Cargo insurance	3.3	3.5
Liability insurance	3.7	3.8
Accidental injury and health insurance	2.9	2.6
Other insurance	6.6	4.1
<b>Total</b>	<b>100</b>	100
<b>Net claims incurred</b>		
Motor vehicle insurance	73.7	81.4
Commercial property insurance	10.5	8.6
Cargo insurance	2.3	2.1
Liability insurance	3.7	2.9
Accidental injury and health insurance	3.0	2.5
Other insurance	6.8	2.5
<b>Total</b>	<b>100</b>	100
<b>Amortisation of deferred acquisition costs, net</b>		
Motor vehicle insurance	82.1	81.8
Commercial property insurance	6.5	6.6
Cargo insurance	2.5	3.2
Liability insurance	3.4	3.3
Accidental injury and health insurance	1.8	1.8
Other insurance	3.7	3.3
<b>Total</b>	<b>100</b>	100

### TURNOVER

Turnover of the Company and its subsidiaries was RMB58,970 million in the first half of 2008, representing an increase of RMB9,508 million, or 19.2%, over RMB49,462 million in the first half of 2007. The increase was primarily due to an increase of RMB4,908 million in the turnover of motor vehicle insurance segment compared to last year. The turnover of non-motor vehicle insurance such as agriculture insurance, accidental injury and health insurance and liability insurance also experienced growth at varied degrees.

### NET PREMIUMS EARNED

Net premiums earned of the Company and its subsidiaries was RMB40,181 million in the first half of 2008, representing an increase of RMB7,119 million, or 21.5%, over RMB33,062 million in the first half of 2007. The net premiums earned from the motor vehicle insurance segment in the first half of 2008 increased by RMB5,156 million compared to the first half of 2007.

### NET INVESTMENT INCOME

Net investment income of the Company and its subsidiaries was RMB2,188 million in the first half of 2008, representing an increase of RMB541 million from RMB1,647 million in the first half of 2007.

### NET REALISED AND UNREALISED GAINS ON INVESTMENTS

Net realised and unrealised gains on investments of the Company and its subsidiaries was RMB668 million in the first half of 2008, representing a decrease of RMB2,168 million from RMB2,836 million in the first half of 2007. This was primarily due to the volatility and downturn in the A-share market in the PRC in the first half of 2008, which resulted in a substantial decrease in the realised and unrealised gains on investments in trading financial assets.

### NET CLAIMS INCURRED

Net claims incurred of the Company and its subsidiaries was RMB30,481 million in the first half of 2008, representing an increase of RMB8,296 million, or 37.4%, over RMB22,185 million in the first half of 2007. Loss ratio of the Company and its subsidiaries increased from 67.1% in the first half of 2007 to 75.9% in the first half of 2008. The increase was primarily due to an increase in claims brought about by the increase in turnover of the Company and its subsidiaries. Meanwhile, the catastrophic snow storms in southern China and the super earthquake that took place in Wenchuan on 12 May also resulted in a substantial increase in claims.

### AMORTISATION OF DEFERRED ACQUISITION COSTS, NET

Net amortisation of deferred acquisition costs of the Company and its subsidiaries was RMB5,695 million in the first half of 2008, representing an increase of 17.4% from RMB4,852 million in the first half of 2007. This increase was primarily due to the increase in expenses such as commission expenses, payment of government levies and surcharges as well as wages of underwriting personnel as a result of the increase in turnover in the first half of 2008. However, the increase in expenses was partly offset by the increase in the reinsurance commission recovered.

### 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 RMB506 million in the first half of 2008, representing an increase of 19.6% from RMB423 million in the first half of 2007. 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 decreased from RMB98 million in the first half of 2007 to RMB88 million in the first half of 2008. This was primarily due to the Golden Bull homeowners insurance products of the Company having reached maturity successively, hence a decrease in the interest expenses paid by the Company.

### FINANCE COSTS

Finance costs of the Company and its subsidiaries was RMB86 million in the first half of 2008, representing a decrease of RMB12 million from RMB98 million in the first half of 2007. This decrease was primarily due to the decrease in the interest expenses on securities sold under agreements to repurchase compared to the first half of 2007.

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the Company and its subsidiaries was RMB5,586 million in the first half of 2008, representing an increase of RMB1,205 million from RMB4,381 million in the first half of 2007. This increase was primarily due to the increase of underwriting costs to maintain the rapid growth of the turnover in light of the fierce competition, and the increase of advertising and marketing expenses to build up the Company's image as a partner of 2008 Olympic Games and to promote sales of the Company's products. The Company had made great progress in the strict control of administrative expenses in the first half of 2008 to the effect that the administrative expenses had decreased relatively, which partially offset the effect of the increase of underwriting costs.

### PROFIT/(LOSS) BEFORE TAX

As a result of the foregoing, loss before tax of the Company and its subsidiaries was RMB528 million in the first half of 2008, representing a decrease of RMB5,569 million from the profit of RMB5,041 million in the first half of 2007.

### TAX

Income tax expenses of the Company and its subsidiaries was credited with RMB236 million in the first half of 2008, representing a decrease of RMB2,089 million from the charge of RMB1,853 million in the first half of 2007. The income tax expenses in the first half of 2008 was negative, primarily due to the operating loss of the Company and its subsidiaries in the first half of 2008 and the dividend income from close-end funds being exempted from income tax.

### PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

As a result of the foregoing, net loss of the Company and its subsidiaries was RMB292 million in the first half of 2008, representing a decrease of RMB3,480 million from the net profit of RMB3,188 million in the first half of 2007. Basic loss per share attributable to ordinary equity holders of the parent in the first half of 2008 was RMB0.026.

### COMBINED RATIO

Combined ratio of the Company and its subsidiaries in the first half of 2008 was 105.2%, representing an increase from 96.3% in the first half of 2007. This increase was primarily due to the increase in the loss ratio of the Company and its subsidiaries from 67.1% in the first half of 2007 to 75.9% in the first half of 2008.

RESULTS OF SEGMENT OPERATIONS

Motor Vehicle Insurance

	Six months ended 30 June	
	2008	2007
	<i>RMB million</i>	<i>RMB million</i>
Turnover	39,498	34,590
Net premiums earned	30,569	25,413
Net claims incurred	(22,458)	(18,066)
Amortisation of deferred acquisition costs, net	(4,674)	(3,971)
Insurance protection expenses	(366)	(323)
Profit before general and administrative expenses	3,071	3,053
Loss ratio	73.5%	71.1%
Expense ratio	16.5%	16.9%
Combined ratio	90.0%	88.0%

Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB39,498 million in the first half of 2008, representing an increase of RMB4,908 million, or 14.2%, over RMB34,590 million in the first half of 2007. The growth rate of the commercial motor vehicle insurance business was 20.6% and continued the trend of rapid development. However, the growth rate of the compulsory motor vehicle third party liability insurance (“Compulsory Motor Vehicle Insurance”) business was only 2.1% due to the effect of the decrease of premium rates and therefore caused the slow down in the growth of the entire motor vehicle insurance segment.

Net premiums earned from the motor vehicle insurance segment of the Company and its subsidiaries was RMB30,569 million in the first half of 2008, representing an increase of RMB5,156 million, or 20.3%, over RMB25,413 million in the first half of 2007. This increase was primarily due to a rapid increase in turnover on one hand and a relatively significant increase in unearned premium reserves reversed as a result of the rapid growth of the Compulsory Motor Vehicle Insurance business in 2007 ever since it was launched in the second half of 2006 and the slow down in its growth rate in the first half of 2008 on the other hand.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB22,458 million in the first half of 2008, representing an increase of RMB4,392 million, or 24.3%, over RMB18,066 million in the first half of 2007. The loss ratio increased from 71.1% in the first half of 2007 to 73.5% in the first half of 2008. This increase was primarily due to the snow storms disaster in southern China in early 2008.

Net amortisation of deferred acquisition costs of the motor vehicle insurance segment of the Company and its subsidiaries was RMB4,674 million in the first half of 2008, representing an increase of 17.7% over RMB3,971 million in the first half of 2007. This increase was primarily due to the increase in the payment of commission expenses, underwriting costs, government levies and surcharges resulting from the increase in the turnover of the motor vehicle insurance segment.

Insurance protection expenses charged to the motor vehicle insurance segment of the Company and its subsidiaries increased by 13.3% from RMB323 million in the first half of 2007 to RMB366 million in the first half of 2008 due to the increase in retained premiums.

The expense ratio of the motor vehicle insurance segment of the Company and its subsidiaries decreased from 16.9% in the first half of 2007 to 16.5% in the first half of 2008, primarily due to the increase in net amortisation of deferred acquisition costs being less than the increase in net premiums earned.

As a result of the foregoing, profit before general and administrative expenses of the motor vehicle insurance segment of the Company and its subsidiaries was RMB3,071 million in the first half of 2008, representing an increase of RMB18 million compared to RMB3,053 million in the first half of 2007.

### Commercial Property Insurance

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>6,438</b>	5,867
Net premiums earned	<b>2,980</b>	2,994
Net claims incurred	<b>(3,212)</b>	(1,906)
Amortisation of deferred acquisition costs, net	<b>(373)</b>	(321)
Insurance protection expenses	<b>(44)</b>	(40)
Profit/(loss) before general and administrative expenses	<b>(649)</b>	727
Loss ratio	<b>107.8%</b>	63.7%
Expense ratio	<b>14.0%</b>	12.1%
Combined ratio	<b>121.8%</b>	75.8%

Turnover of the commercial property insurance segment of the Company and its subsidiaries increased by RMB571 million, or 9.7%, from RMB5,867 million in the first half of 2007 to RMB6,438 million in the first half of 2008.

Net premiums earned from the commercial property insurance segment of the Company and its subsidiaries decreased by RMB14 million from RMB2,994 million in the first half of 2007 to RMB2,980 million in the first half of 2008, primarily due to an increase of RMB321 million in reinsurance premiums ceded in the first half of 2008 compared to the previous year in respect of commercial property insurance.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries increased by RMB1,306 million from RMB1,906 million in the first half of 2007 to RMB3,212 million in the first half of 2008. This increase was primarily due to the significant increase in claims of the commercial property insurance segment as a result of the snow storms disaster in the first half of this year.

Net amortisation of deferred acquisition costs of the commercial property insurance segment of the Company and its subsidiaries increased from RMB321 million in the first half of 2007 to RMB373 million in the first half of 2008, primarily due to an increase in the payment of government levies and surcharges as well as underwriting costs.

Insurance protection expenses charged to the commercial property insurance segment of the Company and its subsidiaries increased from RMB40 million in the first half of 2007 to RMB44 million in the first half of 2008 due to the increase in retained premiums.

The expense ratio of the commercial property insurance segment of the Company and its subsidiaries increased from 12.1% in the first half of 2007 to 14.0% in the first half of 2008.

As a result of the foregoing, loss before general and administrative expenses of the commercial property insurance segment of the Company and its subsidiaries was RMB649 million in the first half of 2008, representing a decrease of RMB1,376 million compared to the profit of RMB727 million in the first half of 2007.

### Cargo Insurance

	Six months ended 30 June	
	2008	2007
	<i>RMB million</i>	<i>RMB million</i>
Turnover	1,965	1,694
Net premiums earned	1,308	1,144
Net claims incurred	(710)	(461)
Amortisation of deferred acquisition costs, net	(141)	(153)
Insurance protection expenses	(15)	(13)
Profit before general and administrative expenses	442	517
Loss ratio	54.3%	40.3%
Expense ratio	11.9%	14.5%
Combined ratio	66.2%	54.8%

Turnover of the cargo insurance segment of the Company and its subsidiaries increased by RMB271 million, or 16.0%, from RMB1,694 million in the first half of 2007 to RMB1,965 million in the first half of 2008.

Net premiums earned from the cargo insurance segment of the Company and its subsidiaries increased by RMB164 million, or 14.3%, from RMB1,144 million in the first half of 2007 to RMB1,308 million in the first half of 2008, primarily due to an increase in turnover.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries increased by 54.0% from RMB461 million in the first half of 2007 to RMB710 million in the first half of 2008. The increase was primarily due to intensified competition and hence a decrease in premium rates and an increase in risk per unit premium. Loss ratio increased from 40.3% in the first half of 2007 to 54.3% in the first half of 2008.

Net amortisation of deferred acquisition costs of the cargo insurance segment of the Company and its subsidiaries decreased by RMB12 million from RMB153 million in the first half of 2007 to RMB141 million in the first half of 2008.

Insurance protection expenses charged to the cargo insurance segment of the Company and its subsidiaries was RMB15 million in the first half of 2008, close to that in the first half of 2007, primarily due to the slight changes in the retained premiums.

The expense ratio of the cargo insurance segment of the Company and its subsidiaries decreased from 14.5% in the first half of 2007 to 11.9% in the first half of 2008.

As a result of the foregoing, profit before general and administrative expenses of the cargo insurance segment of the Company and its subsidiaries was RMB442 million in the first half of 2008, representing a decrease of 14.5% compared to RMB517 million in the first half of 2007.

### Liability Insurance

	Six months ended 30 June	
	2008 <i>RMB million</i>	2007 <i>RMB million</i>
Turnover	2,535	2,096
Net premiums earned	1,488	1,250
Net claims incurred	(1,113)	(649)
Amortisation of deferred acquisition costs, net	(193)	(160)
Insurance protection expenses	(20)	(16)
Profit before general and administrative expenses	162	425
Loss ratio	74.8%	51.9%
Expense ratio	14.3%	14.1%
Combined ratio	89.1%	66.0%

Turnover of the liability insurance segment of the Company and its subsidiaries was RMB2,535 million in the first half of 2008, representing an increase of RMB439 million, or 20.9%, from RMB2,096 million in the first half of 2007.

Net premiums earned from the liability insurance segment of the Company and its subsidiaries was RMB1,488 million in the first half of 2008, representing an increase of RMB238 million, or 19.0%, from RMB1,250 million in the first half of 2007. This increase was primarily due to the increase in turnover.

Net claims incurred of the liability insurance segment of the Company and its subsidiaries was RMB1,113 million in the first half of 2008, representing an increase of 71.5% from RMB649 million in the first half of 2007. This was primarily due to the increase of RMB234 million and RMB266 million in claim expenses and the changes in net loss and loss adjustment expense reserves, respectively. The loss ratio of the liability insurance segment increased from 51.9% in the first half of 2007 to 74.8% in the first half of 2008.

Net amortisation of deferred acquisition costs of the liability insurance segment of the Company and its subsidiaries was RMB193 million in the first half of 2008, representing an increase of RMB33 million from RMB160 million in the first half of 2007. This increase was primarily due to the increase in government levies and surcharges and the underwriting costs as a result of the business growth.

Insurance protection expenses charged to the liability insurance segment of the Company and its subsidiaries was RMB20 million in the first half of 2008, representing an increase of RMB4 million, or 25%, from RMB16 million in the first half of 2007. This was due to an increase in the retained premiums.

The expense ratio of the liability insurance segment of the Company and its subsidiaries increased from 14.1% in the first half of 2007 to 14.3% in the first half of 2008.

As a result of the foregoing, profit before general and administrative expenses of the liability insurance segment of the Company and its subsidiaries was RMB162 million in the first half of 2008, representing a decrease of 61.9% from RMB425 million in the first half of 2007.

Accidental Injury and Health Insurance

	Six months ended 30 June	
	2008	2007
	<i>RMB million</i>	<i>RMB million</i>
Turnover	2,053	1,562
Net premiums earned	1,157	912
Net claims incurred	(906)	(580)
Amortisation of deferred acquisition costs, net	(102)	(84)
Insurance protection expenses	(14)	(10)
Profit before general and administrative expenses	135	238
Loss ratio	78.3%	63.6%
Expense ratio	10.0%	10.3%
Combined ratio	88.3%	73.9%

Turnover of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB2,053 million in the first half of 2008, representing an increase of RMB491 million, or 31.4%, from RMB1,562 million in the first half of 2007. This was primarily due to the rapid development of the health insurance business.

Net premiums earned from the accidental injury and health insurance segment of the Company and its subsidiaries was RMB1,157 million in the first half of 2008, representing an increase of RMB245 million, or 26.9%, from RMB912 million in the first half of 2007. This was primarily due to the relatively rapid increase in retained premiums.

Net claims incurred of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB906 million in the first half of 2008, representing an increase of 56.2% from RMB580 million in the first half of 2007. This increase was primarily due to the increase of both settled and outstanding claims. Loss ratio of the accidental injury and health insurance segment increased from 63.6% in the first half of 2007 to 78.3% in the first half of 2008.

Net amortisation of deferred acquisition costs of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB102 million in the first half of 2008, representing an increase of RMB18 million from RMB84 million in the first half of 2007.

Insurance protection expenses charged to the accidental injury and health insurance segment of the Company and its subsidiaries increased to RMB14 million in the first half of 2008, representing an increase of RMB4 million compared to that in the first half of 2007.

The expense ratio of the accidental injury and health insurance segment of the Company and its subsidiaries was 10.0% in the first half of 2008, close to that in the first half of 2007.

As a result of the foregoing, profit before general and administrative expenses of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB135 million in the first half of 2008, representing a decrease of 43.3% from RMB238 million in the first half of 2007.



## DEVELOPMENT OF NEW PRODUCTS

In the first half of 2008, the Company developed a total of 207 new products, including 71 national products and 136 regional products, covering 13 insurance categories apart from mandatory insurance.

## CASH FLOW

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<i>RMB million</i>	<i>RMB million</i>
Net cash inflow from operating activities	<b>2,895</b>	10,052
Net cash outflow from investing activities	<b>(2,232)</b>	(6,126)
Net cash outflow from financing activities	<b>(611)</b>	(1,482)
Net increase in cash and cash equivalents	<b>52</b>	2,444

Net cash generated from operating activities of the Company and its subsidiaries was RMB2,895 million in the first half of 2008, representing a decrease of RMB7,157 million compared to the first half of 2007. This was primarily due to a substantial increase in claim expenses as a result of the occurrence of the catastrophes in the first half of 2008. The increase in the commission expenses and government levies due to the growth of business also contributed to the increase in the cash outflow from operating activities.

Net cash outflow from investing activities of the Company and its subsidiaries was RMB2,232 million in the first half of 2008, representing a decrease of RMB3,894 million from that in the first half of 2007. This was primarily due to the decrease of RMB3,064 million in cash outflow caused by the decreased 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 RMB611 million in the first half of 2008, representing a decrease of RMB871 million in net cash outflow compared to the first half of 2007. This was primarily due to a decrease of RMB1,854 million in cash outflow caused by the decrease in securities purchased under purchase and resale agreements. The aforesaid effect was partly offset by an increase of RMB1,024 million in cash outflow caused by a decrease in the policyholders' deposits.

Net increase in cash and cash equivalents of the Company and its subsidiaries (primarily denominated in RMB) in the first half of 2008 was RMB52 million. The aggregate of cash and cash equivalents of the Company and its subsidiaries (primarily denominated in RMB) amounted to RMB25,366 million as of 30 June 2008.

## LIQUIDITY

The cash flow of the Company and its subsidiaries is primarily derived from cash generated from operating activities, 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 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 billion with a term of 10 years to institutional investors in the PRC in December 2006 for the primary purpose of improving the Company's solvency.

The Company obtained a 10-year revolving credit facility from China Development Bank for up to RMB10 billion in August 2003. Each drawdown made under this facility is repayable within one year. As of the date of this report, no amount has been drawn down under that facility.

Save for the subordinated 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 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 RMB380 million in the first half of 2008.

### SOLVENCY MARGIN REQUIREMENT

The Company is subject to a number of regulations regarding financial operations, including maintaining a stipulated solvency margin and providing for certain funds and reserves. In accordance with the insurance laws and regulations of the PRC, the Company was required to maintain a minimum solvency margin of RMB12,404 million on 30 June 2008. The Company's actual solvency margin calculated pursuant to the regulations of CIRC was RMB14,920 million and the solvency margin adequacy ratio was 120.3% (Note).

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

### GEARING RATIO

As of 30 June 2008, the gearing ratio (Note) of the Company and its subsidiaries was 84.1%, representing an increase of 5.8 percentage points from 78.3% as of 31 December 2007.

*Note:* Gearing ratio is represented by total liabilities (excluding 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 and fixed interest rate liabilities are subject to interest rate risk. Fixed income investments held by the Company and its subsidiaries primarily include the holdings in fixed term deposits, negotiated deposits and debt securities measured at fair value. The holdings of the Company in fixed interest rate liabilities primarily include subordinated debts of RMB3 billion and a certain number of investment products associated with homeowners insurance products and accidental injury insurance products.

The Company and its subsidiaries manage exposure to risks associated with interest rate fluctuations through active review of the investment portfolio and consultation with financial investment experts. The Company and its subsidiaries mitigate the interest rate risk and ensure stable returns by maintaining the valid term of its investment portfolios at a level shorter than that at the market level for similar financial assets and through investing in a relatively substantial portion of interest rate-sensitive products and also a certain number of derivative financial instruments (such as interest rate swaps).

### 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 accounts receivable for insurance assets, debt securities and deposits with commercial banks of the Company and its subsidiaries are subject to credit risk.

The Company and its subsidiaries only issue insurance policies on credit to corporate customers or to individuals who purchase policies through insurance intermediaries, and maintain strict control over credit term, in order to reduce the credit risk in insurance business. The Company and its subsidiaries purchase reinsurance from national reinsurers such as China Property and Casualty Reinsurance Company Ltd., as well as reinsurers with A.M. Best ratings of A- or above, in order to lower the credit risk in reinsurance business.

The Company and its subsidiaries make substantial investments in bonds issued by the government, banks and financial institutions in the PRC and in corporate bonds with ratings higher than AA. The Company and its subsidiaries deposit most of their deposits with state-owned or state-controlled commercial banks.

### EXCHANGE RATE RISK

The Company and its subsidiaries conduct their business primarily in Renminbi, whilst a portion of their business (including a portion of commercial property insurance, international cargo insurance and aviation insurance) is conducted in foreign currencies. Foreign currency-denominated bank deposits and debt securities held by the Company and its subsidiaries as well as a portion of foreign currency-denominated receivables from reinsurers and insurance business liabilities are subject to exchange rate risk.

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 exchange rates.

### INTEREST RATE SWAPS

The Company is exposed to the variability of cash flows on financial assets which bear interests at a variable rate. The Company uses interest rate swaps to hedge against such interest rate risk whereby fixed interests are received from, and floating interests are paid to, the counterparties. As of 30 June 2008, the Company held interest rate swap contracts with aggregate notional amount of RMB850 million.

### EMPLOYEES

As of the first half of 2008, the Company had 59,349 formal employees. Staff salaries paid by the Company and its subsidiaries in the first half of 2008 was RMB2,552 million, which included basic salaries, performance related bonuses and various insurances and benefits contributed in accordance with the relevant PRC regulations. The Company and its subsidiaries have 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 and its subsidiaries maintain a good relationship with its employees.

### LOOKING FORWARD

With the continuing 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 2008. 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 strengthen the development of professional teams, enhance product line development, implement the client manager system, significantly improve service capabilities, ensure the continuing rapid growth of business; impose strict control on claims management, control costs and expenses, increase returns on investments, mitigate adverse effects of catastrophes on the operation of the Company; and enhance risk management in various areas such as underwriting management, reinsurance arrangement and application of funds to prevent operational risks.

### **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 2008 that are required to be recorded in the register required to be kept under section 352 of the SFO or 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 2008 to the date of this interim report are as follows:

Mr Luk Kin Yu, Peter was re-elected an Independent Non-executive Director of the Company on 15 April 2008 and his term of office will expire on 28 April 2011. Mr Wang Yi resigned as the Vice Chairman of the Board of Directors, Executive Director, President and Chief Executive Officer of the Company with effect from 22 April 2008. Mr Wang Yincheng was appointed as the Vice Chairman of the Board of Directors and President of the Company with effect from 7 August 2008.

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

Mr Wu Yan (*Chairman of the Board, Executive Director*)  
Mr Wang Yincheng (*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*)  
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 2008 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 guidelines on transactions of the Company's securities that apply to directors, supervisors and employees, and the terms of the guidelines are no less exacting than those set out in the Model Code. The Company has made enquiry of all directors and supervisors and they have all confirmed that they have complied with the requirements under the Model Code and the guidelines during the first half of 2008.

## OTHER INFORMATION

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

As at 30 June 2008, 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	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 1)	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania (Note 1)	Beneficial owner	562,549,380	Long position	16.28%	5.05%
Commerce and Industry Insurance Company (Note 1)	Beneficial owner	330,911,400	Long position	9.58%	2.97%
Lexington Insurance Company (Note 1)	Beneficial owner	209,577,220	Long position	6.06%	1.88%
UBS AG	Beneficial owner/	348,789,813	Long position	10.09%	3.13%
	Person having a security interest in shares/	60,508,240	Short position	1.75%	0.54%
	Interest of controlled corporations	(Note 3)			
JPMorgan Chase & Co.	Beneficial owner/	271,550,708	Long position	7.86%	2.44%
	Investment manager/	(Note 4)			
	Custodian-corporation/	66,976,280	Short position	1.94%	0.60%
	Approved lending agent	(Note 5)			

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

*(continued)*

*Notes:*

1. Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company, and Lexington Insurance Company were controlled corporations of AIG.
2. Included in the 348,789,813 shares were 322,404,013 shares held in the capacity as beneficial owner and 26,385,800 shares held in the capacity as interest of controlled corporations.
3. Included in the 60,508,240 shares were 37,474,440 shares held in the capacity as beneficial owner, 17,626,000 shares held in the capacity as person having a security interest in shares and 5,407,800 shares held in the capacity as interest of controlled corporations.
4. Included in the 271,550,708 shares were 159,047,588 shares held in the capacity as beneficial owner, 1,630 shares held in the capacity as investment manager and 112,501,490 shares held in the capacity as custodian-corporation/approved lending agent.
5. All the 66,976,280 shares were held in the capacity as beneficial owner.

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 2008 that are required to be recorded in the register kept under section 336 of the SFO.

### INTERIM DIVIDEND

The Board of Directors did not propose any interim dividend for 2008.

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

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities in the first half of 2008.

### 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 in the first half of 2008.

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## OTHER INFORMATION

### REVIEW OF INTERIM RESULTS

Ernst & Young, the Company's auditors, and the Audit Committee of the Company have reviewed the interim condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2008.

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

Beijing, the PRC  
19 August 2008