



Interim Report
2009

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 |
| Stock name: | 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 as to PRC Laws: King and Wood |

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CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

| | <i>Notes</i> | Unaudited Six months ended 30 June 2009 RMB million | Unaudited Six months ended 30 June 2008 RMB million |
|---|--------------|--|--|
| TURNOVER | 4 | 67,050 | 58,970 |
| Net premiums earned | 4 | 40,140 | 40,181 |
| Net claims incurred | 5 | (29,195) | (30,481) |
| Amortisation of deferred acquisition costs, net | | (5,918) | (5,695) |
| Insurance protection expenses | | (535) | (506) |
| General and administrative expenses | | (5,704) | (5,586) |
| UNDERWRITING LOSS | | (1,212) | (2,087) |
| Net investment income | 6 | 1,368 | 2,188 |
| Net realised and unrealised gains on investments | 7 | 454 | 668 |
| Investment expenses | | (60) | (190) |
| Interest expenses credited to policyholders' deposits | | (63) | (88) |
| Exchange losses, net | | (2) | (759) |
| Sundry income | | 40 | 23 |
| Sundry expenses | | (137) | (128) |
| Finance costs | 8 | (88) | (86) |
| Share of profit and loss of associates | | 13 | (69) |
| PROFIT/(LOSS) BEFORE TAX | 9 | 313 | (528) |
| Tax | 10 | 9 | 236 |
| PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | 322 | (292) |
| BASIC EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB) | 12 | 0.029 | (0.026) |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

| | <i>Note</i> | Unaudited Six months ended 30 June 2009 RMB million | Unaudited Six months ended 30 June 2008 RMB million |
|---|-------------|--|--|
| PROFIT/(LOSS) FOR THE PERIOD | | 322 | (292) |
| Net gain/(loss) on cash flow hedges | 13 | 13 | (2) |
| Income tax | | (3) | 1 |
| | | 10 | (1) |
| Net gain/(loss) on available-for-sale investments | 13 | 1,083 | (6,691) |
| Income tax | | (271) | 1,672 |
| | | 812 | (5,019) |
| Share of change in associates' equity | | 62 | (281) |
| Other comprehensive income/(loss) for the period, net of tax | | 884 | (5,301) |
| Total comprehensive income/(loss) for the period attributable to equity holders of the parent, net of tax | | 1,206 | (5,593) |

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2009

| | <i>Notes</i> | Unaudited 30 June 2009 RMB million | Audited 31 December 2008 RMB million |
|--|--------------|---|--|
| ASSETS | | | |
| Cash and cash equivalents | 14 | 42,870 | 29,056 |
| Derivative financial assets | | 19 | 6 |
| Debt securities | 15 | 43,650 | 41,291 |
| Equity securities | 16 | 6,567 | 6,438 |
| Insurance receivables, net | 17 | 26,263 | 20,736 |
| Tax recoverable | | 318 | - |
| Reinsurance assets | 18 | 20,187 | 20,782 |
| Deferred acquisition costs | | 11,093 | 8,160 |
| Other financial assets and prepayments | 19 | 10,994 | 9,352 |
| Interests in associates | | 397 | 521 |
| Property, plant and equipment | 20 | 11,828 | 12,136 |
| Investment properties | | 603 | 605 |
| Prepaid land premiums | | 3,690 | 3,769 |
| TOTAL ASSETS | | 178,479 | 152,852 |
| LIABILITIES | | | |
| Payables to reinsurers | 21 | 23,066 | 18,258 |
| Accrued insurance protection fund | | 403 | 252 |
| Tax payable | | - | 926 |
| Other liabilities and accruals | | 13,907 | 11,956 |
| Deferred tax liabilities | | 746 | 138 |
| Deferred acquisition costs-reinsurers' share | | 3,118 | 3,544 |
| Insurance contract liabilities | 18 | 104,169 | 85,586 |
| Policyholders' deposits | 22 | 7,055 | 7,383 |
| Subordinated debts | | 3,000 | 3,000 |
| TOTAL LIABILITIES | | 155,464 | 131,043 |
| EQUITY | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued share capital | 23 | 11,142 | 11,142 |
| Reserves | | 11,873 | 10,667 |
| TOTAL EQUITY | | 23,015 | 21,809 |
| TOTAL EQUITY AND LIABILITIES | | 178,479 | 152,852 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

| | Attributable to equity holders of the parent | | | | | | | |
|----------------------------|--|---|--|---|---|--|---|---------------------------------|
| | Issued share capital <i>RMB million</i> | Share premium account <i>RMB million</i> | Available- for-sale investment revaluation reserve <i>RMB million</i> | Cash flow hedging reserve <i>RMB million</i> | Statutory surplus reserve <i>RMB million</i> | General risk reserve <i>RMB million</i> | Retained profits <i>RMB million</i> | Total <i>RMB million</i> |
| Unaudited | | | | | | | | |
| At 1 January 2009 | 11,142 | 4,739 | (183) | 5 | 540 | 327 | 5,239 | 21,809 |
| Profit for the period | - | - | - | - | - | - | 322 | 322 |
| Other comprehensive income | - | - | 874 | 10 | - | - | - | 884 |
| Total comprehensive income | - | - | 874 | 10 | - | - | 322 | 1,206 |
| At 30 June 2009 | 11,142 | 4,739 | 691 | 15 | 540 | 327 | 5,561 | 23,015 |
| Unaudited | | | | | | | | |
| At 1 January 2008 | 11,142 | 4,739 | 4,167 | (26) | 452 | 239 | 5,365 | 26,078 |
| Loss for the period | - | - | - | - | - | - | (292) | (292) |
| Other comprehensive loss | - | - | (5,300) | (1) | - | - | - | (5,301) |
| Total comprehensive loss | - | - | (5,300) | (1) | - | - | (292) | (5,593) |
| At 30 June 2008 | 11,142 | 4,739 | (1,133) | (27) | 452 | 239 | 5,073 | 20,485 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2009

| | Unaudited Six months ended 30 June 2009 RMB million | Unaudited Six months ended 30 June 2008 RMB million |
|---|--|---|
| Net cash inflow from operating activities | 12,231 | 2,895 |
| Net cash outflow from investing activities | (2,751) | (2,232) |
| Net cash inflow/(outflow) from financing activities | 2,698 | (611) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 12,178 | 52 |
| Cash and cash equivalents at beginning of the period | 21,685 | 25,314 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 33,863 | 25,366 |

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 2008.

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 2008, except for the adoption of the following new Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) during the period.

| | |
|---|--|
| HKFRS 1 and HKAS 27 Amendments | Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 Amendments | Amendments to HKFRS 2 Share-Based Payment – Vesting Conditions and Cancellations |
| HKFRS 7 Amendments | Amendments to HKFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 32 and HKAS 1 Amendments | Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation |
| HK(IFRIC)-Int 9 and HKAS 39 Amendments | Amendments to HK(IFRIC)-Int 9 and HKAS 39 Financial Instruments: Recognition and Measurements – Embedded Derivatives |

The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group. The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The amendments to HKFRS 2 clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the adoption of these amendments did not have any significant implications on its accounting for share-based payments.

The amendments to HKFRS 7 require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balances for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. However, these amendments did not have impact on disclosures in these unaudited interim financial statements.

HKFRS 8 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have significant effect on the financial position or performance of the Group for interim period. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 *Segment Reporting*.

The revised HKAS 1 separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified criteria. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments did not have any financial impact on the Group.

The amendments to HK(IFRIC)-Int 9 and HKAS 39 required an entity to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

3. SEGMENT INFORMATION

Segment information is presented by way of 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 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 2009

3. SEGMENT INFORMATION (continued)

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

| Six months ended 30 June 2009 (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 | 46,328 | 6,496 | 1,660 | 2,693 | 2,241 | 7,632 | – | 67,050 |
| Net premiums earned | 29,926 | 2,865 | 1,033 | 1,410 | 1,337 | 3,569 | – | 40,140 |
| Net claims incurred | (23,013) | (1,297) | (471) | (1,051) | (976) | (2,387) | – | (29,195) |
| Amortisation of deferred acquisition costs, net | (4,773) | (906) | 19 | (95) | (118) | (45) | – | (5,918) |
| Insurance protection expenses | (371) | (52) | (13) | (22) | (18) | (59) | – | (535) |
| General and administrative expenses | (3,752) | (596) | (158) | (310) | (284) | (604) | – | (5,704) |
| Underwriting Profit/(loss) | (1,983) | 14 | 410 | (68) | (59) | 474 | – | (1,212) |
| Net investment income | – | – | – | – | – | 63 | 1,305 | 1,368 |
| Net realised and unrealised gains on investments | – | – | – | – | – | 12 | 442 | 454 |
| Investment expenses | – | – | – | – | – | (3) | (57) | (60) |
| Interest expenses credited to policyholders' deposits | – | – | – | – | – | (63) | – | (63) |
| Exchange losses, net | – | – | – | – | – | – | (2) | (2) |
| Sundry income and expenses | – | – | – | – | – | – | (97) | (97) |
| Finance costs | – | – | – | – | – | – | (88) | (88) |
| Share of profit and loss of associates | – | – | – | – | – | – | 13 | 13 |
| Profit/(loss) before tax | (1,983) | 14 | 410 | (68) | (59) | 483 | 1,516 | 313 |
| Tax | – | – | – | – | – | – | 9 | 9 |
| Profit/(loss) attributable to equity holders of the parent | (1,983) | 14 | 410 | (68) | (59) | 483 | 1,525 | 322 |

3. SEGMENT INFORMATION (continued)

| Six months ended 30 June 2008 (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 | 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) |
| General and administrative expenses | (3,661) | (603) | (245) | (242) | (223) | (612) | – | (5,586) |
| Underwriting Profit/(loss) | (590) | (1,252) | 197 | (80) | (88) | (274) | – | (2,087) |
| 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) |
| Sundry income and expenses | – | – | – | – | – | – | (105) | (105) |
| Finance costs | – | – | – | – | – | – | (86) | (86) |
| Share of profit and loss of associates | – | – | – | – | – | – | (69) | (69) |
| Profit/(loss) before tax | (590) | (1,252) | 197 | (80) | (88) | (301) | 1,586 | (528) |
| Tax | – | – | – | – | – | – | 236 | 236 |
| Profit/(loss) attributable to equity holders of the parent | (590) | (1,252) | 197 | (80) | (88) | (301) | 1,822 | (292) |

Management monitors the operating results of its business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated primarily based on underwriting profit or loss. 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.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

4. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

| | Unaudited Six months ended 30 June 2009 RMB million | Unaudited Six months ended 30 June 2008 RMB million |
|---|--|--|
| Turnover | | |
| Direct premiums written | 66,876 | 58,912 |
| Reinsurance premiums assumed | 174 | 58 |
| | 67,050 | 58,970 |
| Net premiums earned | | |
| Turnover | 67,050 | 58,970 |
| Less: Reinsurance premiums ceded | (8,972) | (9,081) |
| Net premiums written | 58,078 | 49,889 |
| Less: Change in net unearned premium reserves | (17,938) | (9,708) |
| Net premiums earned | 40,140 | 40,181 |

5. NET CLAIMS INCURRED

| | Unaudited Six months ended 30 June 2009 RMB million | Unaudited Six months ended 30 June 2008 RMB million |
|---|--|--|
| Gross claims paid | 34,501 | 30,447 |
| Less: Paid losses recoverable from reinsurers | (6,546) | (5,107) |
| Net claims paid | 27,955 | 25,340 |
| Change in net loss and loss adjustment expense reserves | 1,240 | 5,141 |
| Net claims incurred | 29,195 | 30,481 |

6. NET INVESTMENT INCOME

| | Unaudited Six months ended 30 June 2009 RMB million | Unaudited Six months ended 30 June 2008 RMB million |
|---|--|--|
| Rental income from investment properties | 38 | 35 |
| Financial assets at fair value through profit or loss | | |
| – Held for trading | | |
| Interest income | 41 | 51 |
| Dividend income | 65 | 898 |
| Financial assets at fair value through profit or loss | | |
| – Designated upon initial recognition | | |
| Interest income | 1 | 19 |
| Available-for-sale financial assets | | |
| Interest income | 700 | 519 |
| Dividend income | 39 | 102 |
| Loans and receivables | | |
| Interest income | 484 | 564 |
| | 1,368 | 2,188 |

7. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

| | Unaudited Six months ended 30 June 2009 RMB million | Unaudited Six months ended 30 June 2008 RMB million |
|---|--|--|
| Available-for-sale financial assets | | |
| Realised gains | 234 | 2,322 |
| Financial assets at fair value through profit or loss | | |
| – Held for trading | | |
| Realised gains/(losses) | (8) | 368 |
| Unrealised gains/(losses) | 252 | (2,033) |
| Financial assets at fair value through profit or loss | | |
| – Designated upon initial recognition | | |
| Unrealised gains | – | 11 |
| Loss on disposal of an associate | (24) | – |
| | 454 | 668 |

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

8. FINANCE COSTS

| | Unaudited Six months ended 30 June 2009 <i>RMB million</i> | Unaudited Six months ended 30 June 2008 <i>RMB million</i> |
|--|--|---|
| Interest on subordinated debts | 61 | 61 |
| Interest on securities sold under agreements to repurchase | 14 | 25 |
| Other finance costs | 13 | – |
| | 88 | 86 |

9. PROFIT/(LOSS) BEFORE TAX

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

| | Unaudited Six months ended 30 June 2009 <i>RMB million</i> | Unaudited Six months ended 30 June 2008 <i>RMB million</i> |
|---|--|---|
| Depreciation of property, plant and equipment | 444 | 426 |
| Depreciation of investment properties | 12 | 12 |
| Amortisation of prepaid land premiums | 48 | 52 |
| Impairment loss on insurance receivables | 701 | 817 |

10. TAX

| | Unaudited Six months ended 30 June 2009 <i>RMB million</i> | Unaudited Six months ended 30 June 2008 <i>RMB million</i> |
|---------------------------------|--|---|
| Current | | |
| – Charge for the period | – | (491) |
| – Overprovision in prior years | 343 | – |
| Deferred | (334) | 727 |
| Total tax credit for the period | 9 | 236 |

The provision for the PRC income tax is calculated based on the statutory rate of 25% (2008: 25%) 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 2008: nil).

12. BASIC EARNINGS/(LOSS) 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 is based on the profit attributable to equity holders of the parent of RMB322 million for the six months ended 30 June 2009 (loss attributable to equity holders of the parent for the six months ended 30 June 2008: RMB292 million) and the 11,142 million ordinary shares during the period (six months ended 30 June 2008: 11,142 million ordinary shares) in issue.

Diluted earnings per share amounts for the six months ended 30 June 2009 and 2008 have not been disclosed as no diluting events existed during these periods.

13. COMPONENTS OF OTHER COMPREHENSIVE INCOME

| | Unaudited Six months ended 30 June 2009 RMB million | Unaudited Six months ended 30 June 2008 RMB million |
|--|--|--|
| Cash flow hedges: | | |
| Gains/(losses) arising during the period | 13 | (2) |
| Available-for-sale investments: | | |
| Gains/(losses) arising during the period | 1,317 | (4,369) |
| Less: Reclassification adjustments for losses included in the income statement | (234) | (2,322) |
| | 1,083 | (6,691) |

14. CASH AND CASH EQUIVALENTS

| | Unaudited 30 June 2009 <i>RMB million</i> | Audited 31 December 2008 <i>RMB million</i> |
|--|---|---|
| Cash on hand, at amortised cost | 23 | 17 |
| Demand deposits, at amortised cost | 17,452 | 15,204 |
| Deposits with banks and other financial institutions with original maturity of less than three months, at amortised cost | 16,388 | 6,464 |
| Deposits with banks and other financial institutions with original maturity of more than three months, at amortised cost | 6,689 | 5,706 |
| Structured deposits with banks and other financial institutions: | | |
| at fair value | — | 136 |
| at amortised cost | 2,318 | 1,529 |
| | 42,870 | 29,056 |
| Classification of cash and cash equivalents: | | |
| Loans and receivables | 42,870 | 28,920 |
| Designated as fair value through profit or loss financial assets | — | 136 |
| | 42,870 | 29,056 |

15. DEBT SECURITIES

| | Unaudited 30 June 2009 <i>RMB million</i> | Audited 31 December 2008 <i>RMB million</i> |
|---|---|---|
| Listed debt securities, at fair value: | | |
| Debt securities issued by governments | 14,075 | 12,778 |
| Debt securities issued by corporate entities | 1,976 | 1,940 |
| | 16,051 | 14,718 |
| Unlisted debt securities, at fair value: | | |
| Debt securities issued by governments | 4,993 | 5,537 |
| Debt securities issued by banks and other financial institutions | 13,790 | 13,738 |
| Debt securities issued by corporate entities | 8,816 | 7,298 |
| | 27,599 | 26,573 |
| | 43,650 | 41,291 |
| Classification of debt securities: | | |
| Fair value through profit or loss | 1,904 | 2,498 |
| Available-for-sale | 41,746 | 38,793 |
| | 43,650 | 41,291 |

16. EQUITY SECURITIES

| | Unaudited 30 June 2009 <i>RMB million</i> | Audited 31 December 2008 <i>RMB million</i> |
|--------------------------------------|---|---|
| Listed investments, at fair value: | | |
| Mutual funds | 148 | 1,087 |
| Shares | 3,330 | 2,704 |
| | 3,478 | 3,791 |
| Unlisted investments, at fair value: | | |
| Mutual funds | 2,649 | 2,270 |
| Unlisted investments, at cost: | | |
| Shares and other equity investments | 440 | 377 |
| | 6,567 | 6,438 |
| Classification of equity securities: | | |
| Fair value through profit or loss | 1,987 | 2,415 |
| Available-for-sale | 4,580 | 4,023 |
| | 6,567 | 6,438 |

17. INSURANCE RECEIVABLES, NET

| | Unaudited 30 June 2009 RMB million | Audited 31 December 2008 RMB million |
|--|---|--|
| Premiums receivable and agents' balances | 10,310 | 8,309 |
| Receivables from reinsurers | 18,153 | 13,926 |
| | 28,463 | 22,235 |
| Less: Impairment provision on | | |
| Premiums receivable and agents' balances | (2,195) | (1,494) |
| Receivables from reinsurers | (5) | (5) |
| | 26,263 | 20,736 |

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:

| | Unaudited 30 June 2009 RMB million | Audited 31 December 2008 RMB million |
|--|---|--|
| Within three months | 18,716 | 17,080 |
| Over three months but less than six months | 4,539 | 2,349 |
| Over six months | 3,008 | 1,307 |
| | 26,263 | 20,736 |

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

18. REINSURANCE ASSETS AND INSURANCE CONTRACT LIABILITIES

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

| | Unaudited 30 June 2009 | | | Audited 31 December 2008 | | |
|--|---|--|---------------------------------------|---|--|---------------------------------------|
| | Gross amount RMB million | Reinsurers' share RMB million | Net amount RMB million | Gross amount RMB million | Reinsurers' share RMB million | Net amount RMB million |
| Unearned premium reserves | 62,356 | (10,045) | 52,311 | 47,118 | (12,745) | 34,373 |
| Loss and loss adjustment expense reserves | 41,813 | (10,142) | 31,671 | 38,468 | (8,037) | 30,431 |
| | 104,169 | (20,187) | 83,982 | 85,586 | (20,782) | 64,804 |

19. OTHER FINANCIAL ASSETS AND PREPAYMENTS

Included in the other financial assets and prepayments as at 30 June 2009 was a consideration of RMB588 million (31 December 2008: 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.

20. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2009, the Group acquired assets with a cost of RMB44 million (six months ended 30 June 2008: RMB135 million).

Assets with a net book value of RMB4 million were disposed of by the Group during the six months ended 30 June 2009 (six months ended 30 June 2008: RMB3 million), resulting in a net profit on disposal of RMB6 million (six months ended 30 June 2008: net loss on disposal of RMB1 million).

During the six months ended 30 June 2009, construction in progress with an aggregate amount of RMB196 million (six months ended 30 June 2008: RMB29 million) was transferred to property, plant and equipment.

21. PAYABLES TO REINSURERS

The payables to reinsurers are analysed as follows:

| | Unaudited 30 June 2009 <i>RMB million</i> | Audited 31 December 2008 <i>RMB million</i> |
|----------------------|---|---|
| Reinsurance payables | 23,066 | 18,258 |

The reinsurance payables as at 30 June 2009 and 31 December 2008 are non-interest-bearing and are due within three months from the balance sheet date or repayable on demand.

22. POLICYHOLDERS' DEPOSITS

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

| | Unaudited 30 June 2009 <i>RMB million</i> | Audited 31 December 2008 <i>RMB million</i> |
|-------------------------------|---|---|
| Interest-bearing deposits | 5,136 | 5,147 |
| Non-interest-bearing deposits | 1,919 | 2,236 |
| | 7,055 | 7,383 |

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

23. ISSUED SHARE CAPITAL

| | Unaudited 30 June 2009 <i>RMB million</i> | Audited 31 December 2008 <i>RMB million</i> |
|---|---|---|
| Shares | | |
| Registered, issued and fully paid: | | |
| 7,685,820,000 domestic shares of RMB1.00 each | 7,686 | 7,686 |
| 3,455,980,000 H shares of RMB1.00 each | 3,456 | 3,456 |
| | 11,142 | 11,142 |

24. MINORITY INTERESTS

| | Unaudited 30 June 2009 <i>RMB yuan</i> | Audited 31 December 2008 <i>RMB yuan</i> |
|--------------------|--|--|
| Minority interests | 14,095 | 41,342 |

| | Unaudited Six months ended 30 June 2009 <i>RMB yuan</i> | Unaudited Six months ended 30 June 2008 <i>RMB yuan</i> |
|---|---|--|
| Net loss attributable to minority interests | (27,247) | (456) |

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 2009 (Unaudited)

| | On demand RMB million | Less than 3 months RMB million | 3 to less than 12 months RMB million | 1 to 5 years RMB million | More than 5 years RMB million | Total RMB million |
|--------------------------------------|--------------------------|-----------------------------------|---|-----------------------------|----------------------------------|----------------------|
| Assets: | | | | | | |
| Cash and cash equivalents | 29,655 | 6,492 | 1,866 | 3,463 | 2,741 | 44,217 |
| Derivative financial assets | – | (4) | 9 | 15 | – | 20 |
| Debt securities | | | | | | |
| – Available-for-sale | – | 5,618 | 3,964 | 23,695 | 14,179 | 47,456 |
| – Fair value through profit and loss | – | 435 | 275 | 748 | 738 | 2,196 |
| Capital security fund | – | – | 1,367 | 1,055 | – | 2,422 |
| Liabilities: | | | | | | |
| Payables to reinsurers | 7,086 | 13,903 | 1,124 | 217 | 736 | 23,066 |
| Policyholders' deposits | 2,159 | 37 | 4,206 | 653 | – | 7,055 |
| Subordinated debts | – | – | 123 | 792 | 3,365 | 4,280 |

31 December 2008 (Audited)

| | On demand RMB million | Less than 3 months RMB million | 3 to less than 12 months RMB million | 1 to 5 years RMB million | More than 5 years RMB million | Total RMB million |
|--------------------------------------|--------------------------|-----------------------------------|---|-----------------------------|----------------------------------|----------------------|
| Assets: | | | | | | |
| Cash and cash equivalents | 15,507 | 6,962 | 2,889 | 3,122 | 1,981 | 30,461 |
| Derivative financial assets | – | – | (3) | 8 | 1 | 6 |
| Debt securities | | | | | | |
| – Available-for-sale | – | 1,376 | 8,683 | 19,145 | 14,833 | 44,037 |
| – Fair value through profit and loss | – | 160 | 992 | 907 | 665 | 2,724 |
| Capital security fund | – | – | 574 | 1,904 | – | 2,478 |
| Liabilities: | | | | | | |
| Payables to reinsurers | 3,802 | 4,615 | 9,439 | 400 | 2 | 18,258 |
| Policyholders' deposits | 1,458 | 439 | 2,078 | 3,388 | 20 | 7,383 |
| Subordinated debts | – | – | 123 | 792 | 3,365 | 4,280 |

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 terms ranging from one to three years.

At 30 June 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Unaudited 30 June 2009 RMB million | Audited 31 December 2008 RMB million |
|---|---|--|
| Within one year | 161 | 192 |
| In the second to fifth years, inclusive | 215 | 283 |
| After five years | 84 | 69 |
| | 460 | 544 |

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:

| | Unaudited 30 June 2009 RMB million | Audited 31 December 2008 RMB million |
|-----------------------------------|---|--|
| Contracted, but not provided for: | | |
| Property, plant and equipment | 495 | 249 |
| Acquisition of an investment | 1,500 | 1,500 |
| | 1,995 | 1,749 |

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

| | Unaudited Six months ended 30 June 2009 RMB million | Unaudited Six month ended 30 June 2008 RMB million |
|--|--|---|
| Transactions with the holding company: | | |
| Property rental expenses | – | 108 |
| Property rental income | – | 6 |
| Motor vehicle rental expenses | – | 12 |
| Motor vehicle rental income | – | 2 |
| Service fee income | – | 2 |
| Loss on disposal of an associate | 24 | – |
| Transactions with a fellow subsidiary: | | |
| Property rental expenses | 79 | – |
| Property rental income | 1 | – |
| Transactions with associates: | | |
| Management fees | 39 | 37 |
| Commission received | 2 | – |
| Commission paid | 4 | – |

(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.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2009

29. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties

| | Due from related parties | | Due to related parties | |
|---------------------|--|--|--|--|
| | Unaudited 30 June 2009 RMB million | Audited 31 December 2008 RMB million | Unaudited 30 June 2009 RMB million | Audited 31 December 2008 RMB million |
| The Holding Company | 130 | 305 | – | – |
| A fellow subsidiary | 13 | 4 | 2 | 5 |
| An associate | 13 | 5 | 40 | 19 |
| | 156 | 314 | 42 | 24 |

30. EVENTS AFTER THE BALANCE SHEET DATE

PICC Life Insurance Company Limited (“PICC Life”), an associate of the Company, declared to increase its share capital in 2009. However, the Company has decided not to participate in the aforesaid capital increase to PICC Life. Upon completion of the aforesaid capital increase, the Company’s equity interests in PICC Life will be diluted to approximately 14% from originally 28% of the registered capital. Up to the date of this report, the aforesaid plan was still pending for approval from related regulatory authorities.

31. 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 2009.



**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 at 30 June 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six months 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 2009

OVERVIEW

PICC Property and Casualty Company Limited (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 2009, the Company and its subsidiaries maintained the momentum of rapid growth in its business and achieved a turnover of RMB67,050 million, representing an increase of 13.7% compared to the first half of 2008. The Company held 42.4% (*Note*) share of the non-life insurance market in the PRC. The Company and its subsidiaries recorded a net profit of RMB322 million in the first half of 2009, representing an increase of RMB614 million compared to the same period of last year. As at 30 June 2009, the total assets of the Company and its subsidiaries reached RMB178,479 million and shareholders’ equity totalled RMB23,015 million.

Note: Data of June 2009 published on the website of China Insurance Regulatory Commission.

The following table sets forth the net premiums earned, underwriting loss, profit/(loss) 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 | |
|--|---------------------------------|-------------------------|
| | 2009 | 2008 |
| | <i>RMB million</i> | <i>RMB million</i> |
| Net premiums earned | 40,140 | 40,181 |
| Underwriting loss | (1,212) | (2,087) |
| Profit/(loss) attributable to equity holders of the parent | 322 | (292) |
| Total assets | 178,479 | 152,852 (<i>Note</i>) |

Note: Data as at 31 December 2008.

RESULTS OF OPERATIONS

In the first half of 2009, the turnover of the Company and its subsidiaries increased steadily, underwriting loss decreased progressively, and overall profit was realised. 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 | |
|--|---------------------------------|-------------|
| | 2009 | 2008 |
| | % | % |
| Net premiums earned | 100.0 | 100.0 |
| Net claims incurred | (72.7) | (75.9) |
| Amortisation of deferred acquisition costs, net | (14.8) | (14.2) |
| Insurance protection expenses | (1.3) | (1.3) |
| General and administrative expenses | (14.2) | (13.9) |
| Underwriting loss | (3.0) | (5.2) |
| Net investment income | 3.4 | 5.4 |
| Net realised and unrealised gains on investments | 1.1 | 1.7 |
| Finance costs | (0.2) | (0.2) |
| Interest expenses credited to policyholders’ deposits | (0.2) | (0.2) |
| Profit/(loss) before tax | 0.8 | (1.3) |
| Tax | 0.0 | 0.6 |
| Profit/(loss) attributable to equity holders of the parent | 0.8 | (0.7) |
| Loss ratio | 72.7 | 75.9 |
| Expense ratio | 30.3 | 29.3 |
| Combined ratio | 103.0 | 105.2 |

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 | |
|--|--------------------------|-----------|
| | 2009 % | 2008 % |
| Net premiums earned | | |
| Motor vehicle insurance | 74.6 | 76.1 |
| Commercial property insurance | 7.1 | 7.4 |
| Cargo insurance | 2.6 | 3.3 |
| Liability insurance | 3.5 | 3.7 |
| Accidental injury and health insurance | 3.3 | 2.9 |
| Other insurance | 8.9 | 6.6 |
| Total | 100 | 100 |
| Net claims incurred | | |
| Motor vehicle insurance | 78.8 | 73.7 |
| Commercial property insurance | 4.4 | 10.5 |
| Cargo insurance | 1.6 | 2.3 |
| Liability insurance | 3.6 | 3.7 |
| Accidental injury and health insurance | 3.3 | 3.0 |
| Other insurance | 8.3 | 6.8 |
| Total | 100 | 100 |
| Amortisation of deferred acquisition costs, net | | |
| Motor vehicle insurance | 80.7 | 82.1 |
| Commercial property insurance | 15.3 | 6.5 |
| Cargo insurance | (0.3) | 2.5 |
| Liability insurance | 1.6 | 3.4 |
| Accidental injury and health insurance | 2.0 | 1.8 |
| Other insurance | 0.7 | 3.7 |
| Total | 100 | 100 |

TURNOVER

Turnover of the Company and its subsidiaries was RMB67,050 million in the first half of 2009, representing an increase of RMB8,080 million (or 13.7%) over RMB58,970 million in the first half of 2008. The increase was primarily due to an increase of RMB6,830 million in the turnover of the motor vehicle insurance segment compared to the same period of last year. The turnover of the segments of, among others, accidental injury and health insurance, liability insurance, and other insurance such as agricultural and engineering insurance also experienced growth at different degrees.

NET PREMIUMS EARNED

Net premiums earned of the Company and its subsidiaries was RMB40,140 million in the first half of 2009, representing a decrease of RMB41 million (or -0.1%) from RMB40,181 million in the first half of 2008. While the growth in turnover contributed to the growth in net premiums earned in the first half of 2009, the reversal of the ceded unearned premium reserves in the first half of 2009 induced by the increase in reinsurance ceded ratio of the Company in the second half of 2008 gave rise to a decline in net premiums earned compared to the same period of last year.

NET INVESTMENT INCOME

Net investment income of the Company and its subsidiaries was RMB1,368 million in the first half of 2009, representing a decrease of RMB820 million from RMB2,188 million in the first half of 2008. This was primarily due to a decrease of RMB833 million in dividend income from held-for-trading financial assets compared to the same period of last year. However, this effect was partly offset by an increase of RMB181 million in the interest income from available-for-sale financial assets compared to the same period of last year.

NET REALISED AND UNREALISED GAINS ON INVESTMENTS

Net realised and unrealised gains on investments of the Company and its subsidiaries was RMB454 million in the first half of 2009, representing a decrease of RMB214 million from RMB668 million in the first half of 2008. This was primarily due to a decrease of RMB2,088 million in realised gains on investments in available-for-sale financial assets. However, this effect was partly offset by an increase of RMB1,909 million in realised and unrealised gains on investments in held-for-trading financial assets.

NET CLAIMS INCURRED

Net claims incurred of the Company and its subsidiaries was RMB29,195 million in the first half of 2009, representing a decrease of RMB1,286 million (or -4.2%) from RMB30,481 million in the first half of 2008. Loss ratio of the Company and its subsidiaries decreased from 75.9% in the first half of 2008 to 72.7% in the first half of 2009. The decrease in net claims incurred was primarily due to the fact that the Company's claim expenses mounted during the same period of last year as a result of the catastrophic snow storms in southern China and the severe earthquake that took place in Wenchuan on 12 May in the first half of 2008.

AMORTISATION OF DEFERRED ACQUISITION COSTS, NET

Net amortisation of deferred acquisition costs of the Company and its subsidiaries was RMB5,918 million in the first half of 2009, representing an increase of 3.9% from RMB5,695 million in the first half of 2008. This increase was primarily due to the increase in expenses such as commission expenses, government levies and surcharges as well as emolument of underwriting personnel as a result of the increase in turnover in the first half of 2009.

INSURANCE PROTECTION EXPENSES

According to the relevant PRC insurance laws and regulations, since 2009 the Company and its subsidiaries have differentiated between investment and non-investment products and have calculated the insurance protection fund in proportion to their premiums income or operating income. Insurance protection expenses of the Company and its subsidiaries was RMB535 million in the first half of 2009, representing an increase of 5.7% from RMB506 million in the first half of 2008.

INTEREST EXPENSES CREDITED TO POLICYHOLDERS' DEPOSITS

Interest expenses of the Company and its subsidiaries credited to policyholders' deposits was RMB63 million in the first half of 2009, which had decreased from RMB88 million in the first half of 2008 as a result of deposit products having becoming mature gradually.

FINANCE COSTS

Finance costs of the Company and its subsidiaries was RMB88 million in the first half of 2009, at about the same level of RMB86 million in the first half of 2008.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the Company and its subsidiaries were RMB5,704 million in the first half of 2009, representing an increase of RMB118 million (or 2.1%) from RMB5,586 million in the first half of 2008. The increase in general and administrative expenses was well below the increase in turnover, while the business maintained rapid growth.

PROFIT/(LOSS) BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB313 million in the first half of 2009, representing a profit increase of RMB841 million turned from the loss of RMB528 million in the first half of 2008.

TAX

Income tax expenses of the Company and its subsidiaries was credited with RMB9 million in the first half of 2009, representing a decrease of RMB227 million from the credit of RMB236 million in the first half of 2008. The credit in income tax expenses in the first half of 2009 was primarily due to a larger amount of the tax-free income of the Company and its subsidiaries in the first half of 2009 and the change in the tax deduction threshold for commission expenses resulted in the reversal of prior year's tax provision.

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

As a result of the foregoing, net profit of the Company and its subsidiaries was RMB322 million in the first half of 2009, representing a profit increase of RMB614 million turned from the loss of RMB292 million in the first half of 2008. Basic earnings per share attributable to equity holders of the parent in the first half of 2009 was RMB0.029.

COMBINED RATIO

The combined ratio of the Company and its subsidiaries decreased from 105.2% in the first half of 2008 to 103.0% in the first half of 2009.

RESULTS OF SEGMENT OPERATIONS
Motor Vehicle Insurance

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2009 | 2008 |
| | <i>RMB million</i> | <i>RMB million</i> |
| Turnover | 46,328 | 39,498 |
| Net premiums earned | 29,926 | 30,569 |
| Net claims incurred | (23,013) | (22,458) |
| Amortisation of deferred acquisition costs, net | (4,773) | (4,674) |
| Insurance protection expenses | (371) | (366) |
| General and administrative expenses | (3,752) | (3,661) |
| Underwriting loss | (1,983) | (590) |
| Loss ratio | 76.9% | 73.5% |
| Expense ratio <i>(Note)</i> | 29.7% | 28.5% |
| Combined ratio | 106.6% | 102.0% |

Note: The expense ratio covers the amount of general and administrative expenses allocated by segment, and the data for the first half of 2008 is restated on the same basis.

Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB46,328 million in the first half of 2009, representing an increase of RMB6,830 million (or 17.3%) from RMB39,498 million in the first half of 2008. The commercial motor vehicle insurance business achieved a growth rate of 20.8%, having maintained the momentum of sustainable and rapid growth. The growth rate of the compulsory third party motor insurance (the “Compulsory Motor Vehicle Insurance”) business was 9.5%, representing a notable increase compared to that of the same period of last year.

Net premiums earned from the motor vehicle insurance segment of the Company and its subsidiaries was RMB29,926 million in the first half of 2009, representing a decrease of RMB643 million (or -2.1%) from RMB30,569 million in the first half of 2008. This decrease was primarily due to the reversal of the ceded unearned premium reserves in 2009 induced by the increase in reinsurance ceded ratio of the commercial motor vehicle business of the Company in the second half of 2008.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB23,013 million in the first half of 2009, representing an increase of RMB555 million (or 2.5%) from RMB22,458 million in the first half of 2008. Loss ratio rose from 73.5% in the first half of 2008 to 76.9% in the first half of 2009. The increase in the loss ratio in relation to the Compulsory Motor Vehicle Insurance led to the rise in the loss ratio of the motor vehicle insurance segment as a whole. At the same time, the impact of the reduction in premium rate of the Compulsory Motor Vehicle Insurance in 2008 on the loss ratio has been being extended to 2009.

Net amortisation of deferred acquisition costs of the motor vehicle insurance segment of the Company and its subsidiaries was RMB4,773 million in the first half of 2009, representing an increase of RMB99 million (or 2.1%) from RMB4,674 million in the first half of 2008.

Insurance protection expenses charged to the motor vehicle insurance segment of the Company and its subsidiaries was RMB371 million in the first half of 2009, representing an increase of 1.4% from RMB366 million in the first half of 2008. Since 2009, the basis of calculating insurance protection expenses charged to non-investment property and casualty insurance has changed from 1% of retained premiums to 0.8% of premiums income, thereby having certain effects on the insurance protection expenses for the period.

General and administrative expenses charged to the motor vehicle insurance segment of the Company and its subsidiaries was RMB3,752 million in the first half of 2009, representing an increase of 2.5% from RMB3,661 million in the first half of 2008.

The expense ratio of the motor vehicle insurance segment of the Company and its subsidiaries rose from 28.5% in the first half of 2008 to 29.7% in the first half of 2009. The increase in, among others, the amortisation of deferred acquisition costs, general and administrative expenses and insurance protection expenses of the Company and its subsidiaries was well below the increase in turnover in the first half of 2009. However, as a result of the negative growth in net premiums earned, the expense ratio increased by 1.2 percentage points compared to the same period of last year.

As a result of the foregoing, underwriting loss of the motor vehicle insurance segment of the Company and its subsidiaries was RMB1,983 million in the first half of 2009, representing an increase in loss of RMB1,393 million from the underwriting loss of RMB590 million in the first half of 2008.

Commercial Property Insurance

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2009 | 2008 |
| | RMB million | RMB million |
| Turnover | 6,496 | 6,438 |
| Net premiums earned | 2,865 | 2,980 |
| Net claims incurred | (1,297) | (3,212) |
| Amortisation of deferred acquisition costs, net | (906) | (373) |
| Insurance protection expenses | (52) | (44) |
| General and administrative expenses | (596) | (603) |
| Underwriting profit/(loss) | 14 | (1,252) |
| Loss ratio | 45.3% | 107.8% |
| Expense ratio (<i>Note</i>) | 54.2% | 34.2% |
| Combined ratio | 99.5% | 142.0% |

Note: The expense ratio covers the amount of general and administrative expenses allocated by segment, and the data for the first half of 2008 is restated on the same basis.

Turnover of the commercial property insurance segment of the Company and its subsidiaries was RMB6,496 million in the first half of 2009, representing an increase of RMB58 million (or 0.9%) from RMB6,438 million in the first half of 2008. Under the influence of the overall economic conditions, the turnover of the commercial property insurance segment was growing slowly in the first half of 2009.

Net premiums earned from the commercial property insurance segment of the Company and its subsidiaries was RMB2,865 million in the first half of 2009, representing a decrease of RMB115 million (or -3.9%) from RMB2,980 million in the first half of 2008. This decrease was primarily due to the reversal of the ceded unearned premium reserves in the first half of 2009 induced by the increase in reinsurance ceded ratio of the commercial property insurance segment of the Company in the second half of 2008, which reduced the net premiums earned.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries was RMB1,297 million in the first half of 2009, representing a decrease of RMB1,915 million from RMB3,212 million in the first half of 2008. Loss ratio decreased from 107.8% in the first half of 2008 to 45.3% in the first half of 2009. There was a drastic increase in the claim expenses in the commercial property insurance segment during the same period of last year as a result of the catastrophic snow storms in southern China in the first half of 2008.

Net amortisation of deferred acquisition costs of the commercial property insurance segment of the Company and its subsidiaries was RMB906 million in the first half of 2009, representing an increase of 142.9% from RMB373 million in the first half of 2008. This was primarily due to the fact that the floating reinsurance commission expenses were estimated and charged to the commercial property insurance segment. There was a significant decrease in the reinsurance commission expenses recovered as a result of the loss ratio of the commercial property insurance segment being higher than the preset contractual loss ratio, and therefore the amortisation of acquisition costs increased.

Insurance protection expenses charged to the commercial property insurance segment of the Company and its subsidiaries was RMB52 million in the first half of 2009, representing an increase from RMB44 million in the first half of 2008.

General and administrative expenses charged to the commercial property insurance segment of the Company and its subsidiaries was RMB596 million in the first half of 2009, representing a decrease of 1.2% from RMB603 million in the first half of 2008.

The expense ratio of the commercial property insurance segment of the Company and its subsidiaries rose from 34.2% in the first half of 2008 to 54.2% in the first half of 2009. There was an apparent rise in the expense ratio of the commercial property insurance segment in the first half of 2009 as a result of the aggregate effect of a significant increase in amortisation of deferred acquisition costs and a decrease in net premiums earned compared to the same period of last year.

As a result of the foregoing, underwriting profit of the commercial property insurance segment of the Company and its subsidiaries was RMB14 million in the first half of 2009, representing a profit increase of RMB1,266 million turned from the loss of RMB1,252 million in the first half of 2008.

Cargo Insurance

| | Six months ended 30 June | |
|---|--------------------------|--------------------|
| | 2009 | 2008 |
| | <i>RMB million</i> | <i>RMB million</i> |
| Turnover | 1,660 | 1,965 |
| Net premiums earned | 1,033 | 1,308 |
| Net claims incurred | (471) | (710) |
| Amortisation of deferred acquisition costs, net | 19 | (141) |
| Insurance protection expenses | (13) | (15) |
| General and administrative expenses | (158) | (245) |
| Underwriting profit | 410 | 197 |
| Loss ratio | 45.6% | 54.3% |
| Expense ratio <i>(Note)</i> | 14.7% | 30.7% |
| Combined ratio | 60.3% | 85.0% |

Note: The expense ratio covers the amount of general and administrative expenses allocated by segment, and the data for the first half of 2008 is restated on the same basis.

Turnover of the cargo insurance segment of the Company and its subsidiaries was RMB1,660 million in the first half of 2009, representing a decrease of RMB305 million (or -15.5%) from RMB1,965 million in the first half of 2008. The cargo insurance segment experienced a negative growth in turnover as a result of the declined exports and cargo transportation caused by the global financial crisis.

Net premiums earned from the cargo insurance segment of the Company and its subsidiaries was RMB1,033 million in the first half of 2009, representing a decrease of RMB275 million (or -21.0%) from RMB1,308 million in the first half of 2008, under the influence of the declined turnover.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries was RMB471 million in the first half of 2009, representing a decrease of 33.7% from RMB710 million in the first half of 2008. Loss ratio decreased from 54.3% in the first half of 2008 to 45.6% in the first half of 2009.

Net amortisation of deferred acquisition costs of the cargo insurance segment of the Company and its subsidiaries was a negative RMB19 million in the first half of 2009, representing a decrease of RMB160 million from RMB141 million in the first half of 2008. The net amortisation of deferred acquisition costs for the period was negative primarily due to the fact that the floating reinsurance commission expenses were estimated and charged to the cargo insurance segment. There was a significant increase in the reinsurance commission expenses recovered as a result of the loss ratio of the cargo insurance segment being lower than the preset contractual loss ratio, and therefore the amortisation of acquisition costs was offset.

Insurance protection expenses charged to the cargo insurance segment of the Company and its subsidiaries was RMB13 million in the first half of 2009, about the same as the level in the first half of 2008.

General and administrative expenses charged to the cargo insurance segment of the Company and its subsidiaries was RMB158 million in the first half of 2009, representing a decrease of RMB87 million from RMB245 million in the first half of 2008. This was primarily due to reduced asset impairment loss.

The expense ratio of the cargo insurance segment of the Company and its subsidiaries dropped from 30.7% in the first half of 2008 to 14.7% in the first half of 2009.

As a result of the foregoing, underwriting profit of the cargo insurance segment of the Company and its subsidiaries was RMB410 million in the first half of 2009, representing an increase of 108.1% from RMB197 million in the first half of 2008.

Liability Insurance

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2009 | 2008 |
| | RMB million | RMB million |
| Turnover | 2,693 | 2,535 |
| Net premiums earned | 1,410 | 1,488 |
| Net claims incurred | (1,051) | (1,113) |
| Amortisation of deferred acquisition costs, net | (95) | (193) |
| Insurance protection expenses | (22) | (20) |
| General and administrative expenses | (310) | (242) |
| Underwriting loss | (68) | (80) |
| Loss ratio | 74.5% | 74.8% |
| Expense ratio (<i>Note</i>) | 30.3% | 30.6% |
| Combined ratio | 104.8% | 105.4% |

Note: The expense ratio covers the amount of general and administrative expenses allocated by segment, and the data for the first half of 2008 is restated on the same basis.

Turnover of the liability insurance segment of the Company and its subsidiaries was RMB2,693 million in the first half of 2009, representing an increase of RMB158 million (or 6.2%) from RMB2,535 million in the first half of 2008.

Net premiums earned from the liability insurance segment of the Company and its subsidiaries was RMB1,410 million in the first half of 2009, representing a decrease of RMB78 million (or -5.2%) from RMB1,488 million in the first half of 2008. This decrease was due to the reversal of the ceded unearned premium reserves in 2009 induced by the increase in reinsurance ceded ratio of the liability insurance segment of the Company in the second half of 2008, which reduced the net premiums earned.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

Net claims incurred of the liability insurance segment of the Company and its subsidiaries was RMB1,051 million in the first half of 2009, representing a decrease of 5.6% from RMB1,113 million in the first half of 2008. The loss ratio of the liability insurance segment was 74.5% in the first half of 2009, at about the same level of 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 RMB95 million in the first half of 2009, representing a decrease of RMB98 million from RMB193 million in the first half of 2008. This was primarily due to a decrease in the balance of the amortisation of deferred acquisition costs at the beginning of the year compared to last year.

Insurance protection expenses charged to the liability insurance segment of the Company and its subsidiaries was RMB22 million in the first half of 2009, at about the same level of RMB20 million in the first half of 2008.

General and administrative expenses charged to the liability insurance segment of the Company and its subsidiaries was RMB310 million in the first half of 2009, representing a slight increase from RMB242 million in the first half of 2008.

The expense ratio of the liability insurance segment of the Company and its subsidiaries dropped from 30.6% in the first half of 2008 to 30.3% in the first half of 2009.

As a result of the foregoing, underwriting loss of the liability insurance segment of the Company and its subsidiaries was RMB68 million in the first half of 2009, representing a decrease in loss of RMB12 million from the underwriting loss of RMB80 million in the first half of 2008.

Accidental Injury and Health Insurance

| | Six months ended 30 June | |
|---|--------------------------|---------------------|
| | 2009 RMB million | 2008 RMB million |
| Turnover | 2,241 | 2,053 |
| Net premiums earned | 1,337 | 1,157 |
| Net claims incurred | (976) | (906) |
| Amortisation of deferred acquisition costs, net | (118) | (102) |
| Insurance protection expenses | (18) | (14) |
| General and administrative expenses | (284) | (223) |
| Underwriting loss | (59) | (88) |
| Loss ratio | 73.0% | 78.3% |
| Expense ratio (<i>Note</i>) | 31.4% | 29.3% |
| Combined ratio | 104.4% | 107.6% |

Note: The expense ratio covers the amount of general and administrative expenses allocated by segment, and the data for the first half of 2008 is restated on the same basis.

Turnover of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB2,241 million in the first half of 2009, representing an increase of RMB188 million (or 9.2%) from RMB2,053 million in the first half of 2008.

Net premiums earned from the accidental injury and health insurance segment of the Company and its subsidiaries was RMB1,337 million in the first half of 2009, representing an increase of RMB180 million (or 15.6%) from RMB1,157 million in the first half of 2008. This was primarily due to the increase in turnover and the reduced reinsurance ceded ratio of the health insurance segment as a whole.

Net claims incurred of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB976 million in the first half of 2009, representing an increase of 7.7% from RMB906 million in the first half of 2008. The loss ratio of the accidental injury and health insurance segment decreased from 78.3% in the first half of 2008 to 73.0% in the first half of 2009.

Net amortisation of deferred acquisition costs of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB118 million in the first half of 2009, representing an increase of RMB16 million from RMB102 million in the first half of 2008.

Insurance protection expenses charged to the accidental injury and health insurance segment of the Company and its subsidiaries was RMB18 million in the first half of 2009, at about the same level of RMB14 million in the first half of 2008.

General and administrative expenses charged to the accidental injury and health insurance segment of the Company and its subsidiaries was RMB284 million in the first half of 2009, representing an increase of RMB61 million from RMB223 million in the first half of 2008, primarily due to the increased asset impairment loss.

The expense ratio of the accidental injury and health insurance segment of the Company and its subsidiaries rose from 29.3% in the first half of 2008 to 31.4% in the first half of 2009.

As a result of the foregoing, underwriting loss of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB59 million in the first half of 2009, representing a decrease in loss of RMB29 million from the underwriting loss of RMB88 million in the first half of 2008.

DEVELOPMENT OF NEW PRODUCTS

During the first half of 2009, in line with the initiatives of China Insurance Regulatory Commission to fully regulate the property and casualty insurance market, the Company examined the terms and rates for all national products which have been in use since the resumption of domestic insurance business in the 1980s. These products involve 16 categories of insurance, including motor vehicle insurance, commercial property insurance, hull insurance, cargo insurance, liability insurance, credit insurance, accidental injury and health insurance, agricultural insurance, energy and aerospace insurance. During the first half of 2009, the Company accomplished the product restructuring, and completed the re-filing procedure with China Insurance Regulatory Commission in respect of the terms of 1,158 national products.

CASH FLOW

| | Six months ended 30 June | |
|---|---------------------------------|--------------------|
| | 2009 | 2008 |
| | <i>RMB million</i> | <i>RMB million</i> |
| Net cash inflow from operating activities | 12,231 | 2,895 |
| Net cash outflow from investing activities | (2,751) | (2,232) |
| Net cash inflow/(outflow) from financing activities | 2,698 | (611) |
| Net increase in cash and cash equivalents | 12,178 | 52 |

Net cash inflow from operating activities of the Company and its subsidiaries was RMB12,231 million in the first half of 2009, representing an increase of RMB9,336 million compared to the first half of 2008. Cash flow from operating activities was significantly improved as a result of the significant increase in the cash premiums that the Company and its subsidiaries received in the first half of 2009, as well as the decrease in claim expenses compared to the same period of last year.

Net cash outflow from investing activities of the Company and its subsidiaries was RMB2,751 million in the first half of 2009, representing an increase of RMB519 million from that in the first half of 2008. This was primarily due to an increase of RMB2,023 million in cash outflow as a result of the net increase in the deposits with banks or other financial institutions with an original maturity of over three months (after deduction of such deposits as collected upon maturity). However, this effect was partly offset by a decrease of RMB1,460 million in net cash outflow from the purchase and sale of debt and equity securities.

Net cash inflow from financing activities of the Company and its subsidiaries was RMB2,698 million in the first half of 2009, representing an increase of RMB3,309 million from the net cash outflow of RMB611 million in the first half of 2008. This was primarily due to an increase in cash inflow of RMB3,115 million generated from the sale of repurchased securities in the first half of 2009.

Net increase in cash and cash equivalents (primarily denominated in RMB) of the Company and its subsidiaries was RMB12,178 million in the first half of 2009. The aggregate of cash and cash equivalents (primarily denominated in RMB) of the Company and its subsidiaries amounted to RMB33,863 million as of 30 June 2009.

LIQUIDITY

The liquidity of the Company and its subsidiaries is primarily derived from cash generated from operating activities, in particular, insurance premiums received. Additional liquidity sources include interest and dividend income, proceeds from matured investments, disposal of assets and financing activities. The liquidity requirements of the Company and its subsidiaries consist principally of the payment of claims and the fulfilment of other obligations under outstanding insurance policies, capital expenditures, operating expenses, tax payments, dividend payments and investment needs.

The Company issued the fixed-rate subordinated term debts of RMB3 billion with a term of 10 years to institutional investors in the PRC in December 2006 for the primary purpose of increasing the Company's solvency margin.

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 drawdown has ever been under that facility.

Save for the subordinated debts and the credit facility mentioned above, the Company and its subsidiaries did 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 considers that it 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 business needs and development of information systems. Capital expenditure of the Company and its subsidiaries was RMB171 million in the first half of 2009.

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 RMB13,053 million on 30 June 2009. The Company's actual solvency margin calculated pursuant to the regulations of China Insurance Regulatory Commission was RMB15,461 million and the solvency margin adequacy ratio was 118.4% (*Note*).

Note: The calculation is based on the PRC Accounting Standards for Business Enterprises.

GEARING RATIO

As of 30 June 2009, the gearing ratio (*Note*) of the Company and its subsidiaries was 85.4%, representing an increase of 1.6 percentage points from 83.8% as of 31 December 2008.

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 and arbitrations related to their ordinary course of business, as plaintiff or defendant. Such legal proceedings mostly involve claims on the insurance policies of the Company and its subsidiaries, and their loss may be compensated by reinsurers or the recovery of residual value. While the outcomes of such contingencies or legal or other proceedings cannot be determined at present, the management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Company 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 their 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 their investment portfolio at a level shorter than the market level for similar financial assets and through investing in 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 mitigate the credit risk in insurance business. The Company and its subsidiaries purchase reinsurance from state-owned 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 mitigate the credit risk in reinsurance business.

The Company and its subsidiaries make substantial investments in bonds issued by the PRC government and 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 (primarily US dollars). The Company and its subsidiaries are also exposed to exchange rate risks with respect to their bank deposits and debt securities as well as such portion of insurance liabilities which are denominated in foreign currencies (primarily US dollars).

Foreign exchange transactions under the Company and its subsidiaries' capital accounts are subject to foreign exchange regulations and require the approval by the State Administration of Foreign Exchange. Foreign exchange policies regulated by the PRC government could cause fluctuation in exchange rates.

INTEREST RATE SWAPS

The Company's financial assets which bear interests at different rates would generate uncertain cash flow. As such, 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 2009, the Company held interest rate swap contracts with aggregate notional amount of RMB850 million.

EMPLOYEES

As of the first half of 2009, the Company had 59,573 employees. Staff remuneration paid by the Company and its subsidiaries in the first half of 2009 was RMB3,045 million, which included basic salaries, performance-related bonuses and various insurances and benefits contributed in accordance with the relevant PRC laws and regulations. The Company and its subsidiaries enhanced the performance and work efficiency of employees by, among others, offering various career development paths, strengthening personnel training and implementing performance review. The Company is of the view that the Company and its subsidiaries maintain a good relationship with their employees.

LOOKING FORWARD

In the second half of 2009, “the situation faced by the insurance industry will still be mixed, and there are positive factors as well as certain difficulties and challenges.” said Wu Ding-Fu in “The Speech at the Nationwide Insurance Regulatory Conference of China Insurance Regulatory Commission for the First Half of 2009”. The Company will pay close attention to the changes in the economic and financial environment and their effect on the insurance industry, achieve an in-depth understanding of the favourable conditions and difficulties facing the development of the industry, resolutely promote specialisation, standardisation, centralisation and differentiation of the Company’s operations, actively pursue the perfection of the Company’s operation and management models, focus its efforts on the annual goals, emphasise efficiency and strengthen the measures aimed at efficiency development, so as to ensure the full accomplishment of all the annual operating goals.

The key focus and efforts of the Company for the second half of 2009 are to ensure the achievement of the annual profits target by advancing the implementation of elective underwriting policy, improving the profitability of the motor vehicle insurance segment, building claim settlement capabilities, reinforcing the control of expenses and costs and the management of funds and investments; to seize business opportunities and spare no efforts in developing new business, increase product innovation and firmly promote cross-selling, so as to achieve profitable business development; to fully promote corporate strategy planning, consolidate the management foundation, and continually further management upgrading; and to strengthen internal control and compliance, and effectively enhance risk prevention and control.

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

The directors, supervisors and chief executive of the Company did not hold 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 2009 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”).

CHANGE IN DIRECTORATE AND SUPERVISORY COMMITTEE

Change in the directorate from 1 January 2009 to the date of this interim report is as follow:

Mr Ding Ningning was re-elected an Independent Non-executive Director of the Company on 16 January 2009 and his term of directorship will expire on 17 January 2012.

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 Zhou Shurui (*Non-executive Director*)
Md Liu Zhenghuan (*Executive Director, Secretary of the Board*)
Mr Li Tao (*Non-executive Director*)

There has been no change in the members of the Supervisory Committee from 1 January 2009 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*)

The original term of directorship of Mr Wang Yincheng, Mr Tse Sze-Wing, Edmund, Mr Cheng Wai Chee, Christopher, Mr Zhou Shurui, Md Liu Zhenghuan and Mr Li Tao expired on 5 July 2009. The original term of Mr Li Dianjun as supervisor expired on 8 May 2009. Pursuant to the provisions of the Company Law of the PRC, the above six directors and one supervisor shall continue in office until the respective new sessions of the Board and the Supervisory Committee are formed.

OTHER INFORMATION

CHANGES IN THE INFORMATION ON DIRECTORS AND SUPERVISORS

Changes in the information on the directors of the Company from 1 January 2009 to the date of this interim report that are required to be disclosed under Rule 13.51B(1) of the Listing Rules are as follows:

Mr Tse Sze-Wing, Edmund, Non-executive Director of the Company, is the Honorary Chairman of American International Assurance Company, Limited (“AIA”). Mr Tse was the Senior Vice Chairman of Life Insurance of American International Group, Inc. and the Chairman and Chief Executive Officer of AIA.

There has been no change in the information on the supervisors of the Company from 1 January 2009 to the date of this interim report that is required to be disclosed under Rule 13.51B(1) of the Listing Rules.

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 all employees, and the terms of the guidelines are no less exacting than those set out in the Model Code. The Company has enquired with all directors and supervisors and they have all confirmed that they complied with the requirements under the Model Code and the guidelines during the first half of 2009.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 30 June 2009, 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 |
|---|-------------------------------------|--------------------|---------------------|---|---|
| United States Treasury (Note 1) | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |
| American International Group, Inc. (“AIG”) (Note 1, 2) | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |
| Jill M. Considine (Note 1) | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |
| Chester B. Feldberg (Note 1) | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO*(continued)*

| 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 |
|---|-------------------------------------|--------------------|---------------------|---|---|
| Douglas L. Foshee <i>(Note 1)</i> | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |
| Birmingham Fire Insurance Company of Pennsylvania <i>(Note 2)</i> | Beneficial owner | 562,549,380 | Long position | 16.28% | 5.05% |
| Commerce and Industry Insurance Company <i>(Note 2)</i> | Beneficial owner | 330,911,400 | Long position | 9.58% | 2.97% |
| Lexington Insurance Company <i>(Note 2)</i> | Beneficial owner | 209,577,220 | Long position | 6.06% | 1.88% |
| Mirae Asset Global Investments (Hong Kong) Limited | Investment Manager | 173,304,000 | Long Position | 5.01% | 1.56% |

Notes:

- These 1,103,038,000 H shares represent the corporate interest of AIG. AIG is a controlled corporation of the United States Treasury in its capacity as the beneficiary of AIG Credit Facility Trust and Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee in their capacity as the joint trustees of AIG Credit Facility Trust. As such, all of the United States Treasury, Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee are deemed to be interested in the 1,103,038,000 H shares held by the controlled corporations of AIG.
- Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company and Lexington Insurance Company are the controlled corporations of AIG. Lexington Insurance Company is indirectly owned as to 70% 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 2009 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 2009.

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 2009.

OTHER INFORMATION

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 2009.

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 2009.

By Order of the Board
Wu Yan
Chairman

Beijing, the PRC
21 August 2009

PICC 中国人民财产保险股份有限公司

PICC PROPERTY AND CASUALTY COMPANY LIMITED



Interim Report
2009

Stock Code: 2328