



中国人民财产保险股份有限公司
PICC Property and Casualty Company Limited

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2328)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

The board of directors (the “Board of Directors”) of PICC Property and Casualty Company Limited (the “Company”) announced the unaudited interim results of the Company for the six months ended 30 June 2005, with comparative figures for the corresponding period of last year, as follows:

UNAUDITED CONDENSED PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 30 June 2005 RMB million	Unaudited Six months ended 30 June 2004 RMB million
TURNOVER	3	34,882	35,389
Net premiums earned	3	24,939	24,206
Net investment income	3	679	530
Net realised and unrealised losses on investments	3	(711)	(514)
Net claims incurred	4	(18,050)	(17,586)
Amortisation of deferred acquisition costs		(2,178)	(1,626)
Insurance protection expense		(302)	(325)
Interest expense credited to policyholders' deposits		(67)	(78)
General and administrative expenses		(2,880)	(3,251)
OPERATING PROFIT		1,430	1,356
Finance costs		(56)	(66)
PROFIT BEFORE TAX		1,374	1,290
Tax	5	(485)	(327)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		889	963
PROPOSED INTERIM DIVIDEND	6	802	—
BASIC EARNINGS PER SHARE (in RMB)	7	0.080	0.086

UNAUDITED CONDENSED BALANCE SHEET

	<i>Notes</i>	Unaudited 30 June 2005 RMB million	Audited 31 December 2004 RMB million (Restated)
ASSETS			
Cash and cash equivalents		19,404	16,275
Term deposits		13,359	11,723
Debt securities		15,060	14,649
Equity securities		4,497	5,568
Loans		2,910	2,910
Capital security fund		2,228	2,228
Premiums receivable and agents' balances, net	8	6,033	2,472
Unearned premium reserves – reinsurers' share		5,918	4,319
Deferred acquisition costs		1,600	2,253
Other non-current assets		189	286
Receivables from reinsurers	9	1,919	989
Reinsurance recoverable on unpaid losses		5,434	5,957
Prepayments and other receivables	10	1,138	2,515
Fixed assets		10,503	10,942
Investment properties		159	162
Construction in progress		1,461	949
Prepaid land premiums		4,101	4,065
Deferred tax assets		355	–
TOTAL ASSETS		<u>96,268</u>	<u>88,262</u>
LIABILITIES			
Payables to reinsurers	11	4,194	1,311
Accrued insurance protection fund		191	1,099
Tax payable		534	291
Other liabilities and accruals		4,849	6,153
Deferred tax liabilities		–	29
Unearned premium reserves		35,675	30,803
Loss and loss adjustment expense reserves		22,498	21,272
Policyholders' deposits		8,582	8,786
Subordinated loan		2,000	2,000
TOTAL LIABILITIES		<u>78,523</u>	<u>71,744</u>
CAPITAL AND RESERVES			
Issued capital		11,142	11,142
Reserves/owners' equity		6,603	5,376
		<u>17,745</u>	<u>16,518</u>
TOTAL EQUITY AND LIABILITIES		<u>96,268</u>	<u>88,262</u>

Notes:

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The condensed interim financial statements of the Company are unaudited, but has been reviewed by Ernst & Young in accordance with Hong Kong Statement of Auditing Standard 700 issued by the Hong Kong Institute of Certified Public Accountants.

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

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

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

(a) HKAS 17 – Leases

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

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

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

(b) HKAS 32 and HKAS 39 – Financial Instruments

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

Disclosures

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

Classification of investments

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

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

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

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

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

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

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

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

The adoption of HKAS 39 results in re-designation of certain financial assets.

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Available-for-sale financial assets

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

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

Derivatives financial instruments

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

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

(c) HKAS 40 – Investment Property

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

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

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

(d) HKFRS 2 – Share-based Payment

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

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

(e) HKFRS 4 – Insurance Contracts

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

2. SEGMENT INFORMATION

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

Summary details of the business segments are as follows:

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

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

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

Net claims incurred		
Motor vehicle	(14,423)	(14,096)
Commercial property	(1,604)	(1,248)
Homeowners	(72)	(103)
Cargo	(579)	(459)
Liability	(611)	(561)
Accidental injury	(314)	(553)
Other	(447)	(566)
	<u>(18,050)</u>	<u>(17,586)</u>
Amortisation of deferred acquisition costs		
Motor vehicle	(2,007)	(1,328)
Commercial property	(170)	(133)
Homeowners	(140)	(47)
Cargo	(108)	(118)
Liability	(95)	(72)
Accidental injury	(77)	(53)
Other	419	125
	<u>(2,178)</u>	<u>(1,626)</u>
Insurance protection expense		
Motor vehicle	(211)	(231)
Commercial property	(41)	(45)
Homeowners	(5)	(8)
Cargo	(13)	(14)
Liability	(11)	(10)
Accidental injury	(9)	(8)
Other	(12)	(9)
	<u>(302)</u>	<u>(325)</u>
Interest expense credited to policyholders' deposits		
Homeowners	(67)	(78)
	<u>(67)</u>	<u>(78)</u>
Segment profit before unallocated income and expenses		
Motor vehicle	1,743	722
Commercial property	897	1,812
Homeowners	112	188
Cargo	447	1,119
Liability	131	299
Accidental injury	389	237
Other	622	260
	<u>4,341</u>	<u>4,637</u>
Unallocated operating income and expenses		
Net investment income	553	477
Net realised and unrealised losses on investments	(584)	(507)
General and administrative expenses	(2,880)	(3,251)
Finance costs	(56)	(66)
	<u>(2,967)</u>	<u>(3,347)</u>
Profit before tax	1,374	1,290
Tax	(485)	(327)
Net profit attributable to shareholders	<u>889</u>	<u>963</u>

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

3. TURNOVER AND REVENUE

Turnover represents direct premiums written and reinsurance premiums assumed, net of government levies and surcharges. An analysis of turnover, net investment income and net realised and unrealised losses on investments is as follows:

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

4. NET CLAIMS INCURRED

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

5. TAX

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

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

6. DIVIDEND

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

7. EARNINGS PER SHARE

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

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

8. PREMIUMS RECEIVABLE AND AGENTS' BALANCES, NET

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

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

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

9. RECEIVABLES FROM REINSURERS

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

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

10. PREPAYMENTS AND OTHER RECEIVABLES

As at 31 December 2004, included in prepayments and other receivables was an amount due from certain provincial and municipal governments totalling RMB1,210 million. During 1999, pursuant to the instruction from the State Council as part of the restructuring of the PRC insurance industry, the Company acquired the commercial insurance business of certain provincial and municipal governments. On the date of acquisition, the net liabilities assumed amounted to RMB1,210 million, which mainly consisted of unearned premium reserves and loss and loss adjustment expense reserves, net of cash and cash equivalents.

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

11. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

Overview

As a leading insurance company in the PRC property and casualty insurance market, the Company provides various property and casualty insurance products as well as a broad range of accidental injury insurance and short-term health insurance products to its customers. The accidental injury insurance and short-term health insurance products jointly developed by the Company and American International Group, Inc. (“AIG”) have been launched and gradually rolled out to the nationwide market. In the first half of 2005, the Company’s market share in the property and casualty insurance market was 53.1%.

The following table sets forth the net premiums earned, underwriting profit, net profit and total assets of the Company for the periods indicated.

	Six months ended 30 June 2005 RMB million	2004 RMB million
Net premiums earned	24,939	24,206
Underwriting profit ¹	1,529	1,418
Net profit attributable to shareholders	889	963
Total assets	<u>96,268</u>	<u>93,705</u>

1 Underwriting profit represents net premiums earned minus net claims incurred, and after amortisation of deferred acquisition costs, insurance protection expense and general and administrative expenses.

Results of Operations

In the first half of 2005, the Company’s turnover decreased slightly whilst its underwriting performance was relatively satisfactory. The Company’s investment return still requires further improvement. The following table sets forth selected financial information shown as percentages of net premiums earned for the periods indicated.

	Six months ended 30 June 2005	2004 (%)
Net premiums earned	100.0	100.0
Net claims incurred	(72.4)	(72.7)
Amortisation of deferred acquisition costs	(8.7)	(6.7)
Insurance protection expense	(1.2)	(1.3)
General and administrative expenses	(11.5)	(13.4)
Underwriting profit	6.1	5.9
Net investment income	2.7	2.1
Realised and unrealised losses on investments	(2.9)	(2.1)
Finance costs	(0.2)	(0.3)
Interest expenses credited to policyholders’ deposits	(0.3)	(0.3)
Profit before tax	5.5	5.3
Tax	(1.9)	(1.3)
Net profit attributable to shareholders	3.6	4.0

Loss ratio	72.4	72.7
Expense ratio	21.5	21.4
Combined ratio	93.9	94.1

The following table sets forth the net premiums earned, net claims incurred and amortisation of deferred acquisition costs by segment, analysed as percentages, for the periods indicated.

	Six months ended 30 June	
	2005	2004
	(%)	
Net premiums earned		
Motor vehicle	73.7	67.7
Commercial property	10.9	13.4
Homeowners	1.6	1.6
Other	13.8	17.3
Total	<u>100.0</u>	<u>100.0</u>
Net claims incurred		
Motor vehicle	79.9	80.2
Commercial property	8.9	7.1
Homeowners	0.4	0.6
Other	10.8	12.1
Total	<u>100.0</u>	<u>100.0</u>
Amortisation of deferred acquisition costs		
Motor vehicle	92.2	81.7
Commercial property	7.8	8.2
Homeowners	6.4	2.9
Other	(6.4)	7.2
Total	<u>100.0</u>	<u>100.0</u>

Turnover

Turnover of the Company reached RMB34,882 million in the first half of 2005, representing a decrease of RMB507 million (or 1.4%) compared to RMB35,389 million in the first half of 2004. The decrease was primarily due to a decrease of RMB1,325 million in turnover of the motor vehicle segment.

Net Premiums Earned

Net premiums earned of the Company amounted to RMB24,939 million in the first half of 2005, representing an increase of RMB733 million compared to RMB24,206 million in the first half of 2004. The increase was primarily due to a decrease in the change in net unearned premium reserves, which was partially offset by an increase in premiums ceded and a decrease in turnover. Premiums ceded increased from RMB4,803 million, or 13.6% of turnover, in the first half of 2004 to RMB6,670 million, or 19.1% of turnover, in the first half of 2005. The increase was primarily due to an increase in the commercial reinsurance ratio. As a result, despite a 5 percentage points decrease in the statutory reinsurance ratio in 2005 compared to that in 2004, the Company's premiums ceded as a percentage of total premiums increased significantly in the first half of 2005 compared to the first half of 2004.

Net Investment Income

Net investment income of the Company reached RMB679 million in the first half of 2005, representing an increase of 28.1% compared to RMB530 million in the first half of 2004. The increase was primarily due to increases in interest income from bank deposits, interest income from debt securities and interest income from loans of RMB103 million, RMB83 million and RMB67 million, respectively. However, such increases were partially offset by a decrease of RMB104 million in dividend income from equity securities. The increase in interest income was primarily due to increased bank interest rates and increased balances of time deposits and debt securities investments, whereas the decrease in dividend income from equity securities was primarily due to the decrease in dividends from mutual funds.

Net Realised and Unrealised Losses on Investments

Net realised and unrealised losses on the Company's investments in debt and equity securities reached RMB711 million in the first half of 2005, representing an increase of RMB197 million compared to the net losses of RMB514 million in the first half of 2004. The increase was primarily due to an increase in the provisions for impairment losses of debt securities that the Company deposited in Hantang Securities and a decrease in the realised and unrealised gains on equity investments, but such increase was partially offset by an increase in the realised and unrealised gains from debt securities investments.

Net Claims Incurred

The Company's net claims incurred amounted to RMB18,050 million in the first half of 2005, representing an increase of 2.6% compared to RMB17,586 million in the first half of 2004. Loss ratio of the Company was 72.4% in the first half of 2005, slightly lower than 72.7% in the first half of 2004. The increase in net claims incurred was primarily due to an increase of RMB356 million in net claims incurred in the commercial property segment to RMB1,604 million in the first half of 2005 compared to RMB1,248 million in the first half of 2004, and an increase of RMB327 million in net claims incurred in the motor vehicle segment to RMB14,423 million in the first half of 2005 compared to RMB14,096 million in the first half of 2004. Net loss and loss adjustment expense reserves as of 30 June 2005 increased by RMB1,749 million compared to 31 December 2004. The increase was primarily due to an increase in the loss and loss adjustment expense reserves for claims that occurred in 2005. The increase was also partially due to the Company's increase of RMB477 million in its loss and loss adjustment expense reserves for claims that occurred prior to 31 December 2004, after comparing the latest actuarial results as of 30 June 2005 to the actuarial results as of 31 December 2004. Of such increase, RMB298 million and RMB163 million were attributable to claims of the motor vehicle segment and claims of the commercial property segment which occurred prior to 31 December 2004, respectively.

Amortisation of Deferred Acquisition Costs

Amortisation of deferred acquisition costs amounted to RMB2,178 million in the first half of 2005, representing an increase of 33.9% compared to RMB1,626 million in the first half of 2004. The increase was primarily due to a significant increase in the first half of 2005 in amortisation of acquisition costs incurred in previous years, which was partially offset by an increase in reinsurance commission receivable as a result of a higher ceding ratio in the first half of 2005.

Insurance Protection Expense

According to the relevant PRC insurance law and regulations, the Company is required to accrue an insurance protection fund based on 1% of its retained premiums. Insurance protection expense of the Company amounted to RMB302 million in the first half of 2005, representing a decrease of 7.1% compared to RMB325 million in the first half of 2004. The decrease was primarily due to a decrease in retained premiums.

Interest Expense Credited to Policyholders' Deposits

Interest expense of the Company credited to policyholders' deposits was RMB67 million in the first half of 2005, representing a decrease of 14.1% compared to RMB78 million in the first half of 2004. The decrease was primarily due to a lower average balance of policyholders' deposits from the Company's Golden Bull homeowners insurance products in the first half of 2005 compared to the first half of 2004.

Finance Costs

Finance costs amounted to RMB56 million in the first half of 2005, representing a decrease of RMB10 million compared to RMB66 million in the first half of 2004. The decrease was primarily due to a decrease in interest expense on reinsurance funds withheld in the first half of 2005 compared to the first half of 2004.

General and Administrative Expenses

General and administrative expenses of the Company amounted to RMB2,880 million in the first half of 2005, representing a decrease of RMB371 million compared to RMB3,251 million in the first half of 2004. The decrease was primarily due to the Company's strengthened efforts in costs control and also due to the decrease in depreciation and amortisation.

Profit before Tax

Profit before tax amounted to RMB1,374 million in the first half of 2005, representing an increase of RMB84 million compared to RMB1,290 million in the first half of 2004. The increase was primarily due to an increase of RMB149 million in net investment income and an increase of RMB111 million in underwriting profit. However, these increases were partially offset by an increase of RMB197 million in net realised and unrealised losses on investments in debt and equity securities.

Income Tax

Income tax was RMB485 million in the first half of 2005, representing an increase of 48.3% compared to RMB327 million in the first half of 2004. The Company's effective tax rate increased to 35.3% in the first half of 2005 compared to 25.3% in the first half of 2004.

Net Profit

As a result of the foregoing, the Company's net profit decreased by 7.7% to RMB889 million in the first half of 2005 compared to RMB963 million in the first half of 2004. Basic earnings per share in the first half of 2005 was RMB0.080.

Combined Ratio

The Company's combined ratio decreased from 94.1% in the first half of 2004 to 93.9% in the first half of 2005, primarily due to the decrease in loss ratio from 72.7% in the first half of 2004 to 72.4% in the first half of 2005.

Development of New Products

In the first half of 2005, the Company developed 12 new national insurance products in, amongst others, homeowners insurance, liability insurance and motor vehicle insurance product lines, of which 4 are stand-alone products and 8 are supplementary products.

In the second half of 2005, the Company will further strengthen its market research and development, focus on targeted customer groups and specific channels, and design customised products. The Company will also actively strengthen its cooperation with AIG, improve the accidental injury insurance products and continue to promote the short-term health insurance products in key cities throughout the PRC.

Cash Flow

	Six months ended 30 June	
	2005	2004
	<i>RMB million</i>	<i>RMB million</i>
Net cash inflow from operating activities	6,839	8,102
Net cash outflow from investing activities	(1,297)	(3,132)
Net cash outflow from financing activities	(2,413)	(839)
Net increase in cash and cash equivalents	<u>3,129</u>	<u>4,131</u>

Net cash inflow from the Company's operating activities in the first half of 2005 was RMB6,839 million, representing a decrease of 15.6% compared to the first half of 2004. The decrease was primarily due to factors such as decrease in premiums received in cash and increase in surrenders in the first half of 2005.

Net cash outflow from the Company's investing activities in the first half of 2005 was RMB1,297 million, representing a decrease of 58.6% compared to the first half of 2004. Such decrease was primarily due to a decrease in net cash outflow for investments in securities.

Net cash outflow from the Company's financing activities in the first half of 2005 was RMB2,413 million, as compared to RMB839 million in the first half of 2004, primarily due to an increase in securities purchased under resale agreements.

Net increase in cash and cash equivalents of the Company in the first half of 2005 was RMB3,129 million.

Liquidity

The Company's cash flow is primarily derived from the cash generated from operating activities, mainly cash from insurance premiums received. Additional liquidity sources include proceeds from investments, maturities of investments, disposal of assets and financing activities. The Company's liquidity needs consist principally of payment of claims and other obligations under outstanding insurance policies, capital expenditure, operating expenses, tax payments, dividend payments and investment needs.

The Company entered into a RMB2,000 million subordinated loan agreement with China Development Bank on 10 October 2003. This loan is unsecured and bears interest at a rate which is equal to 90% of the 5-year lending rate fixed by the People's Bank of China. The loan comes due in November 2023.

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 that facility is repayable within one year. As of the date of this announcement, no amount has been drawn down under that facility.

Save for the subordinated loan and the credit facility mentioned above, the Company does not obtain working capital by borrowing.

The Company expects that it can fund its working capital needs in the future from cash generated from operating activities. The Board of Directors is of the opinion that the Company has sufficient working capital.

Capital Expenditure

The capital expenditure of the Company has primarily been for property construction, acquisition of motor vehicles and development of information systems. Capital expenditures of the Company amounted to RMB648 million in the first half of 2005.

Save for the construction of the new headquarters building starting from the first half of 2005, there was no other material capital expenditure. The Company believes that it has sufficient capital resources to fully satisfy its capital expenditure plan and its daily working capital requirements.

Solvency Margin Requirement

The Company is subject to a number of regulations regarding financial operations, including maintaining a stipulated solvency margin, complying with 11 regulatory benchmarks and providing for certain funds and reserves. In accordance with the insurance laws and regulations in the PRC, the Company is required to maintain a solvency margin that exceeds a minimum statutory level of RMB8,058 million in the first half of 2005. The Company's solvency margin calculated pursuant to the CIRC regulations was RMB11,793 million and solvency margin adequacy ratio was 146.4%.

Pursuant to the CIRC regulations, if an insurance company fails to meet 4 of the 11 benchmarks regarding solvency, the CIRC has the right to demand an explanation and investigate into the reasons for non-compliance. In the first half of 2005, the Company failed to meet fewer than four of such benchmarks.

Gearing Ratio and Other Ratios

As of 30 June 2005, the gearing ratio² of the Company was 81.6%, representing an increase of 0.3 percentage point from 81.3% as of 31 December 2004. The premium to capital ratio is the ratio of retained premiums in any financial year to the sum of paid-in capital, capital reserves, surplus reserves and public welfare funds. Pursuant to the PRC Insurance Law, this premium to capital ratio may not exceed 4 times for any property and casualty insurance company in any financial year. The premium to capital ratio for the Company as of 30 June 2005 reached 3.39 times³.

2 Gearing ratio is represented by total liabilities divided by total assets, in accordance with accounting principles generally accepted in Hong Kong.

3 Calculated in accordance with the PRC Accounting Regulations for Financial Institutions. The figures of retained premiums were for the full year ended 30 June 2005.

Contingent Liabilities

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

Interest Rate Risk

The Company's holding in fixed income investments is subject to interest rate risk. The Company also invests in floating rate instruments, interest proceeds from which can rise and fall due to changes in interest rates. The Company's holding in mutual funds is also exposed to price fluctuations caused by changes in interest rates. The Company manages exposure to risks associated with interest rate fluctuations through active review of the investment portfolio and consultation with financial investment experts. The goal is to maintain liquidity and to generate stable returns.

Credit Risk

The Company is subject to credit risk on investments such as corporate bonds and mutual funds. The Company diligently manages credit risk by analysing the creditworthiness of companies prior to making investments as well as strictly following the CIRC guidelines which only permit investments in corporate bonds with rating higher than AA. The Company is also subject to credit risk with respect to amounts owed to it by reinsurers. As a result, except when dealing with national reinsurers such as China Property and Casualty Reinsurance Company Ltd., the Company only purchases reinsurance from reinsurers with A.M. Best ratings of at least A-, and pays particular attention to their creditworthiness and financial condition.

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, which is also its functional and financial reporting currency. However, a portion of its business (including international cargo insurance and aviation insurance) is conducted in foreign currencies, typically US dollars. A portion of its claims and liabilities are also denominated in foreign currencies, typically US dollars. Starting from 21 July 2005, China has reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Renminbi is no longer solely pegged to the US dollar and the Renminbi exchange rate regime now has greater flexibility. On the same day, the People's Bank of China adjusted the exchange rate of the US dollar against the Renminbi at 19:00 hour of 21 July 2005 to RMB8.11 per US dollar, resulting in an approximately 2% decrease in the trading price of the US dollar. As the Company needs to convert foreign currencies denominated assets and liabilities into Renminbi in its financial statements as at the end of accounting periods, fluctuations in exchange rates will affect the Company's balance sheet position and its profit and loss account. The impact of exchange rate fluctuations will, however, ultimately depend on the extent of exchange rate fluctuations during the accounting period.

Most of the Company's sales are domestic and as such it has a limited amount of foreign currency denominated accounts receivable. Foreign exchange transactions under the Company's capital account are subject to foreign exchange regulations and require the approval of the State Administration of Foreign Exchange. Foreign exchange policies adopted by the PRC government could cause future exchange rates to vary.

Hedging Instruments

The use of funds in Renminbi and foreign currencies by insurance companies in the PRC is subject to the regulatory control by regulatory bodies of the PRC. Therefore, the Company does not use any financial instruments for hedging purposes.

Looking Forward

With the stable growth of China's economy and the increasing sales volume of motor vehicles, a comparatively rapid growth will be maintained in the domestic insurance market in the second half of 2005. With the promulgation of the Administrative Measures on Non-life Insurance Reserves, the PRC insurance regulatory authorities will strengthen their efforts in regulating the insurance market and maintaining market order, which will promote a more rational competition in the non-life insurance market. Furthermore, the deepening of reforms on share segregation of share capital will lead to the stable development of the PRC capital market.

In order to increase value for shareholders, the Company will strive to refine the "three centers" (the underwriting center, claims center, and finance center), and consistently strengthen underwriting management and further improve its claims management. The Company will integrate its information systems and improve the application of information resources. The Company will employ experts and promote trainings on actuarial techniques. The Company will adjust its business portfolio to focus more on profitable non-motor vehicle insurance business. The Company will also enhance its cooperation with AIG and the marketing of short-term health insurance products. The Company will further enhance its risk control in its use of investment funds while trying to improve its investment return.

INTERIM DIVIDEND

The Board of Directors recommended to pay an interim dividend of RMB0.072 per share for the six months ended 30 June 2005. The payment shall be made to the shareholders whose names appear on the register of members of the Company on 25 October 2005, subject to the approval at the special general meeting to be held on 25 October 2005. Interim dividend for H shares will be paid in Hong Kong dollars and the conversion rate of Renminbi to Hong Kong dollars will be the average selling rate as announced by the People's Bank of China for the week prior to the date of the special general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 26 September 2005 to 25 October 2005, both days inclusive, during which period no transfer of shares will be effected. Holders of H shares and domestic shares whose names appear on the register of members of the Company on 23 September 2005 at 4:00 p.m. are entitled to attend the special general meeting. In order for holders of H shares to be qualified for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, no later than 4:00 p.m. on 23 September 2005 for registration.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

The Company did not purchase, sell or redeem any of its listed securities in the first half of 2005.

CORPORATE GOVERNANCE

So far as the Board is aware, other than not complying with paragraph B.1.1 of the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which relates to the composition of the Nomination, Remuneration and Review Committee of the Company, the Company has complied with all the code provisions of the Code on Corporate Governance Practices throughout the first half of 2005 (save for the code provisions in relation to internal controls which will become effective for accounting periods commencing on or after 1 July 2005).

The Nomination, Remuneration and Review Committee of the Company consists of two Executive Directors, one Non-executive Director and two Independent Non-executive Directors. Accordingly, its composition does not satisfy the requirement set out in paragraph B.1.1 of the code provisions of the Code on Corporate Governance Practices, which requires that the majority of the members of the remuneration committee should be Independent Non-executive Directors. The Company is now seeking suitable person to be appointed as Independent Non-executive Director and member of the above committee.

REVIEW OF INTERIM RESULTS

Ernst & Young, the international auditors of the Company, and the audit committee of the Company have reviewed the Company's interim financial statements for the six months ended 30 June 2005.

By Order of the Board
Tang Yunxiang
Chairman

Beijing, PRC, 25 August 2005

On the date of this announcement, the Board of Directors comprises Mr. Tang Yunxiang (Chairman of the Board, Non-executive Director), Mr. Wang Yi (Vice Chairman of the Board, Executive Director), Mr. Wang Yincheng (Executive Director), Md. Liu Zhenghuan (Executive Director), Mr. Fu Zhu (Executive Director, Secretary of the Board), Mr. Ding Yunzhou (Non-executive Director), Mr. Zhou Shurui (Non-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) and Mr. Luk Kin Yu, Peter (Independent Non-executive Director).

Please also refer to the published version of this announcement in South China Morning Post.