

**ANNOUNCEMENT OF ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

The Board of Directors (the “Board”) of PICC Property and Casualty Company Limited (the “Company”) announces the audited results of the Company and its subsidiaries for the year ended 31 December 2007, together with comparative figures for last year, as follows:

**CONSOLIDATED INCOME STATEMENT**

	<i>Notes</i>	<b>2007</b> <i>RMB million</i>	<b>2006</b> <i>RMB million</i>
<b>TURNOVER</b>	5	<b>88,668</b>	71,348
Net premiums earned	5	<b>68,728</b>	55,616
Net claims incurred	6	<b>(46,944)</b>	(38,616)
Amortisation of deferred acquisition costs, net		<b>(11,151)</b>	(8,882)
Insurance protection expenses		<b>(749)</b>	(610)
General and administrative expenses		<b>(11,311)</b>	(6,904)
<b>UNDERWRITING PROFIT/(LOSS)</b>		<b>(1,427)</b>	604
Net investment income	7	<b>3,229</b>	1,689
Net realised and unrealised gains on investments	8	<b>4,442</b>	2,372
Investment expenses		<b>(288)</b>	(64)
Interest expenses credited to policyholders' deposits		<b>(248)</b>	(138)
Exchange losses, net		<b>(801)</b>	(426)
Sundry income		<b>12</b>	85
Sundry expenses		<b>(135)</b>	(115)
Finance costs		<b>(315)</b>	(209)
Share of profit/(loss) of associates		<b>(13)</b>	2
<b>PROFIT BEFORE TAX</b>	9	<b>4,456</b>	3,800
Tax	10	<b>(1,465)</b>	(1,718)
<b>PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>2,991</b>	2,082
<b>BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB)</b>	11	<b>0.268</b>	0.187
<b>DIVIDEND PER SHARE (in RMB)</b>	12	<b>0.091</b>	—

## CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>2007</b> <i>RMB million</i>	2006 <i>RMB million</i>
<b>ASSETS</b>			
Cash and cash equivalents		<b>30,789</b>	28,374
Derivative financial assets		–	6
Debt securities		<b>28,465</b>	22,889
Equity securities		<b>16,978</b>	7,962
Insurance receivables, net	<i>13</i>	<b>13,898</b>	7,519
Reinsurance assets		<b>11,136</b>	9,745
Deferred acquisition costs		<b>7,490</b>	6,817
Other financial assets and prepayments		<b>8,365</b>	7,194
Interests in associates		<b>1,025</b>	162
Property, plant and equipment		<b>11,721</b>	11,903
Investment properties		<b>532</b>	443
Prepaid land premiums		<b>3,866</b>	3,960
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<b>TOTAL ASSETS</b>		<b>134,265</b>	106,974
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<b>LIABILITIES</b>			
Derivative financial liabilities		<b>35</b>	–
Payables to reinsurers	<i>14</i>	<b>9,813</b>	4,241
Accrued insurance protection fund		<b>296</b>	217
Tax payable		<b>1,314</b>	325
Other liabilities and accruals		<b>8,109</b>	6,628
Deferred tax liabilities		<b>2,777</b>	1,905
Deferred acquisition costs – reinsurers’ share		<b>1,775</b>	1,315
Insurance contract liabilities		<b>73,115</b>	59,722
Policyholders’ deposits		<b>7,953</b>	8,894
Subordinated debts		<b>3,000</b>	3,000
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		<b>108,187</b>	86,247
		<hr/>	<hr/>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued share capital		<b>11,142</b>	11,142
Reserves		<b>14,936</b>	9,585
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>26,078</b>	20,727
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<b>TOTAL EQUITY AND LIABILITIES</b>		<b>134,265</b>	106,974
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## 1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain debt securities, equity securities, derivatives and structured deposits, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest million except when otherwise indicated.

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries. For the year ended 31 December 2007, the net loss attributable to minority interests amounted to RMB35,046 (2006: net profit of RMB228). As at 31 December 2007, the net assets attributable to minority interests amounted to RMB70,182 (2006: RMB105,228).

## 2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended HKFRSs and interpretations during the year.

HKAS 1 Amendment	Presentation of Financial Statements – Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

### HKAS 1 Amendment – Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to make disclosures to enable users of the financial statements to evaluate the Group’s objectives, policies and processes for managing capital.

## **HKFRS 7 – Financial Instruments: Disclosures**

The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where appropriate.

## **HK(IFRIC)-Int 8 – Scope of HKFRS 2**

This interpretation requires HKFRS 2 to be applied to any arrangements in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued share appreciation rights, the interpretation has had no effect on these financial statements.

## **HK(IFRIC)-Int 9 – Reassessment of Embedded Derivatives**

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no impact on the financial position or performance of the Group.

## **HK(IFRIC)-Int 10 – Interim Financial Reporting and Impairment**

HK(IFRIC)-Int 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or performance of the Group.

### **3. COMPARATIVE FIGURES**

Certain balance sheet items were combined together and presented as a single item on the face of the balance sheet in the current year's financial statements. Accordingly, the balance sheet as at 31 December 2006 was restated to conform to the current year presentation. Material restatements of the balance sheet items include:

Cash and cash equivalents of RMB21,606 million and term deposits of RMB6,768 million were combined together and presented as cash and cash equivalents;

Subordinated debts held by the Company of RMB2,910 million and capital security fund of RMB2,228 million, prepayments and other receivables of RMB1,858 million were no longer presented separately on the balance sheet but included in other financial assets and prepayments;

Unearned premium reserves – reinsurers' share of RMB4,881 million and reinsurance recoverable on unpaid losses of RMB4,864 million were combined together and presented as reinsurance assets;

Construction in progress of RMB1,872 million was included in property, plant and equipment and no longer separately presented on the balance sheet; and

Unearned premium reserves of RMB36,842 million and loss and loss adjustment reserves of RMB22,880 million were combined together and presented as insurance contract liabilities.

#### 4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary reporting basis, by business segment. No further geographical segment information is presented as all of the Group's customers and operations are located in the PRC.

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 or conveyances;
- (d) the liability segment provides insurance products covering policyholders' liabilities;
- (e) the accidental injury segment provides insurance products covering accidental injuries; and
- (f) the "other" segment mainly represents insurance products related to marine hull, homeowners, agriculture, aviation and energy.

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

2007	Motor Vehicle	Commercial Property	Cargo	Liability	Accidental Injury	Other	Corporate	Total
Income statement	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Turnover	61,988	8,941	2,990	3,640	2,874	8,235	–	88,668
Net premiums earned	53,273	5,689	2,271	2,534	1,838	3,123	–	68,728
Net claims incurred	(36,283)	(4,347)	(1,016)	(1,603)	(1,133)	(2,562)	–	(46,944)
Amortisation of deferred acquisition costs, net	(8,954)	(836)	(334)	(387)	(253)	(387)	–	(11,151)
Insurance protection expenses	(576)	(59)	(23)	(27)	(18)	(46)	–	(749)
Profit before general and administrative expenses	7,460	447	898	517	434	128	–	9,884
General and administrative expenses	–	–	–	–	–	–	(11,311)	(11,311)
Net investment income	–	–	–	–	–	265	2,964	3,229
Net realised and unrealised gains on investments	–	–	–	–	–	165	4,277	4,442
Investment expenses	–	–	–	–	–	(9)	(279)	(288)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(248)	–	(248)
Exchange losses, net	–	–	–	–	–	–	(801)	(801)
Finance costs	–	–	–	–	–	–	(315)	(315)
Sundry income and expenses	–	–	–	–	–	–	(123)	(123)
Share of loss of associates	–	–	–	–	–	–	(13)	(13)
Profit/(loss) before tax	7,460	447	898	517	434	301	(5,601)	4,456
Tax	–	–	–	–	–	–	(1,465)	(1,465)
Net profit/(loss) attributable to equity holders of the parent	7,460	447	898	517	434	301	(7,066)	2,991

2006	Motor	Commercial			Accidental			
Income statement	Vehicle	Property	Cargo	Liability	Injury	Other	Corporate	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	million	million	million	million	million	million	million	million
Turnover	<u>49,837</u>	<u>8,193</u>	<u>2,763</u>	<u>3,013</u>	<u>2,561</u>	<u>4,981</u>	<u>–</u>	<u>71,348</u>
Net premiums earned	41,502	5,747	2,073	2,160	1,827	2,307	–	55,616
Net claims incurred	(30,295)	(4,074)	(744)	(1,123)	(1,004)	(1,376)	–	(38,616)
Amortisation of deferred acquisition costs, net	(6,935)	(805)	(315)	(309)	(262)	(256)	–	(8,882)
Insurance protection expenses	(467)	(55)	(21)	(23)	(18)	(26)	–	(610)
Profit before general and administrative expenses	<u>3,805</u>	<u>813</u>	<u>993</u>	<u>705</u>	<u>543</u>	<u>649</u>	<u>–</u>	<u>7,508</u>
General and administrative expenses	–	–	–	–	–	–	(6,904)	(6,904)
Net investment income	–	–	–	–	–	271	1,418	1,689
Net realised and unrealised gains on investments	–	–	–	–	–	74	2,298	2,372
Investment expenses	–	–	–	–	–	(10)	(54)	(64)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(138)	–	(138)
Exchange losses, net	–	–	–	–	–	–	(426)	(426)
Finance costs	–	–	–	–	–	–	(209)	(209)
Sundry income and expenses	–	–	–	–	–	–	(30)	(30)
Share of profit of associates	–	–	–	–	–	–	2	2
Profit/(loss) before tax	<u>3,805</u>	<u>813</u>	<u>993</u>	<u>705</u>	<u>543</u>	<u>846</u>	<u>(3,905)</u>	<u>3,800</u>
Tax	–	–	–	–	–	–	(1,718)	(1,718)
Net profit/(loss) attributable to equity holders of the parent	<u>3,805</u>	<u>813</u>	<u>993</u>	<u>705</u>	<u>543</u>	<u>846</u>	<u>(5,623)</u>	<u>2,082</u>

The segment assets and liabilities for the years ended 31 December 2007 and 2006 are shown as follows:

2007	Motor	Commercial			Accidental			
Balance sheet	Vehicle	Property	Cargo	Liability	Injury	Other	Corporate	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
	million	million	million	million	million	million	million	million
Total assets	<u>14,164</u>	<u>5,990</u>	<u>1,029</u>	<u>1,606</u>	<u>1,584</u>	<u>8,150</u>	<u>101,742</u>	<u>134,265</u>
Total liabilities	<u>55,753</u>	<u>8,846</u>	<u>2,019</u>	<u>4,078</u>	<u>4,816</u>	<u>20,242</u>	<u>12,433</u>	<u>108,187</u>

2006	Motor	Commercial			Accidental			
Balance sheet	Vehicle	Property	Cargo	Liability	Injury	Other	Corporate	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Total assets	<u>10,310</u>	<u>4,561</u>	<u>726</u>	<u>1,117</u>	<u>1,057</u>	<u>6,310</u>	<u>82,893</u>	<u>106,974</u>
Total liabilities	<u>42,259</u>	<u>6,541</u>	<u>1,579</u>	<u>2,692</u>	<u>2,361</u>	<u>18,957</u>	<u>11,858</u>	<u>86,247</u>

Capital expenditure, depreciation and impairment charges, which are not attributable to particular insurance products, are not allocated.

## 5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB million</i>	<i>RMB million</i>
<b>Turnover</b>		
Direct premiums written	<b>88,594</b>	71,300
Reinsurance premiums assumed	<b>74</b>	48
	<u><b>88,668</b></u>	<u>71,348</u>
<b>Net premiums earned</b>		
Turnover	<b>88,668</b>	71,348
Less: Reinsurance premiums ceded	<b>(13,779)</b>	(10,311)
	<u><b>74,889</b></u>	<u>61,037</u>
Less: Change in net unearned premium reserves	<b>(6,161)</b>	(5,421)
	<u><b>68,728</b></u>	<u>55,616</u>

## 6. NET CLAIMS INCURRED

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB million</i>	<i>RMB million</i>
Gross claims paid	48,695	44,432
Less: Paid losses recoverable from reinsurers	(7,592)	(6,991)
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Net claims paid	41,103	37,441
Change in net loss and loss adjustment expense reserves	5,841	1,175
	<hr/>	<hr/>
Net claims incurred	<b>46,944</b>	<b>38,616</b>
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## 7. NET INVESTMENT INCOME

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB million</i>	<i>RMB million</i>
Rental income from investment properties	54	36
Financial assets at fair value through profit or loss		
– Held for trading purpose:		
Interest income	92	56
Dividend income	953	94
Financial assets at fair value through profit or loss		
– Designated upon initial recognition:		
Interest income	7	11
Available-for-sale financial assets:		
Interest income	875	591
Dividend income	199	4
Loans and receivables:		
Interest income	1,049	897
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	<b>3,229</b>	<b>1,689</b>
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## 8. NET REALISED AND UNREALISED GAINS/(LOSSES) ON INVESTMENTS

	<b>Group</b>	
	<b>2007</b>	2006
	<i>RMB million</i>	<i>RMB million</i>
Available-for-sale financial assets:		
Realised gains	1,118	38
Reversal of impairment	–	5
Financial assets at fair value through profit or loss		
– Held for trading:		
Realised gains/(losses)	2,541	(237)
Unrealised gains	849	2,650
Financial assets at fair value through profit or loss		
– Designated upon initial recognition:		
Unrealised gains/(losses)	50	(84)
Loans and receivables:		
Impairment loss	(116)	–
	<b>4,442</b>	<b>2,372</b>
	<b>4,442</b>	<b>2,372</b>

## 9. PROFIT BEFORE TAX

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

	<b>2007</b>	2006
	<i>RMB million</i>	<i>RMB million</i>
Auditors' remuneration, including interim review	18	18
Depreciation of property, plant and equipment	876	933
Depreciation of investment properties	20	15
Amortisation of prepaid land premiums	113	102
Employee expenses (including directors' remuneration):		
Wages, salaries and staff welfare	5,502	4,665
Cash-settled share appreciation rights expense	752	102
Pension scheme contributions	583	409
Impairment loss on insurance receivables	627	98
Minimum lease payments under operating leases in respect of land and buildings	397	394
Net losses on disposal of items of property, plant and equipment	2	3
	<b>2</b>	<b>3</b>
	<b>2</b>	<b>3</b>

## 10. TAX

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

	2007 <i>RMB million</i>	2006 <i>RMB million</i>
Group:		
Current – charge for the year	1,572	780
Deferred	(107)	938
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Total tax charge for the year	<b>1,465</b>	<b>1,718</b>
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A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate for the PRC, in which the Group is domiciled, to the tax expense at the effective tax rate, and a reconciliation of the applicable rate, i.e. the statutory tax rate, to the effective tax rate, are as follows:

Group	2007		2006	
	<i>RMB million</i>	%	<i>RMB million</i>	%
Profit before tax	4,456		3,800	
Tax at the statutory tax rate of 33%	1,470	33.0	1,254	33.0
Income not subject to tax	(174)	(3.9)	(144)	(3.8)
Effect of change in tax rate	(454)	(10.2)	–	–
Expenses not deductible for tax	623	14.0	608	16.0
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Tax charge at the Group's effective rate	<b>1,465</b>	<b>32.9</b>	<b>1,718</b>	<b>45.2</b>
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During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and has become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Accordingly, the Group reduced the effective tax rate used in determining its deferred tax assets and liabilities as at 31 December 2007.

## 11. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to the ordinary equity holders of the parent of RMB2,991 million (2006: RMB2,082 million) and 11,142 million (2006: 11,142 million) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during these years.

## 12. DIVIDEND PER SHARE

During the year, the Board of Directors declared an interim dividend of RMB1,014 million (2006: Nil). The Board of Directors did not propose any final dividend for the year (2006: Nil).

### 13. INSURANCE RECEIVABLES, NET

	<b>Group and Company</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB million</i>	<i>RMB million</i>
Premiums receivable and agents' balances	7,229	4,343
Receivables from reinsurers	7,691	3,571
	<u>14,920</u>	<u>7,914</u>
Less: Impairment losses on:		
Premiums receivable and agents' balances	(1,017)	(383)
Receivables from reinsurers	(5)	(12)
	<u>13,898</u>	<u>7,519</u>

The movements in the provision for impairment of insurance receivables are as follows:

	<b>Group and Company</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB million</i>	<i>RMB million</i>
At 1 January	395	297
Charge for the year	634	98
Impairment losses reversed	(7)	—
	<u>1,022</u>	<u>395</u>

The carrying amounts disclosed above reasonably approximate to their fair values at each year end.

The Group only issues insurance policies on credit to corporate customers or to individuals who purchase policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis.

An aged analysis of insurance receivables is shown as follows:

	<b>Group and Company</b>	
	<b>2007</b>	2006
	<i>RMB million</i>	<i>RMB million</i>
Within 3 months	11,261	6,634
3-6 months	2,119	523
6-12 months	901	370
Over 12 months	639	387
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	<b>14,920</b>	7,914
Less: Impairment losses	<b>(1,022)</b>	(395)
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	<b>13,898</b>	<b>7,519</b>
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#### 14. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	<b>Group and Company</b>	
	<b>2007</b>	2006
	<i>RMB million</i>	<i>RMB million</i>
Reinsurance payables	9,813	4,172
Reinsurance funds withheld	–	69
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	<b>9,813</b>	4,241
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The reinsurance payables are non-interest-bearing and are due within three months from the balance sheet date or are repayable on demand. The reinsurance funds withheld as at 31 December 2006 were repayable upon the expiration of the related reinsurance contracts.

The carrying amounts disclosed above reasonably approximate to their fair values at each year end.

## MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

### OVERVIEW

The Company is a leading non-life insurance company in the PRC providing a broad range of property and casualty insurance products together with accidental injury insurance and short-term health insurance products for customers. In 2007, with the continuous rapid growth of the economy in China, the Company and its subsidiaries achieved a turnover of RMB88,668 million and a net profit of RMB2,991 million, an increase of 24.3% and 43.7% respectively as compared to 2006. The total assets reached RMB134,265 million, and its shareholders' equity totalled RMB26,078 million. The Company held 42.5% share of the non-life insurance market in the PRC in 2007, demonstrating an increasing vitality.

## I. Substantial improvement in operating results

In 2007, the Company's turnover surpassed RMB88,000 million for the first time, and its net profit reached a record high. The strong performance of the Company in 2007 was primarily attributable to the rapid growth in turnover and the better investment return, particular in light of the bullish A-share market in China and the higher bank deposit rates.

## II. Further expansion of insurance coverage and reinforced market dominance

In 2007, the Company made continuous efforts in developing the compulsory third party motor insurance business, carried out at full strength the agricultural and rural insurance business, and further reinforced its market dominance in large-scale commercial property insurance and special risk insurance sectors. In 2007, the Company won the position of lead underwriter in a number of major benchmark projects, including all the twelve subway projects across the country, Hongyanhe Nuclear Power Plant in Liaoning Province, and the pilot ultra high-voltage grid construction works of the State Grid Corporation. The Company also became the global insurance partner of the World Expo 2010 Shanghai. With the launch of the insurance protection plan for the Olympic Games, the Company's service capabilities and influence have been continuously enhanced.

## III. Strengthened channel construction and enhanced marketing capability

In 2007, the Company strengthened the strategic collaboration with other subsidiaries of PICC Group, and promoted cross-sales in an orderly manner. The Company set up an e-commerce system across the country, and invested RMB200 million in expanding the rural insurance sales network. The Company has more than 11,000 sales offices in the rural areas. In 2007, the Company strengthened the development of its professional teams. It set up more than 200 professional teams specializing in large-scale commercial insurance and a number of professional teams focusing on cargo insurance, liability insurance and accidental injury insurance, covering more than thirty industry sectors, at both headquarters and provincial branch levels.

## IV. Strengthened risk management and control and improved operation management

In 2007, the Company established six regional monitoring and auditing centres by region, built and refined the compliance management system and strengthened internal risk management and control. The company reinforced its risk management in respect of reinsurance, optimised the allocation of resources for reinsurance and strove to improve the quality of the contracts. The Company also promoted and implemented the Pure Risk Loss Ratio Table comprehensively.

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

	<b>Year ended 31 December</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB million</i>	<i>RMB million</i>
Net premiums earned	<b>68,728</b>	55,616
Underwriting profit/(loss)	<b>(1,427)</b>	604
Profit attributable to equity holders of the parent	<b>2,991</b>	2,082
Total assets	<b>134,265</b>	106,974

## **RESULTS OF OPERATIONS**

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

	<b>Year ended 31 December</b>	
	<b>2007</b>	<b>2006</b>
	%	%
Net premiums earned	<b>100.0</b>	100.0
Net claims incurred	<b>(68.3)</b>	(69.4)
Amortisation of deferred acquisition costs, net	<b>(16.2)</b>	(16.0)
Insurance protection expenses	<b>(1.1)</b>	(1.1)
General and administrative expenses	<b>(16.5)</b>	(12.4)
Underwriting profit/(loss)	<b>(2.1)</b>	1.1
Net investment income	<b>4.7</b>	3.0
Net realised and unrealised gains on investments	<b>6.5</b>	4.3
Finance costs	<b>(0.5)</b>	(0.4)
Interest expenses credited to policyholders' deposits	<b>(0.4)</b>	(0.2)
Profit before tax	<b>6.5</b>	6.8
Tax	<b>(2.1)</b>	(3.1)
Profit attributable to equity holders of the parent	<b>4.4</b>	3.7
Loss ratio	<b>68.3</b>	69.4
Expense ratio	<b>33.8</b>	29.5
Combined ratio	<b>102.1</b>	98.9

The following table sets forth the net premiums earned, net claims incurred and net amortisation of deferred acquisition costs by segment, analysed as a percentage of the respective aggregate amount, of the Company and its subsidiaries for the relevant periods.

	<b>Year ended 31 December</b>	
	<b>2007</b>	<b>2006</b>
	<b>%</b>	<b>%</b>
Net premiums earned		
Motor vehicle insurance	<b>77.5</b>	74.6
Commercial property insurance	<b>8.3</b>	10.3
Cargo insurance	<b>3.3</b>	3.7
Liability insurance	<b>3.7</b>	3.9
Accidental injury insurance	<b>2.7</b>	3.3
Other insurance	<b>4.5</b>	4.2
	<hr/>	<hr/>
Total	<b>100</b>	100
	<hr/> <hr/>	<hr/> <hr/>
Net claims incurred		
Motor vehicle insurance	<b>77.3</b>	78.5
Commercial property insurance	<b>9.3</b>	10.6
Cargo insurance	<b>2.2</b>	1.9
Liability insurance	<b>3.4</b>	2.9
Accidental injury insurance	<b>2.4</b>	2.6
Other insurance	<b>5.4</b>	3.5
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Total	<b>100</b>	100
	<hr/> <hr/>	<hr/> <hr/>
Amortisation of deferred acquisition costs, net		
Motor vehicle insurance	<b>80.3</b>	78.1
Commercial property insurance	<b>7.5</b>	9.1
Cargo insurance	<b>3.0</b>	3.5
Liability insurance	<b>3.5</b>	3.5
Accidental injury insurance	<b>2.3</b>	2.9
Other insurance	<b>3.4</b>	2.9
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Total	<b>100</b>	100
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## **TURNOVER**

Turnover of the Company and its subsidiaries was RMB88,668 million in 2007, representing an increase of RMB17,320 million, or 24.3%, over RMB71,348 million in 2006. The increase was primarily due to the significant growth of the compulsory third party motor insurance business launched in July 2006. Driven by this business, the turnover of the motor vehicle insurance segment increased by RMB12,151 million from 2006. The turnover of non-motor vehicle insurance segments such as commercial property insurance, cargo insurance, liability insurance and accidental injury insurance segments also experienced growth at varied degrees.

## **NET PREMIUMS EARNED**

Net premiums earned of the Company and its subsidiaries was RMB68,728 million in 2007, representing an increase of RMB13,112 million, or 23.6%, from RMB55,616 million in 2006. This increase in net premiums earned was primarily due to a rapid increase in net premiums earned from the motor vehicle insurance segment in 2007. Net premiums earned from the motor vehicle insurance segment increased by RMB11,771 million from that in 2006.

## **NET INVESTMENT INCOME**

Net investment income of the Company and its subsidiaries was RMB3,229 million in 2007, representing an increase of RMB1,540 million over RMB1,689 million in 2006. This increase was primarily due to the increase of RMB895 million in interest and dividend income from trading financial assets, the increase of RMB479 million in interest and dividend income from available-for-sale financial assets and the increase of RMB152 million in interest income from loans and receivables.

## **NET REALISED AND UNREALISED GAINS ON INVESTMENTS**

Net realised and unrealised gains on investments of the Company and its subsidiaries was RMB4,442 million in 2007, representing an increase of RMB2,070 million from RMB2,372 million in 2006. This increase was primarily due to the A-share market boom in 2007, which led to a substantial increase in realised gains on investments in available-for-sale financial assets and trading financial assets.

## **NET CLAIMS INCURRED**

The net claims incurred of the Company and its subsidiaries was RMB46,944 million in 2007, representing an increase of RMB8,328 million, or 21.6%, from RMB38,616 million in 2006. Loss ratio of the Company and its subsidiaries declined to 68.3% in 2007 from 69.4% in 2006. The increase in net claims incurred was primarily due to an increase in claims brought about by the increase in turnover of the Company and its subsidiaries. The net loss and loss adjustment expense reserves as of 31 December 2007 increased by RMB5,841 million as compared to 31 December 2006.

## **AMORTISATION OF DEFERRED ACQUISITION COSTS, NET**

Net amortisation of deferred acquisition costs of the Company and its subsidiaries was RMB11,151 million in 2007, representing an increase of 25.5% over RMB8,882 million in 2006. This increase was primarily due to a rapid expansion of business scale and the corresponding increase in underwriting expenses in 2007.

## **INSURANCE PROTECTION EXPENSES**

According to the relevant PRC insurance laws and regulations, the Company and its subsidiaries are required to accrue an insurance protection fund based on 1% of their retained premiums. Insurance protection expenses of the Company and its subsidiaries was RMB749 million in 2007, representing an increase of 22.8% from RMB610 million in 2006. The increase was due to an increase in retained premiums.

## **INTEREST EXPENSES CREDITED TO POLICYHOLDERS' DEPOSITS**

Interest expenses of the Company and its subsidiaries credited to policyholders' deposits was RMB248 million in 2007, representing an increase from RMB138 million in 2006. This was primarily due to the fact that the income payable to policyholders in respect of the Golden Bull investment-type homeowners insurance products (third generation) and Golden Baby investment-type accidental injury insurance products of the Company and its subsidiaries was calculated using floating interest rates. In 2007, with the several rounds of deposit rate hikes, the Company and its subsidiaries underwent an increase in interest expenses.

## **FINANCE COSTS**

Finance costs of the Company and its subsidiaries was RMB315 million in 2007, representing an increase of RMB106 million over RMB209 million in 2006. Such increase was primarily due to an increase in the interest expenses on securities sold under agreements to repurchase as compared to 2006.

## **GENERAL AND ADMINISTRATIVE EXPENSES**

General and administrative expenses of the Company and its subsidiaries were RMB11,311 million in 2007, representing an increase of RMB4,407 million from RMB6,904 million in 2006. This increase was primarily due to the following reasons: more funds were invested in the construction of distribution channels so as to achieve the rapid growth of businesses in the intensified market competition; secondly, special remuneration was granted as an incentive for the front-line staff; furthermore, in light of the rapid business growth, the Company increased expenditure on business operations and property-related expenses and office expenses accordingly so as to ensure service quality and efficiency.

## PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB4,456 million in 2007, representing an increase of RMB656 million from RMB3,800 million in 2006.

## TAX

Income tax expenses of the Company and its subsidiaries was RMB1,465 million in 2007, representing a decrease of RMB253 million from RMB1,718 million in 2006. The Company and its subsidiaries' effective tax rate decreased to 32.9% in 2007 from 45.2% in 2006. The major reason for such decrease was due to the reduction in the applicable corporate income tax rate from 33% to 25% since 1 January 2008. The Company reduced the tax rate used in determining the deferred tax assets and liabilities as at the end of 2007.

## PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

As a result of the foregoing, net profit of the Company and its subsidiaries was RMB2,991 million in 2007, representing an increase of RMB909 million from RMB2,082 million in 2006. Basic earnings per share attributable to equity holders of the parent in 2007 was RMB0.268.

## COMBINED RATIO

The combined ratio of the Company and its subsidiaries increased from 98.9% in 2006 to 102.1% in 2007, primarily due to an increase in the Company and its subsidiaries' expense ratio from 29.5% in 2006 to 33.8% in 2007. The relatively rapid increase in expense ratio was due to the intensified market competition and hence an increase in expenditure on basic expenses and provision of quality service.

## RESULTS OF SEGMENT OPERATIONS

### Motor Vehicle Insurance

	Year ended 31 December	
	2007	2006
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>61,988</b>	49,837
Net premiums earned	<b>53,273</b>	41,502
Net claims incurred	<b>(36,283)</b>	(30,295)
Amortisation of deferred acquisition costs, net	<b>(8,954)</b>	(6,935)
Insurance protection expenses	<b>(576)</b>	(467)
Segment profit before general and administrative expenses	<b>7,460</b>	3,805
Loss ratio	<b>68.1%</b>	73.0%
Expense ratio	<b>17.9%</b>	17.8%
Combined ratio	<b>86.0%</b>	90.8%

Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB61,988 million in 2007, representing an increase of RMB12,151 million, or 24.4%, from RMB49,837 million in 2006. This increase was primarily due to the growth of the compulsory third party motor insurance business.

Net premiums earned from the motor vehicle insurance segment of the Company and its subsidiaries was RMB53,273 million in 2007, representing an increase of RMB11,771 million, or 28.4%, from RMB41,502 million in 2006. This increase was primarily due to a relatively rapid growth in turnover in 2007. However, the effect of the foregoing was partially offset by an increase of RMB1,253 million in reinsurance premiums ceded as compared to 2006.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB36,283 million in 2007, representing an increase of RMB5,988 million, or 19.8%, from RMB30,295 million in 2006. Loss ratio decreased to 68.1% in 2007 from 73.0% in 2006. The slower increase in net claims incurred as compared to the pace of business scale development reflected a significant enhancement in business quality.

Net amortisation of deferred acquisition costs of the motor vehicle insurance segment of the Company and its subsidiaries was RMB8,954 million in 2007, representing an increase of 29.1% from RMB6,935 million in 2006. This increase was primarily due to an increase in the income from motor vehicle insurance segment and the corresponding increase in commission expenses, underwriting expenses, and government levies and surcharges.

Insurance protection expenses charged to the motor vehicle insurance segment of the Company and its subsidiaries increased by 23.3% from RMB467 million in 2006 to RMB576 million in 2007 due to an increase in retained premiums.

The expense ratio of the motor vehicle insurance segment of the Company and its subsidiaries increased from 17.8% in 2006 to 17.9% in 2007. The impact of the increase in net amortisation of deferred acquisition costs on the expense ratio was offset by the substantial increase in net premiums earned.

As a result of the foregoing, profit before general and administrative expenses of the motor vehicle insurance segment of the Company and its subsidiaries was RMB7,460 million in 2007, representing an increase of 96.1% compared to RMB3,805 million in 2006.

## Commercial Property Insurance

	Year ended 31 December	
	2007	2006
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>8,941</b>	8,193
Net premiums earned	<b>5,689</b>	5,747
Net claims incurred	<b>(4,347)</b>	(4,074)
Amortisation of deferred acquisition costs, net	<b>(836)</b>	(805)
Insurance protection expenses	<b>(59)</b>	(55)
Segment profit before general and administrative expenses	<b>447</b>	813
Loss ratio	<b>76.4%</b>	70.9%
Expense ratio	<b>15.7%</b>	15.0%
Combined ratio	<b>92.1%</b>	85.9%

Turnover of the commercial property insurance segment of the Company and its subsidiaries increased by RMB748 million, or 9.1%, from RMB8,193 million in 2006 to RMB8,941 million in 2007, primarily due to the stipulation of effective incentive policy and the strengthening of business supervision.

Net premiums earned from the commercial property insurance segment of the Company and its subsidiaries decreased by RMB58 million, or 1.0%, from RMB5,747 million in 2006 to RMB5,689 million in 2007, primarily due to a RMB411 million increase in reinsurance premiums ceded for commercial property insurance in 2007 as compared to 2006. Also, the decline of this insurance segment in 2006 resulted in a corresponding increase of RMB395 million in the changes in net unearned premium reserves in 2007.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries increased by RMB273 million from RMB4,074 million in 2006 to RMB4,347 million in 2007. The claim expenses and the claim expenses recovered decreased by RMB335 million and RMB175 million, respectively, and the changes in net loss and loss adjustment expense reserves increased by RMB433 million.

Net amortisation of deferred acquisition costs of the commercial property insurance segment of the Company and its subsidiaries increased from RMB805 million in 2006 to RMB836 million in 2007, primarily due to the increase in government levies and surcharges and the underwriting expenses.

Insurance protection expenses charged to the commercial property insurance segment of the Company and its subsidiaries increased from RMB55 million in 2006 to RMB59 million in 2007, due to an increase in retained premiums.

Due to the slight decrease in net premiums earned and the slight increase in deferred acquisition costs in 2007, the expense ratio of the commercial property insurance segment of the Company and its subsidiaries increased from 15.0% in 2006 to 15.7% in 2007.

As a result of the foregoing, profit before general and administrative expenses of the commercial property insurance segment of the Company and its subsidiaries was RMB447 million in 2007, representing a decrease of 45.0% compared to RMB813 million in 2006.

## Cargo Insurance

	Year ended 31 December	
	2007	2006
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>2,990</b>	2,763
Net premiums earned	<b>2,271</b>	2,073
Net claims incurred	<b>(1,016)</b>	(744)
Amortisation of deferred acquisition costs, net	<b>(334)</b>	(315)
Insurance protection expenses	<b>(23)</b>	(21)
Segment profit before general and administrative expenses	<b>898</b>	993
Loss ratio	<b>44.7%</b>	35.9%
Expense ratio	<b>15.7%</b>	16.2%
Combined ratio	<b>60.4%</b>	52.1%

Turnover of the cargo insurance segment of the Company and its subsidiaries increased by RMB227 million, or 8.2%, from RMB2,763 million in 2006 to RMB2,990 million in 2007, primarily due to the increase in the sources of insurance business and insured amount driven by the increase in trade and prices of domestic commodities and the increase in prices of energy and raw materials in the international market.

Net premiums earned from the cargo insurance segment of the Company and its subsidiaries increased by RMB198 million, or 9.6%, from RMB2,073 million in 2006 to RMB2,271 million in 2007, primarily due to an increase in income from insurance business.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries increased by 36.6% from RMB744 million in 2006 to RMB1,016 million in 2007. The changes in net loss and loss adjustment expense reserves increased by RMB233 million as compared to 2006. The loss ratio of the cargo insurance segment increased from 35.9% in 2006 to 44.7% in 2007. The increase was primarily due to intensified business competition, decrease in premium rates and an increase in risk per unit premium.

Net amortisation of deferred acquisition costs of the cargo insurance segment of the Company and its subsidiaries increased by RMB19 million from RMB315 million in 2006 to RMB334 million in 2007, primarily due to the increase in underwriting expenses.

Insurance protection expenses charged to the cargo insurance segment of the Company and its subsidiaries was RMB23 million in 2007, close to that in 2006, primarily due to the slight changes in the retained premiums of the cargo insurance segment in 2007 compared to that in 2006.

The expense ratio of the cargo insurance segment of the Company and its subsidiaries decreased from 16.2% in 2006 to 15.7% in 2007, primarily due to the increase in net premiums earned.

As a result of the foregoing, profit before general and administrative expenses of the cargo insurance segment of the Company and its subsidiaries was RMB898 million in 2007, representing a decrease of 9.6% compared to RMB993 million in 2006.

## Liability Insurance

	Year ended 31 December	
	2007	2006
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>3,640</b>	3,013
Net premiums earned	<b>2,534</b>	2,160
Net claims incurred	<b>(1,603)</b>	(1,123)
Amortisation of deferred acquisition costs, net	<b>(387)</b>	(309)
Insurance protection expenses	<b>(27)</b>	(23)
Segment profit before general and administrative expenses	<b>517</b>	705
Loss ratio	<b>63.3%</b>	52.0%
Expense ratio	<b>16.3%</b>	15.4%
Combined ratio	<b>79.6%</b>	67.4%

Turnover of the liability insurance segment of the Company and its subsidiaries was RMB3,640 million in 2007, representing an increase of RMB627 million, or 20.8%, from RMB3,013 million in 2006. This increase was primarily due to the increase in the turnover of the key products including carrier's liability insurance, school's liability insurance, employer's liability insurance, product liability insurance, and public liability insurance for fire.

Net premiums earned from the liability insurance segment of the Company and its subsidiaries was RMB2,534 million in 2007, representing an increase of RMB374 million, or 17.3%, from RMB2,160 million in 2006. This increase was primarily due to the increased turnover.

Net claims incurred of the liability insurance segment of the Company and its subsidiaries was RMB1,603 million in 2007, representing an increase of 42.7% from RMB1,123 million in 2006. This was primarily due to an increase of RMB375 million and RMB137 million in claim expenses and the changes in net loss and loss adjustment expense reserves compared to 2006, respectively. The loss ratio of the liability insurance segment increased from 52.0% in 2006 to 63.3% in 2007.

Net amortisation of deferred acquisition costs of the liability insurance segment of the Company and its subsidiaries was RMB387 million in 2007, representing an increase of RMB78 million from RMB309 million in 2006. This was primarily due to the increase in government levies and surcharges and the underwriting expenses as a result of the business growth.

Insurance protection expenses charged to the liability insurance segment of the Company and its subsidiaries was RMB27 million in 2007, representing an increase of RMB4 million, or 17.4%, from RMB23 million in 2006. This was primarily due to an increase in retained premiums in 2007.

The expense ratio of the liability insurance segment of the Company and its subsidiaries increased from 15.4% in 2006 to 16.3% in 2007.

As a result of the foregoing, profit before general and administrative expenses of the liability insurance segment of the Company and its subsidiaries was RMB517 million in 2007, representing a decrease of 26.7% compared to RMB705 million in 2006.

### **Accidental Injury Insurance**

	<b>Year ended 31 December</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB million</i>	<i>RMB million</i>
Turnover	<b>2,874</b>	2,561
Net premiums earned	<b>1,838</b>	1,827
Net claims incurred	<b>(1,133)</b>	(1,004)
Amortisation of deferred acquisition costs, net	<b>(253)</b>	(262)
Insurance protection expenses	<b>(18)</b>	(18)
Segment profit before general and administrative expenses	<b>434</b>	543
Loss ratio	<b>61.6%</b>	55.0%
Expense ratio	<b>14.7%</b>	15.3%
Combined ratio	<b>76.3%</b>	70.3%

Turnover of the accidental injury insurance segment of the Company and its subsidiaries was RMB2,874 million in 2007, representing an increase of RMB313 million, or 12.2%, from RMB2,561 million in 2006. This increase was primarily due to the relatively rapid increase in the number of insurance policies underwritten.

Net premiums earned from the accidental injury insurance segment of the Company and its subsidiaries was RMB1,838 million in 2007, representing an increase of RMB11 million, or 0.6%, from RMB1,827 million in 2006. Increase in turnover was at a similar level with that in reinsurance premiums ceded.

Net claims incurred of the accidental injury insurance segment of the Company and its subsidiaries was RMB1,133 million in 2007, representing an increase of 12.8% from RMB1,004 million in 2006. This was primarily due to an increase in the turnover of insurance business. The loss ratio of the accidental injury insurance segment increased from 55.0% in 2006 to 61.6% in 2007.

Net amortisation of deferred acquisition costs of the accidental injury insurance segment of the Company and its subsidiaries was RMB253 million in 2007, representing a decrease of RMB9 million from RMB262 million in 2006. This was primarily due to the fact that the increase in reinsurance commission

recovered was offset by the increase in commission expenses paid to insurance intermediaries and agents and the increase in government levies and surcharges.

Insurance protection expenses charged to the accidental injury insurance segment of the Company and its subsidiaries was RMB18 million in 2007, close to that in 2006, as there was basically no change in the retained premiums of the accidental injury insurance segment in 2007.

The expense ratio of the accidental injury insurance segment of the Company and its subsidiaries decreased to 14.7% in 2007 from 15.3% in 2006.

As a result of the foregoing, profit before general and administrative expenses of the accidental injury insurance segment of the Company and its subsidiaries was RMB434 million in 2007, representing a decrease of 20.1% compared to RMB543 million in 2006.

## **DEVELOPMENT OF NEW PRODUCTS**

In 2007, the Company developed a total of 640 new insurance products, covering 14 insurance categories other than mandatory insurance and investment-type insurance. Amongst all new insurance products, 345 products were national products and 295 products were regional products.

## **CASH FLOW**

	<b>Year ended 31 December</b>	
	<b>2007</b>	2006
	<i><b>RMB million</b></i>	<i>RMB million</i>
Net cash inflow from operating activities	<b>11,259</b>	5,324
Net cash outflow from investing activities	<b>(4,833)</b>	(912)
Net cash inflow/(outflow) from financing activities	<b>(2,718)</b>	1,299
Net increase in cash and cash equivalents	<b><u>3,708</u></b>	<u>5,711</u>

Net cash inflow generated from the operating activities of the Company and its subsidiaries was RMB11,259 million in 2007, representing an increase of RMB5,935 million over 2006. This was primarily due to an increase of RMB14,431 million in received cash premiums over 2006. However, this effect was partially offset by an increase of RMB4,689 million in claim expenses paid in cash.

Net cash outflow from the investing activities of the Company and its subsidiaries was RMB4,833 million in 2007, representing an increase of RMB3,921 million compared to 2006. Such increase was primarily due to the decrease of RMB3,872 million in the deposits with banks or other financial institutions with a maturity of three months or longer and other deposits of the same type, and the substantial decrease in the new fixed term deposits and bank deposit reserves compared to 2006, which were used to meet the capital needs for investment.

Net cash outflow from the financing activities of the Company and its subsidiaries was RMB2,718 million in 2007, while the net cash inflow from such activities in 2006 was RMB1,299 million. This was primarily due to the increase of RMB1,000 million in net cash inflow from the financing activities as a result of the issuance of subordinated debts in 2006, while the interim dividend of RMB1,014 million and policyholders' deposits and investment amount of RMB1,189 million were paid in 2007, the combination of the latter two gave rise to an increase of RMB2,510 million in net cash outflow compared to 2006.

Net increase in cash and cash equivalents (mainly in RMB) of the Company and its subsidiaries in 2007 was RMB3,708 million.

## **LIQUIDITY**

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

The Company issued the fixed-rate subordinated debts of RMB3,000 million with a term of 10 years to institutional investors in the PRC in December 2006 for the primary purpose of increasing the Company's solvency.

The Company obtained a 10-year revolving credit facility from China Development Bank for up to RMB10 billion in 2003. Each drawdown made under this 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 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 the Company and its subsidiaries have sufficient working capital.

## **CAPITAL EXPENDITURE**

The capital expenditure of the Company and its subsidiaries has primarily been for property construction, acquisition of motor vehicles for business needs and development of information system. Capital expenditure of the Company and its subsidiaries was RMB890 million in 2007.

## **SOLVENCY MARGIN REQUIREMENT**

The Company is subject to a number of laws and 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 was required to maintain a minimum solvency margin of RMB11,235 million on 31 December 2007. The Company's actual solvency margin calculated pursuant to the regulations of the China Insurance Regulatory Commission ("CIRC") was RMB21,243 million and solvency margin adequacy ratio was 189% (Note).

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

*Note:* The calculation was based on the financial statements prepared under the PRC Accounting Standards for Business Enterprises.

## **PREMIUM TO CAPITAL RATIO**

The premium to capital ratio is the ratio of retained premiums in any financial year to the sum of paid-in capital, capital reserve and surplus reserve. Pursuant to the Insurance Law, this premium to capital ratio may not exceed 4 times for any property and casualty insurance company in any financial year. The premium to capital ratio for the Company in 2007 was 3.66 times (Note).

*Note:* The calculation was based on the financial statements prepared under the PRC Accounting Standards for Business Enterprises.

## **GEARING RATIO**

As of 31 December 2007, the gearing ratio (Note) of the Company and its subsidiaries was 78.3%, representing an increase of 0.5 percentage points from 77.8% as of 31 December 2006.

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

## **INTEREST RATE RISK**

The holdings of the Company and its subsidiaries in fixed income investments or fixed interest rate liabilities are subject to interest rate risk. Fixed income investments include primarily the holdings of the Company and its subsidiaries in fixed term deposits, negotiated deposits and debt securities measured at fair value. The Company and its subsidiaries also invest in a certain number of interest rate-sensitive products and derivative financial instruments.

The Company and its subsidiaries ensure stable returns by managing exposure to risks associated with interest rate fluctuations through interest rate swaps, active review of the investment portfolio and consultation with financial investment experts, and by adopting appropriate investment strategies.

## **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, reinsurance assets, debt securities and deposits with commercial banks of the Company and its subsidiaries are subject to credit risk.

The Company and its subsidiaries continuously strengthened the management of premiums receivable by making regular analysis and evaluation of clients' credit and financial status, intensely monitoring the recoverability of premiums receivable, and by working closely with insurance intermediaries so as to reduce credit risks in insurance businesses.

The Company and its subsidiaries are also subject to credit risk with respect to amounts owed to them by their reinsurers. Except when dealing with national reinsurers such as China Property and Casualty Reinsurance Company Ltd., the Company and its subsidiaries purchase reinsurance primarily from reinsurers with A.M. Best ratings of A- or above, and pay particular attention to their creditworthiness and financial condition.

The Company and its subsidiaries diligently manage credit risk in debt securities by analysing the creditworthiness of companies prior to making investments and by strictly conforming to the regulation laid down by the CIRC which permits investments in corporate bonds with rating higher than AA only.

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

## **EXCHANGE RATE RISK**

The Company and its subsidiaries conduct their business primarily in Renminbi, which is also their functional and financial reporting currency.

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 subject to exchange rate risk with respect to their holdings in certain assets such as bank deposits, debt securities and certain insurance liabilities which are denominated in foreign currencies, primarily US dollars.

## **INTEREST RATE SWAPS**

The Company's financial assets which bear interests at different rates would generate uncertain cash flow. As such, interest rate swap contracts are used by the Company to hedge against such interest rate risk whereby fixed interests are received from, and floating interests are paid to, the counterparties. As of 31 December 2007, the interest rate swap contracts held by the Company had a total notional amount of RMB850 million.

## **INVESTMENT IN ASSOCIATE**

In June 2007, the Company contributed RMB812 million to the registered capital of PICC Life Insurance Company Limited, a fellow subsidiary of the Company, thereby holding 28% of its equity interests. The Directors believe that such transaction will bring to the Company the long-term benefit from the development of China's life insurance sector and help promoting the cross-sales business.

## **EMPLOYEES**

As of 31 December 2007, the Company had 60,102 employees. Staff remuneration payment by the Company and its subsidiaries in 2007 was RMB6,085 million, which included basic salaries, performance-related bonus, and various insurance and benefit contributed in accordance with the relevant PRC regulations. Senior management of the Company were entitled to share appreciation rights. No shares will be issued under the scheme, therefore the shareholdings of shareholders will not be diluted. The Company and its subsidiaries enhanced the performance and work efficiency of employees by providing various career development paths, strengthening personnel training and implementation of performance appraisal. The Company is of the view that the Company and its subsidiaries maintain a good relationship with their employees.

## **EVENTS AFTER THE BALANCE SHEET DATE**

In early 2008, there was a severe snow storm in certain districts of the PRC which caused extensive damage to local public facilities and personal property. This natural disaster resulted in claims across different lines of business. Up to 9 April 2008, the Company and its subsidiaries have paid claims of RMB2,120 million in respect of this snow storm. Reinsurance has been arranged for certain of these insured properties. However, since the claims adjustment and the handling of corresponding reinsurance recoveries are still in progress, the Company and its subsidiaries are unable to determine its overall impact at this stage.

Compulsory third party motor insurance is mandatory in the PRC and a major product of the Company and its subsidiaries. Its premiums and terms are stipulated by the Insurance Association of China. Subsequent to the balance sheet date, on 1 February 2008, the premium rates for 16 types of vehicles were adjusted downward by between 5% to 39%, while the maximum compensation limits were revised from RMB60,000 to RMB122,000 per policy. These changes in compulsory third party motor insurance will affect the operation of motor vehicle insurance business in the future.

## **LOOKING FORWARD**

The economy of the PRC will maintain a steady and rapid growth in 2008. A policy background and economic climate that are advantageous to the development of the PRC insurance industry are now taking shape, with the full social development focusing on improvement in people's quality of life, the progress in governmental institutional reform and in the development of the new socialist rural areas, and the transition of the ways of economic development. There are broad prospects for the insurance market for agriculture, rural areas and farmers. New insurance products such as catastrophe insurance and environmental liability insurance are likely to become new points of business growth. The channels for insurance capital utilisation are expected to be further widened. Moreover, the further identification of PICC Group's strategies and goals, the further progress in resources integration, the increasing intensification of business collaboration, the implementation of cross-sales and the structural expansion of the PICC Group will together be paving the way for the Company to achieve substantial and rapid leapfrogging development. Through pragmatic and effective efforts, the Company will strive to achieve substantial and rapid leapfrogging development, create greater value for the shareholders and make greater contributions to the development of a harmonious society.

## **FINAL DIVIDEND**

The Board of Directors did not propose any final dividend for 2007.

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

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

## CORPORATE GOVERNANCE

Save as during the period from 1 February 2007 to 22 March 2007 when one of the requirements under code provision A.2.1 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Code on Corporate Governance Practices”) had not been complied with, the Company complied with all the other code provisions of the Code on Corporate Governance Practices in the Year. According to code provision A.2.1, the roles of chairman and chief executive officer should not be performed by the same person. On 1 February 2007, Mr. Tang Yunxiang, the former Chairman, resigned as the Company’s Chairman. The Board of Directors authorised Mr. Wang Yi, the Vice Chairman and President of the Company, to assume the role of the Chairman until the position of the Chairman had been replaced. On 23 March 2007, Mr. Wu Yan was appointed as the Company’s Chairman and Executive Director and as such, all requirements under code provision A.2.1 have been satisfied.

## AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2007.

By Order of the Board

**Wu Yan**  
Chairman

Beijing, the PRC, 15 April 2008

*On the date of this announcement, the Chairman of the Board is Mr. Wu Yan (executive director), the Vice Chairman is Mr. Wang Yi (executive director), Mr. Wang Yincheng and Md. Liu Zhenghuan are the executive directors, the non-executive directors are Mr. Tse Sze-Wing, Edmund, Mr. Wu Gaolian, Mr. Zhou Shurui and Mr. Li Tao, the independent non-executive directors are Mr. Cheng Wai Chee, Christopher, Mr. Lu Zhengfei, Mr. Luk Kin Yu, Peter and Mr. Ding Ningning.*