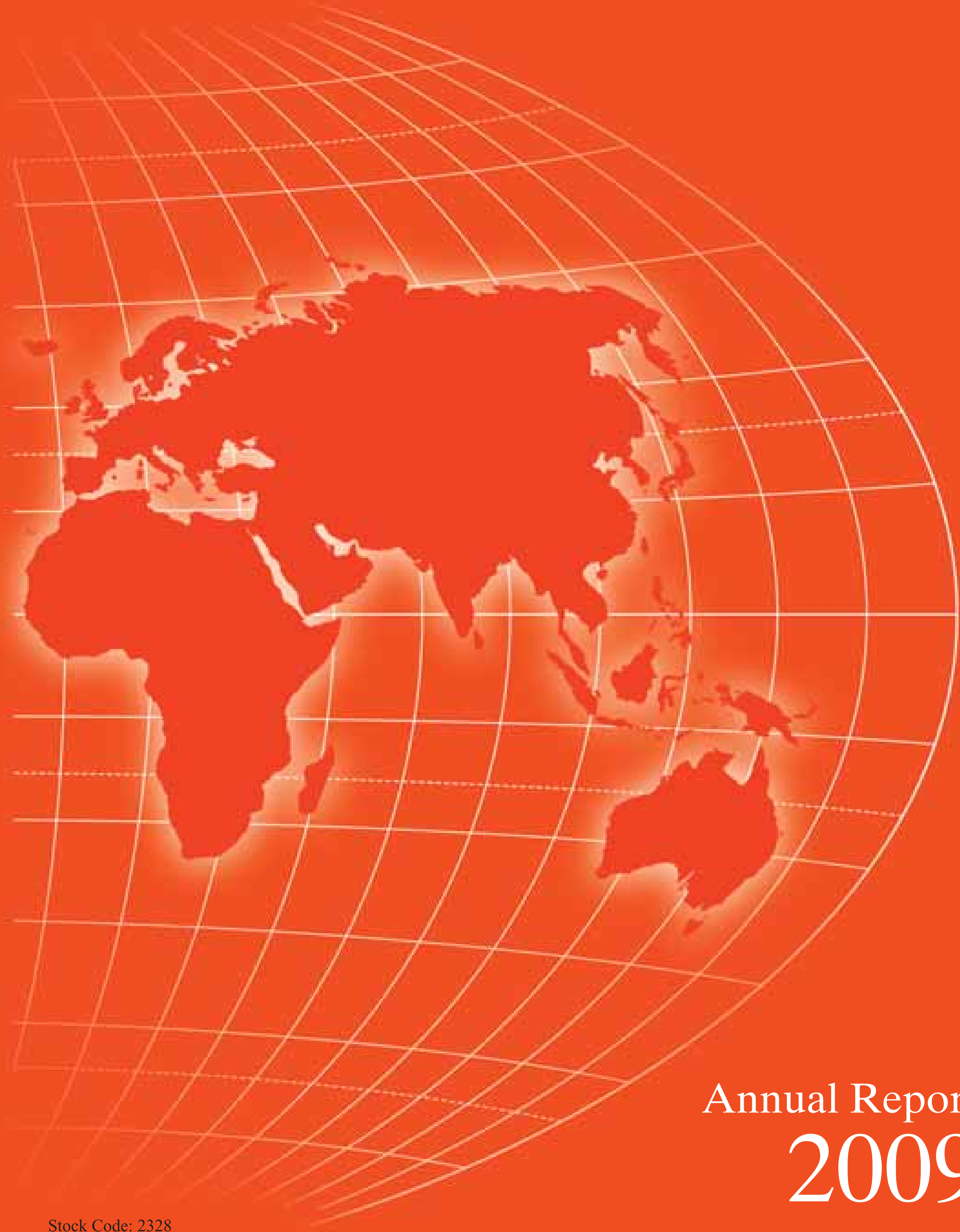
中国人民财产保险股份有限公司
PICC PROPERTY AND CASUALTY COMPANY LIMITED



# Annual Report 2009

Stock Code: 2328

# Company Profile

PICC Property and Casualty Company Limited (the "Company"), the largest non-life insurance company in mainland China, was established in July 2003 with The People's Insurance Company (Group) of China Limited ("PICC Group") as its sole promoter. The Company became the first domestic financial enterprise to list overseas when the Company successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 6 November 2003 through the issuance of 3,455,980,000 H shares. The Company currently has a total share capital of 11,141,800,000 shares, of which 69% are held by PICC Group and 9.9% are held by American International Group, Inc. ("AIG"), a strategic investor of the Company.

## Principal Activities

Motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, hull insurance, agriculture insurance, surety insurance, which are denominated in RMB and foreign currencies, together with the reinsurance of the above insurance products, and investment and fund application business permitted under the relevant laws and regulations of the PRC.

## Competitive Advantages

- Brand Excellence: The "PICC" brand name has grown up with the People's Republic of China, and has wide influence and outstanding reputation domestically and abroad. In the Asian Insurance Competency Ranking organised by, among others, *21st Century Business Herald*, the Company was awarded the "Most Competitive Non-life Insurance Company in Asia" for two consecutive years in 2008 and 2009.

- Talent Excellence: The Company has long been maintaining its talent-based strategy of "managed by experts and winning by competence". The Company attaches great importance to expert team building and talents training, and has trained up a large number of managerial experts with substantial experience and technical experts in every link of the non-life insurance business chain.

- Product Excellence: The Company has a comprehensive product research and development system, strong product development capabilities and a full-range of on-shelf products, covering the whole non-life insurance business scope. Many products are innovative and pioneering in the industry. A series of proprietary insurance products with Chinese features has been developed by the Company specially for the Beijing 2008 Olympic Games and the World Expo 2010 Shanghai China.

- Professional Excellence: The Company is in a leading position in the core technical areas of domestic non-life insurance business such as underwriting, claim settlement and reinsurance, and has accumulated substantial experience in risk management by long-term business practice.

- Service Excellence: The Company's business network covers urban and rural areas across the country with more than 10,000 business offices. The Company is the first to launch a round-the-clock service hotline "95518" across China, providing customers with multi-functional and personalised services with regard to enquiries, insurance application appointment, insurance card registration, claim reporting and vehicle rescue anytime anywhere.

# Contents

Summaries of the results and the assets and liabilities of the Company and its subsidiaries for each of the past five financial years are set out as follows:

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* (Restated) | *RMB million* |
| Turnover | 65,914 | 71,348 | 88,668 | 101,878 | **119,771** |
| Underwriting profit/(loss) | 1,508 | 604 | (1,427) | (2,605) | **(2,060)** |
| Net investment income | 1,478 | 1,689 | 3,229 | 3,716 | **2,866** |
| Net realised and unrealised gains/(losses) on investments | (336) | 2,372 | 4,442 | 319 | **1,711** |
| Profit/(loss) before tax | 1,945 | 3,800 | 4,456 | (370) | **2,167** |
| Income tax expense | (1,005) | (1,718) | (1,465) | 479 | **(384)** |
| Profit attributable to owners of the parent | 940 | 2,082 | 2,991 | 109 | **1,783** |

Only certain material items of the income statement are extracted and presented in the table above.

## ASSETS AND LIABILITIES

| | 31 December | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* (Restated) | *RMB million* |
| Total assets | 95,112 | 106,974 | 134,265 | 144,250 | **165,383** |
| Total liabilities | 77,314 | 86,247 | 108,187 | 124,506 | **143,620** |
| Thereinto: subordinated loan/debts | 2,000 | 3,000 | 3,000 | 3,000 | **8,000** |
| Net assets | 17,798 | 20,727 | 26,078 | 19,744 | **21,763** |

The figures for 2005, 2006 and 2007 are not retrospectively adjusted for the changes in accounting policies made in 2009.

**Mr Wu Yan**
**Chairman of the Company**

Dear Shareholders,

2009 is the 60th anniversary of the founding of the Company. Having seized the right opportunity and moment and made concerted efforts at all levels in the Company, we are moving to a new phase of reform and development. In the face of the austere challenges resulting from the spread of the global financial crisis and China's decelerating economic growth, we took a positive attitude and made efforts together to overcome the difficulties. We achieved a sustainable and relatively rapid business growth, effectively enhanced our business quality, reached a historical high level of net cash inflow from operating activities and further increased our profitability. Our leading position in the non-life insurance market has been continuously strengthened.

In 2009, premiums income of the entire insurance industry of mainland China reached RMB1,113.73 billion, representing an increase of 13.8% year on year, of which premiums income of the property and casualty insurance reached RMB287.58 billion, representing an increase of 23.1% year on year. The insurance industry of mainland China maintained a rapid and stable growth momentum and the market order was improving gradually.

In 2009, turnover of the Company and its subsidiaries amounted to RMB119,771 million, representing an increase of 17.6% year on year. Net premiums earned reached RMB93,296 million, representing an increase of 16.6% year on year. Loss ratio was 69.2%, expense ratio was 33.0% and combined ratio was 102.2%. Net cash inflow from operating activities amounted to RMB21,682 million, representing an increase of 407.1% year on year and reaching the highest amount since the listing of the Company. Investment gains amounted to RMB4,577 million, representing an increase of 13.4% year on year. Net profit was RMB1,783 million, representing an increase of 1,535.8% year on year. Return on net assets was 8.6%, representing an increase of 8.1 percentage points year on year. At the end of 2009, the total assets of the Company and its subsidiaries was RMB165,383 million, representing an increase of 14.7% over that at the end of 2008. Net assets of the Company and its subsidiaries was RMB21,763 million, representing an increase of 10.2% as compared to that at the end of 2008. Investment assets of the Company and its subsidiaries was RMB109,940 million, surpassing the RMB100 billion milestone and representing an increase of RMB28,014 million, up by 34.2% as compared to that at the end of 2008. The solvency margin adequacy ratio of the Company was 111%. With a market share of 40%, the leading position of the Company in the non-life insurance market has been continuously strengthened.

In 2009, the Company continued to follow the keynote of "development, profitability and risk control" and made great efforts in promoting its business development, perfecting its operation and management model, enhancing its profitability, strengthening its internal control and compliance management and proactively fulfilling its social responsibilities. Its intrinsic quality and future development capability were further enhanced.

**Sagaciously seizing opportunities for development and resolutely promoting development.** By proactively seizing the opportunities brought about by the expansion of domestic demand and the regulation of the insurance market in the country, the Company formulated and implemented proactive marketing strategy, promoted the establishment of sales management system, vigorously built the qualified teams and benchmark teams and established a centralised e-commercial center in order to continuously enhance its competitiveness in the urban market. The Company also deepened its co-operation with the government, proactively carried out the building of a model county of rural insurance development so as to make great efforts in exploring the rural market. This year, the monthly premiums of the Company exceeded RMB10 billion, which was a new milestone of the Company's development.

**Continuously perfecting its operation and management model and pressing ahead with reform and innovation.** The Company made great efforts in promoting the standardised operational procedure system and the application of employee identification and authorisation management system, which has effectively uplifted the quality of the Company's standardised management. The Company established a nationwide production control center, basically completed the transformation of the insurance underwriting center into a policy issuance management center, sturdily centralised the claims settlement and the operation of 95518 Call Center at the provincial level, thereby strengthening its centralised management. The Company also established a classified dynamic management system according to the different natures of businesses and branches, strengthened the management of key branches, key product lines and key operation sections and promoted the multi-dimensional business quality analysis model which was based on the year of policy, the year of occurrence of accident and the financial year, so as to continuously stimulate the driving forces for the development of the Company.

**Further enhancing its profitability and determinedly maintaining operation effectiveness.** The Company established a platform for product knowledge management and evaluated the profitability of products on a regular basis. The Company persistently upheld its underwriting policy targeting at profitability, boosted the functions of its product lines, strengthened its category-based guidance on and dynamic supervision of business and disposed of its loss-making businesses by implementing a business restructuring plan of RMB2 billion. The Company also implemented supervision and provision of direction by category in respect of its claims settlement operation and established a claims verification and quotation center in order to control claim costs. Moreover, the Company refined its operation performance appraisal methods by introducing a pilot EVA appraisal system to highlight value creation and developed an open and transparent performance supervision and assessment mechanism.


**At the Company's "Lucky Draw for 10,000 Guangzhou Asian Games and Shanghai World Expo Tickets", Chairman Wu Yan (right) drew the World Expo ticket numbered 0001.**


**At The 69th Annual General Meeting of International Union of Aviation Insurers hosted by the Company, Chairman Wu Yan (fifth from the left), Chairman of the Supervisory Committee Ding Yunzhou (fourth from the left) and Vice President Jiang Caishi (first from the left) met with the guests attending the meeting.**

**Strengthening internal control and compliance management and resolutely controlling risks.** The Company carried out the examination of the truthfulness of financial and business data and conducted special programs to fight against pseudo insurers, fake policies and false claims settlement cases. Through strictly monitoring the claims made by agents, promoting data clearance on a same-day basis and implementing "zero cash" management, operational risks were conscientiously controlled. The Company launched the internal control evaluation and improvement program, set up the system for post-audit evaluation and report of violations, and strengthened the practice of accountability. The Company also enhanced its management of and control over premiums receivable and adopted the practice of issuing motor vehicle insurance policies only after premiums collection and government subsidised rural insurance policies after collection of premiums from the farmers. In regard to investment strategy, the Company proactively made adjustments to strengthen the management of investment risks.

**Chairman Wu Yan (fourth from the right), President Wang Yincheng (third from the right) and Vice President Jiang Caishi (second from the right) greeted the excellent sales representatives at the Excellent Sales Representatives Summit.**

**Proactively making contributions to economic and social development and unwaveringly fulfilling its social responsibilities.** The Company proactively served the agriculture, farmers and rural areas by promoting, to the fullest extent, the development of farming insurance, breeding insurance, farmhouse insurance, forestry insurance and other rural insurances with local characteristics. In response to the State's RMB4,000 billion investment plan, the Company underwrote a number of large-scale key projects. It proactively participated in the establishment of the national medical protection system and explored the development of supplementary social security businesses. The Company focused on performing the supplementary social management function of liability insurance and made new breakthroughs in respect of the production safety liability insurance and social security insurance. In the face of the windstorm and hailstorm in Xinjiang, the flooding in southern Jiangxi, Typhoon Morakot and other severe natural disasters, the Company provided disaster relief and settled claims promptly, thereby wining itself praises from the society and showing the Company as an outstanding corporate citizen.

2010 is an important year for the Company to complete its own plan satisfactorily in line with the "11th Five-Year Plan" of China and lay a solid foundation for the development of the Company in line with the "12th Five-Year Plan" of China. Overall speaking, the environment for the development of the Company will further improve this year and the Company is moving into a new and important strategic and opportune stage. **In respect of the economic and social development in China**, China's economy is the first to have recovered from the impact of the global financial crisis and its upturn momentum is remarkable. Meanwhile, the economic and social development in China is changing profoundly. Both urbanisation and industrialisation are accelerating and the automobile and housing consumption remains vigorous. Moreover, emerging strategic industries will become a new source of economic growth and the investment in social construction will further increase. These factors will in turn provide a solid economic foundation for the development of the Company. **In terms of the development of the insurance industry in China**, the industry is in the process of transformation from external growth to contents growth in terms of development, from homogenisation to differentiation in terms of competition, and from extensive exploitation to harmonious utilisation in terms of resources utilisation. The competition in the industry is getting more regulated.

Besides, the business philosophy of the industry is changing gradually by which, operation with focus on profitability, in particular underwriting profitability, becomes the consensus among the market players. All of these will create a favourable environment for the development of the Company. **In terms of the Company itself**, the direction for its development becomes more certain, the foundation for its development becomes stronger and all of its staff show a refreshed spirit. Meanwhile, the successful completion of the restructuring of PICC Group, the promotion of cross-selling and the establishment of the unified information platform will provide greater support and safeguard for the Company to achieve rapid, high-quality and substantial development.

In 2010, the Company, by adhering to its keynote of "development promotion, profitability elevation and risk control", will focus on transforming its mode of development. While maintaining a stable business growth, the Company will continue to enhance the quality and effectiveness of its development as well as consolidate and strengthen the support and safeguard provided by its conventional core businesses and the divergence effect of such businesses. Therefore, the Company will commit itself to the following key tasks. **Firstly, the Company will enhance its marketing strategy by focusing on clear targets so as to achieve profitable development**. It will make more efforts in conducting market research and implement differentiated competition strategies according to the characteristics of different regions and product lines. The Company will promote product upgrades and explore the transformation from "selling products" to "providing overall solutions for risks" to break out of the competition model which solely focuses on price. The Company will restructure its channels resources, build an all-rounded sales and service network and strive for the maximisation of the overall effectiveness of the channels. **Secondly, the Company will enhance its underwriting profitability and commit itself to increasing the underwriting profit.** It will strengthen its product line pricing management function and continue to implement selective underwriting policy. It will reinforce the adjustments of its business structure, centralise its management and control of unusual claims pending for settlement, solemnly discipline against settlement in violation of regulations, promote differentiated allocation of financial resources and improve the efficiency of resources utilisation. **Thirdly, the Company will continue to refine its operation and management model and promote corporate management upgrades.** It will further refine the dual management structure in respect of provincial branches and product lines. In addition, the Company will fully complete the centralisation of underwriting, claims settlement and 95518 Call Center at the provincial level, accelerate the financial centralisation at the provincial level, promote the centralised application of information technology, and streamline and optimise the current standardisation system. The Company will also continue to promote the standardisation of customer services and persistently enhance the efficiency and quality of its operation process. **Fourthly, the Company will promote efficient funds utilisation and stably increase gains from funds utilisation.** It will promote the centralisation of fund payment and collection model and make further efforts in cancelling redundant bank accounts so as to reduce the cost of account usage and excess capital maintenance. In addition, the Company will perfect its entrusted investment supervision mechanism, establish funds liquidity management model to track changes in fund flow, and reasonably allocate short-term and long-term fund investments. The Company will also make investments in real estate, unlisted equity and infrastructure. **Fifthly, the Company will strengthen its compliant business operation and focus on risk control.** The Company will enhance the awareness of compliant business operation, actively cooperate with regulatory authorities in regulating the market order, make great efforts to analyse and monitor high-risk businesses, organise special personnel to make sample inspection and rechecking of settlement cases, increase its efforts in fighting against false settlement cases, and pay high attention to risks that may arise from new investment channels and vehicles.

We have been pursuing the goal of succeeding in the 60 years' glorious tradition and building the Company into a global leading non-life insurance company. From this new starting point, we will seize the development opportunities, transform our growth mode, solidify our growth foundation, and keep enthusiasm and high morale in an effort to bring the maximum value to our shareholders and make greater contributions towards building a harmonious society.

**Wu Yan**
*Chairman*

Beijing, the PRC
14 April 2010

## DIRECTORS

**Wu Yan**, age 49, Chairman of the Board of Directors of the Company, President of PICC Group and since September 2009 also the Chairman of the Board of Directors of PICC Group. Mr Wu is also the Chairman of the Board of Directors of PICC Life Insurance Company Limited and PICC Asset Management Company Limited, and a member of the 11th National Committee of the Chinese People's Political Consultative Conference. From 1985 to 1998, Mr Wu was the Deputy Secretary of the Communist Youth League of Xinjiang Autonomous Region, the Party Secretary of the Communist Party Committee of the city of Bole, a member of the Standing Committee of Beortalar Autonomous County Communist Party Committee, the Party Secretary of the Communist Youth League of Xinjiang Autonomous Region, and the Vice Minister of the Organisation Department of the Central Committee of the Communist Youth League. Mr Wu was the Vice Minister of the United Front and Mass Work Department of the Central Finance League, the Party Secretary of the Finance League of the Central Committee of the Communist Youth League and the President of the National Finance Youth Union from 1998 to 2003. Mr Wu was the Vice President of China Life Insurance (Group) Company from 2003 to January 2007, a Director and the President of China Life Insurance Asset Management Company Limited and a Non-executive Director of China Life Insurance Company Limited* from 2003 to 2005. Mr Wu was an Executive Director and the President of China Life Insurance Company Limited* from January 2006 to January 2007. Mr Wu graduated from Xinjiang College of Finance and Economics and the Graduate School of Chinese Academy of Social Sciences, respectively majoring in finance, international finance and applied economics, with a doctorate degree in economics.

* This company is listed on the New York Stock Exchange, Hong Kong Stock Exchange and Shanghai Stock Exchange.

**Wang Yincheng**, age 49, a senior accountant, Vice Chairman of the Board of Directors, Executive Director and President of the Company, Vice President of PICC Group and since September 2009 also an Executive Director of PICC Group. Mr Wang joined The People's Insurance Company of China ("PICC") in 1982 and was previously the Executive Deputy General Manager of the Planning and Finance Department of PICC Property Insurance Company, General Manager of PICC Shenzhen Branch, Assistant General Manager of PICC and Vice President of the Company. Mr Wang graduated from Zhongnan University of Economics and Law with a doctorate degree in economics. He has 28 years of experience in economic and financial management in the PRC insurance industry.

**Tse Sze-Wing**, **Edmund**, GBS, age 72, Non-executive Director of the Company. Mr Tse has been appointed as the Honorary Chairman of American International Assurance Company, Limited (AIA) since July 2009. Mr Tse was previously the Senior Vice Chairman of Life Insurance of American International Group, Inc. (AIG)*, and the Chairman and Chief Executive Officer of AIA. Mr Tse also held various senior positions and directorships in other AIG* companies around the world. In 2003, he was elected to the Insurance Hall of Fame, the most prestigious award in the global insurance industry. Mr Tse graduated with a bachelor's degree in Mathematics from The University of Hong Kong, which later conferred on him an Honorary Fellowship and an Honorary Doctorate Degree in Social Sciences. Mr Tse also holds diplomas from the College of Insurance, USA and the Graduate School of Business of Stanford University. He has 49 years of extensive experience in Asian and global insurance markets.

* This company is listed on the stock exchanges in New York, Ireland and Tokyo.

**Lu Zhengfei**, age 47, a professor and a supervisor of doctoral students, Independent Non-executive Director of the Company. Mr Lu is the Associate Dean of Guanghua School of Management, Peking University, a consultant to the China Accounting Standards Committee of the Ministry of Finance of the PRC, a committee member and a member of the Academic Committee of the Chinese Accounting Association, a member of the Standing Committee of the Chinese Audit Association, and a committee member of the Chinese Tax Association and the Chinese Costing Research Institute. He is also a member of the Editorial Committees of *Accounting Research* and *Auditing Research*, and has been appointed an Independent Non-executive Director of Sinotrans Limited* and Sino Biopharmaceutical Limited* since 2007 and an Independent Non-executive Director of China National Materials Company Limited* since December 2009. Mr Lu was elected into the "100 Outstanding Persons' Research Program" as a man of talent in social science theories in Beijing in 2001, and into the "New Century Excellent Scholarship Program" of the Ministry of Education of the PRC in 2005. Mr Lu graduated from Nanjing University with a doctorate degree in economics, and completed the post-doctoral research on economics (accounting) at Renmin University of China.

* These companies are listed on the Hong Kong Stock Exchange.

**Luk Kin Yu, Peter**, age 69, Independent Non-executive Director of the Company. Mr Luk is a fellow member of the Institute of Actuaries in England, the Institute of Actuaries of Australia and the Society of Actuaries in the United States of America, respectively. Mr Luk was the Chief Actuary of American International Assurance Company, Limited, the Chief Financial Officer of the Pacific-Asia Division of Manufacturers Life Insurance Co. Ltd., the Appointed Actuary of Australian Casualty and Life Insurance Co. Ltd., the Principal Actuary of Mercer, Campbell, Cook & Knight, and an Executive Director and the Chief Financial Officer of Pacific Century Insurance Holdings Limited. Mr Luk is the founding president of the Actuarial Society of Hong Kong and was the President of that society for several sessions, a member of the Advisory Committee of Insurance, Financial and Actuarial Analysis of The Chinese University of Hong Kong, and the Chairman of the Advisory Committee of the Department of Mathematics of City University of Hong Kong. He is the Chief Executive Officer of Plan-B Consulting Limited, and an Independent Non-executive Director of HSBC Life Insurance (International) Limited and HSBC Insurance (Asia) Limited. Mr Luk has substantial experience in the insurance industry.

**Ding Ningning**, age 62, Independent Non-executive Director of the Company. Mr Ding is a researcher of the Social Development Research Department of the Development Research Centre ("DRC") of the State Council of the PRC, a member of the Academic Committee of the DRC, and a Director of the China Energy Research Society and the China Association for Labor Studies. Mr Ding has been conducting research at the DRC for 28 years since 1982, and was the Director of the Enterprise Economic Research Department of the DRC from 1993 to 1998 and the Director of the Social Development Research Department of the DRC from 1998 to 2008. He was a member of the Listed Company Supervisory Committee of China Securities Regulatory Commission for four sessions from 1993 to 2000. Mr Ding graduated from Tsinghua University with a bachelor's degree in electric engineering. Mr Ding enrolled in the Chinese Communist Party School and graduated from its first doctorate course in economics. Mr Ding studied and conducted research on British economic history at The Centre of Chinese Study of Oxford University, England, and has substantial experience in the area of economic research.

**Zhou Shurui**, age 56, a senior administrative engineer, Non-executive Director of the Company, and since September 2009 also the Chairman of the Supervisory Committee of PICC Group. Mr Zhou previously worked in the Hebei Provincial People's Government. Mr Zhou joined PICC in 1992 and was previously the Deputy Manager of the Monitoring Office, Manager, Assistant General Manager, Deputy General Manager and General Manager of the Human Resources Department of PICC, and Vice President of PICC Group. Mr Zhou graduated from Hebei Normal University with a college diploma and a bachelor's degree, and completed the postgraduate program in banking at the Central University of Finance and Economics. He has 28 years of experience in management.

**Liu Zhenghuan**, age 59, a senior economist, Executive Director and Executive Vice President of the Company. Ms Liu joined PICC in 1984 and was previously the Deputy Manager and Manager of the Operations Division of PICC Anhui Branch, Deputy General Manager and General Manager of PICC Anhui Branch, General Manager of PICC Jiangsu Branch, and Secretary of the Board of Directors of the Company. Ms Liu graduated from Fudan University with a master's degree in economics. She has 26 years of operation and management experience in the PRC insurance industry.

**Li Tao**, age 43, Ph.D, a senior economist, Non-executive Director of the Company, and since September 2009 Secretary of the Board of Directors of PICC Group. Mr Li lectured at Beijing University of Aeronautics and Astronautics. He joined PICC in 1998 and was previously the Manager of the Policy Research Division of the Research and Development Center of PICC, Deputy General Manager of the Research and Development Center and the Planning and Statistics Department of PICC, Deputy General Manager and General Manager of the Secretariat of the Board of Directors of the Company, and Senior Specialist of PICC Group. Mr Li graduated from Renmin University of China with a master's degree in philosophy in 1993, and from the Chinese Communist Party School with a doctorate degree in economics in 1998. He has 25 years of experience in research and management, etc.

## SUPERVISORS

**Ding Yunzhou**, age 56, a senior economist, became the Chairman of the Supervisory Committee of the Company in October 2006. Mr Ding is a Vice President of PICC Group and has been appointed as an Executive Director of PICC Group since September 2009. Mr Ding joined PICC in 1977 and was previously the Deputy General Manager of the International Insurance Department of PICC, Chairman and General Manager of China Insurance (UK) Company Limited, Assistant General Manager and Deputy General Manager of PICC, and a Non-executive Director of the Company from 2003 to 2006. Mr Ding graduated from Dalian University of Foreign Languages and has over 30 years of operation and management experience in the domestic and overseas insurance industries.

**Li Dianjun**, age 67, a university graduate, a researcher, became an Independent Supervisor of the Company in May 2006. Mr Li was previously a deputy county mayor of the regional government of the PRC, the Director-general of the Personnel Department of the Head Office of the People's Bank of China, and Vice President of Agricultural Bank of China. Mr Li was appointed by the State Council of the PRC as the Chairman of the Supervisory Committees of China Life Insurance Company, PICC Holding Company and China Reinsurance (Group) Company. Mr Li graduated from Northeast Normal University with a bachelor's degree in arts and has 27 years of operation and supervision experience in central bank, commercial banks and insurance companies.

**Sheng Hetai**, age 40, a senior economist, became a Supervisor of the Company in October 2006. Mr Sheng is a Senior Specialist of PICC Group and the General Manager of the Strategic Planning Department of PICC Group. Mr Sheng joined PICC in 1998 and was previously the Manager of the Research Division of the Marketing Development Department of PICC, Deputy General Manager of the Products Development Center of PICC, Deputy General Manager of the Research and Development Department, and General Manager of the Equity Capital Management Department and the Risk Management Department of PICC Holding Company. Mr Sheng graduated from Peking University with a doctorate degree in economics and has 13 years of management experience in the PRC insurance industry.

**He Bangshun**, age 60, a senior economist, became a Supervisor of the Company in October 2006. Mr He joined PICC in 1975 and was previously the Deputy Manager of the Fourth Division of the International Business Department of PICC, Manager of the Marketing Development Division and Manager of the Import and Export Cargo Transportation Insurance Division of that department. Mr He was also the Deputy General Manager of The Ming An Insurance Company (Hong Kong) Limited, Deputy General Manager of China Reinsurance Company (Hong Kong) Limited, Deputy General Manager and General Manager of the Reinsurance Department of PICC, General Manager of the Auditing Department, General Manager of the Beijing Monitoring and Auditing Center, and the General Manager of the Monitoring Department/Auditing Department of the Company. Mr He graduated from Beijing International Studies University and has over 30 years of operation and management experience in the domestic and foreign insurance industries.

## OTHER SENIOR MANAGEMENT

**Guo Shengchen**, age 55, a university graduate and a senior economist, Executive Vice President of the Company. Mr Guo joined PICC in 1984 and was previously the Assistant General Manager, Deputy General Manager and General Manager of PICC Beijing Branch. He has 36 years of operation and management experience in the PRC financial and insurance industries.

**Zhao Shuxian**, age 57, a senior economist, Executive Vice President of the Company. Ms Zhao joined PICC in 1978 and was previously the Deputy General Manager of the Operations Department and General Manager of the Special Risk Insurance Department of PICC Property Insurance Company, and Chief Representative of the European Representative Office of PICC. Ms Zhao graduated from Shanghai Jiao Tong University with an Executive MBA degree and has 32 years of operation and management experience in the PRC insurance industry.

**Jia Haimao**, age 56, a senior economist, Executive Vice President of the Company. Mr Jia joined PICC in 1984 and was the Deputy General Manager and General Manager of the Motor Vehicle Insurance Department of PICC, and General Manager of the Jiangsu Branch of the Company. He has 26 years of operation and management experience in the PRC insurance industry.

**Wang He**, age 53, Ph.D, a senior economist, Executive Vice President of the Company. Mr Wang joined PICC in 1988 and was the Manager of the Operations Department of PICC Fujian Branch, Deputy General Manager of PICC Xiamen Branch and Executive Deputy General Manager of the Products Development Center of PICC. He has 22 years of operation and management experience in the PRC insurance industry.

**Wang Yueshu**, age 54, a postgraduate and a senior economist, Chief Compliance Officer of the Company. Mr Wang joined PICC in 1979 and was previously the Manager of the Operations Division of PICC Hebei Branch, General Manager of PICC Handan Branch in Hebei Province, Chief Economist and Deputy General Manager of PICC Hebei Branch, General Manager of the Company's Hebei Branch and Vice President of PICC Health Insurance Company Limited. Mr Wang has 31 years of operation and management experience in the PRC insurance industry.

**Wang Dedi**, age 52, a senior economist, Executive Vice President of the Company. Mr Wang joined PICC in 1992 and was previously the Deputy General Manager and General Manager of PICC Anshan Branch in Liaoning Province, Assistant General Manager, Deputy General Manager and General Manager of PICC Liaoning Branch, and General Manager of the Company's Beijing Branch. Mr Wang has 18 years of operation and management experience in the PRC insurance industry.

**Jiang Caishi**, age 45, a university graduate and a doctorate degree holder, Executive Vice President of the Company. Mr Jiang joined PICC in 1988 and was seconded to New York, USA for 2 years. Mr Jiang was previously the General Manager of the International Insurance Department of PICC Tianjin Branch, Deputy General Manager of PICC Tianjin Branch, General Manager of the Property Insurance Department of PICC, General Manager of the Group Insurance Marketing and Management Department and the Large-Scale Commercial Risk Insurance Department of the Company, General Manager of the Company's Shenzhen Branch, General Manager of the Agriculture Insurance Department of the Company, Senior Specialist of PICC Group and General Manager of the Business Development Department of PICC Group. Mr Jiang has 22 years of operation and management experience in the PRC insurance industry.

**Zhang Xiaoli**, age 46, a university graduate, Secretary of the Board of Directors and General Manager of the Secretariat of the Board of Directors and Office of the Supervisory Committee of the Company. Mr Zhang was a troop leader of the Chinese People's Liberation Army from 1980 to 2000. He joined PICC in 2000 and was previously the Manager of the Disciplinary and Supervisory Office of PICC, Deputy General Manager of the Monitoring Department of the Company, and General Manager of the Office of the Board of Directors and the President Office of PICC Life Insurance Company Limited. Mr Zhang graduated from Shijiazhuang Army Academy with a bachelor's degree. Mr Zhang has ten years of management experience in the PRC insurance industry.

**Shen Dong**, age 41, a university graduate and a senior accountant, Responsible Financial Officer of the Company. Mr Shen joined PICC in 1992 and was previously the Assistant Manager, Deputy Manager and Manager of the Finance and Accounting Division and the Reinsurance Division of PICC Guangxi Branch, Deputy General Manager of Guangxi Branch of the Company, and Deputy General Manager and General Manager of the Finance and Accounting Department of the Company. Mr Shen graduated from Xiamen University with a bachelor's degree. Mr Shen has eighteen years of financial management experience in the PRC insurance industry.

## 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 2009, the turnover of the Company and its subsidiaries maintained a rapid growth momentum and increased by 17.6% over 2008 to RMB119,771 million in 2009. The Company had a 40% (Note) market share in the non-life insurance market in the PRC. In 2009, the Company and its subsidiaries recorded a net profit of RMB1,783 million, representing a year-on-year increase of RMB1,674 million, and a net cash inflow from operating activities of RMB21,682 million, representing a significant year-on-year increase of RMB17,406 million. As at 31 December 2009, the total assets of the Company and its subsidiaries reached RMB165,383 million and the shareholders' equity totalled RMB21,763 million.

*Note:* Calculated according to the PRC insurance industry data for 2009 published on the website of the China Insurance Regulatory Commission (the "CIRC").

### I. Increased marketing efforts to promote continuous and rapid growth of business

In 2009, the rapid growth in the Company's motor vehicle insurance segment provided a driving force for the overall business growth of the Company. As a result of the increase in the number of motor vehicle insurance policies and the rise in the premium rates for commercial motor vehicle insurance, premiums income from the entire motor vehicle insurance business increased by 23.5% on a year-on-year basis, and, in particular, premiums income from the commercial motor vehicle insurance segment increased by 26.5% on a year-on-year basis. Through promoting interaction and cooperation with the government at all levels, the agriculture insurance business developed rapidly with premiums income increased by RMB1,026 million on a year-on-year basis. While ensuring a steady growth in major insurance products and leveraging on advantageous insurance products to expand the Company's market influence, the Company continued to strengthen its underwriting of large-scale projects. The Company acted as the sole or chief underwriter for a number of milestone insurance projects such as the new railway construction projects in Beijing, the south-to-north water diversion project and projects of SDIC Huajing Power Holdings Co., Ltd.. With a 40% market share in the non-life insurance market in the PRC, the Company has maintained its leading position in the market.

### II. Strengthened claims settlement services and management to control claim costs at reasonable level

In 2009, the Company made and fulfilled various performance pledges concerning claims settlement services such as reduction of the time required for claims payment and availability of online enquiry services for information on motor vehicle claims settlement, so as to further shorten the average time required for processing claims payment. In face of the windstorm and hailstorm in Xinjiang, flooding in southern Jiangxi, Typhoon Morakot, droughts in Northeast China and Inner Mongolia and other severe natural disasters, the Company performed its social responsibilities earnestly and carried out disaster relief and claims settlement promptly, thereby receiving wide applause from its policyholders and the society. While improving its claims settlement services, the Company controlled its claim costs at a reasonable level


**President Wang Yincheng (fifth from the right) attended the 2009 Conference on Accidental Injury & Health Insurance, and presented awards to the branches with excellent performance in developing accidental injury & health insurance business.**

**President Wang Yincheng (fifth from the right), Vice President Guo Shengchen (fourth from the right) together with leaders of the Executive Committee of Shanghai World Expo Bureau and China Insurance Regulatory Commission Shanghai Bureau attended the Foundation Stone Laying and Commencement of Construction Ceremony of PICC's World Expo Enterprise Pavilion.**

## OVERVIEW *(continued)*

and achieved a year-on-year decline of average payment per claim by, among others, carrying out special anti-fraud activities together with relevant authorities, implementing specialised management of injury-related claims, and launching a new claims settlement system for motor vehicle insurance and the uniform inter-provincial settlement system.

### III. Reinforced cost control to promote differentiated allocation of financial resources

The Company further perfected the overall budget management process and the expense management system of the headquarters and branches at all levels, so as to promote the efficient utilisation and effective allocation of resources. The Company also actively studied and established the strategic financial resources management system, introduced the differentiated allocation of financial resources and provided guidance on the implementation of the strategies of the Company by its branches and product lines.

### IV. Deepened risk prevention and achieved sound operations

In 2009, according to the CIRC's general requirements of increasing efforts to regulate market order and strengthening compliant operation, the Company strictly implemented all compliance requirements and promoted self-discipline in the industry and the building of a sound competitive environment. The Company fully implemented the practice of issuing motor vehicle insurance policies only after premiums collection, so as to continuously strengthen the management and control of premiums receivable. Through promoting the systems of centralised collection and payment of capital and "non-cash collection and payment", the Company made efforts to reinforce centralised management and control of capital and promote efficient capital utilisation in order to effectively reduce relevant risks.

### V. Enhanced corporate influence and brand image of the Company

With the competitive edge in its brand reputation, talents, technology and services and its successful experience in providing services for the Beijing Olympic Games, the Company became the global insurance partner for the 2010 World Expo in Shanghai and the insurance partner for the 2010 Asian Games in Guangzhou, thereby boosting its social influence significantly. In 2009, the Company cooperated closely with policyholders in conducting various preliminary work and implementing various insurance plans, so as to provide excellent and efficient insurance support for the Shanghai World Expo and the Guangzhou Asian Games by leveraging on its professional competitiveness. In 2009, Moody's Investors Service affirmed the A1 insurance financial strength rating for the Company and graded the outlook of the insurance financial strength rating of the Company at the level of "stable", showing the Company's strength and credit standing in the property and casualty insurance market. The Company was named the "Most Competitive Non-life Insurance Company in Asia" in the 2009 Asian Insurance Competency Ranking Report organised by, among others, *21st Century Business Herald*, and was selected as the "2009 Netizens' Most Satisfied Insurance Company" by SINA and the "2009 Insurance Company with the Best Services" by SOHU, respectively.


**Vice President Liu Zhenghuan (sixth from the right in the back row) went to Pingshan, Hebei to host the Unveiling Ceremony of a primary school donated by the Company.**

## UNDERWRITING RESULTS

The following table sets forth the selected financial indicators of the insurance business of the Company and its subsidiaries and their percentages to net premiums earned for the relevant periods.

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | ***RMB million*** | **%** | *RMB million* (Restated) | % (Restated) |
| Net premiums earned | **93,296** | **100.0** | 80,019 | 100.0 |
| Net claims incurred | **(64,517)** | **(69.2)** | (60,710) | (75.9) |
| Acquisition cost and other underwriting expenses | **(19,795)** | **(21.2)** | (11,597) | (14.5) |
| General and administrative expenses | **(11,044)** | **(11.8)** | (10,317) | (12.9) |
| Underwriting loss | **(2,060)** | **(2.2)** | (2,605) | (3.3) |

## TURNOVER

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB million*** | *RMB million* |
| Motor vehicle insurance | **85,529** | 69,258 |
| Commercial property insurance | **9,491** | 9,397 |
| Cargo insurance | **2,754** | 3,248 |
| Liability insurance | **4,656** | 4,264 |
| Accidental injury and health insurance | **3,886** | 3,729 |
| Other insurance | **13,455** | 11,982 |
| Total | **119,771** | 101,878 |

Turnover of the Company and its subsidiaries was RMB119,771 million in 2009, representing an increase of RMB17,893 million (or 17.6%) from RMB101,878 million in 2008. The overall business growth continued at a steady pace, largely driven by the motor vehicle insurance segment. Moreover, liability insurance as well as agriculture insurance and construction insurance under the other insurance segment also developed relatively rapidly.

## TURNOVER *(continued)*

Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB85,529 million in 2009, representing an increase of RMB16,271 million (or 23.5%) from RMB69,258 million in 2008. In 2009, the sales volume of motor vehicles soared as a result of the implementation of a series of automobile industry revitalisation plans including the automobile subsidy program for rural areas, purchase tax-related subsidies, and subsidies for the trade-in of vehicles. The Company and its subsidiaries seized this opportunity for developing business and achieved a remarkable growth in the number of motor vehicle insurance policies.

Turnover of the liability insurance segment of the Company and its subsidiaries was RMB4,656 million in 2009, representing an increase of RMB392 million (or 9.2%) from RMB4,264 million in 2008. Under this segment, the safety production liability insurance, freighter liability insurance, medical liability insurance and campus liability insurance experienced considerable growth and the newly-developed extended home appliance warranty liability insurance also developed rapidly.

In 2009, driven by the State policy of subsidies for policy-oriented crop production insurance and the RMB4,000 billion infrastructure investment program, the agriculture insurance and construction insurance under the other insurance segment of the Company and its subsidiaries also continued to grow at a fast pace.

Meanwhile, due to the financial crisis and the general macro-economic conditions in 2009, the total transport volume of the cargo market fell sharply, import and export business declined and the bulk cargo price in the international and domestic markets remained at low levels, thereby adversely affecting the source and insured amount of the cargo insurance business. Turnover of the cargo insurance of the Company and its subsidiaries was RMB2,754 million in 2009, representing a notable decline of RMB494 million (or -15.2%) from RMB3,248 million in 2008.

## NET PREMIUMS EARNED

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB million*** | *RMB million* |
| | | (Restated) |
| Motor vehicle insurance | **70,700** | 59,000 |
| Commercial property insurance | **6,005** | 6,016 |
| Cargo insurance | **2,018** | 2,437 |
| Liability insurance | **3,223** | 2,932 |
| Accidental injury and health insurance | **2,677** | 2,317 |
| Other insurance | **8,673** | 7,317 |
| Total | **93,296** | 80,019 |

Net premiums earned of the Company and its subsidiaries was RMB93,296 million in 2009, representing an increase of RMB13,277 million (or 16.6%) from RMB80,019 million in 2008, basically in line with the growth in turnover.

## NET CLAIMS INCURRED

The following table sets forth the net claims incurred of the Company and its subsidiaries and their percentages to the net premiums earned of the corresponding insurance segments (the "loss ratio") for the relevant periods.

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Net claims incurred *RMB million* | Loss ratio *%* | Net claims incurred *RMB million* (Restated) | Loss ratio *%* (Restated) |
| Motor vehicle insurance | (49,136) | (69.5) | (44,866) | (76.0) |
| Commercial property insurance | (3,869) | (64.4) | (5,596) | (93.0) |
| Cargo insurance | (1,090) | (54.0) | (1,287) | (52.8) |
| Liability insurance | (2,101) | (65.2) | (2,126) | (72.5) |
| Accidental injury and health insurance | (2,089) | (78.0) | (1,958) | (84.5) |
| Other insurance | (6,232) | (71.9) | (4,877) | (66.7) |
| Total | (64,517) | (69.2) | (60,710) | (75.9) |

Net claims incurred of the Company and its subsidiaries was RMB64,517 million in 2009, representing an increase of RMB3,807 million (or 6.3%) from RMB60,710 million in 2008. Loss ratio decreased by 6.7 percentage points from 75.9% in 2008 to 69.2% in 2009, primarily driven by the significant decrease in the loss ratio for major insurance segments including the motor vehicle insurance and the commercial property insurance segments.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB49,136 million in 2009, representing an increase of RMB4,270 million (or 9.5%) from RMB44,866 million in 2008. Loss ratio decreased to 69.5% in 2009 from 76.0% in 2008. The increase in net claims incurred was slower than the increase in net premiums earned for the same period, primarily due to the reinforced follow-up management of injury-related claims, the enhanced management and control of settlement of motor vehicle insurance claims and the effective control of the average payment per claim, following the launch of the maintenance platform for quotation information on parts and accessories and the implementation of the remote system of cross-adjustment of loss at different places for motor vehicle insurance. In addition, the rise in premium rates also contributed positively to the enhancement of business quality.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries was RMB3,869 million in 2009, representing a decline of RMB1,727 million (or -30.9%) from RMB5,596 million in 2008. Loss ratio decreased to 64.4% in 2009 from 93.0% in 2008, primarily due to the fact that the catastrophic snow storms in southern China in 2008 had resulted in a sharp rise in claim costs of the commercial property insurance segment for that year. In 2009, the Company strictly controlled the underwriting risks and reduced the portion of the underwriting of certain high-risk businesses.

## NET CLAIMS INCURRED *(continued)*

Net claims incurred of the liability insurance segment of the Company and its subsidiaries was RMB2,101 million in 2009, representing a decrease of RMB25 million (or -1.2%) from RMB2,126 million in 2008. Loss ratio declined to 65.2% in 2009 from 72.5% in 2008, primarily due to a year-on-year decline in the loss frequency as a result of the increased efforts of the Company in strengthening the risk control relating to the underwriting of liability insurance, thereby further optimising the business structure.

Net claims incurred of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB2,089 million in 2009, representing an increase of RMB131 million (or 6.7%) from RMB1,958 million in 2008. Loss ratio declined to 78.0% in 2009 from 84.5% in 2008, primarily due to the increased efforts of the Company in enhancing the risk screening relating to underwriting, refraining from underwriting certain high-risk businesses, strictly implementing the claims review standard and better preventing moral risks.

## ACQUISITION COST AND OTHER UNDERWRITING EXPENSES

The following table sets forth the acquisition cost and other underwriting expenses of the Company and its subsidiaries and their percentages to the net premiums earned of the corresponding insurance segments (the "underwriting expense ratio") for the relevant periods.

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Acquisition cost and other underwriting expenses<br>*RMB million* | Underwriting expense ratio<br>*%* | Acquisition cost and other underwriting expenses<br>*RMB million*<br>(Restated) | Underwriting expense ratio<br>*%*<br>(Restated) |
| Motor vehicle insurance | **(15,692)** | **(22.2)** | (9,471) | (16.1) |
| Commercial property insurance | **(2,540)** | **(42.3)** | (815) | (13.5) |
| Cargo insurance | **(334)** | **(16.6)** | (346) | (14.2) |
| Liability insurance | **(651)** | **(20.2)** | (350) | (11.9) |
| Accidental injury and health insurance | **(289)** | **(10.8)** | (295) | (12.7) |
| Other insurance | **(289)** | **(3.3)** | (320) | (4.4) |
| Total | **(19,795)** | **(21.2)** | (11,597) | (14.5) |

In 2009, there was a rise in the commission rate for the Company and its subsidiaries. In addition, the reinsurance expenses recovered decreased as a result of the decline in the ceding ratio. The combined effect of these two factors had resulted in a significant year-on-year increase in the acquisition cost and other underwriting expenses of the Company and its subsidiaries. The underwriting expense ratio rose from 14.5% in 2008 to 21.2% in 2009, and such rise formed an apparent trend in the motor vehicle insurance, commercial property insurance and liability insurance segments.

## GENERAL AND ADMINISTRATIVE EXPENSES

The following table sets forth the general and administrative expenses of the Company and its subsidiaries and their percentages to the net premiums earned of the corresponding insurance segments (the "administrative expense ratio") for the relevant periods.

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | General and administrative expenses (Note) | Administrative expense ratio | General and administrative expenses (Note) | Administrative expense ratio |
| | *RMB million* | *%* | *RMB million* | *%* |
| | | | (Restated) | (Restated) |
| Motor vehicle insurance | (6,914) | (9.8) | (6,752) | (11.4) |
| Commercial property insurance | (1,129) | (18.8) | (1,073) | (17.8) |
| Cargo insurance | (307) | (15.2) | (370) | (15.2) |
| Liability insurance | (544) | (16.9) | (469) | (16.0) |
| Accidental injury and health insurance | (523) | (19.5) | (438) | (18.9) |
| Other insurance | (1,627) | (18.8) | (1,215) | (16.6) |
| Total | (11,044) | (11.8) | (10,317) | (12.9) |

*Note:* The general and administrative expenses are allocated based on insurance segments.

In 2009, the Company and its subsidiaries effectively reduced administrative expenses through perfecting the expense management system of the headquarters and the branches at all levels, coordinating the centralisation of procurement functions across the country and the implementation of differentiated allocation of expense resources. In 2009, the general and administrative expenses of the Company and its subsidiaries increased by 7.0% year-on-year, which was slower than the business growth for the same period. The administrative expense ratio decreased from 12.9% in 2008 to 11.8% in 2009.

## UNDERWRITING PROFIT/(LOSS)

The following table sets forth the underwriting profit/(loss) of the Company and its subsidiaries and their percentages to the net premiums earned of the corresponding insurance segments (the "underwriting profit/(loss) ratio") for the relevant periods.

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Underwriting profit/(loss) *RMB million* | Underwriting profit/(loss) ratio *%* | Underwriting profit/(loss) *RMB million* (Restated) | Underwriting profit/(loss) ratio *%* (Restated) |
| Motor vehicle insurance | **(1,042)** | **(1.5)** | (2,089) | (3.5) |
| Commercial property insurance | **(1,533)** | **(25.5)** | (1,468) | (24.4) |
| Cargo insurance | **287** | **14.2** | 434 | 17.8 |
| Liability insurance | **(73)** | **(2.3)** | (13) | (0.4) |
| Accidental injury and health insurance | **(224)** | **(8.4)** | (374) | (16.1) |
| Other insurance | **525** | **6.1** | 905 | 12.4 |
| Total | **(2,060)** | **(2.2)** | (2,605) | (3.3) |

In 2009, the Company and its subsidiaries continued to reinforce the category-based management of businesses, implement differentiated allocation of resources and adjust business structure. As a result, the underwriting loss decreased by 20.9% from RMB2,605 million in 2008 to RMB2,060 million in 2009, and the underwriting loss ratio was lowered by 1.1 percentage points year-on-year.

In particular, the underwriting loss of the motor vehicle insurance segment decreased significantly from RMB2,089 million in 2008 to RMB1,042 million in 2009. In 2009, the Company and its subsidiaries continued to reinforce the category-based management of the motor vehicle insurance business, closely monitor the business quality in respect of each policy through the use of information technology and strictly control the proportion of loss-making businesses. The Company and its subsidiaries vigorously promoted centralised management of underwriting and claims settlement in order to strictly control claim costs, adopted the practice of differentiated allocation of underwriting expenses and strived to optimise the business structure, and these measures have resulted in improved underwriting performance.

The underwriting loss of the accidental injury and health insurance segment decreased from RMB374 million in 2008 to RMB224 million in 2009. Underwriting loss ratio was lowered by 7.7 percentage points year-on-year. The decrease in underwriting loss of the accidental injury and health insurance segment was primarily due to the efforts made by the Company and its subsidiaries to further optimise the business structure, earnestly develop profitable businesses such as borrower accidental insurance, travel accidental insurance and construction work accidental insurance, strictly manage underwriting authorisation procedures and refrain from underwriting certain high-risk businesses.

## INVESTMENT RESULTS

### Net investment income

| | Year ended 31 December | |
|---|---|---|
| | 2009 | 2008 |
| | *RMB million* | *RMB million* |
| Rental income from investment properties | 92 | 80 |
| Interest income | 2,469 | 2,540 |
| Dividend income | 305 | 1,096 |
| Total of net investment income | 2,866 | 3,716 |

Net investment income of the Company and its subsidiaries was RMB2,866 million in 2009, representing a decrease of RMB850 million from RMB3,716 million in 2008. This was due to a decrease of RMB804 million in dividend income from financial assets at fair value through profit or loss compared to the same period of last year. However, this effect was partly offset by an increase of RMB242 million in the interest income from available-for-sale financial assets compared to the same period of last year.

The debt securities investment of the Company and its subsidiaries increased in 2009, but the interest rate cut in 2009 resulted in a small change in the interest income year-on-year.

The capital market experienced downturn in 2008, and the poor performance and insufficient cumulative earnings of fund management companies and listed companies resulted in the low-level dividend distributions in 2009, thereby leading to a year-on-year decline in dividend income.

### Net realised and unrealised gains on investments

| | Year ended 31 December | |
|---|---|---|
| | 2009 | 2008 |
| | *RMB million* | *RMB million* |
| Realised gains on investments | 1,308 | 3,326 |
| Unrealised gains/(losses) on investments | 199 | (2,160) |
| Impairment loss | – | (847) |
| Profit on disposal of associates | 204 | – |
| Total of net realised and unrealised gains on investments | 1,711 | 319 |

## INVESTMENT RESULTS *(continued)*

### Net realised and unrealised gains on investments *(continued)*

Net realised and unrealised gains on investments of the Company and its subsidiaries was RMB1,711 million in 2009, representing an increase of RMB1,392 million from RMB319 million in 2008. This was primarily due to an increase of RMB2,359 million in unrealised gains on investments in financial assets at fair value through profit or loss. However, this effect was partly offset by a decrease of RMB1,652 million in realised gains on investments in available-for-sale financial assets.

By reason of the downturn of the capital market in 2008, the Company and its subsidiaries made provisions for impairment losses on equity instruments classified as available-for-sale. The fair value of impaired assets has increased in 2009.

## OVERALL RESULTS

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB million*** | *RMB million* |
| | | (Restated) |
| Profit/(loss) before tax | **2,167** | (370) |
| Income tax expense | **(384)** | 479 |
| Profit attributable to owners of the parent | **1,783** | 109 |
| Total assets (Note) | **165,383** | 144,250 |

*Note:* Based on the data as of 31 December 2009 and 31 December 2008.

## PROFIT/(LOSS) BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB2,167 million in 2009, representing an increase of RMB2,537 million compared to the loss of RMB370 million in 2008.

## TAX

Income tax expense of the Company and its subsidiaries was RMB384 million in 2009, representing an increase of RMB863 million from RMB-479 million in 2008. The increase in the income tax expense of the Company and its subsidiaries was primarily due to a substantial increase in the profit before tax in 2009.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the foregoing, there was a significant increase in the overall profit of the Company and its subsidiaries in 2009, and net profit increased by RMB1,674 million from RMB109 million in 2008 to RMB1,783 million in 2009. Basic earnings per share attributable to ordinary equity holders of the parent in 2009 was RMB0.160.

## CASH FLOW

| | Year ended 31 December | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB million*** | *RMB million* |
| Net cash inflow from operating activities | **21,682** | 4,276 |
| Net cash outflow from investing activities | **(22,900)** | (8,616) |
| Net cash inflow from financing activities | **2,620** | 711 |
| Net increase/(decrease) in cash and cash equivalents | **1,402** | (3,629) |

In 2009, the cash inflow from operating activities of the Company and its subsidiaries increased remarkably and the collection of premiums became more efficient. Net cash inflow from operating activities of the Company and its subsidiaries was RMB21,682 million in 2009, representing a significant increase of RMB17,406 million from RMB4,276 million in 2008, which marked the best record ever since the Company went listed.

In 2009, the amount of entrusted investment assets of the Company and its subsidiaries increased significantly. Net cash outflow from investing activities of the Company and its subsidiaries was RMB22,900 million in 2009, representing an increase of RMB14,284 million over 2008. Net payment involved in debt securities and equity securities tradings totalled RMB23,390 million in 2009, representing a year-on-year increase of RMB15,510 million.

Net cash inflow from financing activities of the Company and its subsidiaries was RMB2,620 million in 2009, representing an increase of RMB1,909 million over 2008, primarily due to the issuance of fixed-rate subordinated term debts of RMB5,000 million in 2009. However, this effect was partly offset by a decrease of RMB1,687 million in the cash inflow from the sale of repurchased securities, and an increase of RMB1,423 million in the cash outflow attributable to the reduction in policyholders' deposits.

As of 31 December 2009, the cash and cash equivalents (Note) of the Company and its subsidiaries amounted to RMB23,087 million.

*Note:* Cash and cash equivalents are primarily denominated in RMB and do not include deposits with banks and other financial institutions with original maturity of more than three months and structured deposits with banks and other financial institutions.

## 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 performance of other obligations under outstanding insurance policies, capital expenditures, operating expenses, tax payments, dividend payments and investment needs.

In September 2009 and December 2006, the Company issued fixed-rate subordinated term debts of RMB5,000 million and RMB3,000 million respectively, with a term of 10 years, to institutional investors in the PRC for the primary purpose of increasing the Company's solvency margin.

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

Save for the subordinated term 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 and its subsidiaries have sufficient working capital.

## INVESTMENTS IN ASSOCIATES

On 13 March 2009, the Company entered into an equity transfer agreement with PICC Group, pursuant to which the Company agreed to transfer its 20% stake in PICC Asset Management Company Limited ("PICC AMC") to PICC Group. After completion of such transfer transaction, the Company has ceased to hold any equity interest in PICC AMC.

PICC Life Insurance Company Limited ("PICC Life"), an associate of the Company, increased its capital in 2009 and the Company did not participate in such capital increase of PICC Life. After completion of the capital increase of PICC Life, the Company's shareholding in PICC Life has been diluted from 28% to approximately 14%.

## CAPITAL EXPENDITURE

The capital expenditure of the Company and its subsidiaries has primarily been for operational property under construction and acquisition of motor vehicles for business needs as well as development of information system. Capital expenditure of the Company and its subsidiaries was RMB1,126 million in 2009.

## SOLVENCY MARGIN REQUIREMENT

The Company is subject to a number of laws and regulations regarding financial operations of the Company, including maintaining a stipulated solvency margin and providing for certain funds and reserves. In accordance with the insurance laws and regulations of the PRC, the Company was required to maintain a minimum solvency margin of RMB15,690 million on 31 December 2009. The Company's actual solvency margin calculated pursuant to the regulations of the CIRC was RMB17,469 million and the solvency margin adequacy ratio was 111% (Note).

*Note:* In calculating the solvency margin, the assessment standards for premium reserves as promulgated by the CIRC shall continue to apply to insurance contract liabilities while China Accounting Standard for Business Enterprises shall apply to non-insurance contract liabilities.

## GEARING RATIO

As of 31 December 2009, the gearing ratio (Note) of the Company and its subsidiaries was 82.0%, representing a decrease of 2.2 percentage points from 84.2% as of 31 December 2008.

*Note:* Gearing ratio is represented by total liabilities (excluding subordinated term 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 their ordinary course of business, as plaintiff or defendant. Such legal proceedings mostly involve claims on the insurance policies of the Company and its subsidiaries. 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.

## 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 are committed to credit sales only to corporate customers or individual customers purchasing certain policies via insurance intermediaries. The ability of collecting premiums on a timely manner remains one of the key performance indictors of the Company. The Company's premiums receivable involves a large number of diversified customers, therefore there are no major credit concentration risks in relation to insurance business accounts receivable.

Except when dealing with national reinsurers, the Company and its subsidiaries purchase reinsurance primarily from reinsurance companies with A.M. Best ratings of A- or above. The management of the Company and its subsidiaries review the creditworthiness of the reinsurance companies in order to update the reinsurance strategies of, and determine reasonable impairment provision for reinsurance assets of, the Company and its subsidiaries, on a regular basis.

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 regulations 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 exposed to exchange rate risks 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 RISK

Interest rate risk means the risks of changes in the value or future cash flows of financial instruments as a result of changes in market interest rates. In view of the relatively short terms of insurance debts, the Company and its subsidiaries primarily invest in financial assets with a term ranging from one to seven years. The Company and its subsidiaries intend to procure the term of their investment portfolios to remain shorter than the market level of similar financial assets. The Company and its subsidiaries also hold a high percentage of interest rate-sensitive financial assets so as to reduce interest rate risks.

## 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 2009, the interest rate swap contracts held by the Company had a total notional amount of RMB850 million.

## DEVELOPMENT OF NEW PRODUCTS

In 2009, the Company streamlined, and revised from the perspective of legal compliance, the national provisions and rates of its range of products which have been in use since the resumption of domestic insurance business in the 1980s. At present, the national provisions of the Company's products amount to 1,595, consisting of 387 main-insurance provisions and 1,208 rider provisions. In addition, the Company developed and revised a total of 931 regional provisions, comprising 419 main-insurance provisions and 512 rider provisions.

## EMPLOYEES

As of 31 December 2009, the Company had 60,202 employees. Staff remuneration payment by the Company and its subsidiaries in 2009 was RMB6,847 million, which mainly included basic salaries, performance-related bonus, and various insurance and benefits contributed in accordance with the relevant PRC regulations. The Company and its subsidiaries enhanced the performance and work efficiency of employees by, among others, 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.

The Board of Directors presents its report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2009 (the "Year").

## PRINCIPAL ACTIVITIES

The Company engages in motor vehicle insurance, commercial property insurance, homeowners insurance, cargo insurance, liability insurance, accidental injury insurance, short-term health insurance, hull insurance, agriculture insurance and surety insurance in mainland China, which are denominated in RMB and foreign currencies, together with the reinsurance of the above insurance products, and investment and fund application business permitted under the relevant laws and regulations of the PRC. The Company's subsidiaries mainly engage in providing insurance agency services and training services for the Company.

## FINANCIAL RESULTS AND DIVIDEND

The results of the Company and its subsidiaries for the Year and the state of financial affairs of the Company and its subsidiaries as at 31 December 2009 are set out on pages 52 to 147 of this annual report.

The Board of Directors does not recommend any final dividend for the Year.

## FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Company and its subsidiaries for the last five financial years is set out in the "Financial Summary" section of this annual report.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the property, plant and equipment and investment properties of the Company and its subsidiaries during the Year are set out in notes 28 and 29 to the financial statements, respectively.

## SHARE CAPITAL

There were no movements in the share capital of the Company during the Year.

## PRE-EMPTIVE RIGHTS

There are no provisions regarding pre-emptive rights in respect of the transfer of shares or issue of new shares of joint stock limited companies under the Company Law of the People's Republic of China (the "Company Law").

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

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

## RESERVES

Details of the reserves of the Company and its subsidiaries and their changes during the Year are set out in the "Consolidated Statement of Changes in Equity" section of this annual report.

## DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company's distributable reserves totaled RMB4,442 million.

## SUBORDINATED DEBTS

Details of the subordinated term debts issued by the Company during the Year are set out under "Liquidity" in the "Management Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

## CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year amounted to RMB74.20 million.

## MAJOR CUSTOMERS

The aggregate turnover of the Company and its subsidiaries attributable to their five largest customers did not exceed 10% of the total turnover of the Company and its subsidiaries for the Year.

## DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the Year and the changes in the members of the Board of Directors from 1 January 2009 to the date of this annual report are set out in the "Corporate Governance Report" section of this annual report. There has been no change in the members of the Supervisory Committee from 1 January 2009 to the date of this annual report.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

Biographical details of the directors, supervisors and other senior management of the Company are set out in the "Biographical Details of Directors, Supervisors and Other Senior Management" section of this annual report.

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

The Company did not enter into any service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), with its directors and supervisors.

Details of the remuneration of the directors and supervisors of the Company are set out in note 13 to the financial statements.

## HIGHEST PAID INDIVIDUALS

Details of the remuneration of the five highest paid individuals of the Company are set out in note 14 to the financial statements.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the directors and supervisors had a material interest, whether directly or indirectly, in any contracts which were significant to the business of the Company and subsisted at any time during the Year or at the end of the Year.

## MANAGEMENT CONTRACT

Pursuant to the asset management agreement entered into between the Company and PICC AMC (a subsidiary of the Company's controlling shareholder), PICC AMC provides investment management services in respect of certain assets of the Company. The Company pays PICC AMC a management fee and a performance bonus when the investment performance satisfies certain agreed conditions. The particulars of this agreement are set forth in note 47 to the financial statements.

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

The directors, supervisors and chief executive of the Company did not hold any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the Securities and Futures Ordinance ("SFO") as at 31 December 2009 that are required to be recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Hong Kong Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

PICC Life (an associate of the Company) and PICC Health Insurance Company Limited ("PICC Health"), subsidiaries of PICC Group, the controlling shareholder of the Company, also engage in accidental injury insurance and short-term health insurance business.

Mr Wu Yan, the Chairman of the Company, is also the Chairman of PICC Life. Mr Zhou Shurui, a non-executive director of the Company, is the Chairman of PICC Health. Ms Liu Zhenghuan, an executive director of the Company, is a director of PICC Life.

Pursuant to the reorganisation agreement entered into between the Company and PICC Group, PICC Group has undertaken not to carry on any insurance business in the PRC which is of the same or similar nature as, or competes with, the core business of the Company.

Save as disclosed above, none of the directors of the Company is or was interested in any business that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business from 1 January 2009 to the date of this annual report.

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2009, the following shareholders had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name of shareholder | Capacity | Number of domestic shares | Nature of interests | Percentage of total number of domestic shares in issue | Percentage of total number of shares in issue |
|---|---|---|---|---|---|
| PICC Group | Beneficial owner | 7,685,820,000 | Long position | 100% | 69.0% |

| Name of shareholder | Capacity | Number of H shares | Nature of interests | Percentage of total number of H shares in issue | Percentage of total number of shares in issue |
|---|---|---|---|---|---|
| United States Treasury (Note 1) | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |
| AIG (Notes 1, 2) | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |
| Jill M. Considine (Note 1) | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |
| Chester B. Feldberg (Note 1) | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |
| Douglas L. Foshee (Note 1) | Interest of controlled corporations | 1,103,038,000 | Long position | 31.92% | 9.9% |
| Birmingham Fire Insurance Company of Pennsylvania (Note 2) | Beneficial owner | 562,549,380 | Long position | 16.28% | 5.05% |
| Commerce and Industry Insurance Company (Note 2) | Beneficial owner | 330,911,400 | Long position | 9.58% | 2.97% |
| Lexington Insurance Company (Note 2) | Beneficial owner | 209,577,220 | Long position | 6.06% | 1.88% |
| Mirae Asset Global Investments (Hong Kong) Limited | Investment manager | 180,340,000 | Long position | 5.22% | 1.62% |
| Taube Hodson Stonex Partners LLP | Investment manager | 176,164,000 | Long position | 5.10% | 1.58% |

*Notes:*

1. These 1,103,038,000 H shares represent the corporate interest of AIG. AIG is a controlled corporation of the United States Treasury in its capacity as the beneficiary of AIG Credit Facility Trust and Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee in their capacity as the joint trustees of AIG Credit Facility Trust. As such, all of the United States Treasury, Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee are deemed to be interested in the 1,103,038,000 H shares held by the controlled corporations of AIG.

2. Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company and Lexington Insurance Company are the controlled corporations of AIG. Lexington Insurance Company is indirectly owned as to 70% by AIG.

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2009 that are required to be recorded in the register required to be kept under section 336 of the SFO.

## PUBLIC FLOAT

As at the date of this annual report, 31% of the issued share capital of the Company is held by the public, therefore the Company complies with the minimum public float requirement set out in the Listing Rules.

## CONNECTED TRANSACTIONS

The connected transactions of the Company for the Year are set out in note 47 to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions mentioned above and confirmed that:

1. the transactions were entered into in the ordinary and usual course of business;

2. the transactions were on normal commercial terms, fair and reasonable and in the interests of the shareholders of the Company as a whole; and

3. the transactions were carried out in accordance with the terms of the agreements governing the transactions.

The auditors of the Company have reviewed the continuing connected transactions mentioned above and confirmed to the Board of Directors that:

1. the transactions have been approved by the Board of Directors;

2. the transactions (involving the provision of goods or services by the Company) were carried out in accordance with the Company's pricing policy;

3. the transactions were carried out in accordance with the terms of the agreements governing the transactions; and

4. for items (v) to (vii) set out in note 47(a) to the financial statements, none of the transactions exceeded the relevant annual upper limits previously disclosed in the Company's announcements.

The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

## CORPORATE GOVERNANCE

Details of the corporate governance of the Company are set out in the "Corporate Governance Report" section of this annual report.

## AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements for the Year. The composition and the role of the Audit Committee and a summary of its work performed during the Year are set out in the "Corporate Governance Report" section of this annual report.

## AUDITORS

The terms of Ernst & Young and Ernst & Young Hua Ming, which serve as the international auditors and domestic auditors of the Company respectively, shall end at the conclusion of the forthcoming annual general meeting. A resolution to re-appoint Ernst & Young as the international auditors and Ernst & Young Hua Ming as the domestic auditors of the Company will be proposed at the forthcoming annual general meeting.

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

Beijing, the PRC
14 April 2010

**Dear Shareholders,**

In 2009 (the "Year"), all members of the Supervisory Committee of the Company duly carried out its work and performed its supervisory duties strictly in accordance with the relevant provisions of the Company Law and the Articles of Association of PICC Property and Casualty Company Limited (the "Articles of Association") and in good faith, and effectively protected the interests of the shareholders, the Company and its employees.

During the Year, the Supervisory Committee convened three meetings, at which the Company's relevant departments reported on such matters as the financial conditions, business operations and evaluation of internal control, compliance and risks of the Company for 2008 and the first half of 2009, and the Company's auditors reported on the audit work for the Company. Fifteen proposals were considered and approved including the Auditors' Report and the Audited Financial Statements of the Company for 2008, the Profit Distribution Plan of the Company for 2008, the Report on the Implementation of Measures for the Administration of Connected Transactions and the Report on the Connected Transactions of the Company for 2008, and the Business Development Plan and Financial Budget of the Company for 2009. The Supervisory Committee expressed opinions on the financial statements disclosed by the Company and the significant issues arising from the Company's operation and management, and gave opinions and suggestions to the management on strengthening management and risk control. The Supervisory Committee attended three shareholders' general meetings, seven meetings of the Board of Directors and five meetings of the Audit Committee to perform on-site supervision over the legality of the substance and procedures of the meetings. The Supervisory Committee monitored the implementation by the Board of Directors of the resolutions of the shareholders' general meetings and submitted the Report of the Supervisory Committee for 2008 to the shareholders' general meeting, at which it was considered and approved.

During the Year, according to the relevant provisions of the Articles of Association and the Working Rules for the Supervisory Committee, the Supervisory Committee focused on the supervision over financial matters, internal control, compliance and risk control, conducted investigation and research on matters such as operational effectiveness of the Company's branches and their sub-branches in Hubei, Sichuan, Xinjiang and Guangxi and submitted special reports with improvement suggestions to the management of the Company, contributing to the enhancement of the operation and management and the operational risk control of the Company.

The Supervisory Committee is of the view that:

During the Year, the directors and senior management had performed their duties set forth in the Articles of Association in diligence and good faith, implemented all resolutions of the shareholders' general meetings and those of the Board of Directors in earnest. No director or member of the senior management was found to have committed any breach of any laws, regulations or the Articles of Association or to have infringed any rights or interests of the shareholders, the Company or its employees when performing their duties.

The reviewed financial statements for the interim period of 2009 and the audited annual financial statements for 2009 of the Company and its subsidiaries were prepared strictly in accordance with the relevant accounting standards. Accounting treatments were applied consistently. Subject to the compliance with the relevant accounting standard, the relevant accounting treatments required by the supervisory authorities of the PRC were also applied to the audited financial statements for 2009. The information contained in the financial statements gave a true and fair view of the financial conditions and operating results of the Company and its subsidiaries.

The connected transactions of the Company were conducted on an arm's length basis and satisfied the relevant regulatory requirements of the Hong Kong Stock Exchange. There was no indication of any infringement of the interests of the independent minority shareholders and the Company.

In 2010, the Supervisory Committee will continue to perform its supervisory duties strictly in accordance with the relevant provisions of the Company Law and the Articles of Association with supervision over financial matters, internal control, compliance and risk control as its supervision focus, and enhance the supervisory quality so as to protect the interests of the shareholders, the Company and its employees earnestly and promote the orderly and compliant operation of the Company.

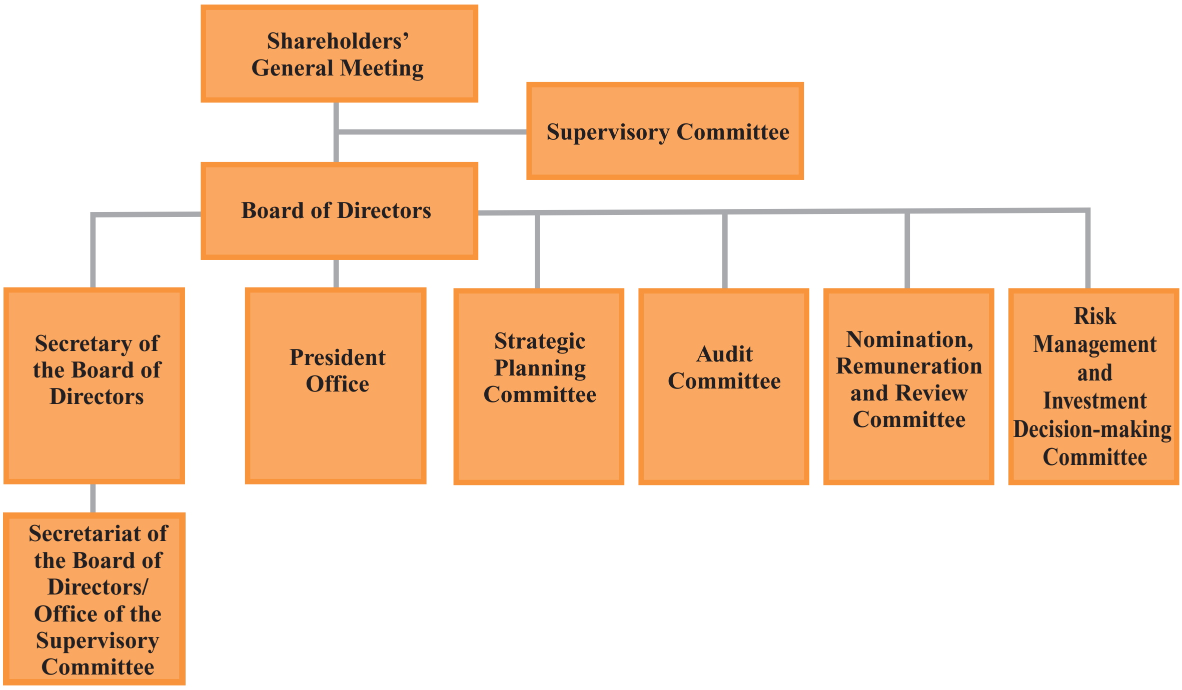
By Order of the Supervisory Committee
**Ding Yunzhou**
*Chairman of the Supervisory Committee*

Beijing, the PRC
14 April 2010

## OVERVIEW

The Company believes that maintaining sound corporate governance is in the interests of the Company, the shareholders and stakeholders. In accordance with the Company Law, the Listing Rules, the Guidelines on Regulating Corporate Governance Structure of Insurance Companies (Trial) ("Guidelines"), the Articles of Association and other relevant laws, regulations and rules, the Company has been continuously enhancing its corporate governance.

In 2009 (the "Year"), the Company continuously strengthened its internal control and supervision capabilities, strengthened its compliance development and management, and developed and refined its compliance management structure in accordance with the Insurance Law of the People's Republic of China and the Regulations on Administration of Insurance Companies, the Guidelines on Compliance Management of Insurance Companies, the Guidelines on Internal Audit of Insurance Companies (Trial) and the Provisional Measures for the Administration of Connected Transactions of Insurance Companies issued by China Insurance Regulatory Commission (the "CIRC") and the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "Code on Corporate Governance Practices").




Save for one of the requirements set out in each of the code provisions A.4.2 and B.1.1 of the Code on Corporate Governance Practices, the Company had complied with all the code provisions of the Code on Corporate Governance Practices in the Year.

## OVERVIEW *(continued)*

The term of directorship of Mr Wang Yincheng, Mr Tse Sze-Wing, Edmund, Mr Cheng Wai Chee, Christopher, Mr Zhou Shurui, Ms Liu Zhenghuan and Mr Li Tao should have expired respectively during the Year. In accordance with the provisions of the Company Law, where a company has not yet re-elected a Director upon the expiry of his/her term of office or the number of the Directors is less than the required quorum as a result of the resignation of a Director, the existing Director shall continue to serve as a director until the newly elected director commences his/her term of office. Accordingly, the Directors as mentioned above (except for Mr Cheng Wai Chee, Christopher, who resigned on 23 October 2009) have continued to serve as Directors until the formation of the new session of the Board of Directors. As a result, the Company failed to comply with the requirement that each director shall be subject to retirement by rotation at least once every three years as set out in the code provision A.4.2 of the Code on Corporate Governance Practices during the period from 6 July 2009 to the date of this annual report.

Mr Cheng Wai Chee, Christopher resigned as an Independent Non-executive Director of the Company on 23 October 2009, and at the same time, ceased to act as the Chairman of the Nomination, Remuneration and Review Committee. After the resignation of Mr Cheng, only half of the members of the Nomination, Remuneration and Review Committee are Independent Non-Executive Directors. Accordingly, the Company failed to comply with the requirement that the majority of the members of the remuneration committee shall be independent non-executive directors as set out in the code provision B.1.1 of the Code on Corporate Governance Practices during the period from 23 October 2009 to the date of this annual report. The Company has still complied with the requirement that there shall be at least three independent non-executive directors. The Company proposes to re-elect the members of the Nomination, Remuneration and Review Committee after the election of the new session of the Board of Directors.

## BOARD OF DIRECTORS

### Overview

During the Year, the Board of Directors convened three shareholders' general meetings and submitted ten proposals to the shareholders' general meetings for consideration and approval. Seven board meetings were convened, at which forty proposals were considered and approved. The Board of Directors formulated the business development plan, financial budget, fixed assets investment plan, strategic allocations of and investment policies on custodian assets of the Company, etc. The Board of Directors also conducted annual performance appraisals of the Company's Directors and senior management, and enhanced the Company's management capabilities in respect of internal control, compliance management, and risk management and control, etc.

The Board of Directors meets regularly at least four times a year, and holds special meetings when necessary. Notices and meeting materials for regular board meetings are given to the Directors at least fourteen days and three days prior to the meetings, respectively. All Directors are entitled to submit proposals to be listed as part of the agenda of the board meetings. Detailed minutes of each board meeting are kept. Four board committees are formed under the Board of Directors, namely the Strategic Planning Committee, the Audit Committee, the Nomination, Remuneration and Review Committee, and the Risk Management and Investment Decision-making Committee. The duties and responsibilities of and operating procedures for each of the board committees are clearly defined. The board committees submit opinions and proposals to the Board of Directors on matters within their respective scope of duties and responsibilities.

During the Year, in accordance with the applicable principles and code provisions of the Code on Corporate Governance Practices, and the relevant provisions of the Company Law, the Guidelines and the Articles of Association, the Board of Directors continued to regulate its operation and enhanced its corporate governance.

## BOARD OF DIRECTORS *(continued)*

### Composition

During the Year, the Board of Directors of the Company comprised the following Directors:

| Name | Position | Date of Commencement of Directorship | Term |
|---|---|---|---|
| Mr Wu Yan | Chairman, Executive Director | 23 March 2007 | From 23 March 2007 to 22 March 2010 (Note 2) |
| Mr Wang Yincheng | Vice Chairman, Executive Director | 6 July 2003 | From 18 October 2006 to 5 July 2009 (Note 2) |
| Mr Tse Sze-Wing, Edmund | Non-executive Director | 15 June 2004 | From 6 July 2006 to 5 July 2009 (Note 2) |
| Mr Cheng Wai Chee, Christopher (resigned) | Independent Non-executive Director | 30 July 2003 | From 30 July 2006 to 5 July 2009 (Note 2) |
| Mr Lu Zhengfei | Independent Non-executive Director | 24 February 2004 | From 24 February 2007 to 23 February 2010 (Note 2) |
| Mr Luk Kin Yu, Peter | Independent Non-executive Director | 29 April 2005 | From 29 April 2008 to 28 April 2011 |
| Mr Ding Ningning | Independent Non-executive Director | 18 January 2006 | From 18 January 2009 to 17 January 2012 (Note 1) |
| Mr Zhou Shurui | Non-executive Director | 6 July 2003 | From 18 October 2006 to 5 July 2009 (Note 2) |
| Ms Liu Zhenghuan | Executive Director | 6 July 2003 | From 18 October 2006 to 5 July 2009 (Note 2) |
| Mr Li Tao | Non-executive Director | 18 October 2006 | From 18 October 2006 to 5 July 2009 (Note 2) |

*Notes:*

1. Mr Ding Ningning was re-appointed as the Independent Non-executive Director on 16 January 2009 and his term of office will expire on 17 January 2012.

2. Mr Wu Yan's and Mr Lu Zhengfei's term of office should have expired on 22 March 2010 and 23 February 2010, respectively. In accordance with the provisions of the Company Law, Mr Wu and Mr Lu, together with Mr Wang Yincheng, Mr Tse Sze-Wing, Edmund, Mr Cheng Wai Chee, Christopher, Mr Zhou Shurui, Ms Liu Zhenghuan and Mr Li Tao, whose term of office should have expired during the Year, have continued to serve as Directors until the formation of the new session of the Board of Directors (except for Mr Cheng Wai Chee, Christopher, who resigned as an Independent Non-executive Director on 23 October 2009).

Changes of directors during the Year are as follows:

Mr Cheng Wai Chee, Christopher resigned as the Company's Independent Non-executive Director on 23 October 2009.

## BOARD OF DIRECTORS *(continued)*

### Duties and Responsibilities

The Board of Directors is responsible for providing leadership, monitoring and controlling the operations of the Company, formulating the overall strategies, policies, financial budgets and final accounts of the Company, determining the annual operation plans and investment plans of the Company, determining the fundamental management system and internal management structure, assessing the performance of the Company and supervising the work of the management. The Board of Directors is also responsible for convening shareholders' general meetings, implementing resolutions of the shareholders' general meetings, formulating plans for distribution of profits and recovery of losses, formulating proposals for the increase in or reduction of the registered capital of the Company, drawing up plans for the issue of corporate bonds, appointing or removing the Company's President, Vice Presidents, Secretary of the Board of Directors and other senior management personnel and determining their remuneration, rewards and disciplinary matters, etc. The Board of Directors is ultimately responsible for the internal control, risk management and compliance management of the Company. Details of the duties and responsibilities of the Board of Directors were set out on page 33 of the Company's 2006 Annual Report.

The Board of Directors delegates the daily business operations and management of the Company to the management.

### Summary of Work Undertaken

During the Year, the Board of Directors held seven meetings and considered forty proposals. Each Director attained attendance rate of 100%. The attendance of each Director is recorded as follows:

| Name | Number of meetings attended/ Number of meetings that require attendance | Attendance rate |
|---|---|---|
| Wu Yan | 7/7 | 100% |
| Wang Yincheng | 7/7 | 100% |
| Tse Sze-Wing, Edmund | 7/7 | 100% |
| Cheng Wai Chee, Christopher | 6/6 | 100% |
| Lu Zhengfei | 7/7 | 100% |
| Luk Kin Yu, Peter | 7/7 | 100% |
| Ding Ningning | 7/7 | 100% |
| Zhou Shurui | 7/7 | 100% |
| Liu Zhenghuan | 7/7 | 100% |
| Li Tao | 7/7 | 100% |

*Note:* Mr Cheng Wai Chee, Christopher resigned on 23 October 2009.

## BOARD OF DIRECTORS *(continued)*

### Summary of Work Undertaken *(continued)*

The main tasks accomplished by the Board of Directors in the Year included the followings:

- convened three shareholders' general meetings and submitted ten proposals to the shareholders' general meetings including the proposals regarding the issue of subordinated term debts, the Report of the Board of Directors for 2008, the Auditors' Report and the audited financial statements for 2008, and the profit distribution plan for 2008;
- approved the business development plan, financial budget, fixed assets investment plan, strategic allocation of and investment policies on custodian assets of the Company for the Year;
- approved the total amount of remuneration payable by the Company for the Year, conducted the annual performance appraisals of the Company's senior management, including the Chairman, Directors and President;
- considered and approved the Company's Internal Control Assessment Report, Risk Assessment Report and Compliance Assessment Report for 2008, considered the report on improvement based on the Management Letter for 2007, reviewed and continuously enhanced the effectiveness of the Company's internal control system;
- considered and approved the transfer of its equity interest in PICC Asset Management Company Limited and the non-participation in the capital increase of PICC Life Insurance Company Limited by the Company;
- considered and approved the financial statements of compulsory third party motor insurance for 2008;
- considered and approved the 2009 interim results;
- considered and approved the connected transactions entered into in the Year;
- appointed Mr Wang Yueshu as the compliance officer, and Mr Wang Dedi and Mr Jiang Caishi as Vice Presidents;
- considered and approved the Company's report on implementation of the Measures for the Administration of Connected Transactions and the Company's report on its connected transactions for 2008;
- amended and improved the Working Rules for the Audit Committee and the Guidelines on Dealing in Securities of the Company by Its Employees in order to comply with new regulatory requirements;
- approved the extension of the expiry date of appreciation rights attached to the initial stocks of the Company to a date after the publication of the State's policy on regulating equity interest, and its ongoing implementation.

## DIRECTORS

### Responsibilities with respect to Financial Statements

Directors are responsible for the preparation of financial statements for every financial year and the interim period thereof which shall give a true and fair view of the business operations of the Company in accordance with the financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants and through the consistent adoption of appropriate accounting policies and, subject to compliance with the Hong Kong Financial Reporting Standards, the implementation of the regulations on accounting treatment issued by the Ministry of Finance of the People's Republic of China and the CIRC.

### Securities Transactions

The Company has formulated guidelines on transactions of the Company's securities that are applicable to directors, supervisors and all employees, and the terms of such guidelines are no less exacting than those set out in the Model Code. The Company has enquired with all the Directors and Supervisors and they have all confirmed that they had complied with the requirements under the Model Code and such guidelines during the Year.

### Independence of Independent Non-executive Directors

The Company has received the annual confirmation letters from all the Independent Non-executive Directors in relation to their independence. As of the date of this annual report, the Company is of the view that all the Independent Non-executive Directors are independent.

## CHAIRMAN/PRESIDENT

Mr Wu Yan is the Chairman of the Board of Directors of the Company. Mr Wang Yincheng is the President of the Company. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively and discharges its responsibilities properly. The President is responsible for managing the daily business operations of the Company and implementing the resolutions passed by the Board of Directors. Details of the duties and responsibilities of the Chairman and the President were set out on pages 36 and 37 of the Company's 2005 Annual Report.

## AUDIT COMMITTEE

### Overview

During the Year, in order to reflect the new regulatory requirements in its work, the Audit Committee amended the Working Rules for the Audit Committee based on the changes in regulatory requirements at the beginning of the Year, and the amended Working Rules for the Audit Committee was considered and approved by the Board of Directors. During the Year, the Audit Committee conscientiously performed its duties of monitoring and providing guidance on internal and external audit, monitoring financial reporting procedures, reinforcing internal control management, reviewing financial reports, and provided the Board of Directors with professional opinions and suggestions, thus made active contribution to the enhancement of the Company's corporate governance.

## AUDIT COMMITTEE *(continued)*

### Composition

Chairman: Lu Zhengfei

Members: Luk Kin Yu, Peter and Li Tao

### Duties and Responsibilities

Relationship with the external accounting firm of the Company:

- make recommendations to the Board of Directors in respect of the appointment, removal or non-reappointment of the accounting firm providing audit services to the Company, and deal with any matters concerning the resignation or dismissal of such accounting firm;
- consider the remuneration and terms of engagement of the accounting firm;
- assess the independence of the accounting firm and the effectiveness of their audit procedures, discuss the nature and scope of the audit and the relevant reporting obligations with the accounting firm before commencement of the audit;
- assess and ascertain the independence and objectivity of the accounting firm in respect of its provision of non-audit services, decide whether to retain such accounting firm for non-audit services, and formulate relevant regulations and monitor the implementation of such regulations;
- meet at least once a year with the accounting firm to discuss auditors' remuneration and matters concerning the audit.

Examine the completeness of the Company's financial statements, annual reports and accounts, interim reports and, if prepared for publication, quarterly reports and review material opinions on financial reporting matters set out in such statements and reports:

- in reviewing the relevant statements and reports, focus on the review of the changes in accounting policies and practices, material judgment, material audit adjustments, assumptions of going concern and any qualified opinions, compliance with the applicable accounting standards, and the provisions relating to financial reporting under the Listing Rules and other laws and regulations;
- in reviewing the relevant statements, reports and accounts, consider any significant or unusual matters that are, or may need to be, reflected in such statements, reports and accounts, and give due consideration to any matters that have been raised by the Company's head of the Finance and Accounting Department, head of the Monitoring Department, head of the Internal Audit Department, or the external accounting firm.

## AUDIT COMMITTEE *(continued)*

### Duties and Responsibilities *(continued)*

Monitor and inspect the financial reporting procedures and internal control system of the Company:

- review the financial control, internal control and risk management systems of the Company;

- discuss with the management the internal control system of the Company and ensure that the management establishes an effective internal control system, and conduct regular review and assessment of the soundness and effectiveness of internal control;

- study findings of major investigations in respect of internal control matters and the management's response, handle and respond to complaints relating to major internal control problems on a timely basis, and supervise the rectification and settlement of major problems identified in the process of internal audit and external audit;

- coordinate internal audit and external audit;

- review the general rules for the Company's internal audit and provide opinions to the Board of Directors, monitor the implementation of the rules for internal audit of the Company, examine the effectiveness of the internal audit function, approve the annual audit plan and annual audit budget of the Company, and ensure that the Internal Audit Department is adequately resourced and has appropriate standing within the Company;

- review the Management Letters issued by the accounting firm to the management, any material queries raised by the accounting firm to the management in respect of accounting records, accounts or the internal control system and inspect the management's response in relation thereto, and ensure that the Board of Directors will provide a timely response to the issues raised in the Management Letters;

- examine and verify material connected transactions of the Company, and consider the report on the special audit in respect of connected transactions;

- regularly consider the reports on the progress of audit work from the personnel in charge of the audit function and review the report on internal control assessment submitted by the personnel in charge of the audit function, assess the work of the personnel in charge of the audit function and provide comments to the Board of Directors, and evaluate the work of the personnel in charge of the Finance and Accounting Department and Internal Audit Department of the Company;

- monitor and provide guidance on special audit works carried out by the Internal Audit Department;

- regularly consider the reports on compliance matters from the Compliance Officer and the Compliance Department, review and submit to the Board of Directors the Company's annual compliance report, review the interim compliance report and provide opinions and recommendations to the Board of Directors;

- consider the sufficiency of the resources and the adequacy of the qualifications and experience of employees in connection with the accounting and financial reporting function of the Company, as well as the sufficiency of the training programs for the employees and the relevant budget;

Other matters authorised by the Board of Directors.

## AUDIT COMMITTEE *(continued)*

### Remuneration of Auditors

In the Year, the Company paid RMB16.36 million to the auditors, including the fees for the audit of the financial statements for 2008 and the review of the interim financial statements for 2009. In the Year, the Company paid RMB0.32 million to the auditors for non-audit services.

### Summary of Work Undertaken

During the Year, the Audit Committee held five meetings and considered twenty-four proposals. The attendance rate of each committee member reached 100% and the attendance is recorded as follows:

| Name | Lu Zhengfei | Luk Kin Yu, Peter | Li Tao |
|---|---|---|---|
| Number of meetings attended/ Number of meetings that require attendance | 5/5 | 5/5 | 5/5 |
| Attendance rate | 100% | 100% | 100% |

In the Year, the main tasks accomplished by the Audit Committee included:

Communicated with the external auditors:

- considered the external auditors' reports on the work plans for and results of the audit for 2008 and on the interim review work for 2009, discussed with the external auditors about the nature, scope and responsibilities of the audit and review, and further discussed about, among other things, the operating conditions of the entire industry and the impact that possible future changes in accounting policies may have upon the Company;

- considered the opinions of the external auditors and the Company's management on the fees for the interim review and the annual audit for 2009, considered the engagement terms, and proposed to the Board of Directors the re-engagement of the auditors and obtained the approvals from the Board of Directors and the shareholders' general meeting.

Reviewed the financial reports, etc.:

- reviewed the financial statements and results announcements for 2008 and for the interim period of 2009, and discussed with the management on, among other things, the appropriation of reserves and investment portfolios and returns.

## AUDIT COMMITTEE *(continued)*

### Summary of Work Undertaken *(continued)*

Monitored and inspected the financial reporting procedures and the internal control work:

- considered and approved the reports on the assessment of the Company's internal control for 2008, the assessment of compliance for 2008 and for the interim period of 2009, provided recommendations on the specific measures, areas of improvement and desirable approach for the relevant work as mentioned in the above reports, and proposed to introduce an assessment indicator system into the internal control assessment report and compliance assessment report in the future to quantify specific issues;

- considered and approved the Company's report on improvement based on the Management Letter for 2007, considered the Management Letter for 2008 and discussed major issues set out therein with the management of the Company, and proposed to include the improvement on the issues set out in the Management Letter as a special audit item;

- considered and approved three connected transactions, namely the transfer of the Company's equity interest in PICC Asset Management Company Limited, acquisitions of properties and green/open lands, and discussed with the management of the Company about issues such as the selection of equity valuation methods and application for property ownership certificates;

- supervised and provided guidance on the internal audit and finance and accounting work, considered the report of the Auditing Department of the Company and the personnel in charge of the audit function on the work summary for 2008 and the work plan for 2009 (including audit budget), considered the report of the Finance and Accounting Department of the Company on the work summary for 2008 and the work plan for 2009 and provided recommendations on financial informatisation and internal control issues;

- considered the report of the Auditing Department of the Company on the results of the special audit on the premiums receivable for 2008 and discussed about relevant issues.

## NOMINATION, REMUNERATION AND REVIEW COMMITTEE

### Overview

The Nomination, Remuneration and Review Committee is responsible for matters relating to the nomination, remuneration and performance appraisals of directors of the Company. During the Year, the Nomination, Remuneration and Review Committee made constructive suggestions to the Board of Directors on various matters including the nomination of candidates for senior management, remuneration and incentive policies, performance appraisals and the overall remuneration of the Company.

### Composition

Chairman: Cheng Wai Chee, Christopher (resigned on 23 October 2009)

Members: Wang Yincheng, Lu Zhengfei, Luk Kin Yu, Peter, Ding Ningning, Zhou Shurui and Liu Zhenghuan

## NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

### Duties and Responsibilities

The Nomination, Remuneration and Review Committee is responsible for recommending candidates for directorship, formulating remuneration policies and appraisal standards for directors, the President and other senior management personnel (including Vice Presidents, Chief Financial Officer, Secretary of the Board of Directors and Assistants to the President), and supervising the implementation of such policies and standards. Details of the duties and responsibilities of the Committee were set out on page 41 of the Company's 2005 Annual Report.

### Nomination of Directors

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates as new directors, and then recommend such candidates to the Board of Directors. The Board of Directors shall then determine whether such candidates' appointments should be proposed for approval at the shareholders' general meeting. The major criteria considered by the Nomination, Remuneration and Review Committee and the Board of Directors are the educational background, management and research experience in the finance industry, especially in the insurance sector, of the candidates and the candidates' commitment to the Company. Regarding the nomination of independent non-executive directors, the Nomination, Remuneration and Review Committee will also give special consideration to the independence of the relevant candidates.

### Remuneration of Directors and Other Senior Management

The fixed salary of the executive directors and other senior management is determined in accordance with the market level and their respective positions, and the amount of their performance-related bonuses is determined according to the scores on performance appraisals. The amounts of directors' fees and supervisors' fees are determined with reference to the market level and the circumstances of the Company.

### Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held two meetings, at which five proposals were considered. One of the two meetings was held for discussing remuneration-related matters. The meeting attendance rate of each committee member reached 100%. Attendance record of the meetings is as follows:

| Name | Cheng Wai Chee, Christopher | Wang Yincheng | Lu Zhengfei | Luk Kin Yu, Peter | Ding Ningning | Zhou Shurui | Liu Zhenghuan |
|---|---|---|---|---|---|---|---|
| Number of meetings attended/Number of meetings that require attendance | 2/2 | 2/2 | 2/2 | 2/2 | 2/2 | 2/2 | 2/2 |
| Attendance rate | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

## NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

### Summary of Work Undertaken *(continued)*

In the Year, the main tasks accomplished by the Nomination, Remuneration and Review Committee included:

- having taken into consideration the fact that Ms Li Jianguo ceased to be the compliance officer due to her senior age, made a nomination for the appointment of Mr Wang Yueshu as the compliance officer; having taken into consideration the fact that Mr Wang Dedi and Mr Jiang Caishi have extensive experience in the operation and management of insurance business, made nominations for the appointment of Mr Wang and Mr Jiang as Vice Presidents, and such nominations were considered and approved by the Board of Directors;

- having taken into consideration of the market salary levels of comparable companies and the Company's own circumstances, made recommendations to the Board of Directors in respect of the fees of the directors and supervisors, and such recommendations were considered and approved by the Board of Directors and at the shareholders' general meeting;

- having taken into consideration of the factors such as the market environment, agreed to the plan for the total amount of remuneration of the Company for the Year, and such plan was considered and approved by the Board of Directors;

- considered the performance appraisal plan for the senior management for 2008 and made recommendations to the Board of Directors in respect thereof, carried out the annual performance appraisals of the Chairman, Directors, President and Vice Presidents, made suggestions with respect to the score on appraisal of the President and the bonus coefficients for the Chairman and the President, which were considered and approved by the Board of Directors.

## STRATEGIC PLANNING COMMITTEE

### Overview

During the Year, the Strategic Planning Committee reviewed the annual business development plan, major investment plan, financial budget, profit distribution plan and major strategies of the Company.

### Composition

Chairman: Wu Yan

Members: Tse Sze-Wing, Edmund, Ding Ningning and Li Tao

### Duties and Responsibilities

The Strategic Planning Committee is responsible for formulating medium and long term development strategies, reviewing major investment plans, financing plans, annual financial budgets and final accounts of the Company. Details of the duties and responsibilities of the Committee were set out on pages 43 and 44 of the Company's 2005 Annual Report.

## STRATEGIC PLANNING COMMITTEE *(continued)*

### Summary of Work Undertaken

During the Year, the Strategic Planning Committee held four meetings and considered six proposals. The main tasks accomplished by the Strategic Planning Committee in the Year included the followings:

- considered and approved the business development plan for the Year;
- considered and approved the financial budget for the Year;
- considered and approved the proposal for non-participation in the capital increase of PICC Life Insurance Company Limited;
- considered and approved the profit distribution plan for 2008 and the non-payment of interim dividend for 2009;
- considered and approved the setting up of a disaster research center in the Company's headquarters.

## RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE

### Overview

During the Year, the Risk Management and Investment Decision-making Committee reviewed the fund application strategies and investment strategies of the Company, and effectively identified and controlled risks, etc.

### Composition

Chairman: Wu Yan

Members: Wang Yincheng, Luk Kin Yu, Peter, Zhou Shurui and Liu Zhenghuan

### Duties and Responsibilities

The Risk Management and Investment Decision-making Committee is responsible for matters including the reviewing of the overall goal, basic policies and working system of risk management of the Company, the organisational structure for risk management and the related duties and responsibilities, the risk assessment of major decisions and solutions to material risks, the annual risk assessment reports, the management approach for application of insurance capital and the plan for entrustment and custody of insurance capital. Details of the duties and responsibilities of the Committee were set out on page 45 of the Company's 2007 Annual Report.

## RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE *(continued)*

### Summary of Work Undertaken

During the Year, the Risk Management and Investment Decision-making Committee held three meetings and considered three proposals. The tasks accomplished by the Risk Management and Investment Decision-making Committee in the Year included the followings:

- considered and approved the proposal for participating in the credit investment scheme in respect of the transportation project of Tianjin Binhai New Area;
- considered and approved the proposal for participating in the private placement of additional shares by the Bank of Hangzhou;
- considered and approved the risk assessment report for 2008.

## INTERNAL CONTROL

The Company believes that sound internal control plays an important role in the operation of the Company. The Board of Directors is committed to establishing an effective internal control system and implementing and monitoring such internal control system. The Board of Directors has the ultimate responsibility for internal control, risk management and compliance management, and reviews the internal control work each year so as to ensure the internal control system of the Company is sound, perfect and effective. The Audit Committee is formed under the Board of Directors and is responsible for reviewing the internal control system of the Company, monitoring the implementation of the internal control, and considering the annual internal control assessment reports and annual compliance assessment reports. The Risk Management and Investment Decision-making Committee is formed under the Board of Directors and is responsible for considering the basic system of risk management of the Company and the annual risk assessment reports, and monitoring the effectiveness of the operation of the risk management system. The Company's Monitoring Department/Auditing Department, Legal Department/Compliance Department and Finance and Accounting Department are responsible for the daily work of internal control, compliance management and risk management of the Company, respectively.

In order to review and continuously enhance the effectiveness of internal control of the Company, the Board of Directors and the Audit Committee considered and discussed the annual internal control assessment report and the annual compliance assessment report of the Company for 2009, and the Board of Directors and the Risk Management and Investment Decision-making Committee considered and discussed the annual risk assessment report of the Company for 2009.

## SUPERVISORY COMMITTEE

### Overview

During the Year, the Supervisory Committee discharged its supervisory duties according to the laws, strengthened the supervision over meetings, conducted investigations and researches on specific topics, and made suggestions to the management about the strengthening of operation and management, compliant operation and risk control.

## SUPERVISORY COMMITTEE *(continued)*

### Composition

Chairman: Ding Yunzhou

Supervisors: Li Dianjun, Sheng Hetai and He Bangshun

*Note:* The term of office of Mr Li Dianjun as supervisor should have expired on 8 May 2009 while that of Mr Ding Yunzhou, Mr Sheng Hetai and Mr He Bangshun as supervisors should have expired on 17 October 2009. According to the provisions of the Company Law, Mr Ding Yunzhou, Mr Li Dianjun, Mr Sheng Hetai and Mr He Bangshun have continued to serve as supervisors until the formation of the new session of the Supervisory Committee.

### Duties and Responsibilities

The Supervisory Committee is accountable to the shareholders' general meeting and performs duties of supervision over the financial affairs, directors and other senior management of the Company. Detailed duties and responsibilities are: examining the financial affairs of the Company, verifying the financial information proposed to be submitted by the Board of Directors to the shareholders' general meetings which includes financial reports, business reports and profit distribution plans, supervising the directors and other senior management in their performance of duties for the Company, proposing the removal of such directors or other senior management who have breached the laws, regulations, the Articles of Association or resolutions of the shareholders' general meetings, requiring the directors and other senior management to rectify their actions in the event that such actions infringed the interests of the Company, and bringing lawsuits against directors or other senior management in accordance with the provisions of the Company Law.

### Summary of Work Undertaken

During the Year, the Supervisory Committee carried out its work, performed its supervisory duties and protected the interests of the shareholders, the Company and its employees strictly in accordance with the relevant provisions of the Company Law and the Articles of Association. During this reporting period, the Supervisory Committee held three meetings, at which fifteen proposals were considered and approved. The meeting attendance rate of each supervisor reached 100% and the attendance is recorded as follows:

| Name | Ding Yunzhou | Li Dianjun | Sheng Hetai | He Bangshun |
|---|---|---|---|---|
| Number of meetings attended/ Number of meetings that require attendance | 3/3 | 3/3 | 3/3 | 3/3 |
| Attendance rate | 100% | 100% | 100% | 100% |

Details of the tasks accomplished by the Supervisory Committee during the Year are set out in the "Report of the Supervisory Committee" section of this annual report.

## RIGHTS OF SHAREHOLDERS

### Methods of Convening Special General Meetings

According to the Articles of Association and the Procedural Rules for Shareholders' General Meetings of the Company, any shareholder(s), whether individually or collectively, holding 10% or more of the voting shares of the Company may request in writing to convene a special general meeting and such shareholder(s) shall submit the complete resolution to the Board of Directors in writing. If the Board of Directors is satisfied that the resolution complies with the requirements under the laws, regulations and the Articles of Association, it shall issue a notice of special general meeting within 15 days after receipt of the written resolution.

### Procedures for Proposing Resolutions at Annual General Meetings

Any shareholder(s), whether individually or collectively, holding 3% or more of the voting shares of the Company is entitled to propose and submit to the Board of Directors proposed resolution in writing 10 days prior to the holding of the annual general meeting. The Board of Directors shall notify other shareholders of such proposed resolution within two days after receipt of such proposal and submit the same to the annual general meeting for consideration. The proposed resolution shall deal with matter that is within the scope of the shareholders' general meeting and shall contain clear subject and specific matter to be resolved.

## INVESTOR RELATIONS

The Company communicates its operating results and business development trends timely with investors after the announcements of annual and interim results by way of, among others, results briefings and roadshows. Through accepting visits by investors, attending major investment forums, making timely replies to enquiries made by telephone and electronic mails and providing information to investors proactively on the Company's website, the Company strengthens its day-to-day communications with investors with a view to establishing and maintaining a good relationship with investors.

## PARTICULARS OF THE LATEST SHAREHOLDERS' GENERAL MEETING

The latest shareholders' general meeting was the annual general meeting held on 26 June 2009, at which the Report of the Board of Directors, the Report of the Supervisory Committee, the Auditors' Report and the audited financial statements and the profit distribution plan for 2008, the fees of the directors and supervisors for 2009, the engagement of auditors and the general mandate to the Board of Directors for the issuance of additional shares were considered. All resolutions were passed by way of poll at the meeting.

In 2009, the Company received numerous honours, some of which are listed below:

## "Most Trusted Insurance Company"

In March 2009, the results of "The Second China Financial Management Annual Awards" hosted by *Money Talk* magazine and participated by 15 mainstream media in the major cities across the country were announced. The awards extended to four major industries, namely banking, insurance, funds and securities. The Company was awarded the 2008-2009 "Most Trusted Insurance Company" prize.

## "Model Enterprise with Satisfying e-Selling Channel" and "Model Enterprise with Well-Constructed Website"

In June 2009, the list of winners of the "2009 e-Commerce Summit of China's Insurance Industry" organised by CCID Consulting Company Limited of China Center for Information Industry Development was announced. In recognition of its outstanding customer services, e-selling and website business services, the Company won two prizes altogether – the "2009 China Insurance e-Commerce – Model Enterprise with Satisfying e-Selling Channel" and the "2009 China Insurance e-Commerce – Model Enterprise with Well-Constructed Website".

## "Netizens' Most Satisfied Insurance Company"

In October 2009, the Company was awarded the "2009 Netizens' Most Satisfied Insurance Company" grand prize in the "Golden Kylin Awards" hosted by China's famous website SINA. Following the obtaining of the "Best Insurance Company of the Year" award in 2008, this was the second "Golden Kylin" award won by the Company.

## "Most Competitive Non-life Insurance Company in Asia"

In November 2009, "The Second 21st Century Annual Finance Summit of Asia – Insurance Summit and the Publishing Ceremony of the Asian Insurance Competency Ranking Report" co-organised by *21st Century Business Herald* and the Finance Center of the 21st Century Research Institution was held in Beijing. The Company was awarded the 2009 "Most Competitive Non-life Insurance Company in Asia" prize. The Company won this prize for two consecutive years in 2008 and 2009.

## "Insurance Company with the Best Services"

In December 2009, the "2009 SOHU Financial Management Network Grand Ceremony and the Year-end Awards" was held in Beijing. This event was organised and hosted by the money channel of China's famous website SOHU, and was aimed to single out China's most trustworthy brand in the financial industry for the year. After an extensive voting via the internet, the Company was awarded the "2009 Insurance Company with the Best Services" prize.

## "Best Corporate Culture"

In January 2010, the Company was awarded the 2009 "Best Corporate Culture" prize by the Judging Committee of the China Insurance Innovation Grand Prize at "The Second China Insurance Culture and Brand Innovation Forum and the Fourth China Insurance Innovation Awards Ceremony".

**Prizes for various products, including "Insurance Product with the Most Market Influence", "Best Selling Insurance Product" and "Best Motor Vehicle Insurance Product"**

At "The Second China Insurance Culture and Brand Innovation Forum and the Fourth China Insurance Innovation Awards Ceremony" held in January 2010, the Company's "'China Tour' Domestic Travel Insurance" and "Overseas Students' Travel Insurance" products were awarded the "Insurance Product with the Most Market Potential" prize jointly by the Judging Committee for the China Insurance Innovation Grand Prize and *Insurance Cultur*e magazine. "Migrant Workers Personal Accident & Health Micro-insurance" won the "Insurance Product with the Most Market Influence" prize and "'Jiu Zhou Tong Le' (Merriment for All) Accidental Injury Insurance" won the "Best Personal Accident & Health Insurance Product" prize.

The Company's various products also won other prizes – "International Freight Forwarding B/L Liability Insurance" won the "Most Innovative Insurance Product" prize, "Comprehensive Insurance for Happiness" won the "Best Selling Insurance Product" prize, "Science & Technology Insurance Series with 13 Products" won the "Best Product Portfolio" grand prize, "Property Insurance Product Series for Wind Power Enterprises" won the "Best Property Insurance Product" prize, "Environmental Pollution Liability Insurance" won the "Best Liability Insurance Product" prize, "'Road to Happiness' Safety Liability Insurance for Passengers of Agricultural Vehicles" won the "Best Motor Vehicle Insurance Product" prize and "Crops Insurance Financially Subsidized by the Government" won the "Rural Areas' Best Insurance Product" prize. The Company won the most prizes among the insurance companies in the award ceremony.

**To the shareholders of PICC Property and Casualty Company Limited**
*(Incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements of PICC Property and Casualty Company Limited set out on pages 52 to 147, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
14 April 2010

# Consolidated Income Statement

*Year ended 31 December 2009*

| | Notes | 2009<br>*RMB million* | 2008<br>*RMB million*<br>(Restated) |
|---|---|---|---|
| **TURNOVER** | 5 | 119,771 | 101,878 |
| Net premiums earned | 5 | 93,296 | 80,019 |
| Net claims incurred | 6 | (64,517) | (60,710) |
| Acquisition cost and other underwriting expenses | 7 | (19,795) | (11,597) |
| General and administrative expenses | | (11,044) | (10,317) |
| **UNDERWRITING LOSS** | | (2,060) | (2,605) |
| Net investment income | 8 | 2,866 | 3,716 |
| Net realised and unrealised gains on investments | 9 | 1,711 | 319 |
| Investment expenses | | (137) | (260) |
| Interest expenses credited to policyholders' deposits | | (112) | (215) |
| Exchange losses, net | 10 | (6) | (815) |
| Sundry income | | 351 | 357 |
| Sundry expenses | | (208) | (295) |
| Finance costs | 11 | (264) | (227) |
| Share of profit and loss of associates | | 26 | (345) |
| **PROFIT/(LOSS) BEFORE TAX** | 12 | 2,167 | (370) |
| Income tax expense | 15 | (384) | 479 |
| **PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT** | | 1,783 | 109 |
| **BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB)** | 16 | 0.160 | 0.010 |
| **DIVIDEND PER SHARE (in RMB)** | 17 | – | – |

| | Note | 2009 RMB million | 2008 RMB million (Restated) |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **1,783** | 109 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Net gains on cash flow hedges | 18 | **10** | 41 |
| Income tax effect | | **(3)** | (10) |
| | | **7** | 31 |
| Net gains/(losses) on available-for-sale investments | 18 | **513** | (5,859) |
| Income tax effect | | **(128)** | 1,465 |
| | | **385** | (4,394) |
| Share of change in associates' equity | | **(156)** | 85 |
| Other comprehensive income/(loss) for the year, net of tax | | **236** | (4,278) |
| Total comprehensive income/(loss) for the year attributable to owners of the parent, net of tax | | **2,019** | (4,169) |

# Consolidated Statement of Financial Position

*31 December 2009*

| | Notes | 31 December 2009<br>*RMB million* | 31 December 2008<br>*RMB million*<br>(Restated) | 1 January 2008<br>*RMB million*<br>(Restated) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 19 | 32,143 | 29,056 | 30,789 |
| Derivative financial assets | 20 | 16 | 6 | – |
| Debt securities | 21 | 58,458 | 41,291 | 28,465 |
| Equity securities | 22 | 14,683 | 6,438 | 16,978 |
| Insurance receivables, net | 23 | 17,170 | 20,758 | 13,770 |
| Tax recoverable | | 89 | – | – |
| Reinsurance assets | 24 | 14,426 | 17,461 | 9,653 |
| Other financial assets and prepayments | 25 | 10,947 | 11,415 | 9,880 |
| Investments in associates | 26 | 644 | 750 | 1,025 |
| Property, plant and equipment | 28 | 12,282 | 12,136 | 11,721 |
| Investment properties | 29 | 706 | 605 | 532 |
| Prepaid land premiums | 30 | 3,750 | 3,769 | 3,866 |
| Deferred tax assets | 34 | 69 | 565 | – |
| **TOTAL ASSETS** | | 165,383 | 144,250 | 126,679 |
| **LIABILITIES** | | | | |
| Derivative financial liabilities | 20 | – | – | 35 |
| Payables to reinsurers | 31 | 16,595 | 18,258 | 9,813 |
| Accrued insurance protection fund | 32 | 418 | 252 | 296 |
| Tax payable | | – | 926 | 1,314 |
| Other liabilities and accruals | 33 | 20,625 | 14,998 | 9,636 |
| Deferred tax liabilities | 34 | – | – | 2,056 |
| Insurance contract liabilities | 35 | 92,695 | 79,689 | 68,663 |
| Policyholders’ deposits | 36 | 5,287 | 7,383 | 7,953 |
| Subordinated debts | 37 | 8,000 | 3,000 | 3,000 |
| **TOTAL LIABILITIES** | | 143,620 | 124,506 | 102,766 |
| **EQUITY** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Issued capital | 39 | 11,142 | 11,142 | 11,142 |
| Reserves | | 10,621 | 8,602 | 12,771 |
| **TOTAL EQUITY** | | 21,763 | 19,744 | 23,913 |
| **TOTAL EQUITY AND LIABILITIES** | | 165,383 | 144,250 | 126,679 |

| | | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital *RMB million* | Share premium account *RMB million* | Available-for-sale investment revaluation reserve *RMB million* | Cash flow hedging reserve *RMB million* | Statutory surplus reserve *RMB million* | General risk reserve *RMB million* | Retained profits *RMB million* | Total *RMB million* |
| At 1 January 2009 | | | | | | | | | |
| As previously reported | | 11,142 | 4,739 | (183) | 5 | 540 | 327 | 5,239 | 21,809 |
| Changes in accounting policies | 2.4 | – | – | 41 | – | 135 | (17) | (2,224) | (2,065) |
| As restated | | 11,142 | 4,739 | (142) | 5 | 675 | 310 | 3,015 | 19,744 |
| Profit for the year | | – | – | – | – | 178 | 178 | 1,427 | 1,783 |
| Other comprehensive income | | – | – | 229 | 7 | – | – | – | 236 |
| Total comprehensive income for the year | | – | – | 229 | 7 | 178 | 178 | 1,427 | 2,019 |
| At 31 December 2009 | | 11,142 | 4,739* | 87* | 12* | 853* | 488* | 4,442* | 21,763 |

* These reserve accounts comprise the consolidated reserves of RMB10,621 million (2008: RMB8,602 million) in the consolidated statement of financial position.

| | | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Issued capital *RMB million* | Share premium account *RMB million* | Available-for-sale investment revaluation reserve *RMB million* | Cash flow hedging reserve *RMB million* | Statutory surplus reserve *RMB million* | General risk reserve *RMB million* | Retained profits *RMB million* | Total *RMB million* |
| At 1 January 2008 | | | | | | | | | |
| As previously reported | | 11,142 | 4,739 | 4,167 | (26) | 452 | 239 | 5,365 | 26,078 |
| Changes in accounting policies | 2.4 | – | – | – | – | 212 | 60 | (2,437) | (2,165) |
| As restated | | 11,142 | 4,739 | 4,167 | (26) | 664 | 299 | 2,928 | 23,913 |
| Profit for the year | | – | – | – | – | 11 | 11 | 87 | 109 |
| Other comprehensive income/(loss) | | – | – | (4,309) | 31 | – | – | – | (4,278) |
| Total comprehensive income/(loss) for the year | | – | – | (4,309) | 31 | 11 | 11 | 87 | (4,169) |
| At 31 December 2008 | | 11,142 | 4,739* | (142)* | 5* | 675* | 310* | 3,015* | 19,744 |

*Year ended 31 December 2009*

| | Notes | 2009 RMB million | 2008 RMB million (Restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | | 2,167 | (370) |
| Adjustments for: | | | |
| Net investment income | 8 | (2,866) | (3,716) |
| Net realised and unrealised gains on investments | 9 | (1,711) | (319) |
| Interest expenses credited to policyholders' deposits | | 112 | 215 |
| Exchange losses, net | 10 | 6 | 815 |
| Share of profit and loss of associates | | (26) | 345 |
| Depreciation of property, plant and equipment | 12, 28 | 860 | 866 |
| Depreciation of investment properties | 12, 29 | 29 | 23 |
| Amortisation of prepaid land premiums | 12, 30 | 104 | 104 |
| Net (gain)/loss on disposal of items of property, plant and equipment | 12 | (6) | 13 |
| Finance costs | 11 | 264 | 227 |
| Investment expenses | | 137 | 260 |
| Impairment loss on insurance receivables | 12 | 668 | 477 |
| Decrease/(increase) in insurance receivables | | 2,920 | (7,465) |
| Decrease/(increase) in other financial assets and prepayments | | 174 | (369) |
| Increase/(decrease) in payables to reinsurers | | (1,663) | 8,445 |
| Increase/(decrease) in an accrued insurance protection fund | | 166 | (44) |
| Increase in other liabilities and accruals | | 5,340 | 2,626 |
| Increase in insurance contract liabilities, net | | 16,041 | 3,218 |
| **Cash generated from operations** | | 22,716 | 5,351 |
| PRC income tax paid | | (1,034) | (1,075) |
| **Net cash flows from operating activities** | | 21,682 | 4,276 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | 2,308 | 2,161 |
| Rental income received from investment properties | | 92 | 80 |
| Dividend income received from equity securities | | 305 | 1,098 |
| Payment for investment expenses | | (85) | (262) |
| Payment for capital expenditure | | (1,126) | (1,267) |
| Proceeds from disposal of items of property, plant and equipment | | 20 | 4 |
| Dividends received from an associate | | – | 7 |
| Proceeds from disposal of associates | | 171 | – |
| Payment for purchases of debt and equity securities | | (67,852) | (39,263) |
| Proceeds from unlisted debts | | 490 | – |
| Proceeds from sale of debt and equity securities | | 44,462 | 31,383 |
| Placement of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits | | (5,899) | (4,734) |
| Maturity of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits | | 4,214 | 2,177 |
| **Net cash flows used in investing activities** | | (22,900) | (8,616) |

continued/..

| | Note | 2009<br>*RMB million* | 2008<br>*RMB million* |
|---|---|---|---|
| **Net cash flows used in investing activities** | | **(22,900)** | (8,616) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Subordinated debts issued by the Company | | **5,000** | – |
| Increase of securities sold under agreements to repurchase | | **36** | 1,723 |
| Decrease in policyholders' deposits | | **(2,208)** | (785) |
| Interest paid | | **(208)** | (227) |
| **Net cash flows from financing activities** | | **2,620** | 711 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **1,402** | (3,629) |
| Cash and cash equivalents at beginning of year | | **21,685** | 25,314 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **23,087** | 21,685 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash on hand | 19 | **4** | 17 |
| Demand deposits | 19 | **17,393** | 15,204 |
| Deposits with banks and other financial institutions with original maturity of less than three months | 19 | **5,690** | 6,464 |
| | | **23,087** | 21,685 |

# Statement of Financial Position

*31 December 2009*

| | Notes | 31 December 2009<br>*RMB million* | 31 December 2008<br>*RMB million*<br>(Restated) | 1 January 2008<br>*RMB million*<br>(Restated) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | 19 | 32,141 | 29,054 | 30,786 |
| Derivative financial assets | 20 | 16 | 6 | – |
| Debt securities | 21 | 58,458 | 41,291 | 28,465 |
| Equity securities | 22 | 14,683 | 6,438 | 16,978 |
| Insurance receivables, net | 23 | 17,170 | 20,758 | 13,770 |
| Tax recoverable | | 89 | – | – |
| Reinsurance assets | 24 | 14,426 | 17,461 | 9,653 |
| Other financial assets and prepayments | 25 | 10,947 | 11,415 | 9,880 |
| Investments in associates | 26 | 812 | 972 | 972 |
| Investments in subsidiaries | 27 | 3 | 3 | 3 |
| Property, plant and equipment | 28 | 12,282 | 12,136 | 11,721 |
| Investment properties | 29 | 706 | 605 | 532 |
| Prepaid land premiums | 30 | 3,750 | 3,769 | 3,866 |
| Deferred tax assets | 34 | 69 | 565 | – |
| **TOTAL ASSETS** | | 165,552 | 144,473 | 126,626 |
| **LIABILITIES** | | | | |
| Derivative financial liabilities | 20 | – | – | 35 |
| Payables to reinsurers | 31 | 16,595 | 18,258 | 9,813 |
| Accrued insurance protection fund | 32 | 418 | 252 | 296 |
| Tax payable | | – | 926 | 1,314 |
| Other liabilities and accruals | 33 | 20,625 | 14,998 | 9,636 |
| Deferred tax liabilities | 34 | – | – | 2,056 |
| Insurance contract liabilities | 35 | 92,695 | 79,689 | 68,663 |
| Policyholders' deposits | 36 | 5,287 | 7,383 | 7,953 |
| Subordinated debts | 37 | 8,000 | 3,000 | 3,000 |
| **TOTAL LIABILITIES** | | 143,620 | 124,506 | 102,766 |
| **EQUITY** | | | | |
| Issued capital | 39 | 11,142 | 11,142 | 11,142 |
| Reserves | | 10,790 | 8,825 | 12,718 |
| **TOTAL EQUITY** | | 21,932 | 19,967 | 23,860 |
| **TOTAL EQUITY AND LIABILITIES** | | 165,552 | 144,473 | 126,626 |

## 1. CORPORATE INFORMATION

PICC Property and Casualty Company Limited (the "Company") is a limited liability joint stock company incorporated in the People's Republic of China (the "PRC").

The registered office of the Company is located at No. 69, Dongheyan Street, Xuanwumen, Beijing, the PRC.

The principal activity of the Company and its subsidiaries (collectively referred to as the "Group") is the provision of property and casualty insurance services. The details of the business segments are set out in note 4 to the financial statements.

In the opinion of the directors, the parent and the ultimate holding company of the Company is The People's Insurance Company (Group) of China Limited (formerly known as The People's Insurance Company (Group) of China, the "PICC Group"), which is incorporated in the PRC.

## 2.1 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 (the "HKICPA"), 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 for the year ended 31 December 2009. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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 2009, the net loss attributable to minority interests amounted to RMB18,941 (2008: RMB28,840). As at 31 December 2009, the net assets attributable to minority interests amounted to RMB22,401 (2008: RMB41,342).

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on these financial statements.

| | |
|---|---|
| HKFRS 1 and HKAS 27 Amendments | Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated* and *Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity* or *Associate* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-Based Payment – Vesting Conditions* and *Cancellations* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* |
| HKFRS 8 | *Operating Segments* |
| HKAS 1 (Revised) | *Presentation of Financial Statements* |
| HKAS 18 Amendment* | Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent* |
| HKAS 23 (Revised) | *Borrowing Costs* |
| HKAS 32 and HKAS 1 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* |
| HK(IFRIC)-Int 9 and HKAS 39 Amendments | Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition* and *Measurements – Embedded Derivatives* |
| HK(IFRIC)-Int 13 | *Customer Loyalty Programmes* |
| HK(IFRIC)-Int 15 | *Agreement for the Construction of Real Estate* |
| HK(IFRIC)-Int 16 | *Hedges of a Net Investment in a Foreign Operation* |
| HK(IFRIC)-Int 18 | *Transfers of Assets from Customers* (adopted from 1 July 2009) |
| Improvements to HKFRSs (October 2008) | Amendments to a number of HKFRSs |

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

The principal effects of adopting these new and revised HKFRSs are as follows:

### (a) Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidation and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investments in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group. The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between the pre and post acquisition profit is no longer required. However the payment of such dividends required the Group to consider whether there is an indicator of impairment. The adoption of this amendment did not have any impact on the financial position or results of operations of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

### (b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

### (c) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 40 to the financial statements while the revised liquidity risk disclosures are presented in note 43 to the financial statements.

### (d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

### (e) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two linked statements.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

### (f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The amendment has had no impact on the financial position or results of operations of the Group.

### (g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

### (h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

### (i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

### (j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

### (k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. The interpretation has had no impact on the accounting for the Group's construction activities. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

### (l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

### (m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers* (adopted from 1 July 2009)

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

**(n)** In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

On 22 December 2009, the PRC Ministry of Finance (the "MOF"), the accounting standard setting body in the PRC, issued the "Standard on Accounting for Insurance Contracts" which is applicable to all PRC insurance companies' financial statements prepared under China Accounting Standard for Business Enterprises (the "CASBE") for the year ended 31 December 2009. Subsequently, on 25 January 2010, the China Insurance Regulatory Commission (the "CIRC") issued the "Circular on Implementation of Interpretation No. 2 of Accounting Standard for Business Enterprises in the Insurance Industry" which provides additional implementation guidance to the MOF standard.

Pursuant to the approval of the Board of Directors of the Company, the Group decided to voluntarily change the following principal accounting policies in relation to insurance contracts in these financial statements, in order to align the accounting policies in these financial statements with those in the Group's financial statements prepared under CASBE. The directors believe that these changes would enable these financial statements to be more relevant to the economic decision making needs of users. The changes have been adopted retrospectively.

### (a) Acquisition costs

In prior years, policy acquisition costs which vary with and are primarily related to the production of new and renewal business (consisting principally of commission expenses, underwriting personnel expenses, government levies and surcharges) are amortised over the terms of the related insurance policies. Commissions receivable on outward reinsurance contracts are also deferred and amortised over the term of the related reinsurance contracts.

Acquisition costs being deferred are recognised as an asset item in the statement of financial position, while the reinsurers' share of deferred acquisition costs is separately presented as a liability item.

In the current year, all acquisition costs and commissions receivable on outward reinsurance contracts are recorded as expenses and income in profit or loss. The definitions of acquisition costs in relation to direct insurance contracts are also revised to include supervisory fees and insurance protection expenses, both are directly attributable to the issue of insurance contracts. The provision for unearned premium reserves and the reinsurers' share of unearned premium reserves are calibrated to take into account these acquisition costs and commissions receivable on outward reinsurance contracts, as described below.

### (b) Provision for unearned premium reserves

In prior years, at inception, unearned premium reserves represented premiums receivable for risks that have not yet expired, while the reinsurers' share of unearned premium reserves represented the outward reinsurance premiums. Subsequently, these balances were earned or expensed over the terms of the related contracts on a 365-day basis.

In the current year, at inception, unearned premium reserves represent premiums receivable minus acquisition costs defined above, while the reinsurers' share of unearned premium reserves represent outward reinsurance premiums minus commission receivable on these reinsurance contracts. Subsequently, these balances are earned or expensed over the terms of the related contracts on a 365-day basis.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

### (c) Loss and loss adjustment expense reserves

In prior years, loss and loss adjustment expense reserves were not discounted and there was no risk adjustment applied to the reserves.

In the current year, loss and loss adjustment expense reserves are discounted when the impact is material. A risk adjustment is applied to the reserves.

In measuring insurance contract assets and liabilities and performing liability adequacy tests, management needs to make best estimates of future cash flows. In the prior years, these best estimates are measured under the most likely scenario. In the current year, they represent the probability-weighted average of all possible scenarios.

As a result of these changes, the measurement of the reinsurers' share of loss and loss adjustment expense reserves is also changed to align with the measurement of gross liabilities.

### (d) Liability adequacy test

In the past, at the end of each reporting period, liability adequacy tests were performed to ensure the adequacy of the contract liabilities net of related deferred acquisition cost assets. In performing these tests, current best estimates of future contractual cash flows, loss adjustments and policy administration expenses, are used. However, no risk adjustment was applied when determining whether there was any deficiency. Any deficiency was immediately charged to the income statement initially by writing off deferred acquisition cost assets and subsequently by establishing a provision for losses arising from the liability adequacy tests. The liability adequacy test was applied at the level of a portfolio of contracts that were subject to broadly similar risks and managed together as a single portfolio.

In the current year, liability adequacy tests are performed at the end of each reporting period to ensure the adequacy of the insurance contract liabilities. If, after applying a risk adjustment, the expected present value of cash outflows exceeds the expected present value of cash inflows, the entire deficiency is recognised in profit or loss of the period in which the deficiency arises. The cash flows are discounted by a risk-free discount rate plus an appropriate premium. The liability adequacy test is applied to 12 units of account as described in note 2.5 "*Insurance contract liabilities*" to these financial statements.

### (e) Other changes

PICC Life Insurance Company Limited (the "PICC Life"), an associate of the Company, also adopted the recently released MOF standard and CIRC guidance on the accounting for insurance contracts during the year, which resulted in a series of accounting policy changes to its financial statements. As a result, the balances of investments in associates, the share of profit or loss of associates and certain relevant disclosures in these consolidated financial statements were adjusted to reflect these changes.

The effects of the above changes in respect of the accounting for insurance contracts are summarised in note 2.4 to the financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKFRS 1 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards* |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* |
| HKFRS 3 (Revised) | *Business Combinations* |
| HKFRS 9 | *Financial Instruments* |
| HKAS 24 (Revised) | *Related Party Disclosures* |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| HKAS 39 Amendment | Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners* |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008 | Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* |
| HK Interpretation 4 (Revised in December 2009) | *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

HKFRS 1 (Revised) was issued in December 2009 and becomes effective for annual periods beginning on or after 1 July 2009. The revised standard was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 1 Amendments were issued in August 2009 and become effective for annual periods beginning on or after 1 January 2010. The amendments provide relief from the full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The HKFRS 2 Amendments were issued in July 2009 and become effective for annual periods beginning on or after 1 January 2010. The amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*. The Group expects to adopt the HKFRS 2 Amendments from 1 January 2010. The amendments are unlikely to have any significant implications on the Group's accounting for share-based payments.

HKFRS 3 (Revised) was issued in March 2008 and becomes effective for annual periods beginning on or after 1 July 2009. The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) was issued in March 2008 and becomes effective for annual periods beginning on or after 1 July 2009. The revised standard requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures.*

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting for future acquisitions, loss of control and transactions with minority interests.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) was issued in November 2009 and becomes effective for annual periods beginning on or after 1 January 2011. It clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

The HKAS 32 Amendment was issued in October 2009 and becomes effective for annual periods beginning on or after 1 February 2010. This amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The HKAS 39 Amendment was issued in November 2008 and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt the HKAS 39 Amendment from 1 January 2010. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

The HK(IFRIC)-Int 14 Amendments were issued in December 2009 and become effective for annual periods beginning on or after 1 January 2011. The amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt this interpretation from 1 January 2011. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

HK(IFRIC)-Int 17 was issued in December 2008 and becomes effective for annual periods beginning on or after 1 July 2009. It standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HK(IFRIC)-Int 19 was issued in December 2009 and becomes effective for annual periods beginning on or after 1 July 2010. The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

The amendments to HKFRS 5 were issued in October 2008 and become effective for annual periods beginning on or after 1 July 2009. The amendments clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

*Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18, the Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

HK Interpretation 4 was revised in December 2009 as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*, and becomes effective for annual periods beginning on or after 1 January 2010. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as financial leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

The following tables summarise the impact of the changes in accounting policy in respect to the insurance contracts as further explained in note 2.2 to the financial statements.

Effects on the statements of financial position of the Group and the Company as at 31 December 2008 and 1 January 2008

**The Group**

| | 31 December 2008 | | |
|---|---|---|---|
| | Before changes *RMB million* | Effect of changes in accounting policies *RMB million* | After changes *RMB million* |
| **Assets:** | | | |
| Insurance receivables, net | 20,736 | 22 | 20,758 |
| Reinsurance assets | 20,782 | (3,321) | 17,461 |
| Other financial assets and prepayments | 9,352 | 2,063 | 11,415 |
| Deferred acquisition costs | 8,160 | (8,160) | – |
| Investments in associates | 521 | 229 | 750 |
| Deferred tax assets | – | 565 | 565 |
| **Liabilities:** | | | |
| Other liabilities and accruals | 11,956 | 3,042 | 14,998 |
| Deferred tax liabilities | 138 | (138) | – |
| Insurance contract liabilities | 85,586 | (5,897) | 79,689 |
| Deferred acquisition costs – reinsurers' share | 3,544 | (3,544) | – |
| **Equity:** | | | |
| Reserves | 10,667 | (2,065) | 8,602 |

**The Group**

| | 1 January 2008 | | |
|---|---|---|---|
| | Before changes *RMB million* | Effect of changes in accounting policies *RMB million* | After changes *RMB million* |
| **Assets:** | | | |
| Insurance receivables, net | 13,898 | (128) | 13,770 |
| Reinsurance assets | 11,136 | (1,483) | 9,653 |
| Other financial assets and prepayments | 8,365 | 1,515 | 9,880 |
| Deferred acquisition costs | 7,490 | (7,490) | – |
| **Liabilities:** | | | |
| Other liabilities and accruals | 8,109 | 1,527 | 9,636 |
| Deferred tax liabilities | 2,777 | (721) | 2,056 |
| Insurance contract liabilities | 73,115 | (4,452) | 68,663 |
| Deferred acquisition costs – reinsurers' share | 1,775 | (1,775) | – |
| **Equity:** | | | |
| Reserves | 14,936 | (2,165) | 12,771 |

## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

**The Company**

| | 31 December 2008 | | |
|---|---|---|---|
| | Before changes *RMB million* | Effect of changes in accounting policies *RMB million* | After changes *RMB million* |
| **Assets:** | | | |
| Insurance receivables, net | 20,736 | 22 | 20,758 |
| Reinsurance assets | 20,782 | (3,321) | 17,461 |
| Other financial assets and prepayments | 9,352 | 2,063 | 11,415 |
| Deferred acquisition costs | 8,160 | (8,160) | – |
| Deferred tax assets | – | 565 | 565 |
| **Liabilities:** | | | |
| Other liabilities and accruals | 11,956 | 3,042 | 14,998 |
| Deferred tax liabilities | 138 | (138) | – |
| Insurance contract liabilities | 85,586 | (5,897) | 79,689 |
| Deferred acquisition costs – reinsurers' share | 3,544 | (3,544) | – |
| **Equity:** | | | |
| Reserves | 11,119 | (2,294) | 8,825 |

**The Company**

| | 1 January 2008 | | |
|---|---|---|---|
| | Before changes *RMB million* | Effect of changes in accounting policies *RMB million* | After changes *RMB million* |
| **Assets:** | | | |
| Insurance receivables, net | 13,898 | (128) | 13,770 |
| Reinsurance assets | 11,136 | (1,483) | 9,653 |
| Other financial assets and prepayments | 8,365 | 1,515 | 9,880 |
| Deferred acquisition costs | 7,490 | (7,490) | – |
| **Liabilities:** | | | |
| Other liabilities and accruals | 8,109 | 1,527 | 9,636 |
| Deferred tax liabilities | 2,777 | (721) | 2,056 |
| Insurance contract liabilities | 73,115 | (4,452) | 68,663 |
| Deferred acquisition costs – reinsurers' share | 1,775 | (1,775) | – |
| **Equity:** | | | |
| Reserves | 14,883 | (2,165) | 12,718 |

## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES *(continued)*

Effect on the income statement of the Group for the year ended 31 December 2008

| | 2008 | | |
|---|---|---|---|
| | Before changes *RMB million* | Effect of changes in accounting policies *RMB million* | After changes *RMB million* |
| Net premiums earned | 81,122 | (1,103) | 80,019 |
| Net claims incurred | (60,604) | (106) | (60,710) |
| Amortisation of deferred acquisition costs, net | (11,764) | 11,764 | – |
| Insurance protection expenses | (774) | 774 | – |
| Acquisition cost and other underwriting expenses | – | (11,597) | (11,597) |
| General and administrative expenses | (10,474) | 157 | (10,317) |
| Share of profit and loss of associates | (533) | 188 | (345) |
| Income tax expense | 497 | (18) | 479 |
| Net profit for the year | 50 | 59 | 109 |
| Basic earnings per share attributable to ordinary equity holders of the parent (in RMB) | 0.005 | 0.005 | 0.010 |
| Other comprehensive loss for the year, net of tax | (4,319) | 41 | (4,278) |
| Total comprehensive loss for the year attributable to owners of the parent, net of tax | (4,269) | 100 | (4,169) |

The effects of these changes are presented in the statement of changes in equity.

In respect of the changes in accounting policies on measurement of loss and loss adjustment expense reserves, the overall impact of using probability-weighted estimate instead of the most likely scenario estimate to the current period's financial statements cannot be reasonably quantified.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

### Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and the consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as assets and are stated at cost less any impairment losses.

### Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Goodwill

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

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

### Present value of acquired in-force business (the "AVIF")

When a portfolio of long term insurance contracts is acquired either directly or through the acquisition of an investment in an associate, the difference between the fair value and the carrying amount of the insurance liabilities is recognised as the value of acquired in-force business. In the case of an associate, the AVIF is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated statement of financial position.

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Land and buildings | 2.77% to 19.40% |
| Motor vehicles | 16.17% to 24.25% |
| Office equipment, furniture and fixtures | 8.82% to 32.30% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 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 initially at cost, including transaction costs, less accumulated depreciation and any impairment losses at the end of the reporting period.

Depreciation is computed on the straight-line basis, after taking into account the estimated residual value (3% of the original cost), over the estimated useful lives. The estimated useful lives of investment properties vary from 30 to 35 years.

The useful life and the depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the individual investment properties.

Any gains or losses on retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers to, or from, investment properties are made when, and only when, there is evidence of a change in use.

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in property, plant and equipment, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets

***Initial recognition and measurement***

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell 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.

The Group's financial assets include cash and bank balances, insurance and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "*Revenue recognition*" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets *(continued)*

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the loss arising from impairment are both included and recognised in the income statement.

**Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold it to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the losses arising from impairment are both included and recognised in the income statement.

**Available-for-sale financial investments**

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses being recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in net realised and unrealised gains/(losses) on investments, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognised in the income statement as "Net investment income" in accordance with the policies set out for "*Revenue recognition*" below.

When the fair value of unlisted 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 less any impairment losses.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets *(continued)*

**Available-for-sale financial investments *(continued)***

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(continued)*

**Financial assets carried at amortised cost *(continued)***

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

**Assets carried at cost**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

**Available-for-sale financial investments**

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant' or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(continued)*

**Available-for-sale financial investments *(continued)***

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of net investment income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

– the rights to receive cash flows from the asset have expired;

– the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group has recognises an associated liability. The transferred assets and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial liabilities

***Initial recognition and measurement***

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include payables to reinsurers, an accrued insurance protection fund, other liabilities and accruals, policyholders' deposits and subordinated debts.

***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:

**Loans and borrowings (including subordinated debts)**

After initial recognition, financial liabilities are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial liabilities *(continued)*

***Financial guarantee contracts***

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. The Group applies the recognition and measurement criteria under HKFRS 4 *Insurance Contracts* to such contracts.

***Derecognition of financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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; a discounted cash flow analysis; and other valuation models.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derivative financial instruments and hedge accounting

***Initial recognition and subsequent measurement***

The Group uses derivative financial instruments such as interest rate swaps to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting and are classified as cash flow hedges are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the income statement.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit and loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of non-financial assets other than goodwill and AVIF

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and AVIF is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

### Product classification and unbundling

Insurance contracts are those contracts under which the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether a direct insurance contract has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. For a reinsurance contract, the Group determines whether it has significant reinsurance risk by comparing the present value of probability-weighted expected loss with the present value of expected reinsurance premiums. The Group also considers the commercial substance and other relevant factors in its evaluation.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Product classification and unbundling *(continued)*

For contracts issued by the Group which require testing the significance of insurance risk, they should be performed at the initial recognition of such contracts. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the year.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, a financial instrument price, a commodity price, a foreign exchange rate, an index of price or rates, credit rating or a credit index or other variables, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Some contracts issued by the Group may contain both an insurance component and a deposit component. If these two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as an investment contract as described below.

### Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be receivable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

### Insurance contract liabilities

The measurement of insurance contract liabilities is made up of three basic building blocks, a probability-weighted unbiased estimate of future cash flows, incorporation of the time value of money and an explicit margin. Future cash flows include claims and benefits, relevant expenses which are necessary for maintaining and serving the insurance contracts.

The Group's insurance contracts are classified into twelve units of account, i.e. motor vehicle, commercial property, cargo, liability, accidental injury, health, homeowners, special risks, marine hull, agriculture, construction and credit, for liability measurement.

An explicit margin includes a risk adjustment and a residual margin that eliminates any gain at inception of the contract.

Initial recognition of an insurance contract should not result in the recognition of an accounting profit. If, after applying a risk adjustment, the expected present value of cash outflows exceeds the expected present value of cash inflows, a loss should be recorded in profit or loss at inception.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Insurance contract liabilities *(continued)*

The discount rate for insurance liabilities should conceptually adjust estimated future cash flows for the time value of money in a way that captures the characteristics of that liability. If the insurance benefits are not linked to assets, the discount rate is determined by a risk-free discount rate, plus an appropriate premium.

The Group's insurance contract liabilities comprise mainly unearned premium reserves and loss and loss adjustment expense reserves:

The unearned premium reserves represent premiums received for risks that have not yet expired. At inception of the contract, it represents premiums received or receivable minus acquisition costs. Acquisition costs are primarily comprised of commission expenses, business tax and surcharges, insurance protection fund expenses and underwriting personnel expenses. The unearned premium reserves are released over the term of the contract and are primarily earned on a 365-day basis.

The loss and loss adjustment expense reserves are established for the estimated ultimate cost of all claims incurred but not settled at the end of each reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries, plus a risk adjustment. Delays can be experienced in notification and settlement of certain types of claims, and therefore the ultimate cost of these cannot be known with certainty at the end of each reporting period. The liability is calculated at the reporting date using a range of standard actuarial projection techniques, based on empirical data and current assumptions. Risk adjustment is measured by using the cost of capital method and reference to industry experience. The liability is discounted when the time value of money is material. Adjustments to the liabilities at the end of each reporting period are recorded in profit or loss.

#### *Liability adequacy tests*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. If, after applying a risk adjustment, the expected present value of cash outflows exceeds the expected present value of cash inflows, the entire deficiency is recognised in the profit or loss of the period in which the deficiency arises.

#### *Derecognition of insurance contract liabilities*

Insurance contract liabilities are derecognised when they are discharged or cancelled, or expired.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets primarily represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claim provision or settled claims associated with the reinsured policies and are in accordance with the reinsurance contracts.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding due under the terms of the contract and the effect has a reliably measurable impact on the amounts that will receive from the reinsurer. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable to reinsurers are estimated in a manner consistent with that of the related reinsurance contracts.

Commission receivable on outward reinsurance contracts are recorded as income in profit or loss. The reinsurers' share of unearned premium reserves are reduced by commission receivable on outward reinsurance contracts at inception and subsequently the reduced balance is released over the term of the contract in the same manner as the related unearned premium reserves. Reinsurers' share of loss and loss adjustment expense reserves also include its share of risk adjustment to the gross balance of loss and loss adjustment expense reserves.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance unless a legal right and the intention of offset exist.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contract that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income or expense on these contracts is accounted for using the effective interest rate method when accrued.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

– where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Other employee benefits

**Pension scheme**

The employees of the Group are required to participate in a central pension scheme operated by the local municipal government of Mainland China. The Group is required to contribute 13.0% to 39.5% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

**Share-based payment transactions**

Senior executives working in the Group are granted share appreciation rights ("SAR"), which are settleable only in cash ("cash-settled transactions"). The cost of cash-settled transactions is measured initially at fair value using the Black-Scholes model at the grant date taking into account the terms and conditions upon which the instruments were granted (see note 42). This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at the end of each reporting date up to and including the settlement date with changes in fair value recognised in the income statement.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(a) premium income, which is recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

### Claims

Claims incurred include all claim losses occurring during the year, whether reported or not, including the related loss adjustment expenses, the reduction in the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Loss adjustment expenses include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all general administrative costs directly attributable to the claims function.

Reinsurance claims are recognised when the related gross insurance claims is recognised according to the terms of the relevant contract.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowing pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Profit appropriation

In accordance with the PRC Company Law and the Group's articles of association, the Group is required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. Subject to resolutions passed in shareholders' meetings, the statutory surplus reserve fund can be transferred to share capital. The balance of the statutory surplus reserve fund after transfers to share capital should not be less than 25% of the registered capital.

According to the relevant regulations of the PRC, the Company has to set aside 10% of its net profit determined in accordance with PRC GAAP to general risk reserve for catastrophic losses. This general risk reserve cannot be used for dividend distribution or conversion to share capital.

### Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, corporate management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

**Classification of financial assets**

The Group classifies its financial assets in accordance with HKAS 39 as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, as appropriate. Certain of these classifications require judgements. In making these judgements, the Group considers the intention of holding these financial assets, the compliance with the requirements of HKAS 39 and their implications for the presentation in the financial statements.

**Impairment of available-for-sale equity financial instruments**

For equity securities, a significant or prolonged decline in the fair value of an equity instrument is objective evidence of impairment. In conducting an impairment analysis, the Group considers quantitative and qualitative evidence. More specifically, the Group collectively considers the magnitude of the decline in fair value relative to the cost, volatility, and the duration of the decline in evaluating whether a decline in value is significant. The Group considers the period and consistency of the decline in evaluating whether a decline in value is prolonged. In general, the larger the magnitude of the decline in fair value relative to cost, the lower the volatility, the longer the duration of the decline or the more consistent the magnitude of decline, the more likely that objective evidence of impairment of an equity instrument exists.

The Group also considers qualitative evidence that includes, but is not necessarily limited to the following:

– Significant financial difficulty of the investee, including failure to comply with contractual obligations, financial restructuring, deterioration of going concern expectations; and

– Adverse changes relative to the investee's technology, market, customer base, macroeconomic indicators relative to the business, significant legal or regulatory matters.

Impairments do not establish a new cost basis and, accordingly, to the extent an impairment loss has been previously recorded due to the significant or prolonged criteria described above, any subsequent losses, including any portion attributable to foreign currency changes, are also recognised in profit or loss until the asset is derecognised.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### Judgements *(continued)*

**Product classification**

The Group makes significant judgements on classification of insurance contracts by assessing whether significant insurance risk exists. Any contracts that do not transfer significant insurance risk are classified as investment contracts and accounted for in accordance with HKAS 39.

**Impairment of reinsurance assets**

The Group performs an impairment review on its reinsurance assets when an indication of impairment occurs. In considering whether a reinsurance asset is impaired, the Group considers whether (i) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not be able to receive all amounts due to it under the terms of the contract; and (ii) the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

**Impairment loss on a right to acquire an equity interest in a securities company**

For the right to acquire an equity interest in a securities company, as explained in note 25 to the financial statements, judgement is required to determine when impairment is required.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

**Claims liability arising from insurance contracts**

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty, including legislative changes, speed of settlement, terms of future cash flows, the time value of money etc, that need to be considered in the estimation of the liability that the Group will ultimately pay for those claims. The Group uses a range of standard actuarial techniques and assumptions to estimate the liability.

The directors believe that the loss and loss adjustment expense reserves at the end of each reporting period are adequate to cover the ultimate costs of all incurred losses and direct loss adjustment expenses to that date. However, the reserves are necessarily based on estimates and no representation is made that the ultimate liability may not exceed or be less than such estimates.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### Estimation uncertainty *(continued)*

**Impairment loss on insurance receivables**

The Group reviews its insurance receivables at each reporting date to assess whether an allowance should be recorded in the income statement.

In addition to specific allowances against individually significant insurance receivables, the Group also makes a collective impairment against a group of insurance receivables with similar credit risk characteristics. The extent of impairment is dependent on the estimation of the amount and the timing of future cash flows.

**Deferred tax assets and liabilities**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets and liabilities that can be recognised at the end of reporting period, based on the likely timing and level of future taxable profits, applicable tax rates together with future tax planning strategies. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**Fair value of financial assets and derivative financial instruments determined using valuation techniques**

Fair value, in the absence of an active market or when current market prices are not available, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, a discounted cash flow analysis and/or option pricing models. For reference to similar instruments, instruments must have similar credit ratings.

For a discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk-free interest rates and credit risk.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is recognised into business units based on their products and services and has six reportable operating segments 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 and health segment provides insurance products covering accidental injuries and medical expenses; and

(f) the "other" segment mainly represents insurance products related to marine hull, homeowners, agriculture, aviation and energy.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of underwriting profit/(loss).

The underwriting profit/(loss) is measured consistently with the Group's main business operations except that unallocated net investment income, net realised and unrealised gains/(losses) on investments, finance costs etc. are excluded from such measurement.

Segment assets exclude deferred tax assets, cash and cash equivalents, debt and equity securities, derivative financial assets, property, plant and equipment, investment properties, prepaid land premiums, and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payable, subordinated debts and other unallocated payables as these liabilities are managed on a group basis.

No further geographical segment information is presented as all of the Group's customers and operations are located in the PRC.

In 2008 and 2009, no direct premiums written from transactions with a single external customer amounted to 10% or more of the Group's total direct premiums written.

## 4. OPERATING SEGMENT INFORMATION *(continued)*

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

| 2009<br>Income statement | Motor Vehicle<br>*RMB million* | Commercial Property<br>*RMB million* | Cargo<br>*RMB million* | Liability<br>*RMB million* | Accidental Injury and Health<br>*RMB million* | Other<br>*RMB million* | Corporate<br>*RMB million* | Total<br>*RMB million* |
|---|---|---|---|---|---|---|---|---|
| Turnover | 85,529 | 9,491 | 2,754 | 4,656 | 3,886 | 13,455 | – | 119,771 |
| Net premiums earned | 70,700 | 6,005 | 2,018 | 3,223 | 2,677 | 8,673 | – | 93,296 |
| Net claims incurred | (49,136) | (3,869) | (1,090) | (2,101) | (2,089) | (6,232) | – | (64,517) |
| Acquisition cost and other underwriting expenses | (15,692) | (2,540) | (334) | (651) | (289) | (289) | – | (19,795) |
| General and administrative expenses | (6,914) | (1,129) | (307) | (544) | (523) | (1,627) | – | (11,044) |
| Underwriting profit/(loss) | (1,042) | (1,533) | 287 | (73) | (224) | 525 | – | (2,060) |
| Net investment income | – | – | – | – | – | 119 | 2,747 | 2,866 |
| Net realised and unrealised gains on investments | – | – | – | – | – | 9 | 1,702 | 1,711 |
| Investment expenses | – | – | – | – | – | (5) | (132) | (137) |
| Interest expenses credited to policyholders' deposits | – | – | – | – | – | (112) | – | (112) |
| Exchange losses, net | – | – | – | – | – | – | (6) | (6) |
| Finance costs | – | – | – | – | – | – | (264) | (264) |
| Sundry income and expenses | – | – | – | – | – | – | 143 | 143 |
| Share of profit and loss of associates | – | – | – | – | – | – | 26 | 26 |
| Profit/(loss) before tax | (1,042) | (1,533) | 287 | (73) | (224) | 536 | 4,216 | 2,167 |
| Income tax expense | – | – | – | – | – | – | (384) | (384) |
| Profit/(loss) attributable to owners of the parent | (1,042) | (1,533) | 287 | (73) | (224) | 536 | 3,832 | 1,783 |

## 4. OPERATING SEGMENT INFORMATION *(continued)*

| 2008<br>Income statement | Motor Vehicle<br>*RMB million*<br>(Restated) | Commercial Property<br>*RMB million*<br>(Restated) | Cargo<br>*RMB million*<br>(Restated) | Liability<br>*RMB million*<br>(Restated) | Accidental Injury and Health<br>*RMB million*<br>(Restated) | Other<br>*RMB million*<br>(Restated) | Corporate<br>*RMB million*<br>(Restated) | Total<br>*RMB million*<br>(Restated) |
|---|---|---|---|---|---|---|---|---|
| Turnover | 69,258 | 9,397 | 3,248 | 4,264 | 3,729 | 11,982 | – | 101,878 |
| Net premiums earned | 59,000 | 6,016 | 2,437 | 2,932 | 2,317 | 7,317 | – | 80,019 |
| Net claims incurred | (44,866) | (5,596) | (1,287) | (2,126) | (1,958) | (4,877) | – | (60,710) |
| Acquisition cost and other underwriting expenses | (9,471) | (815) | (346) | (350) | (295) | (320) | – | (11,597) |
| General and administrative expenses | (6,752) | (1,073) | (370) | (469) | (438) | (1,215) | – | (10,317) |
| Underwriting profit/(loss) | (2,089) | (1,468) | 434 | (13) | (374) | 905 | – | (2,605) |
| Net investment income | – | – | – | – | – | 210 | 3,506 | 3,716 |
| Net realised and unrealised gains/(losses) on investments | – | – | – | – | – | (60) | 379 | 319 |
| Investment expenses | – | – | – | – | – | (7) | (253) | (260) |
| Interest expenses credited to policyholders' deposits | – | – | – | – | – | (215) | – | (215) |
| Exchange losses, net | – | – | – | – | – | – | (815) | (815) |
| Finance costs | – | – | – | – | – | – | (227) | (227) |
| Sundry income and expenses | – | – | – | – | – | – | 62 | 62 |
| Share of profit and loss of associates | – | – | – | – | – | – | (345) | (345) |
| Profit/(loss) before tax | (2,089) | (1,468) | 434 | (13) | (374) | 833 | 2,307 | (370) |
| Income tax expense | – | – | – | – | – | – | 479 | 479 |
| Profit/(loss) attributable to owners of the parent | (2,089) | (1,468) | 434 | (13) | (374) | 833 | 2,786 | 109 |

## 4. OPERATING SEGMENT INFORMATION *(continued)*

The segment assets and liabilities for the years ended 31 December 2009 and 2008 are as follows:

| 2009 Statement of financial position | Motor Vehicle *RMB million* | Commercial Property *RMB million* | Cargo *RMB million* | Liability *RMB million* | Accidental Injury and Health *RMB million* | Other *RMB million* | Corporate *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|---|
| Total assets | 6,644 | 4,769 | 1,263 | 1,843 | 1,690 | 17,814 | 131,360 | 165,383 |
| Total liabilities | 76,218 | 9,902 | 2,677 | 5,728 | 3,900 | 24,252 | 20,943 | 143,620 |

| 2008 (Restated) Statement of financial position | Motor Vehicle *RMB million* | Commercial Property *RMB million* | Cargo *RMB million* | Liability *RMB million* | Accidental Injury and Health *RMB million* | Other *RMB million* | Corporate *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|---|
| Total assets | 12,245 | 8,487 | 1,235 | 1,699 | 1,607 | 15,240 | 103,737 | 144,250 |
| Total liabilities | 67,765 | 10,851 | 2,216 | 5,614 | 5,611 | 21,733 | 10,716 | 124,506 |

## 5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

| | Group | |
|---|---|---|
| | 2009<br>*RMB million* | 2008<br>*RMB million*<br>(Restated) |
| **Turnover** | | |
| Direct premiums written | 119,464 | 101,655 |
| Reinsurance premiums assumed | 307 | 223 |
| | 119,771 | 101,878 |
| **Net premiums earned** | | |
| Turnover | 119,771 | 101,878 |
| Less: Reinsurance premiums ceded | (16,422) | (24,504) |
| Net premiums written | 103,349 | 77,374 |
| Less: Change in net unearned premium reserves (note 35) | (10,053) | 2,645 |
| Net premiums earned | 93,296 | 80,019 |

## 6. NET CLAIMS INCURRED

| | Group | |
|---|---|---|
| | 2009<br>*RMB million* | 2008<br>*RMB million*<br>(Restated) |
| Gross claims paid | 71,812 | 66,757 |
| Less: Paid losses recoverable from reinsurers | (13,283) | (11,910) |
| Net claims paid | 58,529 | 54,847 |
| Change in net loss and loss adjustment expense reserves (note 35) | 5,988 | 5,863 |
| Net claims incurred | 64,517 | 60,710 |

## 7. ACQUISITION COST AND OTHER UNDERWRITING EXPENSES

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | *RMB million* | *RMB million* |
| | | (Restated) |
| Commission expenses | 12,089 | 8,617 |
| Less: Commission recoverable from reinsurers | (3,466) | (6,759) |
| Underwriting personnel expenses | 3,827 | 3,583 |
| Business tax and surcharges | 6,161 | 5,225 |
| Insurance protection fund (note 32) | 956 | 774 |
| Others | 228 | 157 |
| | 19,795 | 11,597 |

## 8. NET INVESTMENT INCOME

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | *RMB million* | *RMB million* |
| Rental income from investment properties | 92 | 80 |
| Financial assets at fair value through profit or loss | | |
| – Held for trading purpose: | | |
| Interest income | 74 | 99 |
| Dividend income | 131 | 935 |
| Financial assets at fair value through profit or loss | | |
| – Designated upon initial recognition: | | |
| Interest income | 3 | 23 |
| Available-for-sale financial assets: | | |
| Interest income | 1,469 | 1,227 |
| Dividend income | 174 | 161 |
| Held-to-maturity investments: | | |
| Interest income | 1 | – |
| Loans and receivables: | | |
| Interest income | 922 | 1,191 |
| | 2,866 | 3,716 |

## 9. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | RMB million | RMB million |
| Available-for-sale financial assets: | | |
| Realised gains | 1,276 | 2,928 |
| Impairment loss | – | (872) |
| Financial assets at fair value through profit or loss | | |
| – Held for trading: | | |
| Realised gains | 32 | 398 |
| Unrealised gains/(losses) | 199 | (2,189) |
| Financial assets at fair value through profit or loss | | |
| – Designated upon initial recognition: | | |
| Unrealised gains | – | 29 |
| Loans and receivables: | | |
| Impairment loss | – | 25 |
| Profit on disposal of associates | 204 | – |
| | 1,711 | 319 |

## 10. EXCHANGE LOSSES, NET

Exchange gains/(losses) are attributable to the following functions:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | RMB million | RMB million |
| Net realised and unrealised gains/(losses) on term deposits | 1 | (691) |
| Net claims incurred | (1) | (39) |
| General and administrative expenses | (6) | (85) |
| | (6) | (815) |

## 11. FINANCE COSTS

| | Group 2009 RMB million | 2008 RMB million |
|---|---|---|
| Interest on subordinated debts | 178 | 122 |
| Interest on securities sold under agreements to repurchase | 38 | 44 |
| Other finance costs | 48 | 61 |
| | 264 | 227 |

## 12. PROFIT/(LOSS) BEFORE TAX

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

| | *Notes* | 2009 *RMB million* | 2008 *RMB million* |
|---|---|---|---|
| Auditors' remuneration, including interim review | | 18 | 18 |
| Depreciation of property, plant and equipment | 28 | 860 | 866 |
| Depreciation of investment properties | 29 | 29 | 23 |
| Amortisation of prepaid land premiums | 30 | 104 | 104 |
| Employee expenses (including directors' remuneration (note 13)): | | | |
| Wages, salaries and staff welfare | | 6,164 | 5,885 |
| Charge/(credit) of cash-settled appreciation rights expense | | 1 | (445) |
| Pension scheme contributions | | 682 | 600 |
| Impairment loss on insurance receivables | 23 | 668 | 477 |
| Minimum lease payments under operating leases in respect of land and buildings | | 357 | 370 |
| Net (gain)/loss on disposal of items of property, plant and equipment | | (6) | 13 |

## 13. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Fees | **1,382** | 1,382 |
| Other emoluments: | | |
| Salaries, allowances, benefits in kind and performance related bonuses | **2,065** | 3,581 |
| Cash-settled SAR expense | **1,216** | – |
| Pension scheme contributions | **622** | 975 |
| | **5,285** | 5,938 |

Certain directors and supervisors are entitled to bonuses which are determined by a number of factors including the operating results of the Group.

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Mr. Cheng Wai Chee, Christopher (Resigned) | **249** | 249 |
| Mr. Lu Zhengfei | **249** | 249 |
| Mr. Luk Kin Yu, Peter | **249** | 249 |
| Mr. Ding Ning Ning | **249** | 249 |
| | **996** | 996 |

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

## 13. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

### (b) Chairman of the Board, executive directors, non-executive directors and supervisors

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Cash-settled SAR expense RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Chairman of the Board: | | | | | |
| Mr. Wu Yan | – | 636 | – | 176 | 812 |
| Executive directors: | | | | | |
| Mr. Wang Yincheng, (President) | – | 636 | – | 176 | 812 |
| Mdm. Liu Zhenghuan | – | 515 | – | 180 | 695 |
| Non-executive directors: | | | | | |
| Mr. Tse Sze-Wing, Edmund | 137 | – | 1,216 | – | 1,353 |
| Mr. Zhou Shurui | – | – | – | – | – |
| Mr. Li Tao | – | – | – | – | – |
| Supervisors: | | | | | |
| Mr. Ding Yunzhou (Chairman) | – | – | – | – | – |
| Mr. Sheng Hetai | – | – | – | – | – |
| Mr. He Bangshun | – | 278 | – | 90 | 368 |
| Independent supervisor: | | | | | |
| Mr. Li Dianjun | 249 | – | – | – | 249 |
| | 386 | 2,065 | 1,216 | 622 | 4,289 |

Two independent non-executive directors' and one non-executive director's fees were not yet paid as at 31 December 2009 (31 December 2008: Nil). These fees were paid subsequently to the end of the reporting period.

In respect of the SAR granted to senior executives, as the administration of the related SAR scheme was being reviewed by a major shareholder, the relevant scheme for senior executives was still subject to further deliberation (please refer to note 42).

The total compensation packages for the chairman of the Board of Directors, executive directors, and employee supervisor for the year ended 31 December 2009 have not been finalised in accordance with the regulations of the PRC relevant authorities. The total compensation packages will be further disclosed when determined.

## 13. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

### (b) Chairmen of the Board, executive directors, non-executive directors and supervisors *(continued)*

| | Fees<br>*RMB'000* | Salaries, allowances and benefits in kind<br>*RMB'000* | Performance related bonuses<br>*RMB'000* | Pension scheme contributions<br>*RMB'000* | Total remuneration<br>*RMB'000* |
|---|---|---|---|---|---|
| 2008 | | | | | |
| Chairman of the Board: | | | | | |
| Mr. Wu Yan | – | 700 | 330 | 288 | 1,318 |
| Executive directors: | | | | | |
| Mr. Wang Yincheng, (President) | – | 605 | 285 | 214 | 1,104 |
| Mdm. Liu Zhenghuan | – | 567 | 267 | 224 | 1,058 |
| Mr. Wang Yi (Resigned) | – | 233 | 110 | 152 | 495 |
| Non-executive directors: | | | | | |
| Mr. Tse Sze-Wing, Edmund | 137 | – | – | – | 137 |
| Mr. Wu Gaolian (Resigned) | – | – | – | – | – |
| Mr. Zhou Shurui | – | – | – | – | – |
| Mr. Li Tao | – | – | – | – | – |
| Supervisors: | | | | | |
| Mr. Ding Yunzhou (Chairman) | – | – | – | – | – |
| Mr. Sheng Hetai | – | – | – | – | – |
| Mr. He Bangshun | – | 339 | 145 | 97 | 581 |
| Independent supervisor: | | | | | |
| Mr. Li Dianjun | 249 | – | – | – | 249 |
| | 386 | 2,444 | 1,137 | 975 | 4,942 |

In 2008, Mr. Wu Yan, Mr. Wang Yincheng, Madam. Liu Zhenghuan, Mr. Wang Yi (resigned), Mr. Wu Gaolian (resigned), Mr. Zhou Shurui, Mr. Li Tao, Mr. Ding Yunzhou, Mr. Sheng Hetai and Mr. He Bangshun agreed to waive directors' fees of approximately RMB1 million in aggregate.

## 14. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees during the current and prior years were either directors or supervisors of the Company.

## 15. INCOME TAX EXPENSE

The provision for PRC income tax is calculated based on the statutory rate of 25% (2008: 25%) in accordance with the relevant PRC income tax rules and regulations.

| | 2009<br>*RMB million* | 2008<br>*RMB million*<br>(Restated) |
|---|---|---|
| **Group:** | | |
| Current | | |
| – Charge for the year | 36 | 1,036 |
| – Overprovision in prior years | (17) | (349) |
| Deferred (note 34) | 365 | (1,166) |
| Total tax charge/(credit) for the year | 384 | (479) |

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory tax rate for the PRC, in which the Group is domiciled to the tax expense/(credit) 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**

| | 2009<br>*RMB million* | *%* | 2008<br>*RMB million*<br>(Restated) | *%*<br>(Restated) |
|---|---|---|---|---|
| Profit/(loss) before tax | 2,167 | | (370) | |
| Tax at the statutory tax rate of 25% (2008: 25%) | 542 | 25 | (93) | 25 |
| Income not subject to tax | (209) | (10) | (382) | 103 |
| Expenses not deductible for tax | 68 | 4 | 345 | (93) |
| Adjustments in respect of current tax of previous periods | (17) | (1) | (349) | 94 |
| Tax charge/(credit) at the Group's effective rate | 384 | 18 | (479) | 129 |

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB1,783 million (2008: RMB109 million) and 11,142 million (2008: 11,142 million) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2009 and 2008 have not been disclosed as no diluting events existed during these years.

## 17. DIVIDEND PER SHARE

The Board of Directors does not propose any interim and final dividend for the year (2008: Nil).

## 18. COMPONENTS OF OTHER COMPREHENSIVE INCOME

| | **2009**<br>***RMB million*** | 2008<br>*RMB million* |
|---|---|---|
| Cash flow hedges: | | |
| Net gains arising during the year | **10** | 41 |
| Available-for-sale investments: | | |
| Net gains/(losses) arising during the year | **1,789** | (3,803) |
| Less: Recycled to the income statement upon disposals or impairment | **(1,276)** | (2,056) |
| | **513** | (5,859) |

## 19. CASH AND CASH EQUIVALENTS

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 31 December 2009 RMB million | 31 December 2008 RMB million | 1 January 2008 RMB million | 31 December 2009 RMB million | 31 December 2008 RMB million | 1 January 2008 RMB million |
| Cash on hand, at amortised cost | 4 | 17 | 27 | 4 | 17 | 27 |
| Demand deposits, at amortised cost | 17,393 | 15,204 | 14,761 | 17,391 | 15,202 | 14,758 |
| Securities purchased under resale agreements with original maturity of less than three months, at amortised cost | – | – | 2,896 | – | – | 2,896 |
| Deposits with banks and other financial institutions with original maturity of less than three months, at amortised cost | 5,690 | 6,464 | 7,630 | 5,690 | 6,464 | 7,630 |
| Deposits with banks and other financial institutions with original maturity of more than three months, at amortised cost | 6,907 | 5,706 | 2,054 | 6,907 | 5,706 | 2,054 |
| Structured deposits with banks and other financial institutions: | | | | | | |
| at fair value | – | 136 | 729 | – | 136 | 729 |
| at amortised cost | 2,149 | 1,529 | 2,692 | 2,149 | 1,529 | 2,692 |
| | 32,143 | 29,056 | 30,789 | 32,141 | 29,054 | 30,786 |
| Classification of cash and cash equivalents: | | | | | | |
| Loans and receivables | 32,143 | 28,920 | 30,060 | 32,141 | 28,918 | 30,057 |
| Designated as fair value through profit or loss financial assets | – | 136 | 729 | – | 136 | 729 |
| | 32,143 | 29,056 | 30,789 | 32,141 | 29,054 | 30,786 |

Certain structured deposits maintained with the Mainland China banks and other financial institutions are designated as financial instruments at fair value through profit or loss upon the initial adoption of HKAS 39. The returns of certain structured deposits are linked to US dollar-denominated debt instruments or the London Inter-Bank Offered Rate. Embedded in some of these structured deposits are options to enter into new and different structured deposit arrangements at their maturity dates.

For structured deposits designated as financial assets at fair value through profit or loss, the changes in fair value attributable to changes in credit risk during the year and since their initial designation were immaterial.

The carrying amounts of cash and cash equivalents approximate to their fair values.

## 20. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

| | Group and Company | | |
|---|---|---|---|
| | 31 December 2009 *RMB million* | 31 December 2008 *RMB million* | 1 January 2008 *RMB million* |
| Interest rate swaps assets/(liabilities) | 16 | 6 | (35) |

The carrying amounts of interest rate swaps are the same as their fair values.

The Company is exposed to the variability of cash flows on financial assets which bear interest at a variable rate, and therefore uses interest rate swaps to hedge its risks by receiving interest at a fixed rate from counterparties and paying interest at a variable rate. The terms of these swap contracts are as follows:

| **Floating rate** | **Fixed rate** | **Maturity** | **Aggregate notional amount** *RMB million* |
|---|---|---|---|
| 31 December 2009, 31 December 2008 and 1 January 2008: | | | |
| 7-day fixing Repo rate or 1-year deposit rate by the People's Bank of China | 2.900%-4.000% | 10 August 2010-18 May 2014 | 850 |

The cash flow hedges were assessed to be highly effective and a net gain of RMB7 million (2008: RMB31 million) was included in the statement of comprehensive income. There was no gain or loss transferred from other comprehensive income in 2008 and 2009.

## 21. DEBT SECURITIES

| | Group and Company | | |
|---|---|---|---|
| | **31 December 2009** ***RMB million*** | 31 December 2008 *RMB million* | 1 January 2008 *RMB million* |
| Listed debt securities, at fair value: | | | |
| Debt securities issued by governments | **9,743** | 12,778 | 10,828 |
| Debt securities issued by corporate entities | **3,639** | 1,940 | 1,928 |
| | **13,382** | 14,718 | 12,756 |
| Unlisted debt securities, at fair value: | | | |
| Debt securities issued by governments | **11,975** | 5,537 | 3,512 |
| Debt securities issued by banks and other financial institutions | **19,275** | 13,738 | 8,505 |
| Debt securities issued by corporate entities | **13,326** | 7,298 | 3,692 |
| | **44,576** | 26,573 | 15,709 |
| Unlisted debt securities, at amortised cost: | | | |
| Debt securities issued by banks | **500** | – | – |
| | **58,458** | 41,291 | 28,465 |
| Classification of debt securities: | | | |
| Fair value through profit or loss – held for trading | **1,649** | 2,498 | 4,284 |
| Available-for-sale | **56,309** | 38,793 | 24,181 |
| Held-to-maturity | **500** | – | – |
| | **58,458** | 41,291 | 28,465 |

The fair values are mainly based on quoted market prices or executable broker/dealer price quotations.

## 22. EQUITY SECURITIES

| | Group and Company | | |
|---|---|---|---|
| | **31 December 2009** *RMB million* | 31 December 2008 *RMB million* | 1 January 2008 *RMB million* |
| Listed investments, at fair value: | | | |
| Mutual funds | **616** | 1,087 | 2,435 |
| Shares | **7,278** | 2,704 | 11,590 |
| | **7,894** | 3,791 | 14,025 |
| Unlisted investments, at fair value: | | | |
| Mutual funds | **6,166** | 2,270 | 2,953 |
| Unlisted investments, at cost: | | | |
| Shares | **623** | 377 | – |
| | **14,683** | 6,438 | 16,978 |
| Classification of equity securities: | | | |
| Fair value through profit or loss – held for trading | **2,711** | 2,415 | 5,886 |
| Available-for-sale | **11,972** | 4,023 | 11,092 |
| | **14,683** | 6,438 | 16,978 |

The fair values are based on quoted market prices or bid prices quoted by mutual fund management companies.

The fair value of unlisted equity investments cannot be measured reliably.

## 23. INSURANCE RECEIVABLES, NET

| | Group and Company | | |
|---|---|---|---|
| | **31 December 2009** *RMB million* | 31 December 2008 *RMB million* (Restated) | 1 January 2008 *RMB million* (Restated) |
| Premiums receivable and agents' balances | **6,044** | 8,309 | 7,229 |
| Receivables from reinsurers | **13,262** | 13,948 | 7,563 |
| | **19,306** | 22,257 | 14,792 |
| Less: Impairment provision on: | | | |
| Premiums receivable and agents' balances | **(2,127)** | (1,494) | (1,017) |
| Receivables from reinsurers | **(9)** | (5) | (5) |
| | **17,170** | 20,758 | 13,770 |

An aged analysis of insurance receivables as at the end of the reporting period, based on the payment due date and net of provision, is as follows:

| | Group and Company | | |
|---|---|---|---|
| | **31 December 2009** *RMB million* | 31 December 2008 *RMB million* (Restated) | 1 January 2008 *RMB million* (Restated) |
| On demand | **8,641** | 12,591 | 6,338 |
| Within 1 month | **1,126** | 1,743 | 1,944 |
| 1 to 3 months | **1,549** | 2,775 | 2,290 |
| Over 3 months | **5,854** | 3,649 | 3,198 |
| | **17,170** | 20,758 | 13,770 |

## 23. INSURANCE RECEIVABLES, NET *(continued)*

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

| | Group and Company | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB million*** | *RMB million* |
| At 1 January | **1,499** | 1,022 |
| Impairment losses recognised | **668** | 477 |
| Amount written off as uncollectible | **(31)** | – |
| At 31 December | **2,136** | 1,499 |

The carrying amounts disclosed above reasonably approximate to their fair values at the end of the reporting period.

## 24. REINSURANCE ASSETS

| | Group and Company | | |
|---|---|---|---|
| | **31 December 2009** | 31 December 2008 | 1 January 2008 |
| | ***RMB million*** | *RMB million* (Restated) | *RMB million* (Restated) |
| Reinsurers' share of: | | | |
| Unearned premium reserves (note 35) | **4,636** | 9,213 | 4,039 |
| Loss and loss adjustment expense reserves (note 35) | **9,790** | 8,248 | 5,614 |
| | **14,426** | 17,461 | 9,653 |

## 25. OTHER FINANCIAL ASSETS AND PREPAYMENTS

| | | Group and Company | | |
|---|---|---|---|---|
| | Notes | 31 December 2009 RMB million | 31 December 2008 RMB million (Restated) | 1 January 2008 RMB million (Restated) |
| Unlisted debts | | 3,290 | 3,780 | 3,780 |
| Capital security fund | (i) | 2,228 | 2,228 | 2,228 |
| Interest receivables | | 1,173 | 1,012 | 633 |
| Prepayments and deposits | (ii) | 653 | 830 | 827 |
| Other receivables | (iii) | 395 | 289 | 427 |
| Amount due from the PICC Group (note 47(c)) | | 9 | 305 | 36 |
| Amounts due from fellow subsidiaries (note 47(c)) | | 14 | 4 | – |
| Amounts due from associates (note 47(c)) | | 1 | 5 | – |
| Other assets | | 3,184 | 2,962 | 1,949 |
| | | 10,947 | 11,415 | 9,880 |

*Notes:*

(i) In accordance with the PRC Insurance Law, the Group is required to maintain a deposit equivalent to 20% of its registered capital with banks designated by the CIRC as a security fund. The use of the security fund is subject to the approval of the CIRC.

(ii) Included in the prepayments and deposits as at 31 December 2009 was a consideration of RMB588 million (2008: RMB588 million) paid for a right to a 1.96% economic interest in the issued share capital of a securities company. It represents the right to receive dividends, proceeds from the disposal of the equity interests of that securities company, and the right to register as a shareholder. The Company obtained this right under the restructuring scheme of another securities company, which sold its securities business and assets to this securities company. The consideration represented the government bonds originally registered under the trading seats of the securities company under the restructuring.

(iii) Included in the other receivables as at 31 December 2009 was an amount of RMB340 million (2008: RMB340 million) due from another securities company under liquidation. For both years, the amount was fully impaired and included in the above analysis at nil amount (2008: nil).

Except for the right to the equity interest in the new securities company and unlisted debts, the carrying amounts disclosed above reasonably approximate to their fair values at the year end. The fair value of the right to the equity in the new securities company could not be measured reliably. The fair value of the unlisted debts as at 31 December 2009 was RMB3,289 million (2008: RMB3,878 million), which was estimated by using the quoted market prices of securities with similar credit, maturity and yield characteristics.

## 26. INVESTMENTS IN ASSOCIATES

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | 31 December 2009 RMB million | 31 December 2008 RMB million (Restated) | 1 January 2008 RMB million (Restated) | 31 December 2009 RMB million | 31 December 2008 RMB million | 1 January 2008 RMB million |
| Unlisted shares, at cost | | | | 812 | 972 | 972 |
| AVIF | 19 | 26 | 33 | – | – | – |
| Goodwill on acquisition | 16 | 16 | 16 | – | – | – |
| Share of net assets | 609 | 708 | 976 | – | – | – |
| | 644 | 750 | 1,025 | 812 | 972 | 972 |

Particulars of the associates as at 31 December 2009 and 2008 are as follows:

**31 December 2009**

| **Name** | **Place of registration and operations** | **Nominal value of registered share capital** *RMB million* | **Percentage of equity directly attributable to the Group** | **Principal activities** |
|---|---|---|---|---|
| PICC Life | Mainland China | 5,417 | 14 | Provision of life insurance products |

31 December 2008 and 1 January 2008

| Name | Place of registration and operations | Nominal value of registered share capital *RMB million* | Percentage of equity directly attributable to the Group | Principal activities |
|---|---|---|---|---|
| PICC Life | Mainland China | 2,708 | 28 | Provision of life insurance products |
| PICC Asset Management Company Limited ("PICC AMC") | Mainland China | 800 | 20 | Asset management services |

## 26. INVESTMENTS IN ASSOCIATES *(continued)*

PICC Life, an associate of the Company, increased its share capital during the year. The Company did not participate in the aforesaid capital increase in PICC Life, and therefore the Company's equity interests in PICC Life was diluted to approximately 14% from 28%. A deemed disposal gain of RMB228 million was recognised as a result of this dilution in interest. The Company continues to account for its interest in PICC Life as an associate as the Company has representation on the Board of Directors of PICC Life.

During the year, the Company disposed of its entire equity interest in PICC AMC to the PICC Group and the details are disclosed in note 47(a) (iii) to these financial statements.

The following table illustrates the summarised financial information of PICC Life as extracted from its financial statements:

| | PICC Life | | |
|---|---|---|---|
| | **31 December 2009** *RMB million* | 31 December 2008 *RMB million* (Restated) | 1 January 2008 *RMB million* |
| Share of the associate's statement of financial position: | | | |
| Assets | **13,030** | 12,059 | 2,341 |
| Liabilities | **(12,421)** | (11,535) | (1,544) |
| Net assets | **609** | 524 | 797 |

| | **2009** *RMB million* | 2008 *RMB million* (Restated) |
|---|---|---|
| Share of the associate's revenue and profit/(loss): | | |
| Revenue | **12,541** | 1,993 |
| Profit/(loss) | **13** | (358) |

## 27. INVESTMENTS IN SUBSIDIARIES

| | Company | | |
|---|---|---|---|
| | 31 December 2009 RMB million | 31 December 2008 RMB million | 1 January 2008 RMB million |
| Unlisted shares, at cost | 3 | 3 | 3 |

Particulars of the subsidiaries are as follows:

| Name | Place of registration and operations | Nominal value of registered share capital (RMB million) | Percentage of equity directly attributable to the Company |
|---|---|---|---|
| PICC Hebi Insurance Agency Company Limited* | Mainland China | 0.5 | 100 |
| PICC Qingdao Insurance Agency Company Limited* | Mainland China | 0.5 | 90 |
| PICC Hebei Insurance Agency Company Limited* | Mainland China | 1.0 | 100 |
| PICC Haikou Training Center Company Limited* | Mainland China | 0.1 | 100 |

* Registered as limited companies under the PRC Company Law.

The principal activities of these subsidiaries are mainly the provision of insurance agency services and training services to the Group.

## 28. PROPERTY, PLANT AND EQUIPMENT

**Group and Company**

| | Land and buildings *RMB million* | Motor vehicles *RMB million* | Office equipment, furniture and fixtures *RMB million* | Construction in progress *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2009 | 10,207 | 1,551 | 3,101 | 2,164 | 17,023 |
| Additions | 218 | 219 | 372 | 306 | 1,115 |
| Transfers | 220 | – | – | (220) | – |
| Transfers to investment properties (note 29) | (142) | – | – | – | (142) |
| Disposals | (5) | (170) | (190) | – | (365) |
| At 31 December 2009 | 10,498 | 1,600 | 3,283 | 2,250 | 17,631 |
| Accumulated depreciation: | | | | | |
| At 1 January 2009 | (1,999) | (965) | (1,923) | – | (4,887) |
| Charge for the year | (339) | (151) | (370) | – | (860) |
| Transfers to investment properties (note 29) | 47 | – | – | – | 47 |
| Disposals | 4 | 165 | 182 | – | 351 |
| At 31 December 2009 | (2,287) | (951) | (2,111) | – | (5,349) |
| Net book amount: | | | | | |
| At 31 December 2009 | 8,211 | 649 | 1,172 | 2,250 | 12,282 |

## 28. PROPERTY, PLANT AND EQUIPMENT *(continued)*

**Group and Company**

| | Land and buildings *RMB million* | Motor vehicles *RMB million* | Office equipment, furniture and fixtures *RMB million* | Construction in progress *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2008 | 10,132 | 1,530 | 2,817 | 1,744 | 16,223 |
| Additions | 75 | 223 | 494 | 602 | 1,394 |
| Transfers | 158 | – | 24 | (182) | – |
| Transfers to investment properties (note 29) | (134) | – | – | – | (134) |
| Disposals | (24) | (202) | (234) | – | (460) |
| At 31 December 2008 | 10,207 | 1,551 | 3,101 | 2,164 | 17,023 |
| Accumulated depreciation: | | | | | |
| At 1 January 2008 | (1,695) | (1,019) | (1,788) | – | (4,502) |
| Charge for the year | (366) | (140) | (360) | – | (866) |
| Transfers to investment properties (note 29) | 38 | – | – | – | 38 |
| Disposals | 24 | 194 | 225 | – | 443 |
| At 31 December 2008 | (1,999) | (965) | (1,923) | – | (4,887) |
| Net book amount: | | | | | |
| At 1 January 2008 | 8,437 | 511 | 1,029 | 1,744 | 11,721 |
| At 31 December 2008 | 8,208 | 586 | 1,178 | 2,164 | 12,136 |

The Group's land and buildings and construction in progress are situated in Mainland China and held under medium term leases.

As at 31 December 2009, certain acquired buildings of the Group with a net book amount of RMB336 million (2008: RMB335 million) were in the process of title registration.

The net book amount of the Group's property, plant and equipment held under finance leases included in the total amount of property, plant and equipment at 31 December 2009 amounted to RMB2,130 million (2008: RMB1,945 million).

## 29. INVESTMENT PROPERTIES

| | Group and Company 2009 RMB million | 2008 RMB million |
|---|---|---|
| Cost: | | |
| At 1 January | 815 | 681 |
| Transfers from property, plant and equipment (note 28) | 142 | 134 |
| Transfers from prepaid land premiums (note 30) | 41 | – |
| At 31 December | 998 | 815 |
| Accumulated depreciation: | | |
| At 1 January | (210) | (149) |
| Charge for the year | (29) | (23) |
| Transfers from property, plant and equipment (note 28) | (47) | (38) |
| Transfers from prepaid land premiums (note 30) | (6) | – |
| At 31 December | (292) | (210) |
| Net book value at 31 December | 706 | 605 |

As at 31 December 2009, the fair value of the investment properties was RMB1,120 million (2008: RMB900 million). The fair value of the properties is determined by the directors with reference to recent market transactions.

The Group's investment properties are situated in Mainland China and held under medium term leases.

## 30. PREPAID LAND PREMIUMS

| | Group and Company 2009 RMB million | 2008 RMB million |
|---|---|---|
| At 1 January | 3,769 | 3,866 |
| Additions | 120 | 7 |
| Amortisation recognised during the year | (104) | (104) |
| Transfers to investment properties (note 29) | (35) | – |
| At 31 December | 3,750 | 3,769 |

## 30. PREPAID LAND PREMIUMS *(continued)*

The leasehold land is situated in Mainland China and held under the following terms:

| | Group and Company | | |
|---|---|---|---|
| | 31 December 2009<br>*RMB million* | 31 December 2008<br>*RMB million* | 1 January 2008<br>*RMB million* |
| Long term leases | 83 | 85 | 88 |
| Medium term leases | 3,667 | 3,684 | 3,778 |
| | 3,750 | 3,769 | 3,866 |

## 31. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

| | Group and Company | | |
|---|---|---|---|
| | 31 December 2009<br>*RMB million* | 31 December 2008<br>*RMB million* | 1 January 2008<br>*RMB million* |
| Reinsurance payables | 16,595 | 18,258 | 9,813 |

The reinsurance payables are non-interest-bearing and are due within three months from the end of reporting period or are repayable on demand.

The carrying amounts disclosed above reasonably approximate to their fair values at the end of each reporting period.

## 32. ACCRUED INSURANCE PROTECTION FUND

| | Group and Company | |
|---|---|---|
| | 2009 | 2008 |
| | RMB million | RMB million |
| At 1 January | 252 | 296 |
| Accrued during the year (note 7) | 956 | 774 |
| Paid during the year | (790) | (818) |
| At 31 December | 418 | 252 |

The Group is obligated to pay into an insurance protection fund an amount based on a rate of 0.8% of its annual premiums written (2008: 1% of its annual retained premiums) in accordance with the relevant PRC insurance law and regulations. No further provision is required once the accumulated balance has reached 6% (2008: 6%) of the Group's total assets as determined in accordance with PRC GAAP.

Insurance companies are required to deposit their insurance protection fund in a bank account designated by the CIRC on a quarterly basis.

## 33. OTHER LIABILITIES AND ACCRUALS

| | | Group and Company | |
|---|---|---|---|
| | 31 December 2009 | 31 December 2008 | 1 January 2008 |
| | RMB million | RMB million (Restated) | RMB million (Restated) |
| Premiums received in advance | 8,629 | 4,659 | 2,639 |
| Securities sold under agreements to repurchase | 1,760 | 1,724 | – |
| Salaries and staff welfare payables | 1,605 | 1,529 | 1,364 |
| Commission payable | 938 | 532 | 475 |
| Liabilities arising from SAR | – | – | 480 |
| Accrued capital expenditure | 187 | 78 | 78 |
| Amounts due to associates (note 47(c)) | – | 19 | 20 |
| Amounts due to fellow subsidiaries (note 47(c)) | 69 | 5 | – |
| Others | 7,437 | 6,452 | 4,580 |
| | 20,625 | 14,998 | 9,636 |

Securities sold under agreements to repurchase do not qualify for derecognition as the Group has committed to repurchasing these securities under predetermined terms. The carrying amount of financial assets that do not qualify for derecognition as at 31 December 2009 was RMB1,760 million (2008: RMB1,724 million), while the borrowings obtained under these repurchase transactions were disclosed as above.

The carrying amounts disclosed above reasonably approximate to their fair values at the end of each reporting period.

## 34. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

**Group and Company**

| | Impairment losses on financial assets *RMB million* | Revaluation of available-for-sale financial instruments *RMB million* | Cash flow hedging *RMB million* | Insurance contract liabilities *RMB million* | Others *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|
| Deferred tax assets: | | | | | | |
| At 1 January 2009 | 510 | – | – | – | 76 | 586 |
| Deferred tax (charged)/credited to the income statement during the year (note 15) | 3 | – | – | – | (35) | (32) |
| Gross deferred tax assets at 31 December 2009 | 513 | – | – | – | 41 | 554 |
| Deferred tax liabilities: | | | | | | |
| At 1 January 2009 | – | 98 | (1) | (118) | – | (21) |
| Deferred tax charged to the income statement during the year (note 15) | – | – | – | (333) | – | (333) |
| Deferred tax debited to equity during the year | – | (128) | (3) | – | – | (131) |
| Gross deferred tax liabilities at 31 December 2009 | – | (30) | (4) | (451) | – | (485) |
| Net deferred tax assets at 31 December 2009 | | | | | | 69 |

## 34. DEFERRED TAX *(continued)*

**Group and Company**

| | Impairment losses on financial assets *RMB million* | Revaluation of available-for-sale financial instruments *RMB million* | Cash flow hedging *RMB million* | Insurance contract liabilities *RMB million* (Restated) | Others *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|
| Deferred tax assets: | | | | | | |
| At 1 January 2008 | 215 | (1,367) | – | – | (338) | (1,490) |
| Deferred tax credited to the income statement during the year (note 15) | 295 | – | – | – | 414 | 709 |
| Deferred tax credited to equity during the year | – | 1,465 | – | – | – | 1,465 |
| Gross deferred tax assets at 31 December 2008 | 510 | 98 | – | – | 76 | 684 |
| Deferred tax liabilities: | | | | | | |
| At 1 January 2008 | – | – | 9 | (575) | – | (566) |
| Deferred tax credited to the income statement during the year (note 15) | – | – | – | 457 | – | 457 |
| Deferred tax debited to equity during the year | – | – | (10) | – | – | (10) |
| Gross deferred tax liabilities at 31 December 2008 | – | – | (1) | (118) | – | (119) |
| Net deferred tax assets at 31 December 2008 | | | | | | 565 |

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The change in respect of the deferred tax assets recognised arising from the revaluation of available-for-sale investments is taken to the statement of comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities as they relate to the same tax authority.

## 35. INSURANCE CONTRACT LIABILITIES

| | Group and Company | | |
|---|---|---|---|
| | 31 December 2009 | 31 December 2008 | 1 January 2008 |
| | *RMB million* | *RMB million* | *RMB million* |
| | | (Restated) | (Restated) |
| Unearned premium reserves | 44,872 | 39,396 | 36,867 |
| Loss and loss adjustment expense reserves | 47,823 | 40,293 | 31,796 |
| | 92,695 | 79,689 | 68,663 |

Movements in insurance contract liabilities and their corresponding reinsurance assets were set out below:

**Group and Company**

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Reinsurers' share | Net amount | Gross amount | Reinsurers' share | Net amount |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* |
| | | (note 24) | | | (note 24) | |
| | | | | (Restated) | (Restated) | (Restated) |
| **Unearned premium reserves:** | | | | | | |
| At 1 January | 39,396 | (9,213) | 30,183 | 36,867 | (4,039) | 32,828 |
| Increase during the year | 19,834 | (523) | 19,311 | 20,354 | (5,323) | 15,031 |
| Release during the year | (14,358) | 5,100 | (9,258) | (17,825) | 149 | (17,676) |
| At 31 December | 44,872 | (4,636) | 40,236 | 39,396 | (9,213) | 30,183 |
| **Loss and loss adjustment expense reserves:** | | | | | | |
| At 1 January | 40,293 | (8,248) | 32,045 | 31,796 | (5,614) | 26,182 |
| Increase during the year | 79,342 | (14,825) | 64,517 | 75,254 | (14,544) | 60,710 |
| Release during the year | (71,812) | 13,283 | (58,529) | (66,757) | 11,910 | (54,847) |
| At 31 December | 47,823 | (9,790) | 38,033 | 40,293 | (8,248) | 32,045 |
| **Total insurance contract liabilities** | 92,695 | (14,426) | 78,269 | 79,689 | (17,461) | 62,228 |

## 36. POLICYHOLDERS' DEPOSITS

Policyholders' deposits consist of interest-bearing and non-interest-bearing deposits placed by policyholders.

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

| | Group and Company | | |
|---|---|---|---|
| | **31 December 2009** *RMB million* | 31 December 2008 *RMB million* | 1 January 2008 *RMB million* |
| Interest-bearing deposits | **2,969** | 5,147 | 5,926 |
| Non-interest-bearing deposits | **2,318** | 2,236 | 2,027 |
| | **5,287** | 7,383 | 7,953 |

Certain contracts offered by the Group require that the policyholders place a deposit with the Group which is refundable upon maturity, varies from one year to perpetuity, and bears no interest. A contract holder can terminate the contract before the maturity date without penalties. The main feature of this product is that an insurance coverage is fixed at the inception of the policy and remains in effect during the policy period or until terminated by the contract holder.

From 2002, the Group has underwritten policies in one type of homeowners' insurance products containing both insurance and investment features. Policyholders deposit a fixed principal amount which is only refundable upon the maturity of the policy of three or five years, and the policyholders receive a fixed rate of interest. Penalties on early termination are charged according to the terms stated in the contract.

The carrying amounts disclosed above reasonably approximate to their fair values at the end of the reporting period.

## 37. SUBORDINATED DEBTS ISSUED BY THE COMPANY

On 19 December 2006, the Company issued subordinated debts of RMB3,000 million to a number of institutional investors. These debts are unsecured and have a maturity period of 10 years, bearing interest at a rate of 4.08% per annum in the first five years and a rate of 6.08% per annum in the remaining years. The Company has an option to redeem the subordinated debts at the end of the first five years.

On 28 September 2009, the Company issued subordinated debts of RMB5,000 million to a number of institutional investors. These debts are unsecured and have a maturity period of 10 years, bearing interest at a rate of 4.30% per annum in the first five years and a rate of 6.30% per annum in the remaining years. The Company has an option to redeem the subordinated debts at the end of the first five years.

As at 31 December 2009, the fair value of these subordinated debts were RMB8,249 million (2008: RMB3,279 million). The fair value has been estimated using the quoted market prices for securities with similar credit terms, maturity and characteristics.

## 38. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

### (a) Insurance contract liabilities

***Terms***

Loss and loss adjustment expense reserves are refined on a quarterly basis as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. The reserves are discounted for the time value of money if the impact is material.

The measurement process primarily includes projection of future claim costs through a combination of actuarial and statistical projection techniques.

Estimates of gross loss and loss adjustment expense reserves are based on the following selected methods:

| Line | Estimation method |
|---|---|
| Aviation and energy | • Paid and incurred claims loss development;<br>• Incurred claims Bornhuetter-Ferguson; and<br>• Unbiased estimates (50th percentile) based on the bootstrapping model |
| Other lines | • Incurred claims loss development;<br>• Cumulative paid loss development method;<br>• Paid and incurred claims Bornhuetter-Fergusons; and<br>• Unbiased estimates (50th percentile) based on the bootstrapping model |

Berquist-Sherman model is also applied to motor vehicle insurance.

Reinsurance recoveries on unpaid claims are separately estimated for proportional treaties including statutory treaties, facultative reinsurance arrangements and other treaties applying to cargo, liability, marine and non-marine insurance.

| Reinsurance | Estimation method |
|---|---|
| Proportional treaty | • As a certain percentage of gross claim liabilities |
| Facultative | • Case estimates in individual large claims |
| Other treaties | • Incurred claims Bornhuetter-Ferguson |

## 38. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(continued)*

### (a) Insurance contract liabilities *(continued)*

***Assumptions and sensitivities***

The principal assumption underlying the estimates is the Group's past claims development experience. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. The rate used for discounting long-tailed liabilities is 3.2% for both years.

The range of reasonable estimates of loss and loss adjustment expense reserves, projected by different statistical techniques and various key assumptions, represents different views on the speed of settlements, changes in premium rates and the underwriting controls over ultimate losses.

The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify with any degree of confidence. Furthermore, because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the loss and loss adjustment reserves are not quantifiable with certainty at the end of the reporting period.

As the most likely scenario in outstanding claims as at 31 December 2007 and 2008 were replaced by probability-weighted estimates plus risk margin, adjusted by time value of money, upon the adoption of a number of changes in accounting policies, claims development is not presented in these financial statements.

### (b) Reinsurance assets – Terms, assumptions and methods

The Group limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota share basis or surplus line basis with retention limits varying by product line. There are profit commission, contingent commission and loss participation limits clauses in various proportional reinsurance contracts. Excess of loss catastrophic reinsurance is also arranged to limit the Group's exposure to certain catastrophic events.

Even though the Group may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders. During the year, the Group's premiums ceded to the top three reinsurance companies amounted to RMB11,577 million (2008: RMB20,533 million) and thus a credit exposure exists with respect to the business ceded, to the extent that any of these reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

## 39. ISSUED CAPITAL

| | 31 December 2009 RMB million | 31 December 2008 RMB million | 1 January 2008 RMB million |
|---|---|---|---|
| **Shares** | | | |
| Registered, issued and fully paid: | | | |
| 7,685,820,000 domestic shares of RMB1.00 each | 7,686 | 7,686 | 7,686 |
| 3,455,980,000 H shares of RMB1.00 each | 3,456 | 3,456 | 3,456 |
| | 11,142 | 11,142 | 11,142 |

## 40. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2009:

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| Financial assets held for trading | | | |
| Equity investments | 2,711 | – | 2,711 |
| Debt securities | 542 | 1,107 | 1,649 |
| Derivative financial assets | | | |
| Interest rate swap contracts | – | 16 | 16 |
| Available-for-sale investments | | | |
| Equity investments | 11,349 | – | 11,349 |
| Debt securities | 12,054 | 44,255 | 56,309 |
| | 26,656 | 45,378 | 72,034 |

There was no fair value measurement in Level 3 as at 31 December 2009.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

## 41. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group meets all obligations arising from the insurance contracts and the applicable insurance laws and regulations in the PRC so as to support the growth of business and maximise the shareholders' value.

The Company manages its capital requirements by monitoring the solvency margin which is the difference between the regulatory capital held and the minimum regulatory capital required on a regular basis. The table below summarises the minimum regulatory capital and the regulatory capital held by the Company:

| | **31 December 2009** | | | 31 December 2008 | | |
|---|---|---|---|---|---|---|
| | **Regulatory capital held** ***RMB million*** | **Minimum regulatory capital** ***RMB million*** | **Solvency margin ratio** | Regulatory capital held *RMB million* | Minimum regulatory capital *RMB million* | Solvency margin ratio |
| Solvency margin | **17,469** | **15,690** | **111%** | 16,762 | 11,546 | 145% |

## 42. SHARE APPRECIATION RIGHTS

The shareholders of the Company approved the adoption of a scheme of share appreciation rights for senior management on 30 July 2003. The scheme is designed to link the interest of the Company's senior management with the Group's results of operations and the Company's share value (market price of its H Shares). The Board of Directors of the Company is responsible for making decisions under the scheme and administering the scheme. No shares will be issued under the scheme. Therefore, the shareholdings of shareholders will not be diluted as a result of the issuance of SAR.

Under the SAR scheme, the Board of Directors (excluding independent non-executive directors) and the Supervisory Committee (excluding independent supervisors), president, vice presidents, chief financial officer, division managers of the Company, presidents of the provincial/municipal level branch offices, employees with special contribution to the Company as determined by the Company's Nomination, Remuneration and Review Committee, and other senior management at equivalent levels are eligible to receive SAR.

SAR will be granted in units with each unit representing one H Share. SAR granted in aggregate may not exceed 10% of the issued share capital at any time, and SAR granted to any individual may not exceed 1% of the issued share capital in any 12-month period. The number of SAR units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation.

Under the SAR scheme, all SAR are valid for five years, but are not exercisable in the first year after the date of grant. As at each of the second, third, fourth and fifth anniversaries of the date of grant, the total number of units of SAR exercised may not in aggregate exceed 25%, 50%, 75% and 100%, respectively, of the total number of units of SAR granted to such person. Thereafter, SAR which have not been exercised will lapse. If a grantee deceases or becomes severely disabled during the five-year period, his or her share appreciation rights will be fully vested immediately.

The exercise price of the SAR initially granted was equal to the offer price of the initial public offering of the Company. The exercise price of the SAR subsequently granted is equal to the higher of (i) the closing price of the H shares on the date of grant; and (ii) the average closing price of the H shares on the five consecutive trading days before the date of grant. Upon exercise of the SAR, the person will receive cash payment, subject to any applicable withholding tax, equal to the sum of the number of units of SAR exercised and the difference between the exercise price and market price of H shares at the time of exercise.

In compliance with the relevant law and regulations issued by the MOF and the CIRC, the Company decided to suspend the scheme in 2008 except for SARs granted to anyone who is not a Mainland Chinese resident. During the year, certain SAR were exercised by a non-executive director who is not a Mainland Chinese resident and an amount of approximately RMB1 million was paid.

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES

Similar to other insurance entities, the Group holds substantial financial assets including debt securities, equity securities and bank deposits as an integral part of its operations. The Group also issued subordinated debt instruments to enhance its solvency position. The Group has various other financial assets and liabilities such as insurance receivables, net, and reinsurance funds withheld, which arise directly from its operations. The main risks from the Group's financial instruments are credit risk, liquidity or funding risk and market risk. The details of these risks, together with insurance risk, and the Group's management policies are set out below:

### (a) Financial risks

#### (1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is subject to credit risk of debt securities. The Group heavily invests in debt securities issued by the government, banks and financial institutions. Details of these debt securities are set out in note 21 to the financial statements. The Group only invests in corporate debt securities with a PRC rating higher than AA.

The Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain 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. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged. One of the major performance indicators is the ability to collect premiums receivable on a timely basis. The Group's premiums receivable relate to a large number of diversified customers and therefore there is no significant concentration of credit risk.

Reinsurance of the Group is mainly placed with reinsurers with A.M. Best ratings of A– or above except for state-owned reinsurance companies. Management performs regular assessment of creditworthiness of reinsurers to update reinsurance purchase strategies and ascertain suitable allowances for impairment of reinsurance assets. As at 31 December 2009, the top three reinsurance companies owed an aggregate amount of RMB11,400 million (2008: RMB10,945 million) to the Group.

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risks *(continued)*

#### (1) Credit risk *(continued)*

The table below shows the maximum exposures to credit risk without taking into account collateral for the components of the consolidated statement of financial position:

| | 2009<br>*RMB million* | 2008<br>*RMB million*<br>(Restated) |
|---|---|---|
| Cash and cash equivalents | 32,143 | 29,056 |
| Derivative financial assets | 16 | 6 |
| Debt securities | 58,458 | 41,291 |
| Insurance receivables, net | 17,170 | 20,758 |
| Other financial assets | 9,019 | 9,342 |
| Total credit risk exposure | 116,806 | 100,453 |

Where financial instruments are recorded at fair value, the amounts shown above represents the current risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risks *(continued)*

#### (1) Credit risk *(continued)*

An aged analysis of the financial assets past due but not impaired and impaired is shown as follows:

| 31 December 2009 | On demand RMB million | Past due but not impaired: Less than 30 days RMB million | 31 to 90 days RMB million | More than 90 days RMB million | Sub-total RMB million | Past due and impaired RMB million | Total RMB million |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 32,143 | – | – | – | – | – | 32,143 |
| Derivative financial assets | 16 | – | – | – | – | – | 16 |
| Debt securities | 58,458 | – | – | – | – | – | 58,458 |
| Insurance receivables | 8,771 | 663 | 1,226 | 5,087 | 6,976 | 3,559 | 19,306 |
| Other financial assets | 9,019 | – | – | – | – | 340 | 9,359 |
| Total | 108,407 | 663 | 1,226 | 5,087 | 6,976 | 3,899 | 119,282 |
| Less: Impairment provision | – | – | – | – | – | (2,476) | (2,476) |
| Net | 108,407 | 663 | 1,226 | 5,087 | 6,976 | 1,423 | 116,806 |

| 31 December 2008 | On demand RMB million (Restated) | Past due but not impaired: Less than 30 days RMB million (Restated) | 31 to 90 days RMB million (Restated) | More than 90 days RMB million (Restated) | Sub-total RMB million (Restated) | Past due and impaired RMB million (Restated) | Total RMB million (Restated) |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 29,056 | – | – | – | – | – | 29,056 |
| Derivative financial assets | 6 | – | – | – | – | – | 6 |
| Debt securities | 41,291 | – | – | – | – | – | 41,291 |
| Insurance receivables | 12,840 | 960 | 2,192 | 2,283 | 5,435 | 3,982 | 22,257 |
| Other financial assets | 9,342 | – | – | – | – | 340 | 9,682 |
| Total | 92,535 | 960 | 2,192 | 2,283 | 5,435 | 4,322 | 102,292 |
| Less: Impairment provision | – | – | – | – | – | (1,839) | (1,839) |
| Net | 92,535 | 960 | 2,192 | 2,283 | 5,435 | 2,483 | 100,453 |

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risks *(continued)*

#### (2) Liquidity or funding risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing to repay a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk the Group confronts is the daily calls on its available cash resources in respect of claims arising from insurance contracts and maturities of policyholders' deposits.

It is unusual for an enterprise primarily transacting insurance business to predict the requirements of funding with absolute certainty, as the theory of probability is applied on insurance contracts to ascertain the likely provision and the period when such liabilities will require settlement. The amounts and maturity periods of these insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

As at the end of the reporting date, the Group held 14% (2008: 15%) of the total assets as demand deposits and term deposits with original maturity of less than three months to ensure that sufficient liquid assets are available. Additions to illiquid assets and properties in particular, are closely monitored by management.

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risks *(continued)*

#### (2) Liquidity or funding risk *(continued)*

A remaining contractual maturity analysis for certain financial assets, reinsurance assets, financial liabilities and insurance contract liabilities are presented below:

| 31 December 2009 | On demand *RMB million* | Within 3 months *RMB million* | 3-12 months *RMB million* | 1-5 years *RMB million* | More than 5 years *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | 17,878 | 8,010 | 2,250 | 3,027 | 2,151 | 33,316 |
| Derivative financial assets | – | – | 8 | 9 | – | 17 |
| Debt securities | | | | | | |
| – Available-for-sale | – | 1,920 | 7,433 | 33,237 | 23,170 | 65,760 |
| – Fair value through profit and loss | – | 6 | 420 | 957 | 458 | 1,841 |
| – Held-to-maturity | – | – | 23 | 96 | 740 | 859 |
| Reinsurance assets | – | 3,119 | 7,548 | 3,311 | 587 | 14,565 |
| Capital security fund | – | 302 | 1,333 | 741 | – | 2,376 |
| Liabilities: | | | | | | |
| Payables to reinsurers | 11,399 | 4,144 | 954 | 95 | 3 | 16,595 |
| Insurance contract liabilities | – | 17,739 | 56,907 | 16,570 | 1,769 | 92,985 |
| Policyholders' deposits | 567 | 1,767 | 713 | 398 | 1,842 | 5,287 |
| Subordinated debts | – | 1 | 398 | 2,055 | 9,354 | 11,808 |

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risks *(continued)*

#### (2) Liquidity or funding risk *(continued)*

| 31 December 2008 | On demand *RMB million* (Restated) | Within 3 months *RMB million* (Restated) | 3-12 months *RMB million* (Restated) | 1-5 years *RMB million* (Restated) | More than 5 years *RMB million* (Restated) | Total *RMB million* (Restated) |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Cash and cash equivalents | 15,507 | 6,962 | 2,889 | 3,122 | 1,981 | 30,461 |
| Derivative financial assets | – | – | (3) | 8 | 1 | 6 |
| Debt securities | | | | | | |
| – Available-for-sale | – | 1,376 | 8,683 | 19,145 | 14,833 | 44,037 |
| – Fair value through profit and loss | – | 160 | 992 | 907 | 665 | 2,724 |
| Reinsurance assets | – | 2,974 | 11,736 | 2,765 | 130 | 17,605 |
| Capital security fund | – | – | 574 | 1,904 | – | 2,478 |
| Liabilities: | | | | | | |
| Payables to reinsurers | 3,802 | 4,615 | 9,439 | 400 | 2 | 18,258 |
| Insurance contract liabilities | – | 15,788 | 49,158 | 14,527 | 502 | 79,975 |
| Policyholders' deposits | 1,458 | 439 | 2,078 | 3,388 | 20 | 7,383 |
| Subordinated debts | – | – | 123 | 792 | 3,365 | 4,280 |

The Group has no significant concentration of liquidity or funding risk.

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risks *(continued)*

#### (2) Liquidity or funding risk *(continued)*

The table below summarises the expected recovery of all assets:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Current* *RMB million* | Non-current *RMB million* | Total *RMB million* | Current* *RMB million* (Restated) | Non-current *RMB million* (Restated) | Total *RMB million* (Restated) |
| Cash and cash equivalents | 27,995 | 4,148 | 32,143 | 25,090 | 3,966 | 29,056 |
| Derivative financial assets | – | 16 | 16 | – | 6 | 6 |
| Debt securities | 9,831 | 48,627 | 58,458 | 10,675 | 30,616 | 41,291 |
| Equity securities | 2,711 | 11,972 | 14,683 | 2,415 | 4,023 | 6,438 |
| Insurance receivables, net | 16,917 | 253 | 17,170 | 20,209 | 549 | 20,758 |
| Tax recoverable | 89 | – | 89 | – | – | – |
| Reinsurance assets | 10,576 | 3,850 | 14,426 | 14,613 | 2,848 | 17,461 |
| Other financial assets and prepayments | 7,050 | 3,897 | 10,947 | 7,102 | 4,313 | 11,415 |
| Investments in associates | – | 644 | 644 | – | 750 | 750 |
| Property, plant and equipment | – | 12,282 | 12,282 | – | 12,136 | 12,136 |
| Investment properties | – | 706 | 706 | – | 605 | 605 |
| Prepaid land premiums | – | 3,750 | 3,750 | – | 3,769 | 3,769 |
| Deferred tax assets | – | 69 | 69 | – | 565 | 565 |
| Total | 75,169 | 90,214 | 165,383 | 80,104 | 64,146 | 144,250 |

* Expected recovery or settlement within 12 months from the end of each reporting period.

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risks *(continued)*

#### (3) Market risk

Market risk is the risk of changes in the fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether any such change in prices is caused by factors specific to individual instruments or its issuer or factors affecting all instruments traded in the market.

The Group mitigates its market risk through proper diversification of its investment portfolio. An investment mandate was also approved by an investment committee to direct investment decisions.

*(i) Currency risk*

The Group's principal transactions are carried out in Renminbi. Certain insurance policies issued by the Group, however, in particular in respect of cargo, commercial properties and aviation insurance, were denominated in United States dollars ("USD"). Therefore, premiums received, reinsurance premiums ceded, claims paid and paid losses recovered from reinsurers in respect of these policies are transacted in United States dollars.

Moreover, the Group holds deposits of RMB10,127 million (2008: RMB7,347 million) and debt securities of RMB786 million (2008: RMB781 million), of which their carrying values were mainly exposed to fluctuations of foreign exchange rates.

The analysis below is performed for reasonably possible movements in exchange rates for USD with all other variables held constant, showing the pre-tax impact on profit (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in exchange rates, the correlations of these variables are ignored.

| | | 2009 | | 2008 | |
|---|---|---|---|---|---|
| | Appreciation/ (depreciation) against RMB | Impact on profit *RMB million* | Impact on equity *RMB million* | Impact on profit *RMB million* | Impact on equity *RMB million* |
| USD | +5% | 549 | 549 | 390 | 390 |
| USD | –5% | (549) | (549) | (390) | (390) |

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risks *(continued)*

#### (3) Market risk *(continued)*

*(ii) Interest rate risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

The Group mainly invests in financial assets of which the maturity periods vary from one to seven years in view of the short duration of insurance liabilities. The Group intends to maintain the duration of its investment portfolio below the market level of financial assets with similar characteristics. A high proportion of interest-sensitive financial assets are also held by the Group to reduce its interest rate risk.

*(iii) Price risk*

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to individual financial instruments or these issuers, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to mutual fund and equity securities whose values will fluctuate as a result of changes in market prices.

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

The Group uses the Value-at-Risk ("VaR") methodology to measure the expected maximum loss in respect of interest rate risk and equity price risk over a holding period of ten trading days (2008: one trading day) at a confidence level of 99% (2008: 95%) based on historical data in the past one year. The comparative amounts presented below were restated to comply with the current year's VAR methodology.

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (a) Financial risks *(continued)*

#### (3) Market risk *(continued)*

*(iii) Price risk (continued)*

The VaR methodology quantifies the potential loss under the assumption of normal market conditions only, and therefore when extreme market events occur, the potential loss could be underestimated. VaR also uses historical data to forecast future price behaviour, which could differ substantially from past behaviour. Moreover, the use of a ten-day holding period assumes that all positions in the portfolio can be liquidated or hedged in ten days. This assumption may not hold true in reality, especially when the market is illiquid.

| | 2009<br>*RMB million* | 2008<br>*RMB million* |
|---|---|---|
| Interest rate VaR | 353 | 768 |
| Equity price VaR | 1,371 | 876 |

### (b) Insurance risk

The risk under an insurance contract arises from the possibility of occurrence of an insured event and the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims payments and the costs of claims settlement exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk – the possibility that the number of insured events will differ from those expected.

Severity risk – the possibility that the costs of the events will differ from those expected.

Development risk – the possibility that changes may occur in the amount of an insurer’s obligation at the end of the contract period.

The Group has the objective to control and minimise insurance risk, so to reduce the volatility of the operating profits. The Group manages insurance risk through the following mechanism:

– The launch of any new product has to be approved by appropriate authorities;

– Underwriting and claim-handling authorities at different levels are properly established;

– Treaty reinsurance and most facultative reinsurance arrangements are centrally managed at the head office level; and

– Catastrophic reinsurance is used to limit the Group’s exposure to flooding, earthquakes and typhoons.

## 43. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (b) Insurance risk *(continued)*

Claims of certain provinces in the PRC are often affected by natural disasters including flooding, earthquakes and typhoons. Therefore, an undue concentration of risk units in these areas may have an impact on the severity of claim payments on a portfolio basis. The Group has achieved geographical diversification by accepting risks in different provinces of the PRC.

The Group's concentration of insurance risk before and after reinsurance, measured by geographical turnover and net premiums written, is as follows:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| | ***RMB million*** | ***RMB million*** | *RMB million* | *RMB million* |
| Coastal and developed provinces/cities | **54,384** | **46,266** | 46,395 | 33,919 |
| Western China | **25,109** | **21,975** | 20,773 | 16,423 |
| North China | **17,394** | **15,508** | 15,385 | 12,091 |
| Central China | **13,647** | **11,891** | 11,462 | 9,029 |
| North-eastern China | **9,237** | **7,709** | 7,863 | 5,912 |
| Total | **119,771** | **103,349** | 101,878 | 77,374 |

## 44. CONTINGENT LIABILITIES

Owing to the nature of the insurance business, the Group is involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies and some losses arising there from will be indemnified by reinsurers or other recoveries including salvage and subrogation. While the outcome of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

## 45. OPERATING LEASE COMMITMENTS

The Group leases certain of its land and buildings and motor vehicles under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from one to twenty years, and those for motor vehicles are negotiated for one year (2008: one year).

At 31 December 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group and Company | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB million*** | *RMB million* |
| Within one year | **175** | 192 |
| In the second to fifth years, inclusive | **194** | 283 |
| After five years | **66** | 69 |
| | **435** | 544 |

## 46. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 45 above, the Group and the Company had the following commitments at the end of the reporting period:

| | Group and Company | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB million*** | *RMB million* |
| Contracted, but not provided for: | | |
| Property, plant and equipment | **273** | 249 |
| Acquisition of an investment | **–** | 1,500 |
| | **273** | 1,749 |

## 47. RELATED PARTY TRANSACTIONS

### (a) Material transactions with related parties

| | Notes | 2009 RMB million | 2008 RMB million |
|---|---|---|---|
| Transactions with the PICC Group: | | | |
| Property rental expenses | (i) | – | 108 |
| Property rental income | (i) | – | 6 |
| Motor vehicle rental expenses | (i) | – | 12 |
| Motor vehicle rental income | (i) | – | 2 |
| Service fee income | (ii) | – | 2 |
| Loss on disposal of an associate | (iii) | 24 | – |
| Transactions with fellow subsidiaries: | | | |
| Property purchase | (iv) | 251 | – |
| Property rental expenses | (v) | 154 | 76 |
| Property rental income | (v) | 3 | 1 |
| Motor vehicle rental expenses | (v) | – | – |
| Management fee | (vi) | 86 | – |
| Transactions with associates: | | | |
| Management fee | (vi) | – | 73 |
| Commission received | (vii) | 33 | 2 |
| Commission paid | (vii) | 16 | 9 |

*Notes:*

(i) The Company entered into a Property Leasing Agreement and a Motor Vehicle Rental Agreement with the PICC Group on 9 October 2003 under which the Company rented certain properties and motor vehicles from the PICC Group and the PICC Group rented certain properties and motor vehicles from the Company. The rental income and charges in respect of these properties and motor vehicles are based on market rates. The terms of both agreements were for four years effective from 7 July 2003. The agreements were extended for one year on 7 July 2007 and expired on 6 July 2008.

(ii) The Company entered into an Information System Services Agreement with the PICC Group on 9 October 2003 pursuant to which the Company agreed to provide the PICC Group with certain information services, including (i) facilities leasing services and network services; (ii) software and application services; (iii) other computer-related facility maintenance services; and (iv) other information system services agreed by both parties. The services fee payable to the Company by the PICC Group are no less than market rates, and are determined with reference to the costs associated with the labour and equipment required to provide the services and support pursuant to the Information System Services Agreement between the Company and the PICC Group. The term of the Information System Services Agreement is four years. On 8 October 2007, the agreement was extended to 6 July 2008.

(iii) On 13 March 2009, the Company entered into an equity transfer agreement with the PICC Group, pursuant to which the Company agreed to transfer its 20% equity interests in PICC AMC to the PICC Group for a consideration of RMB171 million. When the equity transfer was completed, the Company did not hold any equity interests in PICC AMC.

## 47. RELATED PARTY TRANSACTIONS *(continued)*

### (a) Material transactions with related parties *(continued)*

*Notes: (continued)*

(iv) On 27 May 2009, the Company entered into an asset transfer agreement with PICC Investment Holding Company Limited ("PICC Investment"), a fellow subsidiary, pursuant to which PICC Investment agreed to dispose of and the Company agreed to acquire certain properties and green/open land. Under the agreement, the Company paid to PICC Investment approximately RMB176 million as consideration of the properties acquired and RMB75 million as consideration of the green/open land acquired. The considerations were determined based on the values determined by independent professional valuers.

(v) On 19 September 2008, the Company entered into a Property Leasing Agreement and Motor Vehicle Rental Agreement with PICC Investment. Under these agreements, the Company rented certain properties and motor vehicles from PICC Investment and PICC Investment rented certain properties from the Company. The rental income and charges in respect of these properties and motor vehicles are based on market rates. The terms of both agreements are three years effective from 7 July 2008. During both years ended 31 December 2009 and 2008, motor vehicle rental expenses were less than one million and, therefore, the amount was not presented above.

(vi) On 28 December 2007, the Company and PICC AMC entered into an asset management agreement. Pursuant to the asset management agreement, PICC AMC provides investment management services in respect of certain financial assets of the Company. The Company pays an annual management fee to PICC AMC, which is calculated based on the average daily net asset value of the assets under the management of PICC AMC in that particular year and the applicable annual rate. Other than annual management fees, performance bonuses will also be paid to PICC AMC when the investment performance satisfies certain conditions. This agreement commenced from 10 October 2007 and expired on 31 December 2009.

(vii) The Company entered into a mutual insurance agency agreement with PICC Life on 19 October 2006, pursuant to which the Company and PICC Life mutually as the agency for selling the insurance products and receiving agency premiums on behalf of each other. The Company will pay an agency fee to PICC Life in consideration of the agency services provided by PICC Life on the Company's insurance products. The Company will receive an agency fee from PICC Life in consideration of the agency services provided by the Company on PICC Life's insurance products. The agency fees are calculated by the actual agency premiums received multiplied by the agreed commission rates. The term of the mutual insurance agency agreement is three years commencing from 1 September 2006. The Company entered into a new agreement with the same clauses with the PICC Life on 31 August 2009 when the original agreement expired. The term of new agreement is three years.

The transactions mentioned above constitute connected transactions under the Listing Rules of The Stock Exchange of Hong Kong.

Subsequent to the end of the reporting period, the Group entered into a number of transactions with related parties and the details are set out in note 48 to the financial statements.

## 47. RELATED PARTY TRANSACTIONS *(continued)*

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

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

### (c) Outstanding balances with related parties

| | Due from related parties | | Due to related parties | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***RMB million*** | *RMB million* | ***RMB million*** | *RMB million* |
| The PICC Group | **9** | 305 | **–** | – |
| Fellow subsidiaries | **14** | 4 | **69** | 5 |
| Associates | **1** | 5 | **–** | 19 |
| | **24** | 314 | **69** | 24 |

The balances with the PICC Group, fellow subsidiaries and an associate are settled according to respective arrangements between the Company and the related parties.

### (d) Compensation of key management personnel (including the Chairman of the Board and executive directors)

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Short term employee benefits | **1,787** | 3,097 |
| Post-employment benefits | **532** | 878 |
| Total compensation paid to key management personnel | **2,319** | 3,975 |

Further details of directors' emoluments are included in note 13 to the financial statements.

## 48. EVENTS AFTER THE REPORTING PERIOD

(a) On 15 January 2010, the Company entered into a debenture acquisition agreement and a credit investment scheme transfer agreement with the PICC Group. Pursuant to the above agreements, the Company agreed to acquire commercial bank subordinated debentures with a nominal value of RMB350 million and the share of interests in a credit investment scheme with a nominal value of RMB600 million from the PICC Group. On the same agreement date, the Company paid the aggregate consideration of RMB975 million to the PICC Group in cash and the PICC Group completed the transfer of the debentures and the share of interests in the credit investment scheme to the Company.

(b) On 15 January 2010, the Company and PICC AMC entered into an asset management agreement to extend the original arrangement as disclosed in note 47 (a) (vi) to these financial statements. Pursuant to the new agreement, PICC AMC provides investment and management services to the Company in respect of certain financial assets (including cash, securities, innovative alternative investments, etc.) of the Company. The new agreement commenced from 1 January 2010 and expires on 31 December 2012 with a term of three years.

(c) In December 2009, PICC Life declared that it would increase its share capital again. The proceeds raised from the share capital increase will be used for its business development and satisfying regulatory requirements. The Company has decided not to participate in the aforesaid capital increase. Upon completion of the aforesaid capital increase, the Company's equity interests in PICC Life will be diluted from 14% to approximately 9%. The impact of this dilution of interests on the financial statements cannot be ascertained at this stage.

## 49. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the revised accounting policies in relation to insurance contracts, the accounting treatment and presentation of certain items and balances in these financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

## 50. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 14 April 2010.

## INVESTMENT PROPERTIES

| Location | Use | Tenure | Attributable interest of the Group |
|---|---|---|---|
| PICC Plaza, No. 17, North Chaoyang Gate Avenue, Beijing, PRC | Office building | Medium term lease | 100% |
| PICC Plaza, No. 50, Dalai Street, Haishu District Ningbo, Zhejiang Province, PRC | Office building | Medium term lease | 100% |
| PICC Plaza, No. 2, Guangwei Street, Yuexiu District Guangzhou, Guangdong Province, PRC | Office building | Medium term lease | 100% |
| PICC Plaza, No. 66, Hongkong Middle Street, Shinan District Qingdao, Shandong Province, PRC | Office building | Medium term lease | 100% |
| PICC Plaza, No. 57, Dongyu Street, Jinjiang District Chengdu, Sichuan Province, PRC | Office building | Medium term lease | 100% |

## PROPERTY UNDER DEVELOPMENT

| Location | Use | Site area *(sq.m.)* | Gross floor area *(sq.m.)* | Percentage of completion | Expected completion date | Attributable interest of the Group |
|---|---|---|---|---|---|---|
| Yin Tai Commercial Building, East Office No. 4, Jianguomenwai Street Chaoyang District, Beijing, PRC | Commercial | 6,836 | 76,362 | 99% | May 2010 | 100% |

In the opinion of the directors, disclosure of all investment properties and properties under development would result in particulars of excessive length. Therefore, only material properties are listed in the schedule.

# Corporate Information

## REGISTERED NAME

Chinese name: 中國人民財產保險股份有限公司

Abbreviation of Chinese name: 人保財險

English name: PICC Property and Casualty Company Limited

Abbreviation of English name: PICC P&C

## PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

## TYPE OF STOCK

H Share

## STOCK NAME

PICC P&C

## STOCK CODE

2328

## H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

## REGISTERED OFFICE

No. 69 Dong He Yan Street, Xuanwu District,
Beijing 100052, the PRC

## WEBSITE

www.piccnet.com.cn

## LEGAL REPRESENTATIVE

Wu Yan

## SECRETARY OF THE BOARD OF DIRECTORS

Zhang Xiaoli

## COMPANY SECRETARY

Man Kam Ching

## INFORMATION INQUIRY DEPARTMENT

Secretariat of the Board of Directors
Tel: (8610) 83157607
Fax: (8610) 83157607
E-mail: IR@picc.com.cn

## AUDITORS

*International Auditors*
Ernst & Young

*Domestic Auditors*
Ernst & Young Hua Ming

## CONSULTING ACTUARIES

Milliman Asia Limited

## LEGAL ADVISORS

*as to Hong Kong Laws*
Linklaters

*as to PRC Laws*
King and Wood

中国人民财产保险股份有限公司
PICC PROPERTY AND CASUALTY COMPANY LIMITED

# Annual Report 2009

Stock Code: 2328