中国人民财产保险股份有限公司

PICC PROPERTY AND CASUALTY COMPANY LIMITED

Stock Code : 2328

# Annual Report 2010

# 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 (the "PRC"), 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. In 2010, the Company topped the ranking again and was awarded the "2010 • Best Non-life Insurance Company in Asia".

- 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, the World Expo 2010 Shanghai China and the Guangzhou 2010 Asian Games, providing all-round insurance coverage.

- 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 | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | **2010** |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | ***RMB million*** |
| Turnover | 71,348 | 88,668 | 101,878 | 119,771 | **154,307** |
| Underwriting profit/(loss) | 604 | (1,427) | (2,605) | (2,060) | **2,727** |
| Investment income | 1,689 | 3,229 | 3,716 | 2,866 | **3,968** |
| Net realised and unrealised gains on investments | 2,372 | 4,442 | 319 | 1,711 | **1,078** |
| Profit/(loss) before tax | 3,800 | 4,456 | (370) | 2,167 | **6,494** |
| Income tax expense | (1,718) | (1,465) | 479 | (384) | **(1,282)** |
| Profit attributable to owners of the parent | 2,082 | 2,991 | 109 | 1,783 | **5,212** |

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

## ASSETS AND LIABILITIES

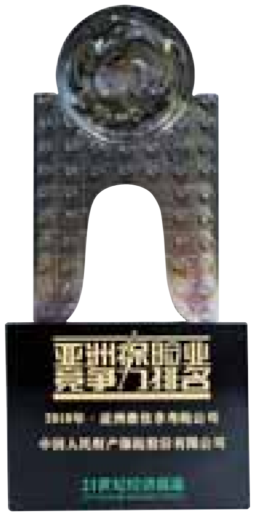
| | 31 December | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | **2010** |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | ***RMB million*** |
| Total assets | 106,974 | 134,265 | 144,250 | 165,383 | **201,785** |
| Total liabilities | 86,247 | 108,187 | 124,506 | 143,620 | **176,951** |
| Thereinto: subordinated debts | 3,000 | 3,000 | 3,000 | 8,000 | **14,157** |
| Net assets | 20,727 | 26,078 | 19,744 | 21,763 | **24,834** |

The figures for 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,**

2010 is an extraordinary year in the history of the Company. Over the past year, the Company, by adhering to the key aspirations for promoting development, increasing profitability and preventing risks, strived to push forward the transformation of its mode of development and overfulfilled all of its objectives and tasks, representing a perfect closing of the Company's Eleventh Five-year Plan. Even with the continuous occurrence of major natural disasters and emergencies such as the drought in southwest China, the rainstorms and floods in southern China, the earthquake in Yushu, the landslide in Zhouqu, the pipeline explosions in Dalian and the air crash in Yichun, the Company's core business indicators have continued to improve with the constant enhancement in business quality and profitability as well as the coordinated development of scale and profit. As a result of its comprehensive strength and outstanding performance during the past year, the Company was named the "2010 • Best Non-life Insurance Company in Asia" and was awarded the "Transformation • 2010 Top Ten Leading Enterprises in the Chinese Economy" prize jointly by nine news media directly under Xinhua News Agency. In 2010, the Company maintained its A1 rating, which is the highest financial strength rating for a PRC financial enterprise.




In November 2010, the Company topped the "Asia Insurance Competency Ranking" and was awarded the "2010 • Best Non-life Insurance Company in Asia" prize.

**2010 was the best year in terms of the Company's operating results since its restructuring and listing.** The Company achieved its highest overall profitability and underwriting profit since its listing, and achieved an underwriting profit of its motor vehicle insurance segment for the first time. In 2010, the Company and its subsidiaries recorded a net profit of RMB5,212 million, representing a year-on-year increase of 192.3% and exceeding the total net profit for the previous three years. The Company and its subsidiaries achieved an underwriting profit of RMB2,727 million, including an underwriting profit of RMB2,492 million of the motor vehicle insurance segment, and a combined ratio of 97.8%, representing a year-on-year decline of 4.4 percentage points. This completely reversed the underwriting losses in recent years. Gains on investments amounted to RMB5,127 million, representing a 11.4% year-on-year increase, and return on investments was 4.0%. In 2010, the Company's core business indicators continued to improve. Net cash inflow from operating activities was RMB34,152 million, representing a year-on-year increase of RMB12,470 million, and there was a net cash inflow of RMB22 for every RMB100 premiums. The Company's net cash inflow accounted for half of the net cash inflow generated by the PRC non-life insurance industry. While there was rapid growth in the premium income, the balance of the premiums receivable at the end of 2010 decreased by RMB627 million year-on-year, and the ratio of premiums receivable was 3.5%, representing a year-on-year decline of 1.5 percentage points. At the end of 2010, the total amount of investment assets was RMB149.2 billion, representing an increase of 35.7% as compared to the end of 2009.

**2010 witnessed the further enhancement of the Company's development capabilities.** The Company's leading position in the market was further consolidated. Premium income exceeded the RMB150 billion threshold for the first time. In particular, the premium income of motor vehicle insurance segment surpassed RMB100 billion, making it the first single type of insurance of PRC non-life insurance companies to record a premium income of over RMB100 billion. The activity of building "RMB10 Billion Army" has showed remarkable effect. The annual premium income of each of the three provincial branches of Jiangsu, Guangdong and Hebei exceeded the threshold of RMB10 billion. The Company maintained its market share at a basically stable level of 38.2% in 2010. The Company's new sales channels had come into play. The premium income from tele-marketing reached RMB3.61 billion, nearly nine times that of 2009, and tele-marketing covered all provincial branches and basically completed its urban layout. An online sales center was established, the quick quote service for motor vehicle insurance began to be provided in 270 mid- to large-sized cities, and the whole-process online direct sales of motor vehicle insurance was introduced in Beijing.


On 21 May 2010, the headquarters of the Company formally moved into PICC Tower at the core area of Beijing's CBD, and the grand opening ceremony of the new headquarters was held in Beijing. Chairman Wu Yan (sixth from the left), President Wang Yincheng (second from the left) and leaders of Beijing's Chaoyang District and the China Insurance Regulatory Commission presided over the ribbon cutting ceremony for PICC Tower.


On 27 December 2010, the grand celebration ceremony for "Breakthrough in RMB150 Billion Insurance Premium" was held at the Company's headquarters. Chairman Wu Yan (fourth from the left), President Wang Yincheng (fourth from the right), Vice President Zhao Shuxian (third from the left), Vice President Jia Haimao (third from the right), Vice President Wang He (second from the left), secretary of commission for discipline inspection Wang Yueshu (second from the right), Vice President Wang Dedi (first from the left) and Vice President Jiang Caishi (first from the right) attended the celebration ceremony.

**2010 witnessed the further improvement in the Company's management and control capabilities. Firstly**, the foundation for centralised management and control was further consolidated. The Company pushed forward the five centralisations of underwriting, claim settlement, customer service, financial affairs and information technology, thereby achieving the initial upward relocation of the management and control platforms from the branches at the prefecture level to those at the provincial level. **Secondly**, refined management was brought to a new level. A total of 76 IT projects were developed and promoted during the year with a view to promoting the standardisation of management and control through information technology, involving various key links of the value chain of the four modules of insurance operations (namely sales, underwriting, claim settlement and operation support) and systematically facilitating the enhancement of the Company's management. **Thirdly**, the operation specialisation level was noticeably improved. The transformation of underwriting centers into insurance policy management centers was completed across the Company. The risk identification capability related to product lines and the management of claim-related benefits leakage were strengthened. The agricultural insurance, special insurance and claim settlement departments underwent reforms towards business departments, and the marine insurance operation center and disaster research center were established.

**2010 witnessed the further intensification of the Company's internal control and compliance.** In 2010, as part of the Company's efforts to strengthen its internal control and compliance system, the Company took the lead in the financial industry in carrying out the Internal Control Appraisal and Improvement Project, and formulated and released the Internal Control Manual and Internal Control Appraisal Manual. These were highly valued by the leaders of the Ministry of Finance of the PRC and the China Insurance Regulatory Commission (the "CIRC"). The Company also conducted a full-scale promotion of audit rectification and an in-depth implementation of attribution analysis. Four major rectification projects were set up, respectively for centralisation of information technology nationwide, vertical management of claim settlement, construction of financial service-sharing centers, and enhancement of the Company's internal control and compliance system. Large-scale investigations as well as educational and rectification activities were organised in an attempt to establish a long-term mechanism for internal control and compliance management as soon as possible. The Company also pursued investigation on cases so that responsibilities could be accounted for. The punishment and accountability system for illegal activities was improved, and close attention was paid to ensuring accountability, thus effectively enhancing the seriousness of the accountability system.

**2010 also witnessed the further expansion of the Company's social influence. Firstly**, efforts were made to proactively perform the Company's responsibilities in serving the rural areas, agriculture and farmers, actively and steadily develop agricultural insurance, effectively promote the business development of agricultural insurance related to the new areas and new insurance varieties for which the central government provides premium subsidies, actively develop policy-related forest insurance, and contribute to the reform of the forest rights system. In 2010, the Company underwrote insurance policies covering 341 million hectares of crops and forests, 37.55 million live pigs and 1.03 million dairy cows, taking a cumulative liability risk of RMB246.87 billion. **Secondly**, the Company made remarkable achievements in underwriting large-scale projects. The Company acted as the sole or leading underwriter for a number of milestone projects such as the Ling Ao Nuclear Power Plant, the Sino VI satellite, the COSCO Shipyard deepwater platform, the Hong Kong-Zhuhai-Macao Bridge and the communication satellite launch for Pakistan, thereby providing strong support for the development of key projects as well as energy, aviation and space undertakings. **Thirdly**, the Company made every effort to excel in claim settlement concerning such major natural disasters as the earthquake in Yushu and the landslide in Zhouqu. In the face of frequent natural disasters, the Company proactively carried out disaster countermeasures and reliefs as well as claim surveys and settlement with a high sense of responsibility and mission so as to make contributions in maintaining the social stability and helping restore the productions and living orders in the affected areas. **Fourthly**, the Company provided strong insurance support for the World Expo Shanghai and the Guangzhou Asian Games. In its capacity as the global insurance partner for the 2010 World Expo Shanghai, the Company customised an insurance program for the Expo embodying its first-class professional strength and service capabilities, and was granted the honorary title of the "Advanced Collective in Servicing the World Expo Shanghai" by the Central Committee of the Communist Party of China and the State Council of the People's Republic of China. The Company also successfully accomplished various tasks in providing VIK support for the Asian Games and Asian Paralympic Games, which was highly valued by the organizing committee of the Asian Games.


On 3 July 2010, Chairman Wu Yan (first row, on the left) delivered the prepaid claim amount for the flood damage in the scenic spot of Longhu Mountain at Yingtan City, Hunan Province.

On 4 July 2010, Chairman Wu Yan (first row, middle) visited the village in Dongxiang County, Fuzhou City, Jiangxi Province despite extreme heat to understand the damage situation.

On 18 December 2010, Chairman Wu Yan (fifth from the right), accompanied by Vice President Jiang Caishi (third from the right), inspected the insurance service work at the Asian Paralympic Games held in Guangzhou and sent his warm regards to the Company's staff who had diligently adhered to their insurance service positions in the Asian Paralympic Games.


In December 2010, the Company's Claims Management Department, as the representative of the Company in serving the World Expo Shanghai, was granted the honorary title of the "Advanced Collective in Serving the World Expo Shanghai" by the Central Committee of the Communist Party of China and the State Council of the People's Republic of China at the honour presentation ceremony after the conclusion of the 2010 World Expo Shanghai.

2011 is the starting year of the Twelfth Five-year Plan. Overall, the Company will be facing both opportunities and challenges, and with positive factors beneficial to the Company's development still being dominant, the development of the Company will remain in an important period of strategic opportunities. **With respect to the environment for socioeconomic development**, the national economy will maintain its overall momentum towards better development, the economic structure is undergoing strategic adjustment and optimisation, and the income of urban and rural residents will maintain a relatively rapid growth. Further, there will be steady development of new rural construction and urbanisation, continuous improvement in the development of social well-being and people's livelihood, and further expansion in the scope of services provided by insurance companies. **With respect to the development of the industry**, there will still be a considerable growth in the PRC non-life insurance industry despite the increase in uncertainties in the market and the more intense competition in some regional markets and for high-quality insurance policies. At the same time, the all-around transformation of the business development model, the more mature regulations for the industry, and the further optimised competition order in the insurance market will contribute to the improvement in the operating results of insurance companies. **With respect to the Company's own development**, the Company's professional operation capabilities will continue to improve, the foundation for the Company's centralised operations will be significantly strengthened, and the Company's inherent quality and operational efficiency will continue to improve. In addition, the structure of PICC Group as an insurance and financial group will be further optimised, providing strong support and safeguard for the comprehensive transformation of the Company.

In 2011, the Company will adhere to the scientific outlook on development as the general guideline, stay focused on the efforts to accelerate the transformation of the mode of development, work closely around the key aspirations for promoting business growth through the transformation of the mode of development and increasing profitability through strengthening compliance, comprehensively enhance the competitiveness of the Company, continue to promote profitable development, consolidate and expand the achievements of development, and make a good start on the implementation of the Company's Twelfth Five-year Plan. **Firstly, there will be continued improvement in sales and service capabilities.** The Company will adhere to the marketing strategies of consolidating the urban market and exploring the market in villages and towns, give full play to the advantages of traditional sales channels, vigorously expand the coverage and improve the operating efficiency of tele-marketing, online sales, mobile platform and other emerging channels, promote the integration of emerging and traditional channels, actively promote the implementation of the "Service Year" activities, continue to optimise the customer interface, and continuously improve the customer service capabilities and customer satisfaction. **Secondly, the mode of operation and management will be further optimised.** Efforts will be made to strengthen pricing management and constantly improve differentiated risks identification and control capabilities, comprehensively promote the standardisation of claim settlement, deepen the reform of the claim settlement business department, develop vertical management system for claim settlement, and construct an unified and shared financial platform to increase the quality and efficiency of financial services. **Thirdly, the investment capabilities will be further enhanced.** Efforts will be made to strengthen the investments allocation management, further optimise the equity assets allocation, increase the return on fixed income investments, actively seek non-listed equity and infrastructure investment plans and other investment opportunities, and enlarge as soon as possible the contribution of new investments to the increase in the Company's gains on investments. **Fourthly, an information technology platform of a higher standard will be built.** Based on the southern information center, the application of the third-generation core business system will be fully promoted, and the development of a centralised mode of operation will be accelerated, so as to ensure the efficient operation of the information system. **Fifthly, the development of a long-term mechanism for compliance will be pushed forward.** Efforts will be made to establish and perfect the risk-management-oriented system of internal control and compliance, strengthen the process control on each aspect of the business, increase the coverage of audit and effectively implement the accountability mechanism.

Standing at the new starting line of the Twelfth Five-year Plan, we are prepared to strive forward with determination, innovation, solid work and pragmatism to satisfactorily accomplish all tasks in 2011 with greater enthusiasm and energy, with an emphasis to improve the development quality, enhance our comprehensive competitiveness and profitability, create greater value for shareholders, and make greater contributions to the building of a harmonious society.

**Wu Yan**
*Chairman*

Beijing, the PRC
24 March 2011

## DIRECTORS

**Wu Yan**, age 50, Chairman of the Board of Directors of the Company, Chairman of the Board of Directors and President 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. From 1998 to 2003, 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. 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, and 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 50, a senior accountant, Vice Chairman of the Board of Directors, an Executive Director and the President of the Company, currently an Executive Director and a Vice President 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 29 years of experience in economic and financial management in the PRC insurance industry.

**Guo Shengchen**, age 56, a university graduate and a senior economist, an Executive Director and an 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 37 years of operation and management experience in the PRC financial and insurance industries.

**Wang He**, age 54, Ph.D, a senior economist, an Executive Director and an 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 23 years of operation and management experience in the PRC insurance industry.

**Zhou Shurui**, age 57, a senior administrative engineer, a Non-executive Director of the Company, currently 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 The People's Insurance Company (Group) of China. 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 29 years of experience in management.

**Yu Xiaoping**, age 54, a senior economist, a Non-executive Director of the Company, currently the Chief Investment Officer of PICC Group. Ms Yu was previously the Manager of the Mortgage Division and Deputy General Manager of the Mortgage Department of the People's Construction Bank of China, and Deputy Director of the International Finance Bureau, President of the Wuhan Branch and President of the Shenzhen Branch of China Development Bank. Ms Yu graduated from Shanghai Tongji University with a bachelor's degree and has 29 years of operation and management experience in the PRC financial sector.

**Li Tao**, age 44, Ph.D, a senior economist, a Non-executive Director of the Company, currently the 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 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 the General Manager of the Development and Reform Department, General Manager of the Policy Research Office and a Senior Specialist of The People's Insurance Company (Group) of China. 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 26 years of experience in research and management, etc.

**Tse Sze-Wing, Edmund** (Gold Bauhinia Star), age 73, a Non-executive Director of the Company. Mr Tse is currently the Non-Executive Chairman of AIA Group Limited* and a Non-Executive Director of PCCW Limited**. Mr Tse was formerly the Senior Vice Chairman of American International Group, Inc.***, the Chairman and Chief Executive Officer of American International Assurance Company, Limited, and the Honorary Chairman and a Non-Executive Director of AIA Group Limited*. Mr Tse was elected to the Insurance Hall of Fame, the most prestigious award in the insurance industry, in 2003. Mr Tse received his Bachelor of Arts Degree in Mathematics from The University of Hong Kong, which later conferred him an Honorary Fellowship and an Honorary Degree of Doctor of Social Sciences. Mr Tse obtained Diplomas from the College of Insurance and the Graduate School of Business of Stanford University in the United States of America. Mr Tse has 50 years of extensive experience in the insurance industry throughout the world and Asia.

* This company is listed on the Hong Kong Stock Exchange.
** This company is listed on the Hong Kong Stock Exchange and traded in the form of American depositary receipts on the Pink OTC Markets in the United States of America.
*** This company is listed on the stock exchanges in New York, Ireland and Tokyo.

**Luk Kin Yu, Peter**, age 70, an 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 previously 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 was the President of the Actuarial Society of Hong Kong when it was founded and the President of that society for several sessions. Mr Luk was 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, an Independent Non-executive Director of HSBC Life Insurance (International) Limited and HSBC Insurance (Asia) Limited, and an Independent Non-executive Director of LIM China Master Fund SPC Limited. Mr Luk has substantial experience in the insurance industry.

**Ding Ningning**, age 63, an Independent Non-executive Director of the Company. Mr Ding is currently a researcher of the Social Development Research Department of the Development Research Center ("DRC") of the State Council of the PRC, a member of the Academic Committee of the DRC, a Director of the China Development Research Foundation and a Director of the China Energy Research Society. Mr Ding has been conducting research at the DRC for 29 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 electrical engineering. Mr Ding graduated from the Party School of the Central Committee of the Communist Party of China in its first doctorate course in economics. Mr Ding studied and conducted research on the British economic history at the Centre of Chinese Study of Oxford University, England, and has substantial experience in the area of economic research.

**Ip Shu Kwan, Stephen** (Gold Bauhinia Star, Non-official Justice of the Peace), age 60, an Independent Non-executive Director of the Company. Mr Ip is an Independent Non-executive Director of China Resources Cement Holdings Limited*, Synergis Holdings Limited*, Lai Sun Development Company Limited*, Viva China Holdings Limited*, Goldpoly New Energy Holdings Limited* and Yangtze China Investment Limited**. Mr Ip joined the Government of Hong Kong as an Administrative Officer in 1973 and had experience working in a number of different government departments. He was promoted to the rank of a Bureau Director in April 1997 and was one of the key officials of the Government of the Hong Kong Special Administrative Region ("HKSAR Government") from July 1997 to June 2007. The senior offices which Mr Ip once held included Commissioner of Insurance, Commissioner for Labour, Secretary for Economic Services and Secretary for Financial Services. Mr Ip started serving as Secretary for Economic Development and Labour in July 2002 and retired from the HKSAR Government in July 2007. Mr Ip graduated from the Faculty of Social Sciences of The University of Hong Kong in 1973 with a bachelor's degree in social science. He pursued further studies in Oxford University and Harvard Business School. He was awarded with the Gold Bauhinia Star by the HKSAR Government in 2001 and appointed a Non-official Justice of the Peace in July 2007.

* These companies are listed on the Hong Kong Stock Exchange.
** This company is listed on AIM of the London Stock Exchange.

**Liao Li**, age 45, an Independent Non-executive Director of the Company. Mr Liao is currently the Associate Dean of the School of Economics and Management of Tsinghua University ("SEM"), and a professor and doctoral tutor of the Department of Finance of SEM. Mr Liao is concurrently the Executive Vice Director of China Center for Financial Research of Tsinghua University. Mr Liao is also an Independent Non-executive Director of Beijing Media Corporation Limited* and Yucheng Technologies Limited**. Mr Liao graduated from the Department of Electrical Engineering of Tsinghua University in 1989 with a bachelor's degree in engineering. He received a doctorate degree in Engineering Economics from SEM in 1996 and an MBA degree in financial engineering from Sloan School of Management, Massachusetts Institute of Technology in 1999.

* This company is listed on the Hong Kong Stock Exchange.
** This company is listed on Nasdaq of the United States of America.

## SUPERVISORS

**Zhou Liqun**, age 48, a senior accountant, Chairman of the Supervisory Committee of the Company since January 2011, currently a Vice President of PICC Group, the Vice Chairman of the Board of Directors and President of PICC Asset Management Company Limited, Chairman of the Board of Directors of PICC Investment Holding Company Limited, China Huawen Investment Holding Company Limited and Shanghai Xin Huawen Investment Company Limited, and an Independent Director of Bank of Qingdao. Mr Zhou was once responsible for preparing the fiscal budget and managing loans from the World Bank for the Government of Xinjiang Uygur Autonomous Region. He joined Bank of Communications in 1997 and was the Deputy General Manager of the Marketing Department and Deputy General Manager of the Overseas Business Department/International Business Department of the Head Office of Bank of Communications. Mr Zhou joined China Everbright Group in 2001 and successively held the positions of Executive Director, Deputy General Manager and Chief Executive Officer of China Everbright Limited*, Director and Vice President of Everbright Securities Company Limited, Chairman of the Board of Directors of Everbright Pramerica Fund Management Co., Ltd., Director of China Everbright Holdings Company Limited, Director of China Everbright Bank and Director of International Bank of Asia Limited* (now known as Fubon Bank (Hong Kong) Limited). Mr Zhou joined The People's Insurance Company (Group) of China in 2007 as Vice Chairman of the Board of Directors and President of PICC Asset Management Company Limited, has successively and concurrently been holding the positions of Chairman of the Board of Directors of PICC Investment Holding Company Limited, China Huawen Investment Holding Company Limited and Shanghai Xin Huawen Investment Company Limited since July 2008, and Vice President of PICC Group since March 2009. Mr Zhou graduated from Xiamen University with a doctorate degree in economics. He has 30 years of operation and management experience in the PRC fiscal and financial sectors.

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

**Sheng Hetai,** age 40, a senior economist, a Supervisor of the Company since October 2006, currently the Assistant to the President 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, General Manager of the Equity Capital Management Department and the Risk Management Department of PICC Holding Company, and a Senior Specialist and concurrently the General Manager of the Strategic Planning Department of PICC Group. Mr Sheng graduated from Peking University with a doctorate degree in economics and has 14 years of management experience in the PRC insurance industry.

**Lu Zhengfei**, age 48, a professor and a doctoral tutor, an Independent Supervisor of the Company since January 2011. Mr Lu is currently the Associate Dean of Guanghua School of Management, Peking University, a consultant to the Chinese 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. Mr Lu is also a member of the Editorial Committees of *Accounting Research* and *Auditing Research*. He is an Independent Non-executive Director of Sinotrans Limited*, Sino Biopharmaceutical Limited* and China National Materials Company Limited*. Mr Lu was previously an Independent Non-executive Director of the Company. 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.

**Qu Yonghuan,** age 55, a senior accountant, a Senior Specialist of the Company, a Supervisor of the Company since January 2011. Ms Qu joined PICC in 1983 and was previously the Assistant General Manager of China Insurance Group Investment Company Limited, Deputy General Manager of New Century Securities Limited, Deputy Manager of the Property Insurance Audit Division under the Auditing Department of The People's Insurance Company (Group) of China, Manager of the Accounting Division under the Planning and Finance Department and Deputy General Manager of the Auditing Department of PICC, Deputy General Manager and General Manager of the Capital Operation Department of the Company, a Senior Specialist of the Company and concurrently the General Manager of the Capital Operation Department of the Company, and a Director of PICC Asset Management Company Limited. Ms Qu graduated from Liaoning College of Finance and Economics and has 28 years of extensive experience in insurance operation and management both in and outside the PRC.

**Shen Ruiguo**, age 54, a senior accountant, General Manager of the Monitoring Department/Auditing Department of the Company, a Supervisor of the Company since January 2011. Mr Shen joined PICC in 1984 and was previously the Deputy Manager, Manager and Chief Accountant of the Finance and Accounting Division of Changchun, Jilin Branch of PICC, Chief Auditor of Changchun, Jilin Branch of PICC Property Insurance Company, Manager of the Planning and Finance Division of Jilin Branch of PICC Property Insurance Company, Manager of the Planning and Finance Division, Chief Auditor and Deputy General Manager of PICC Jilin Branch, Deputy General Manager of Jilin Branch of the Company, General Manager of Jilin Branch of PICC Holding Company, and General Manager of the Shenyang Monitoring and Auditing Center of the Company. Mr Shen graduated from the Party School of The CPC Central Committee and has 27 years of operation and management experience in the PRC insurance industry.

## OTHER SENIOR MANAGEMENT

**Zhao Shuxian**, age 58, a senior economist, an 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 33 years of operation and management experience in the PRC insurance industry.

**Jia Haimao**, age 57, a senior economist, an 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. He concurrently acted as the General Manager of Jiangsu Branch of the Company. Mr Jia has 27 years of operation and management experience in the PRC insurance industry.

**Wang Yueshu**, age 55, a postgraduate and a senior economist, the Responsible 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 Hebei Branch of the Company and a Vice President of PICC Health Insurance Company Limited. Mr Wang has 32 years of operation and management experience in the PRC insurance industry.

**Wang Dedi**, age 53, a senior economist, an 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 Beijing Branch of the Company. Mr Wang has 19 years of operation and management experience in the PRC insurance industry.

**Jiang Caishi**, age 46, a postgraduate and a doctorate degree holder, an 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 General Manager of the Large-Scale Commercial Risk Insurance Department of the Company, General Manager of Shenzhen Branch of the Company, General Manager of the Agriculture Insurance Department of the Company, a Senior Specialist of The People's Insurance Company (Group) of China and concurrently the General Manager of its Business Development Department. Mr Jiang has 23 years of operation and management experience in the PRC insurance industry.

**Zhang Xiaoli**, age 47, 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 11 years of management experience in the PRC insurance industry.

**Shen Dong**, age 42, a university graduate and a senior accountant, the 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 19 years of financial management experience in the PRC insurance industry.

## OVERVIEW

In 2010, the Company achieved a rapid business growth, significantly improved profitability and maintained an ample cash flow from operating activities, and continued to maintain its leading position in the non-life insurance market in the PRC. In 2010, the turnover of the Company and its subsidiaries increased by 28.8% over 2009 to RMB154,307 million, and a 38.2% (Note) market share was attained in the PRC non-life insurance market. In 2010, the Company and its subsidiaries recorded a net profit of RMB5,212 million, representing a significant year-on-year increase of RMB3,429 million and 2.9 times that of 2009, and a net cash inflow from operating activities of RMB34,152 million, representing a significant year-on-year increase of RMB12,470 million and 1.6 times that of 2009. As at 31 December 2010, the total assets of the Company and its subsidiaries reached RMB201,785 million and shareholders' equity totalled RMB24,834 million.

*Note:* Calculated according to the PRC insurance industry data for 2010 published on the website of the CIRC.

### I Efforts to improve sales and service capabilities and business grew apace

In 2010, the Company and its subsidiaries seized opportunities for developing business, boosted the development of the sales system, vigorously developed tele-marketing, online sales and other emerging channels, and put forward the "new hassle-free claim settlement project" featuring three key commitments to the society to provide hassle-free, convenient and borderless claim settlement services which enabled the standard of claim settlement services to constantly improve. In 2010, the Company's motor vehicle insurance business continued to maintain strong growth, and due to the dual role of the increased number of policies and raised premium rates for motor vehicle insurance, the premium income from the entire motor vehicle insurance business increased by 35.3% to RMB115,759 million on a year-on-year basis, and the annual premium income from the entire motor vehicle insurance successfully surpassed RMB100 billion. The rapid growth in the motor vehicle insurance segment provided a driving force for the overall business growth of the Company. The annual premium income of each of the branches of Jiangsu, Guangdong and Hebei exceeded the threshold of RMB10 billion, making them the first branches at the provincial level to become elite members of the "RMB10 Billion Army". 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 leading underwriter for a number of milestone insurance projects such as the Ling Ao Nuclear Power Plant during its operating period, the Sino VI/V satellite launch, the construction of the Liwan 3-1 deepwater oil and gas fields, the construction of the COSCO Shipyard deepwater platform, and the Hong Kong-Zhuhai-Macao Bridge.


On 27 May 2010, the Company's 2010 National Sales Summit was convened at the sacred place of revolution, Jinggangshan, President Wang Yincheng (fourth from the right) and Vice President Jiang Caishi (fifth from the left) jointly launched the 2010 sales competition.


On 18 November 2010, the ceremony for "Breakthrough in RMB10 Billion Insurance Premium by Jiangsu Province Branch" was held in Nanjing, celebrating the Company's Jiangsu Province Branch becoming the first elite member of the "RMB10 Billion Army". President Wang Yincheng (left) presented the "RMB10 Billion Army" award to Jiangsu Province Branch.

On 16 December 2010, the summary and mobilisation meeting for "Breakthrough in RMB10 Billion Insurance Premium by Guangdong Province Branch" was held in Guangzhou, celebrating the Company's Guangdong Province Branch becoming a new elite member of the "RMB10 Billion Army". Vice President Jiang Caishi (left) presented the "RMB10 Billion Army" award to Guangdong Province Branch.

On 11 January 2011, the ceremony for "Breakthrough in RMB10 Billion Insurance Premium by Hebei Province Branch" was held in Shijiazhuang, celebrating the Company's Hebei Province Branch becoming a new elite member of the "RMB10 Billion Army". President Wang Yincheng (left) presented the "RMB10 Billion Army" award to Hebei Province Branch.

## II Strengthened the construction of specialisation, standardisation, centralisation and differentiation and enhanced profitability

The specialisation level of the Company improved significantly by strengthening the ability to identify risks relating to the product lines, improving the management and control of claim settlement costs, reforming the agricultural insurance, special insurance and claim settlement departments, and establishing the marine insurance operation center and disaster research center. The standardisation of the operating process was promoted to serve as foundation for the centralised management and control mode. The five centralised management and control platforms for underwriting, claim settlement, customer service, financial affairs and information technology were built to support centralised management and control. The business quality and profitability of the Company constantly improved through proactively advancing the category-based management of businesses and carrying out differentiated resource allocation and management polices. In 2010, the Company and its subsidiaries experienced a turnaround from an underwriting loss of RMB2,060 million in 2009 to an underwriting profit of RMB2,727 million in 2010 with an underwriting profit ratio of 2.2%.


On 29 December 2010, Vice President Zhao Shuxian (left) presided over the opening ceremony of the Company's Marine Insurance Operation Center in Shanghai.

On 29 November 2010, the Company's Disaster Research Center, being China's first professional risk research institution in the insurance industry, was opened. Vice President Wang He (first row, on the right) and the Director of the Institute of Remote Sensing Applications, Chinese Academy of Sciences, signed a strategic cooperation agreement at the opening ceremony.

## III Reinforced the foundation for internal control and compliance, deepened risk prevention and accomplished steady and healthy operations

In 2010, in response to the CIRC's overall requirements for increasing efforts to regulate the market order and strengthening compliant operations, the Company combined the strengthening of supervision and

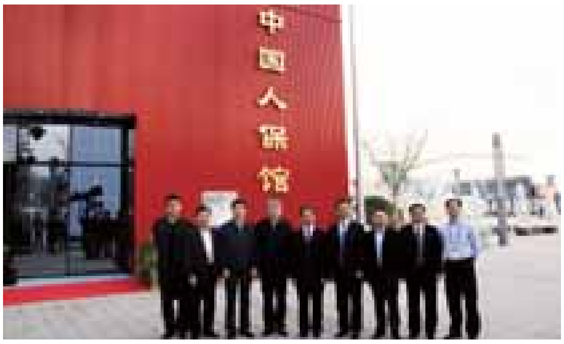

On 31 December 2010, the Company held the release conference for its Internal Control Manual and Internal Control Appraisal Manual at its headquarters. President Wang Yincheng (fourth from the right), Vice President Zhao Shuxian (second from the right), secretary of commission for discipline inspection Wang Yueshu (fourth from the left) and Vice President Wang Dedi (second from the left) presented the engagement letters to the representatives of the Company's first batch of part-time internal controllers.

inspection with the perfection of the internal control and compliance system, adhered to the utilisation of both short-term initiatives and long-term mechanisms, and continuously enhanced the Company's legal compliance. The Company strictly implemented all compliance requirements, promoted self-discipline in the industry and contributed to a sound market environment. The Company made active efforts in promoting the development of the intra-industry motor vehicle insurance information platform, advancing the practice of issuing policies only after premiums collection in non-motor vehicle insurance, taking part in preparing amendments to intra-industry pure risk-related loss ratios, strengthening intermediary business regulation and management, and continuously improving the management and control of premiums receivable. Through promoting the systems of centralised payment of capital and "cashless collection and payment", the Company increased efforts to reinforce centralised management and control of capital, promoted efficient capital utilisation and effectively prevented relevant risks. In 2010, the Company carried out an Internal Control Appraisal and Improvement Project, and prepared and released the Internal Control Manual and Internal Control Appraisal Manual, laying a solid foundation for its compliant operations.

## IV Contributed to social development, safeguarded people's livelihood, and enhanced corporate image and social influence

On 15 January 2011, the Company was awarded the "Transformation • 2010 Top Ten Leading Enterprises in the Chinese Economy" prize in the "Transformation • 2010 Top Ten Leading Figures, Enterprises and Cities in the Chinese Economy Awards" hosted by the nine media directly under Xinhua News Agency. President Wang Yincheng (middle) represented the Company to receive the award and share his view on "transformation".

In 2010, the Company effectively performed its social responsibility as a corporate citizen. In the course of such major natural disasters as the drought in southwest China, the earthquake in Yushu, the landslide in Zhouqu, the massive floods in Jilin, the large-scale rainstorms in southern China and the typhoons in the coastal areas, as well as such emergencies as the pipeline explosions in Dalian and the air crash in Yichun, the Company carried out disaster relief work expeditiously and settled claims in a timely manner, and these constituted a full reflection of the roles of insurance in honouring commitments, serving the economy and safeguarding people's livelihood. In 2010, in its capacity as the global insurance partner of the World Expo Shanghai and the insurance partner of the Guangzhou Asian Games, the Company provided excellent and efficient insurance support for the World Expo Shanghai and the Guangzhou Asian Games, and was granted, among other honours, the Award for Outstanding Contributions to Financial Services for The Expo 2010 Shanghai China, thereby having its social influence enhanced noticeably. In 2010, Moody's Investors Service, Inc. affirmed the A1 rating for the Company's insurance financial strength, which is the highest financial strength rating for a PRC enterprise, and also affirmed the grading of the outlook of the insurance financial strength rating of the Company at the level of "stable", indicating the Company's strength and credit standing in the non-life insurance market. The Company was named the "2010 • Best Non-life Insurance Company in Asia" in the 2010 "Asian Insurance Competency Ranking" co-organised by *21st Century Business Herald* and the Financial Research Center of the 21st Century Research Institution, and was awarded the "Transformation • 2010 Top Ten Leading Enterprises in the Chinese Economy" prize jointly by nine news media under Xinhua News Agency.




On 29 April 2010, Wu Dingfu, Chairman of the China Insurance Regulatory Commission (middle) and his team, visited the PICC Pavilion of Shanghai World Expo, accompanied by President Wang Yincheng (fourth from the right) and Vice President Guo Shengchen (third from the left) of the Company.

On 28 October 2010, President Wang Yincheng (fourth from the left) and Vice President Jiang Caishi (first from the left) attended the "PICC – Establishment of Beijing Support Team for the Asian Games and 10,000 Asian Games Tickets Redemption Ceremony" held by the Company in Beijing.

## 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 | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | *RMB million* | *%* | *RMB million* | *%* |
| Net premiums earned | 122,990 | 100.0 | 93,296 | 100.0 |
| Net claims incurred | (82,908) | (67.4) | (64,517) | (69.2) |
| Acquisition cost and other underwriting expenses | (23,412) | (19.1) | (19,795) | (21.2) |
| General and administrative expenses | (13,943) | (11.3) | (11,044) | (11.8) |
| Underwriting profit/(loss) | 2,727 | 2.2 | (2,060) | (2.2) |

## TURNOVER

| | Year ended 31 December | |
|---|---|---|
| | 2010 | 2009 |
| | *RMB million* | *RMB million* |
| Motor vehicle insurance | 115,759 | 85,529 |
| Commercial property insurance | 10,570 | 9,491 |
| Liability insurance | 5,442 | 4,656 |
| Accidental injury and health insurance | 4,192 | 3,886 |
| Cargo insurance | 3,419 | 2,754 |
| Other insurance | 14,925 | 13,455 |
| Total | 154,307 | 119,771 |

Turnover of the Company and its subsidiaries was RMB154,307 million in 2010, representing an increase of RMB34,536 million (or 28.8%) from RMB119,771 million in 2009. The overall rapid business growth was largely driven by the motor vehicle insurance segment and the comparatively rapid growth in cargo insurance as well as construction insurance and homeowners insurance under the other insurance segment.


On 17 November 2010, the Company's Online Sales Center commenced business in Beijing and President Wang Yincheng (middle) and Vice President Zhao Shuxian (first from the right) presided over the opening ceremony.


On 23 November 2010, the celebration ceremony for "Breakthrough in RMB100 Billion Motor Vehicle Insurance Premium" was held at the Company's headquarters. President Wang Yincheng (fourth from the right), Vice President Guo Shengchen (fourth from the left), Vice President Jia Haimao (second from the right), Vice President Wang He (second from the left), Vice President Wang Dedi (first from the right) and Vice President Jiang Caishi (first from the left) attended the celebration ceremony.

Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB115,759 million in 2010, representing an increase of RMB30,230 million (or 35.3%) from RMB85,529 million in 2009. In 2010, there was a remarkable growth in the number of motor vehicle insurance policies driven by the significant year-on-year increase in sales volume of motor vehicles as a result of the implementation of a series of favourable measures including the continuation by the Chinese government of the automobile subsidy program for rural areas and purchase tax-related subsidies, the increase in the amounts of subsidies for trade-in of vehicles, the increase in the number of pilot cities for new energy motor vehicles, and the initiation of the project of benefiting the people with energy-saving products.

Turnover of the liability insurance segment of the Company and its subsidiaries was RMB5,442 million in 2010, representing an increase of RMB786 million (or 16.9%) from RMB4,656 million in 2009. Under this segment, the safety production liability insurance, campus liability insurance and freighter liability insurance experienced considerable growth and a breakthrough was made in the growth of the newly-developed extended electrical appliance warranty liability insurance.

Turnover of the cargo insurance segment of the Company and its subsidiaries was RMB3,419 million in 2010, representing an increase of RMB665 million (or 24.1%) from RMB2,754 million in 2009. In 2010, the global economy began to revive. The implementation of the national policy of expanding domestic demand was noticeably successful, driving the domestic logistics industry into a phase of rapid growth. There was an obvious rebound in both international and domestic cargo volumes and total value of China's import and export, functioning as a stimulus to the rapid development of cargo insurance business.

In 2010, benefiting from the national macroeconomic stimulus policies, large-scale infrastructure construction projects had been launched one after another, and there was a noticeable increase in domestic fixed asset investments. The Company and its subsidiaries leveraged on market opportunities in a timely manner and acted as the sole or leading underwriter for a number of rail traffic and energy development projects. The construction insurance under the other insurance segment presented a rapid growth momentum.

Moreover, the Company and its subsidiaries proactively communicated and worked with government departments across the country to vigorously develop policy-related rural housing insurance business in 2010. Meanwhile, the gradual release of a variety of housing demands in second and third tier cities functioned as the source of a large number of policies for mortgage insurance business, and the rapid development of policy-related rural housing insurance and mortgage insurance business were stimulus to the remarkable growth in homeowners insurance under the other insurance segment.

## NET PREMIUMS EARNED

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| Motor vehicle insurance | **98,016** | 70,700 |
| Commercial property insurance | **6,836** | 6,005 |
| Liability insurance | **4,129** | 3,223 |
| Accidental injury and health insurance | **2,722** | 2,677 |
| Cargo insurance | **2,621** | 2,018 |
| Other insurance | **8,666** | 8,673 |
| Total | **122,990** | 93,296 |

Net premiums earned of the Company and its subsidiaries was RMB122,990 million in 2010, representing an increase of RMB29,694 million (or 31.8%) from RMB93,296 million in 2009.

## 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 | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Net claims incurred** | **Loss ratio** | Net claims incurred | Loss ratio |
| | ***RMB million*** | ***%*** | *RMB million* | *%* |
| Motor vehicle insurance | **(66,887)** | **(68.2)** | (49,136) | (69.5) |
| Commercial property insurance | **(4,514)** | **(66.0)** | (3,869) | (64.4) |
| Liability insurance | **(2,580)** | **(62.5)** | (2,101) | (65.2) |
| Accidental injury and health insurance | **(1,726)** | **(63.4)** | (2,089) | (78.0) |
| Cargo insurance | **(1,280)** | **(48.8)** | (1,090) | (54.0) |
| Other insurance | **(5,921)** | **(68.3)** | (6,232) | (71.9) |
| Total | **(82,908)** | **(67.4)** | (64,517) | (69.2) |

Net claims incurred of the Company and its subsidiaries was RMB82,908 million in 2010, representing an increase of RMB18,391 million (or 28.5%) from RMB64,517 million in 2009. Loss ratio decreased by 1.8 percentage points from 69.2% in 2009 to 67.4% in 2010, primarily due to the decrease in the loss ratios for such insurance segments as the motor vehicle insurance, accidental injury and health insurance and cargo insurance.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB66,887 million in 2010, representing an increase of RMB17,751 million (or 36.1%) from RMB49,136 million in 2009. Loss ratio decreased to 68.2% in 2010 from 69.5% in 2009. The decline in the loss ratio benefited from the in-depth advance of the category-based management of motor vehicle insurance business, the continual reinforcement of anti-fraud measures for claims and internal verification of claim cases, injury-related claim follow-ups and medical treatment reviews by the Company and its subsidiaries. In addition, the fact that the shared information platforms for commercial insurance in various locations were put into use one after another, the policy of linking commercial insurance premium rates with claims history was implemented, and the number of small value claims was reduced noticeably, also constituted important reasons for the decline in the loss ratio for the motor vehicle insurance segment.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries was RMB4,514 million in 2010, representing an increase of RMB645 million (or 16.7%) from RMB3,869 million in 2009. Several rounds of large-scale rainstorm and flood disasters hit southern China in May and June 2010, giving rise to a noticeable increase in the claim ratio related to commercial property insurance. Loss ratio increased from 64.4% in 2009 to 66.0% in 2010.

From 18 to 19 July 2010, President Wang Yincheng (first row, third from the left) went to Chongqing to instruct on the counter-measures and claim settlement work caused by the "8th July heavy rain", visit the seriously damaged Xintian electricity station in Pengshui County, and understand the situation of claim settlement progress of Youyang branch office.

On 25 June 2010, Vice President Guo Shengchen (front row, first from the right) hurried to the disastrous districts of Fujian Province in the heavy rain to understand the disaster situation and instruct on counter-measures and claim settlement work.

Net claims incurred of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB1,726 million in 2010, representing a decrease of RMB363 million (or -17.4%) from RMB2,089 million in 2009. Loss ratio declined to 63.4% in 2010 from 78.0% in 2009. The Business Operation Standards for Accidental Injury Insurance began to be implemented in 2010, and the Company and its subsidiaries took this opportunity to enhance risk identification and centralised the management and control during underwriting. As a result, the business quality improved noticeably and the premium adequacy ratio increased by a certain extent. Meanwhile, the management and control of claim settlement achieved certain success by following strict claims review standards, strengthening moral risks prevention, and beginning to provide self-service claims enquiry service.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries was RMB1,280 million in 2010, representing an increase of RMB190 million (or 17.4%) from RMB1,090 million in 2009. The Company and its subsidiaries further strengthened underwriting risks management and control, tightened up the underwriting authority for high-risk cargo insurance business, and increased the intensity of subrogation. Loss ratio decreased to 48.8% in 2010 from 54.0% in 2009 consequently.

## 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 | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Acquisition cost and other underwriting expenses *RMB million* | Underwriting expense ratio *%* | Acquisition cost and other underwriting expenses *RMB million* | Underwriting expense ratio *%* |
| Motor vehicle insurance | **(19,534)** | **(19.9)** | (15,692) | (22.2) |
| Commercial property insurance | **(1,574)** | **(23.0)** | (2,540) | (42.3) |
| Liability insurance | **(905)** | **(21.9)** | (651) | (20.2) |
| Accidental injury and health insurance | **(468)** | **(17.2)** | (289) | (10.8) |
| Cargo insurance | **(519)** | **(19.8)** | (334) | (16.6) |
| Other insurance | **(412)** | **(4.8)** | (289) | (3.3) |
| Total | **(23,412)** | **(19.1)** | (19,795) | (21.2) |

In 2010, there was a year-on-year increase of 18.3% in the acquisition cost and other underwriting expenses of the Company and its subsidiaries, lower than the business growth for the same period. The underwriting expense ratio declined from 21.2% in 2009 to 19.1% in 2010, as a result of such management and control measures of the Company and its subsidiaries as the differentiated allocation of expense resources being effected gradually and the premium adequacy ratio being increased progressively.

## 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 | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | General and administrative expenses (Note) | Administrative expense ratio | General and administrative expenses (Note) | Administrative expense ratio |
| | *RMB million* | *%* | *RMB million* | *%* |
| Motor vehicle insurance | (9,103) | (9.3) | (6,914) | (9.8) |
| Commercial property insurance | (1,040) | (15.2) | (1,129) | (18.8) |
| Liability insurance | (578) | (14.0) | (544) | (16.9) |
| Accidental injury and health insurance | (507) | (18.6) | (523) | (19.5) |
| Cargo insurance | (480) | (18.3) | (307) | (15.2) |
| Other insurance | (2,235) | (25.8) | (1,627) | (18.8) |
| Total | (13,943) | (11.3) | (11,044) | (11.8) |

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

In 2010, the Company and its subsidiaries continued to further implement comprehensive budget management, brought administrative expenses under project-based management and zero-based budget management, carried out cost-saving organisational development initiatives, coordinated the centralisation of procurements across the country and effectively reduced the administrative expenses of management bodies at all levels. In 2010, the general and administrative expenses of the Company and its subsidiaries increased by 26.2% on a year-on-year basis, lower than the business growth for the same period. The administrative expense ratio decreased from 11.8% in 2009 to 11.3% in 2010.

## 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 2010 Underwriting profit/(loss) RMB million | 2010 Underwriting profit/(loss) ratio % | 2009 Underwriting profit/(loss) RMB million | 2009 Underwriting profit/(loss) ratio % |
|---|---|---|---|---|
| Motor vehicle insurance | 2,492 | 2.5 | (1,042) | (1.5) |
| Commercial property insurance | (292) | (4.3) | (1,533) | (25.5) |
| Liability insurance | 66 | 1.6 | (73) | (2.3) |
| Accidental injury and health insurance | 21 | 0.8 | (224) | (8.4) |
| Cargo insurance | 342 | 13.0 | 287 | 14.2 |
| Other insurance | 98 | 1.1 | 525 | 6.1 |
| Total | 2,727 | 2.2 | (2,060) | (2.2) |

In 2010, with the further regulation of the order in the domestic non-life insurance market, the Company and its subsidiaries, by taking advantage of this favourable opportunity, continued to reinforce the category-based management of businesses, implement differentiated allocation of resources and proactively adjust the business structure. As a result, there was a remarkable improvement in the quality of underwriting business, a recovery in the premium rates of some insurance segments, and a steady decline in the claim ratio. In contrast to an underwriting loss of RMB2,060 million in 2009, an underwriting profit of RMB2,727 million was achieved in 2010, with the underwriting profit ratio reaching 2.2%.

The motor vehicle insurance segment incurred an underwriting loss of RMB1,042 million in 2009, but made an underwriting profit of RMB2,492 million in 2010. The commercial property insurance segment incurred an underwriting loss of RMB1,533 million in 2009, but the underwriting loss was reduced substantially to RMB292 million in 2010. The liability insurance segment incurred an underwriting loss of RMB73 million in 2009, but made an underwriting profit of RMB66 million in 2010. The accidental injury and health insurance segment incurred an underwriting loss of RMB224 million in 2009, but made an underwriting profit of RMB21 million in 2010. The underwriting results of each of the above insurance segments improved significantly on a year-on-year basis.

The underwriting profit of the other insurance segment reduced from RMB525 million in 2009 to RMB98 million in 2010, primarily due to the effects of large-amount claims related to special insurance and construction insurance businesses.

## INVESTMENT RESULTS

### *Investment income*

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| Rental income from investment properties | **156** | 92 |
| Interest income | **3,385** | 2,469 |
| Dividend income | **427** | 305 |
| Total of investment income | **3,968** | 2,866 |

Investment income of the Company and its subsidiaries was RMB3,968 million in 2010, representing an increase of RMB1,102 million from RMB2,866 million in 2009. Particularly, the interest income increased by RMB916 million and the dividend income increased by RMB122 million on a year-on-year basis, primarily due to the enlarged scale of investments made by the Company and its subsidiaries.

### *Net realised and unrealised gains on investments*

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| Realised gains on investments | **1,527** | 1,308 |
| Unrealised gains/(losses) on investments | **(174)** | 199 |
| Impairment losses | **(316)** | – |
| Profit on disposal of associates | **41** | 204 |
| Total of net realised and unrealised gains on investments | **1,078** | 1,711 |

In 2010, during which the turmoil in capital markets continued, net realised and unrealised gains on investments of the Company and its subsidiaries was RMB1,078 million, representing a decrease of RMB633 million from RMB1,711 million in 2009. This was primarily due to a year-on-year decrease of RMB373 million in unrealised gains on investments in financial assets at fair value through profit or loss, as well as the provisions for impairment losses on available for sale equity financial assets in accordance with changes in their market value.

## OVERALL RESULTS

| | Year ended 31 December | |
|---|---|---|
| | 2010 | 2009 |
| | *RMB million* | *RMB million* |
| Profit before tax | 6,494 | 2,167 |
| Income tax expense | (1,282) | (384) |
| Profit attributable to owners of the parent | 5,212 | 1,783 |
| Total assets (Note) | 201,785 | 165,383 |

*Note:* Based on the data as of 31 December 2010 and 31 December 2009.

## PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB6,494 million in 2010, representing an increase of RMB4,327 million from RMB2,167 million in 2009.

## INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB1,282 million in 2010, representing an increase of RMB898 million from RMB384 million in 2009. 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 2010.

## 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 2010, and net profit increased by RMB3,429 million from RMB1,783 million in 2009 to RMB5,212 million in 2010. Basic earnings per share attributable to ordinary equity holders of the parent in 2010 was RMB0.468.

## CASH FLOW

| | Year ended 31 December | |
|---|---|---|
| | 2010 | 2009 |
| | *RMB million* | *RMB million* |
| Net cash inflow from operating activities | 34,152 | 21,682 |
| Net cash outflow from investing activities | (43,675) | (22,900) |
| Net cash inflow from financing activities | 4,163 | 2,620 |
| Net increase/(decrease) in cash and cash equivalents | (5,360) | 1,402 |

In 2010, net cash inflow from operating activities of the Company and its subsidiaries was an ample amount of RMB34,152 million in 2010, representing an increase of RMB12,470 million from RMB21,682 million in 2009.

In 2010, 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 RMB43,675 million, representing an increase of RMB20,775 million on a year-on-year basis. Net payment involved in debt securities and equity securities tradings totalled RMB40,191 million in 2010, representing a significant year-on-year increase of RMB16,801 million.

Net cash inflow from financing activities of the Company and its subsidiaries was RMB4,163 million in 2010, representing an increase of RMB1,543 million on a year-on-year basis, primarily due to the issuance of fixed-rate subordinated term debts of RMB6 billion in 2010.

As of 31 December 2010, cash and cash equivalents (Note) of the Company and its subsidiaries amounted to RMB17,727 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 June 2010, September 2009 and December 2006, the Company issued fixed-rate subordinated term debts of RMB6 billion, RMB5 billion and RMB3 billion respectively, in each case 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 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

In 2010, PICC Life Insurance Company Limited ("PICC Life"), an associate of the Company, further increased its capital. 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 14.0% to approximately 8.6% of the enlarged registered capital.

In December 2010, the Company and PICC Group as well as its four subsidiaries entered into the Agreement on the Joint Acquisition of the Interest in Beijing No. 88 West Chang'an Avenue Development Company Limited (the "No. 88 Development Company"). The joint transferees and the transferors entered into the formal equity interest transfer agreement on 30 December 2010. Pursuant to this agreement, the Company paid RMB1 billion to acquire a 30.41% equity interest in the No. 88 Development Company based on the fair value of net assets of the No. 88 Development Company which amounts to RMB3,288 million. The Company completed the registration of changes in respect of the No. 88 Development Company with the relevant administration authority for industry and commerce on 21 January 2011.

## 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 RMB1,212 million in 2010.

## SOLVENCY MARGIN REQUIREMENT

The Company is subject to a number of laws and regulations regarding financial operations of the Company, including the regulatory requirements for 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 RMB20,619 million on 31 December 2010. The Company's actual solvency margin calculated pursuant to the regulations of the CIRC was RMB23,628 million and the solvency margin adequacy ratio was 115% (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 Standards for Business Enterprises shall apply to non-insurance contract liabilities.

## GEARING RATIO

As of 31 December 2010, the gearing ratio (Note) of the Company and its subsidiaries was 80.7%, representing a decrease of 1.3 percentage points from 82.0% as of 31 December 2009.

*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 EVENTS

There were certain outstanding litigation matters against the Company and its subsidiaries as at 31 December 2010. The management of the Company believes such litigation matters will not cause significant losses to the Company and its subsidiaries.

Owing to the nature of the insurance business, the Company and its subsidiaries are 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 insurance policies of the Company and its subsidiaries, and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other 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.

## EVENTS AFTER THE BALANCE SHEET DATE

On 24 February 2011, the Board of Directors approved the issue by the Company of a 10-year subordinated term debt with an aggregate principal amount of not exceeding RMB5 billion. The proceeds of the subordinated term debt will be used for raising the solvency margin of the Company. The issue of the above debt is subject to (i) the approval by shareholders of the Company at a general meeting; and (ii) the approval by the CIRC and other relevant authorities.

On 24 March 2011, the Board of Directors proposed that 50% of the net profit of the Company for 2010 of RMB5,211 million be appropriated to the discretionary surplus reserve, after the appropriations to the statutory surplus reserve and the general risk reserve according to the relevant laws and regulations.

In March 2011, the Company has received the new business license from the State Administration for Industry and Commerce, in which the registered address of the Company has been changed from No. 69 Dong He Yan Street, Xuanwu District, Beijing, the People's Republic of China to Tower 2, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing, the People's Republic of China.

## 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 primarily subject to credit risk.

The Company and its subsidiaries are committed to credit sales only to corporate customers or individual customers purchasing certain policies through 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 state-owned reinsurance companies, the Company and its subsidiaries purchase reinsurance primarily from reinsurance companies with Standard & Poor's ratings of A- (or equivalent ratings given by other international rating institutions such as A.M. Best, Fitch and Moody's) 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 risk with respect to their holdings in certain assets such as bank deposits and debt securities as well as certain insurance liabilities which are denominated in foreign currencies, primarily US dollars.

Foreign exchange transactions under the capital accounts of the Company and its subsidiaries are subject to foreign exchange control as well as the approval of the administration authority for foreign exchange. Exchange rate fluctuations may arise as a result of the foreign exchange policies of the PRC government.

## 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 four to five 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. A high proportion of interest-sensitive financial assets are held by the Company and its subsidiaries.

## 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 2010, the interest rate swap contracts held by the Company had a total notional amount of RMB700 million.

## DEVELOPMENT OF NEW PRODUCTS

In 2010, the Company further strengthened the development and management of products, and pursued innovation while ensuring legal compliance to maximize the role of products in promoting the healthy development of the Company's business. In 2010, the Company submitted a total of 4,873 insurance provisions and premium rates to the insurance regulatory authority for approval and filing, which consisted of 2,279 national provisions and premium rates and 2,594 regional provisions and premium rates as well as 882 main-insurance provisions and premium rates and 3,991 rider provisions and premium rates. As of 31 December 2010, the Company had 3,353 national provisions and 1,448 regional provisions in use and operation.

## EMPLOYEES

As at the end of 2010, the Company had 60,629 employees. Staff remuneration payment by the Company and its subsidiaries in 2010 was RMB10,334 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 2010 (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, PROFIT APPROPRIATION AND DIVIDEND

The results of the Company and its subsidiaries for the Year and the state of financial conditions of the Company and its subsidiaries as at 31 December 2010 are set out on pages 58 to 151 of this annual report.

The Board proposes that 50% of RMB5,211 million (net profit of the Company for 2010) be appropriated to the discretionary surplus reserve, after the appropriations to the statutory surplus reserve and general risk reserve according to the relevant laws and regulations.

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 2010, the Company's distributable reserves totaled RMB8,612 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 RMB187 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 and the members of the Supervisory Committee from 1 January 2010 to the date of this annual report are set out in the "Corporate Governance Report" section 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 AND SIGNIFICANT CONTRACTS

Pursuant to the asset management agreement entered into between the Company and PICC Asset Management Company Limited ("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 and other factors satisfy the agreed conditions. The particulars of this agreement are set forth in note 47 to the financial statements.

Details of the significant contracts entered into between the Company and the controlling shareholder or its subsidiaries during the Year are set forth in items (ii) and (viii) under note 47(a) 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 2010 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 the Chairman of PICC Life. Mr Zhou Shurui, a Non-executive Director of the Company, is the Chairman of PICC Health. Ms Liu Zhenghuan, a former Executive Director of the Company (resigned on 29 September 2010), is a Director of PICC Life. Mr Guo Shengchen, a newly appointed Executive Director of the Company, is a Supervisor 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 2010 to the date of this annual report.

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2010, 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, 3) | 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 (Notes 2, 3) | Beneficial owner | 562,549,380 | Long position | 16.28% | 5.05% |
| Commerce and Industry Insurance Company (Note 3) | Beneficial owner | 330,911,400 | Long position | 9.58% | 2.97% |
| Lexington Insurance Company (Note 3) | Beneficial owner | 209,577,220 | Long position | 6.06% | 1.88% |

*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 is now known as Chartis Property Casualty Company.

3. Birmingham Fire Insurance Company of Pennsylvania, Commerce and Industry Insurance Company and Lexington Insurance Company are the controlled corporations of AIG. AIG directly owns 100% shareholding in each of Birmingham Fire Insurance Company of Pennsylvania and Commerce and Industry Insurance Company, and indirectly owns 70% shareholding in Lexington Insurance Company.

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 2010 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. Among these connected transactions, the property leasing agreement, asset management agreement and framework agreement on reinsurance business cooperation set out in items (iv) to (vi) under note 47(a) are continuing connected transactions subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

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, in relation to those continuing connected transactions that are subject to reporting, annual review and announcement requirements, 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. 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.

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

Beijing, the PRC
24 March 2011

**Dear Shareholders,**

In 2010 (the "Year"), all members of the Supervisory Committee of the Company 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"), continued to regard supervision over meetings as its base of supervision and focus on supervisions over financial matters, internal control and compliance, and therefore maintained the effective operation of corporate governance and protected the interests of the shareholders, the Company and its employees.

During the Year, the Supervisory Committee convened four meetings, at which fifteen proposals were considered and approved including the Auditors' Report and the Audited Financial Statements of the Company for 2009, the Profit Distribution of the Company for 2009, the Report of the Supervisory Committee of the Company for 2009, and the Election of the Third Session of the Supervisory Committee of the Company. The Supervisory Committee submitted the Report of the Supervisory Committee of the Company for 2009, the Proposal for the Amendments to the Working Rules for the Supervisory Committee and the Proposal for the Re-election and Appointment of Supervisors to the shareholders' general meetings, at which they were approved. The Supervisory Committee gave opinions and suggestions to the management on strengthening management and risk control. The Supervisory Committee also, by being physically present or reviewing the proposals in writing of six meetings of the Audit Committee, eleven meetings of the Board of Directors and one shareholders' general meeting, earnestly studied and discussed the resolutions of the shareholders' general meeting and meetings of the Board of Directors, and fully expressed its opinions and suggestions. At the same time, the Supervisory Committee performed supervision over the legality of the substance and procedures of the meetings, strengthened supervision over significant issues of the Company and performed supervision function through participation.

The Supervisory Committee is of the view that:

During the Year, the Directors and senior management of the Company had performed their duties set forth in the Articles of Association in diligence and good faith, and had diligently implemented all resolutions of the shareholders' general meeting and those of the Board of Directors. No Director or member of the senior management was found to have committed any breach of 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 2010 and the audited annual financial statements for 2010 of the Company and its subsidiaries were prepared strictly in accordance with the relevant accounting standards. Accounting treatments were applied consistently. 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 2011, the Supervisory Committee will continue to perform its supervisory duties in accordance with the relevant provisions of the Company Law and the Articles of Association with supervisions over financial matters, internal control, compliance and risk control as its supervision focus, and enhance the supervisory quality so as to promote the orderly and compliant operation of the Company.

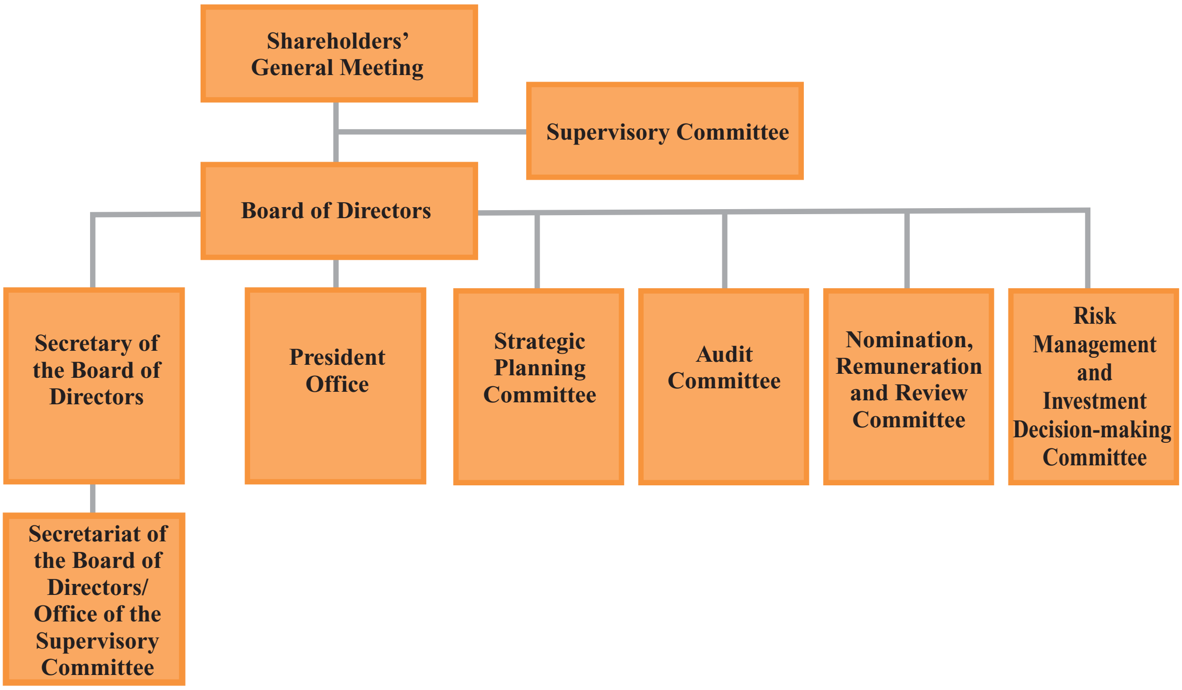
By Order of the Supervisory Committee
**Zhou Liqun**
*Chairman of the Supervisory Committee*

Beijing, the PRC
24 March 2011

## OVERVIEW

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

In 2010 (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 Measures for Administration of Information Disclosure of Insurance Companies, the Measures for Equity Management of Insurance Companies and the Basic Code on Internal Control of Insurance Companies issued by 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 has complied with all the code provisions of the Code on Corporate Governance Practices in the Year.

## OVERVIEW *(continued)*

The term of office of the Directors, Mr Wu Yan, Mr Wang Yincheng, Mr Tse Sze-Wing, Edmund, Mr Lu Zhengfei, Mr Zhou Shurui, Ms Liu Zhenghuan and Mr Li Tao, should have expired respectively during the period from the second half of 2009 to the first half of 2010. 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 directors is less than the required quorum due to the resignation of a director, the existing director shall continue to serve as a director until the newly elected director has commenced his/her term of office. Accordingly, the Directors as mentioned above (except for Ms Liu Zhenghuan who resigned on 29 September 2010) have continued to serve as Directors until the assumption of office of the new session of the Board of Directors. The Company elected the third session of its Board of Directors on 17 January 2011. 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 16 January 2011. The Company has complied with such requirement from 17 January 2011.

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 were Independent Non-executive Directors. Ms Liu Zhenghuan, another member of the Nomination, Remuneration and Review Committee, resigned as an Executive Director of the Company on 29 September 2010, and at the same time, ceased to act as a member of the aforesaid Committee. After the resignation of Ms Liu, a majority of the members of the Nomination, Remuneration and Review Committee were Independent Non-executive Directors. As a result, 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 28 September 2010. The Company has complied with such requirement from 29 September 2010. The Company elected the members of the Nomination, Remuneration and Review Committee after the assumption of office of the third session of the Board of Directors.

## BOARD OF DIRECTORS

### Overview

During the Year, the Board of Directors convened one shareholders' general meeting and submitted fourteen proposals to the shareholders' general meeting for consideration and approval. Eleven Board meetings were convened, at which fifty-four 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, made full-scope amendments to the Articles of Association, the Procedural Rules for Shareholders' General Meeting and the Procedural Rules for the Board of Directors, carried out work in connection with the change of session of the Board of Directors, and enhanced the management standard of the Company's internal control, compliance management and risk management and control, etc.

## BOARD OF DIRECTORS *(continued)*

### Overview *(continued)*

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, respectively. 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 operations and enhanced its corporate governance.

### Composition

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

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

## BOARD OF DIRECTORS *(continued)*

### Composition *(continued)*

*Note:* 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 Zhou Shurui, Ms Liu Zhenghuan and Mr Li Tao, whose term of office should have expired in 2009, have continued to serve as Directors until the assumption of office of the new session of the Board of Directors (except for Ms Liu Zhenghuan who resigned as an Executive Director on 29 September 2010).

Change of Director during the Year is as follow:

Ms Liu Zhenghuan resigned as an Executive Director of the Company on 29 September 2010.

Changes of Directors during the period from 1 January 2011 to the date of this annual report are as follows:

At the shareholders' special general meeting of the Company convened on 17 January 2011, Mr Wu Yan and Mr Wang Yincheng were re-elected as Executive Directors, Mr Guo Shengchen and Mr Wang He were appointed as Executive Directors, Mr Zhou Shurui, Mr Li Tao and Mr Tse Sze-Wing, Edmund were re-elected as Non-executive Directors, Ms Yu Xiaoping was appointed as a Non-executive Director, and Mr Ip Shu Kwan, Stephen and Mr Liao Li were appointed as Independent Non-executive Directors, each for a term of three years with effect from the date of the shareholders' special general meeting. On the same day, the Board of the Directors re-elected Mr Wu Yan as the Chairman and Mr Wang Yincheng as the Vice Chairman. Mr Lu Zhengfei retired as an Independent Non-executive Director on the same day.

### 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, formulating proposals for amendments to the Articles of Association, drawing up plans for merger, division, change of form or dissolution of the Company, appointing or removing the Company's President, Vice Presidents, Secretary of the Board of Directors, Responsible Compliance Officer, Responsible Financial Officer and Assistant to the President and determining their remuneration, rewards and disciplinary matters, electing members of the Board committees, and approving the Company's investment in other enterprises or provision of guarantees to persons other than the Company's shareholders or actual controllers. The Board of Directors is ultimately responsible for the internal control, risk management and compliance management of the Company.

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

## BOARD OF DIRECTORS *(continued)*

### Summary of Work Undertaken

During the Year, the Board of Directors held eleven meetings and considered fifty-four 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 | 11/11 | 100% |
| Wang Yincheng | 11/11 | 100% |
| Tse Sze-Wing, Edmund | 11/11 | 100% |
| Lu Zhengfei | 11/11 | 100% |
| Luk Kin Yu, Peter | 11/11 | 100% |
| Ding Ningning | 11/11 | 100% |
| Zhou Shurui | 11/11 | 100% |
| Liu Zhenghuan | 8/8 | 100% |
| Li Tao | 11/11 | 100% |

*Note:* Ms Liu Zhenghuan resigned on 29 September 2010.

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

- convened one shareholders' general meeting and submitted fourteen proposals to the shareholders' general meeting including the proposals regarding the Report of the Board of Directors for 2009, the Auditors' Report and the audited financial statements for 2009, the profit distribution plan for 2009, the amendments to the Articles of Association, the Procedural Rules for Shareholders' General Meeting and the Procedural Rules for the Board of Directors, and the issue of subordinated term debts;

- approved the business development plan, financial budget, fixed assets investment plan, strategic allocations 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 appraisal 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 2009, considered the report on improvement based on the Management Letter for the prior year, reviewed and continuously enhanced the effectiveness of the Company's internal control system;

- considered and approved the establishment of the Compliance Department and a procurement center in the Company's headquarters, and the establishment of a marine insurance operation center, a support and service center for Northeastern China and an online sales center by the Company;

## BOARD OF DIRECTORS *(continued)*

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

- considered and approved the termination of the Company's pilot project on exclusive agency;
- considered and approved the financial statements of compulsory third party motor insurance for 2009;
- considered and approved the 2010 interim results;
- considered and approved the connected transactions entered into during the Year;
- considered and approved the Company's report on the implementation of the connected transaction administration system and the Company's report on its connected transactions for 2009;
- appointed Mr Zhang Xiaoli as the Secretary of the Board of Directors, Mr Shen Dong as the Responsible Financial Officer and Mr Wang Yueshu as the Responsible Audit Officer;
- amended and improved the Articles of Association, the Procedural Rules for Shareholders' General Meeting, the Procedural Rules for the Board of Directors and the Provisional Regulations on Information Disclosure so as to satisfy the new regulatory requirements;
- considered and approved the Company's Administration Procedures and Internal Control Systems for Reserves and the Systems for Testing Major Insurance Risks;
- nominated five candidates for each of the re-election of Directors and appointment of Directors, which were approved by the shareholders' general meeting;
- considered and approved the proposal for authorising PICC AMC to conduct RMB interest rate swap business;
- considered and approved the proposal regarding an investment project.

## 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 PRC and CIRC.

## DIRECTORS *(continued)*

### 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 have 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. Details of the duties and responsibilities of the Chairman were set out on page 36 of the Company's 2005 Annual Report. Details of the duties and responsibilities of the President are as follows:

- in charge of the operations and management of the Company, and organise the implementation of the Board resolutions;
- organise the implementation of the annual operational plans and annual investment plans of the Company;
- execute contracts and agreements and issue daily administrative documents on behalf of the Company;
- propose the plans for internal management structure and the basic management system of the Company, and determine general organisational restructuring plans based on operating needs;
- formulate the basic rules and regulations of the Company;
- make proposals to the Board of Directors on the appointment and removal of the Vice President(s), Responsible Compliance Officer, Responsible Financial Officer and Assistant to the President;
- appoint or remove management personnel other than those personnel whose appointments or removals shall be determined by the Board of Directors;
- formulate salaries, benefits and rewards and disciplinary plans for the Company's employees, determine or authorise heads of the branches to determine the employment and dismissal of employees;
- propose to convene special Board meetings.

## AUDIT COMMITTEE

### Overview

During the Year, in accordance with the Working Rules of the Audit Committee of the Company and relevant regulatory requirements, the Audit Committee continued to conscientiously perform its duties of monitoring and providing guidance on internal and external audit, monitoring financial reporting procedures, reinforcing internal control management and reviewing financial reports, and provided the Board of Directors and the management team with professional opinions and suggestions, thus made active contribution to the enhancement of corporate governance.

### Composition

Chairman: Lu Zhengfei
Members: Luk Kin Yu, Peter and Li Tao

*Note:* On 17 January 2011, the Board of Directors approved the new composition of the Audit Committee, comprising Mr Liao Li as the Chairman of the Committee, and Mr Luk Kin Yu, Peter, Mr Ding Ningning, Mr Ip Shu Kwan, Stephen and Mr Li Tao as committee members.

### Duties and Responsibilities

The Audit Committee is responsible for monitoring and inspecting the financial reporting procedures and internal control system of the Company, reviewing the financial information of the Company, and monitoring and providing guidance on internal and external audit of the Company. Details of the duties and responsibilities of the Audit Committee were set out on pages 39 and 40 of the Company's 2009 Annual Report.

### Remuneration of Auditors

In the Year, the Company paid RMB18.34 million to the auditors, including the fees for the audit of the financial statements for 2009 and the review of the interim financial statements for 2010. In the Year, the Company paid RMB0.16 million to the auditors for non-audit services. Such non-audit services have not affected the independence and objectivity of the auditors.

## AUDIT COMMITTEE *(continued)*

### Summary of Work Undertaken

During the Year, the Audit Committee held six meetings and considered thirty-one proposals, representing a historical record high in terms of the number of proposals considered in a year. 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 | 6/6 | 6/6 | 6/6 |
| Attendance rate | 100% | 100% | 100% |

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

Communications with the external auditors:

- considered the external auditors' reports on the work plans for and results of the audit for 2009 and on the interim review work for 2010, discussed with the external auditors about the nature, scope and responsibilities of the audit and review, and advised the auditors to compare the operating results of the Company with its peers in the industry;

- considered respectively the opinions of the external auditors and the Company's management on the fees for the interim review and the annual audit for 2010, considered the engagement terms, and proposed to the Board of Directors on the continuous engagement of the auditors and obtained the approvals from the Board of Directors and the shareholders' general meeting.

Reviewed the financial reports:

- reviewed the financial statements and results announcements for 2009 and for the interim period of 2010, and discussed with the management on, among other things, the appropriation of loss and loss adjustment expense reserves, the standard of impairment provision for available-for-sale financial assets and the solvency margin adequacy ratio;

- reviewed the financial statements of compulsory third party motor insurance for 2009, and discussed with the management on the differences in the data with respect to the operating results of the compulsory third party motor insurance recorded under the old and the new accounting principles.

## AUDIT COMMITTEE *(continued)*

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

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

- considered and approved the Company's Internal Control Assessment Report for 2009, the Compliance Assessment Reports for 2009 and for the interim period of 2010, provided recommendations with respect to the objectivity of the rating mechanism and rating criteria as applied in the Internal Control Assessment Reports, and discussed with the management on the severity and damaging effect of the cases subject to disciplinary actions stated in the Compliance Assessment Reports;

- considered and approved the Company's report on improvement based on the Management Letter for 2008, considered the Management Letter for 2009, and proposed to conduct a quantitative research and report on the status of the implementation of the improvement recommendations set out in the Management Letter;

- supervised and provided guidance on the internal audit and finance and accounting work, considered the report of the Auditing Department and the Responsible Audit Officer of the Company on the work summary for 2009 and the work plan for 2010 (including audit budget), provided recommendations on strengthening the internal risk management and control, enhancing the independence of the internal audit and strengthening the application of the internal audit results, considered the audit report of the Auditing Department of the Company on the specific items for 2009, considered the report of the Finance and Accounting Department on the work summary for 2009 and the work plan for 2010, and discussed with the management on the development of specific measures in the future;

- considered the proposed Administration Procedures and Internal Control Systems for Reserves and Systems for Testing Major Insurance Risks;

- considered and approved the five material connected transactions in the Year and gave opinions with respect to the fairness of such connected transactions;

- considered and approved the report on the audit results of the administration of connected transactions, the report on the implementation of the connected transaction administration system for 2009, the report on the connected transactions for 2009, and the proposal for amendments to the Company's Provisional Measures for the Administration of Connected Transactions.

## NOMINATION, REMUNERATION AND REVIEW COMMITTEE

### Overview

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, remuneration and incentive policies and performance appraisals of the Directors and senior management, and the overall remuneration of the Company.

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

### Composition

Members: Wang Yincheng, Lu Zhengfei, Luk Kin Yu, Peter, Ding Ningning, Zhou Shurui and Liu Zhenghuan (resigned on 29 September 2010)

*Note:* On 17 January 2011, the Board of Directors approved the new composition of the Nomination, Remuneration and Review Committee, comprising Mr Ding Ningning as the Chairman of the Committee, and Mr Luk Kin Yu, Peter, Mr Ip Shu Kwan, Stephen, Mr Liao Li and Mr Guo Shengchen as committee members.

### Duties and Responsibilities

The Nomination, Remuneration and Review Committee is responsible for recommending candidates for directorship and reviewing the qualification of such candidates, formulating remuneration plans and appraisal standards for directors, the President and other senior management personnel (including Vice Presidents, Secretary of the Board of Directors, Responsible Compliance Officer, Responsible Financial Officer and Assistant to the President), and supervising the implementation of such plans 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 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 candidates' educational background, management and research experience in the finance industry, especially in the insurance sector, and their 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. During the Year, when considering the appointment of Directors, the Nomination, Remuneration and Review Committee applied the aforesaid criteria and procedures.

### Remuneration of Directors and Other Senior Management

The fixed salaries of the Executive Directors and other senior management are determined in accordance with the market levels and their respective positions, and their performance-related bonuses are determined according to the operating results of the Company and the scores on their performance appraisals. Directors' fees and Supervisors' fees are determined with reference to the market levels and the circumstances of the Company.

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

### Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held five meetings, at which eight proposals were considered. One of the 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 | Wang Yincheng | Lu Zhengfei | Luk Kin Yu, Peter | Ding Ningning | Zhou Shurui | Liu Zhenghuan |
|---|---|---|---|---|---|---|
| Number of meetings attended/ Number of meetings that require attendance | 5/5 | 5/5 | 5/5 | 5/5 | 5/5 | 4/4 |
| Attendance rate | 100% | 100% | 100% | 100% | 100% | 100% |

*Note:* Ms Liu Zhenghuan resigned on 29 September 2010.

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

- made a nomination for the appointment of Mr Zhang Xiaoli as the Secretary of the Board of Directors, Mr Shen Dong as the Responsible Financial Officer and Mr Wang Yueshu as the Responsible Audit Officer, 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 2009 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 with performance appraisal scores, and made recommendations for bonus coefficients for the Chairman and the President, which were considered and approved by the Board of Directors;

- recommended to the Board of Directors on re-election of five Directors and appointment of five Directors, which were considered and approved by the Board of Directors and the shareholders' general meeting.

## STRATEGIC PLANNING COMMITTEE

### Overview

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

### Composition

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

*Note:* On 17 January 2011, the Board of Directors approved the new composition of the Strategic Planning Committee, comprising Mr Wu Yan as the Chairman of the Committee, and Mr Wang Yincheng, Mr Tse Sze-Wing, Edmund, Mr Ding Ningning and Mr Li Tao as committee members.

### Duties and Responsibilities

The Strategic Planning Committee is responsible for formulating medium and long term development strategies and considering 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.

### Summary of Work Undertaken

During the Year, the Strategic Planning Committee held seven meetings and considered fifteen proposals. The main tasks accomplished by the Strategic Planning Committee in the Year included the following:

- 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 amending the Articles of Association;
- considered and approved the profit distribution plan for 2009 and the non-payment of interim dividend for 2010;
- considered and approved the establishment of the Compliance Department and a procurement center in the Company's headquarters, and the establishment of a marine insurance operation center, a support and service center for Northeastern China and an online sales center by the Company;
- considered and approved the termination of the Company's pilot project on exclusive agency;
- considered and approved the recommendation to the shareholders' general meeting to authorise the Board of Directors to issue subordinated term debts.

## 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 carried out work with respect to effective identification and control of risks, etc.

### Composition

Chairman: Wu Yan
Members: Wang Yincheng, Luk Kin Yu, Peter, Zhou Shurui and Liu Zhenghuan (resigned on 29 September 2010)

*Note:* On 17 January 2011, the Board of Directors approved the new composition of the Risk Management and Investment Decision-making Committee, comprising Mr Wu Yan as the Chairman of the Committee, and Mr Wang Yincheng, Mr Zhou Shurui, Ms Yu Xiaoping and Mr Wang He as committee members.

### Duties and Responsibilities

The Risk Management and Investment Decision-making Committee is responsible for reviewing the Company's overall goal, basic policies and work system regarding risk management, the organisational structure for risk management and the related duties and responsibilities, the report on the risk assessment of major decisions, solutions to material risks and the annual risk assessment reports, monitoring the effectiveness of the operation of the risk management system, and considering the Company's capital application strategies and investment strategies. Details of the duties and responsibilities of the Committee were set out on page 45 of the Company's 2007 Annual Report.

### Summary of Work Undertaken

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

- considered and approved the report on the strategic allocations of and investment policies on custodian assets for the Year;
- considered and approved the Company's Systems for Testing Major Insurance Risks;
- considered and approved the proposal for authorising PICC AMC to conduct RMB interest rate swap business;
- considered and approved the proposal for an investment project;
- considered and approved the Risk Assessment Report for 2009.

## 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 to ensure that the internal control system of the Company is sound, complete and effective. The Audit Committee under the Board of Directors 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 under the Board of Directors 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 functional departments of the Company bear the primary responsibilities for the internal control system. The Compliance Department is responsible for the coordination and planning work of internal control, compliance and risk management before and during implementation, while the Monitoring Department/Auditing Department is responsible for inspection of internal control, compliance and risk management after implementation and for imposing penalties against any breach of the requirements thereof.

To fully implement the provisions of the General Regulations on Enterprise Internal Control, the Company launched the Internal Control Appraisal and Improvement Project in 2009, which was successfully completed in 2010. Through this project, the Company completed a comprehensive review and systematic assessment on its major business operations and key risk control areas, and recommendations and rectification plans directed at the existing defects were proposed, initially establishing a closed-end management mechanism for the design, implementation, assessment and improvement of its internal control system.

To review and continuously enhance the effectiveness of the Company's internal control, the Board of Directors and the Audit Committee considered and discussed the Internal Control Assessment Report and the Compliance Assessment Report of the Company for 2010, and the Board of Directors and the Risk Management and Investment Decision-making Committee considered and discussed the Risk Assessment Report of the Company for 2010.

## SUPERVISORY COMMITTEE

### Overview

During the Year, the Supervisory Committee discharged its supervisory duties according to the laws, strengthened the supervision over meetings, focused on strengthening risk control, and gave opinions and suggestions to the management about the strengthening of operation and management as well as risk control.

### Composition

| | |
|---|---|
| Chairman: | Ding Yunzhou |
| Supervisors: | Li Dianjun, Sheng Hetai and He Bangshun |

## SUPERVISORY COMMITTEE *(continued)*

### Composition *(continued)*

*Note:* The term of office of Mr Ding Yunzhou, Mr Li Dianjun, Mr Sheng Hetai and Mr He Bangshun as Supervisors should have expired in 2009. According to the provisions of the Company Law, Mr Ding, Mr Li, Mr Sheng and Mr He continued to serve as Supervisors until the assumption of office of the new session of the Supervisory Committee. At the shareholders' special general meeting of the Company convened on 17 January 2011, Mr Zhou Liqun was appointed as a Supervisor, Mr Sheng Hetai was re-elected as a Supervisor, and Mr Lu Zhengfei was appointed as an Independent Supervisor, each for a term of three years with effect from the date of the shareholders' special general meeting. Ms Qu Yonghuan and Mr Shen Ruiguo were elected at the meeting of representatives of employees of the Company as Supervisors representing employees, with the same term of office as the aforesaid Supervisors.

### 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, bringing lawsuits against directors or other senior management in accordance with the provisions of the Company Law, and convening and presiding over shareholders' general meetings when the Board of Directors fails to perform its duties to convene and preside over any shareholders' general meeting.

### 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 four 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 | 4/4 | 4/4 | 4/4 | 4/4 |
| Attendance rate | 100% | 100% | 100% | 100% |

Details of the work 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 Meeting 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 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(s) shall deal with matters that are within the scope of the shareholders' general meeting and shall contain clear subjects and specific matters to be resolved.

## INVESTOR RELATIONS

The Company communicates its operating results and business development trends timely with investors after the announcement of annual and interim results by way of 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 shareholders' special general meeting held on 17 January 2011. The meeting considered the proposals for the election of the third session of the Board of Directors and the third session of the Supervisory Committee. All resolutions were passed by way of poll at the meeting.

In 2010, the Company received numerous honours, some of which are listed below:

## "TRANSFORMATION • 2010 TOP TEN LEADING ENTERPRISES IN THE CHINESE ECONOMY"

In January 2011, the Company was awarded the "Transformation • 2010 Top Ten Leading Enterprises in the Chinese Economy" prize in the "Transformation • 2010 Top Ten Leading Figures, Enterprises and Cities in the Chinese Economy Awards" hosted by the nine media directly under Xinhua News Agency.

## "2010 MOST TRUSTED PROPERTY INSURANCE COMPANY"

In January 2011, the Company was awarded the "2010 Most Trusted Property Insurance Company" prize in the "Financial and Economic Billboard Awards" hosted by the website HEXUN.

## "2010 MOST INFLUENTIAL INSURANCE BRAND" AND TWELVE PRIZES INCLUDING THE "MOST INNOVATIVE INSURANCE PRODUCT"

In January 2011, the Company was awarded the "2010 Most Influential Insurance Brand" prize at "The Fifth China Insurance Innovation Awards Presentation Ceremony and the Third China Insurance Culture and Brand Innovation Forum".

Besides, the Company's eleven insurance products including "Fortune Creation Insurance Package for Small and Medium Sized Enterprises" and "Offshore Oilfield Disposal Insurance" also won twelve grand prizes including the "Best Product Portfolio" and the "Most Innovative Insurance Product".

## "2010 INSURANCE BRAND WITH THE BEST SERVICES"

In January 2011, the Company was awarded the "2010 Insurance Brand with the Best Services" prize in the "Golden Cicada Awards", an annual financial and economic awards event hosted by *China Times*.

## "2010 • BEST NON-LIFE INSURANCE COMPANY IN ASIA"

In November 2010, the results of the "Asian Insurance Competency Ranking" co-organised by *21st Century Business Herald* and the Financial Research Center of the 21st Century Research Institution were announced in Beijing. The Company topped the ranking and was awarded the "2010 • Best Non-life Insurance Company in Asia" prize for its overall strength as well as its outstanding performance over the past year.

## "ADVANCED COLLECTIVE IN SERVING THE WORLD EXPO SHANGHAI"

In December 2010, the "Summary and Awards Ceremony for the Expo 2010 Shanghai China" was held at The Great Hall of the People in Beijing. The Company's Claims Management Department, as the representative of the Company in serving the Expo, was granted the honorary title of the "Advanced Collective in Serving the World Expo Shanghai" by the Central Committee of the Communist Party of China and the State Council of the PRC.

## "GOLD PRIZE FOR SPECIAL CONTRIBUTIONS TO THE EXPO 2010 SHANGHAI CHINA"

In January 2011, the Bureau of Shanghai World Expo Coordination awarded companies and individuals that provided outstanding marketing services in the Expo Shanghai. The Company was awarded the "Gold Prize for Special Contributions to the Expo 2010 Shanghai China".

## "NETIZENS' MOST TRUSTED INSURANCE COMPANY"

In December 2010, the award winners at the "Financial and Wealth Management Network Grand Ceremony" hosted by the website SOHU were announced, and the Company was awarded the "Netizens' Most Trusted Insurance Company" prize for 2010 for its prominent service strengths and premier brand image.

## "DOMESTIC PROPERTY INSURANCE COMPANY OF THE YEAR"

In December 2010, the winners of the "Golden Dragon Awards for China's Financial Institutions on the Golden Medal List" co-hosted by *The Financial Times*, the mainstream media in the financial sector of China, and the Institute of Finance of Chinese Academy of Social Sciences were announced. The Company was awarded the "Domestic Property Insurance Company of the Year" prize for its comprehensive strength.

## "2010 MOST SOCIALLY RESPONSIBLE INSURANCE COMPANY"

In December 2010, the award winners at the "2010 Golden Phoenix Financial and Wealth Management Ceremony" co-hosted by the Phoenix Satellite Television and the website www.ifeng.com were announced, and the Company was awarded the "2010 Most Socially Responsible Insurance Company" prize.

## "2010 BEST MOTOR VEHICLE INSURANCE BRAND" AND "2010 BEST E-COMMERCE PLATFORM IN THE INSURANCE INDUSTRY"

In December 2010, the "Oriental Wealth Billboard" awards hosted by the website www.eastmoney.com, the leading financial and economic portal in China, were announced, and the Company was awarded the "2010 Best Motor Vehicle Insurance Brand" prize for its outstanding achievements in and exceptional contributions to the industry, and the "2010 Best E-Commerce Platform in the Insurance Industry" prize for its "PICC Online Service Platform".

**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 consolidated financial statements of PICC Property and Casualty Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 58 to 151, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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 the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
24 March 2011

# Consolidated Income Statement

*Year ended 31 December 2010*

| | Notes | 2010 RMB million | 2009 RMB million |
|---|---|---|---|
| **TURNOVER** | 5 | **154,307** | 119,771 |
| Net premiums earned | 5 | **122,990** | 93,296 |
| Net claims incurred | 6 | **(82,908)** | (64,517) |
| Acquisition cost and other underwriting expenses | 7 | **(23,412)** | (19,795) |
| General and administrative expenses | | **(13,943)** | (11,044) |
| **UNDERWRITING PROFIT/(LOSS)** | | **2,727** | (2,060) |
| Investment income | 8 | **3,968** | 2,866 |
| Net realised and unrealised gains on investments | 9 | **1,078** | 1,711 |
| Investment expenses | | **(193)** | (137) |
| Interest expenses credited to policyholders' deposits | | **(25)** | (112) |
| Exchange losses, net | 10 | **(370)** | (6) |
| Sundry income | | **325** | 351 |
| Sundry expenses | | **(309)** | (208) |
| Finance costs | 11 | **(788)** | (264) |
| Share of profits and losses of associates | | **81** | 26 |
| **PROFIT BEFORE TAX** | 12 | **6,494** | 2,167 |
| Income tax expense | 15 | **(1,282)** | (384) |
| **PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT** | | **5,212** | 1,783 |
| **BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB)** | 16 | **0.468** | 0.160 |
| **DIVIDEND PER SHARE (in RMB)** | 17 | **–** | – |

| | Note | 2010 RMB million | 2009 RMB million |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | 5,212 | 1,783 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Net movement in cash flow hedges | 18 | (10) | 10 |
| Income tax effect | | 3 | (3) |
| | | (7) | 7 |
| Net gains/(losses) on available for sale financial assets | 18 | (2,646) | 513 |
| Income tax effect | | 660 | (128) |
| | | (1,986) | 385 |
| Share of other comprehensive income of associates | | (148) | (156) |
| Other comprehensive income for the year, net of tax | | (2,141) | 236 |
| Total comprehensive income for the year attributable to owners of the parent, net of tax | | 3,071 | 2,019 |

# Consolidated Statement of Financial Position

*31 December 2010*

| | Notes | 31 December 2010 RMB million | 31 December 2009 RMB million |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 19 | 32,209 | 32,143 |
| Derivative financial assets | 20 | 6 | 16 |
| Debt securities | 21 | 92,567 | 58,458 |
| Equity securities | 22 | 19,001 | 14,683 |
| Insurance receivables, net | 23 | 10,330 | 17,170 |
| Tax recoverable | | – | 89 |
| Reinsurance assets | 24 | 15,549 | 14,426 |
| Other financial assets and prepayments | 25 | 12,346 | 10,947 |
| Investments in associates | 26 | 1,611 | 644 |
| Property, plant and equipment | 28 | 11,765 | 12,282 |
| Investment properties | 29 | 1,577 | 706 |
| Prepaid land premiums | 30 | 3,360 | 3,750 |
| Deferred tax assets | 31 | 1,464 | 69 |
| **TOTAL ASSETS** | | 201,785 | 165,383 |
| **LIABILITIES** | | | |
| Payables to reinsurers | 32 | 10,555 | 16,595 |
| Accrued insurance protection fund | 33 | 586 | 418 |
| Tax payable | | 709 | – |
| Other liabilities and accruals | 34 | 25,481 | 20,625 |
| Insurance contract liabilities | 35 | 122,946 | 92,695 |
| Policyholders' deposits | 36 | 2,517 | 5,287 |
| Subordinated debts | 37 | 14,157 | 8,000 |
| **TOTAL LIABILITIES** | | 176,951 | 143,620 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 39 | 11,142 | 11,142 |
| Reserves | | 13,692 | 10,621 |
| **TOTAL EQUITY** | | 24,834 | 21,763 |
| **TOTAL EQUITY AND LIABILITIES** | | 201,785 | 165,383 |

| | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 2010 | 11,142 | 4,739 | 87 | 12 | 853 | 488 | 4,442 | 21,763 |
| Profit for the year | – | – | – | – | 521 | 521 | 4,170 | 5,212 |
| Other comprehensive income | | | | | | | | |
| Net movement in cash flow hedges, net of tax | – | – | – | (7) | – | – | – | (7) |
| Net losses on available for sale financial assets, net of tax | – | – | (1,986) | – | – | – | – | (1,986) |
| Share of other comprehensive income of associates | – | – | (148) | – | – | – | – | (148) |
| Total comprehensive income for the year | – | – | (2,134) | (7) | 521 | 521 | 4,170 | 3,071 |
| At 31 December 2010 | 11,142 | 4,739* | (2,047)* | 5* | 1,374* | 1,009* | 8,612* | 24,834 |

* These reserve accounts comprise the consolidated reserves of RMB13,692 million (31 December 2009: RMB10,621 million) in the consolidated statement of financial position.

| | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 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 | | | | | | | | |
| Net movement in cash flow hedges, net of tax | – | – | – | 7 | – | – | – | 7 |
| Net gains on available for sale financial assets, net of tax | – | – | 385 | – | – | – | – | 385 |
| Share of other comprehensive income of associates | – | – | (156) | – | – | – | – | (156) |
| 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 |

| | Notes | 2010 RMB million | 2009 RMB million |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 6,494 | 2,167 |
| Adjustments for: | | | |
| Investment income | 8 | (3,968) | (2,866) |
| Net realised and unrealised gains on investments | 9 | (1,078) | (1,711) |
| Interest expenses credited to policyholders' deposits | | 25 | 112 |
| Exchange losses, net | 10 | 370 | 6 |
| Share of profits of associates | | (81) | (26) |
| Depreciation of property, plant and equipment | 12, 28 | 950 | 860 |
| Depreciation of investment properties | 12, 29 | 53 | 29 |
| Amortisation of prepaid land premiums | 12, 30 | 108 | 104 |
| Impairment loss on property, plant and equipment | 12 | 2 | – |
| Net gain on disposal of items of property, plant and equipment | 12 | (29) | (6) |
| Finance costs | 11 | 788 | 264 |
| Investment expenses | | 193 | 137 |
| Impairment loss on insurance receivables | 12 | 200 | 668 |
| Decrease in insurance receivables | | 6,640 | 2,920 |
| Decrease/(increase) in other financial assets and prepayments | | (46) | 174 |
| Decrease in payables to reinsurers | | (6,040) | (1,663) |
| Increase in accrued insurance protection fund | | 168 | 166 |
| Increase in other liabilities and accruals | | 1,491 | 5,340 |
| Increase in insurance contract liabilities, net | | 29,128 | 16,041 |
| **Cash generated from operations** | | 35,368 | 22,716 |
| PRC income tax paid | | (1,216) | (1,034) |
| **Net cash flows from operating activities** | | 34,152 | 21,682 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | 2,798 | 2,308 |
| Rental income received from investment properties | | 156 | 92 |
| Dividend income received from equity securities | | 427 | 305 |
| Payment for investment purchase | | (132) | – |
| Payment for capital expenditure | | (1,212) | (1,126) |
| Proceeds from disposal of items of property, plant and equipment | | 110 | 20 |
| Payment for acquisition of an associate | | (1,001) | – |
| Proceeds from disposal of associates | | – | 171 |
| Payment for purchases of debt and equity securities | | (88,457) | (67,937) |
| Proceeds from disposal of unlisted debts | | 1,090 | 490 |
| Proceeds from sale of debt and equity securities | | 48,097 | 44,462 |
| Placement of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits | | (10,776) | (5,899) |
| Maturity of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits | | 5,225 | 4,214 |
| **Net cash flows used in investing activities** | | (43,675) | (22,900) |

continued/..

| | Notes | 2010 RMB million | 2009 RMB million |
|---|---|---|---|
| **Net cash flows used in investing activities** | | (43,675) | (22,900) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of subordinated debts | | 5,981 | 5,000 |
| Proceeds from investments in securities sold under agreements to repurchase, net | | 1,621 | 36 |
| Decrease in policyholders' deposits | | (2,795) | (2,208) |
| Interest paid | | (644) | (208) |
| **Net cash flows from financing activities** | | 4,163 | 2,620 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | (5,360) | 1,402 |
| Cash and cash equivalents at beginning of year | | 23,087 | 21,685 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 17,727 | 23,087 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash on hand | 19 | – | 4 |
| Demand deposits | 19 | 14,823 | 17,393 |
| Securities purchased under resale agreements with original maturity of less than three months | 19 | 50 | – |
| Deposits with banks and other financial institutions with original maturity of less than three months | 19 | 2,854 | 5,690 |
| | | 17,727 | 23,087 |

| | Notes | 31 December 2010 *RMB million* | 31 December 2009 *RMB million* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 19 | 32,205 | 32,141 |
| Derivative financial assets | 20 | 6 | 16 |
| Debt securities | 21 | 92,567 | 58,458 |
| Equity securities | 22 | 19,001 | 14,683 |
| Insurance receivables, net | 23 | 10,330 | 17,170 |
| Tax recoverable | | – | 89 |
| Reinsurance assets | 24 | 15,549 | 14,426 |
| Other financial assets and prepayments | 25 | 12,346 | 10,947 |
| Investments in associates | 26 | 1,813 | 812 |
| Investments in subsidiaries | 27 | 3 | 3 |
| Property, plant and equipment | 28 | 11,765 | 12,282 |
| Investment properties | 29 | 1,577 | 706 |
| Prepaid land premiums | 30 | 3,360 | 3,750 |
| Deferred tax assets | 31 | 1,464 | 69 |
| **TOTAL ASSETS** | | 201,986 | 165,552 |
| **LIABILITIES** | | | |
| Payables to reinsurers | 32 | 10,555 | 16,595 |
| Accrued insurance protection fund | 33 | 586 | 418 |
| Tax payable | | 709 | – |
| Other liabilities and accruals | 34 | 25,481 | 20,625 |
| Insurance contract liabilities | 35 | 122,946 | 92,695 |
| Policyholders' deposits | 36 | 2,517 | 5,287 |
| Subordinated debts | 37 | 14,157 | 8,000 |
| **TOTAL LIABILITIES** | | 176,951 | 143,620 |
| **EQUITY** | | | |
| Issued capital | 39 | 11,142 | 11,142 |
| Reserves | | 13,893 | 10,790 |
| **TOTAL EQUITY** | | 25,035 | 21,932 |
| **TOTAL EQUITY AND LIABILITIES** | | 201,986 | 165,552 |

## 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

The consolidated 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 and insurance contract liabilities, which have been measured based on actuarial methods. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

### Basis of consolidation

***Basis of consolidation from 1 January 2010***

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

## 2.1 BASIS OF PREPARATION *(continued)*

### Basis of consolidation *(continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained by the Group and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Non-controlling 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 2010, the net loss attributable to non-controlling interests amounted to RMB848 (2009: RMB18,941). As at 31 December 2010, the net assets attributable to non-controlling interests amounted to RMB21,553 (31 December 2009: RMB22,401).

***Basis of consolidation prior to 1 January 2010***

Certain of the above-mentioned requirements have been applied on a prospective basis. The following difference, however, is carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these losses. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

## 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 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* |
| HKFRS 3 (Revised) | *Business Combinations* |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| HKAS 39 Amendment | Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners* |
| *Improvements to HKFRSs 2009* | Amendments to a number of HKFRSs issued in May 2009 |
| HKFRS 5 Amendments 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 Amendment | Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* |
| HK Interpretation 5 | *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* |

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

### (a) HKFRS 1 (Revised) *First-time Adoption of Hong Kong Financial Reporting Standards*

HKFRS 1 (Revised) 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 are not applicable to the Group.

### (b) Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of an 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 adoption of the amendments has had no impact on the financial position or results of operations of the Group.

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

### (c) HKFRS 3 (Revised) *Business Combinations*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. As the Group currently has no such transactions, the revised standard has had no impact on the financial position or results of operations of the Group.

### (d) HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKAS 27 (Revised) 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. Consequential amendments were made to various standards, including, but not limited 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*. As the Group currently has no such transactions, the revised standard has had no impact on the financial position or results of operations of the Group.

### (e) Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The HKAS 39 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. As the Group has not entered into any such hedges, the amendment has had no impact on the financial position or results of operations of the Group.

### (f) HK(IFRIC)-Int 17 *Distributions of Non-cash Assets to Owners*

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. 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 results in changes in certain accounting policies, the interpretation has had no significant financial impact on the Group.

### (g) Amendments to a number of HKFRSs issued in May 2009

*Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. 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)*

### (h) Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*

The amendments to HKFRS 5 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 after the sale. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary. As the Group currently has no such transactions, the amendments have had no impact on the financial position or results of operations of the Group.

### (i) Amendments to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

HK Interpretation 4 was revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance 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. The adoption of the revised interpretation has had no impact on the financial position or results of operations of the Group.

### (j) HK Interpretation 5 *Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

The interpretation requires a term loan that contains a clause that gives the lender the unconditional right to call the loan at any time shall be classified in total by the borrower as current liabilities in the statement of financial position. This is irrespective of whether a default event has occurred and notwithstanding any other terms and maturity stated in the loan agreement. As the Group has not entered into such term loans, the interpretation has had no impact on the financial position or results of operations of the Group.

## 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 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* |
| HKFRS 9 | *Financial Instruments* |
| HKAS 12 Amendments | Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* |
| HKAS 24 (Revised) | *Related Party Disclosures* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

Further information about those changes that are relevant to the Group is as follows:

HKFRS 1 Amendment relieves first-time adopters of HKFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to HKFRS 7). It thereby ensures that first-time adopters benefit from the same transition provisions that Amendments to HKFRS 7 provide to current HKFRS preparers. HKFRS 1 Amendment will be effective for annual periods beginning on or after 1 July 2010. The amendment would not have significant impact on the Group's financial statements.

In December 2010, the HKICPA issued another amendment to HKFRS 1 to introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. It also removes the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. HKFRS 1 Amendments will be effective for annual periods beginning on or after 1 July 2011. The amendment would not have significant impact on the Group's financial statements.

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

HKFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g., securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Group expects to adopt the amendments from 1 January 2012 and comparative disclosures are not required for any period beginning before that date. Currently, the amendments would not have significant financial impact on the Group.

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.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. HKFRS 9 will be effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. The Group has not decided to early adopt HKFRS 9. The Group is in the process of making an assessment of the impact of the new standard.

HKAS 12 Amendments requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a rebuttable presumption that recovery of the carrying amount will, normally, be through sale. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. Currently, the amendments are unlikely to have any significant impact on the Group.

HKAS 24 (Revised) 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. Currently, the revised standard is unlikely to have any significant impact on the Group's related party disclosures.

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

HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of an 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. Currently, the amendment would not have significant impact on the Group.

The HK(IFRIC)-Int 14 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 the HK(IFRIC)-Int14 Amendments from 1 January 2011. The adoption of the amendments would not have significant financial impact on the Group.

HK(IFRIC)-Int 19 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 Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are a 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 recognized 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. Currently, the interpretation would not have significant financial impact on the Group.

*Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. 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.

## 2.4 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 that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

### Associates

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

The Group's investments 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 investments in associates and is not individually tested for impairment. 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.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

### 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).

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

### Business combinations and goodwill

***Business combinations from 1 January 2010***

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December every year. 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 (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or 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 (or group of cash-generating units) and part of the operation within that unit (or group of cash-generating units) 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 (or group of cash-generating units) retained.

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

### Business combinations and goodwill *(continued)*

***Business combinations prior to 1 January 2010 but after 1 January 2005***

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

### Present value of the 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.

## 2.4 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 and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 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, including prepaid land lease payments under 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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 operating leases net of any incentives received from the lessor 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.

## 2.4 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 investments, 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 net realised and unrealised gains/(losses) on investments 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.

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.

## 2.4 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 by 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 assets**

Available for sale financial assets 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 market conditions.

After initial recognition, available for sale financial assets are subsequently measured at fair value, with unrealised gains or losses being recognised as other comprehensive income in the available for sale investment revaluation 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 revaluation 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.

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

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

**Available for sale financial assets *(continued)***

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.

## 2.4 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 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 and all collateral has been realised or has been transferred to the Group.

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.

## 2.4 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; or

– 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.

## 2.4 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, as appropriate. 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 rate 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 selling 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.

## 2.4 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 a 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 option pricing models.

## 2.4 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 is 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.

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

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, goodwill and AVIF), 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 consolidated 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

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 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.

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

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

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, the variable is not specific to a party to the contract.

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 this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

### 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, the 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 accounts, i.e. motor vehicle, commercial property, cargo, liability, accidental injury, short-term 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.

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.

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

### Insurance contract liabilities *(continued)*

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 relevant acquisition costs. Acquisition costs in relation to the sale of new insurance contracts such as commission expenses, underwriting personal expenses, business tax and surcharges, insurance protection expenses and other incremental costs are recorded as expenses in the profit or loss. Subsequent to the initial recognition, 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 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 expire.

## 2.4 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 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 related 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 amounts 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 revenue 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 the related reinsurance contracts.

Commissions receivable on outwards reinsurance contracts are recorded as income in the income statement. The reinsurers' share of unearned premium reserves is reduced by commissions receivable on outwards 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.

## 2.4 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.

## 2.4 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, a reduction for 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.

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

### Profit appropriation

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to appropriate 10% of the annual statutory net profit (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. The Company may also make appropriations from its annual statutory net profit to the discretionary surplus reserve provided the appropriation is approved by a resolution of the shareholders. Subject to resolutions passed in shareholders' general meetings, the statutory and discretionary surplus reserves 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 the 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. Renminbi is used by each entity in the Group as its functional and presentation currency in measuring its financial statements. 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, 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.

**Classification between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the 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 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.

**Impairment losses 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**

Deferred tax assets are recognised for all unused tax losses and temporary deductible differences to the extent that it is probable that taxable profit will be available against which the unused tax losses and temporary deductible differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits as well as the applicable tax rates, together with future tax planning strategies.

**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 organised 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;

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

(g) the corporate segment includes the management and support of the Group's business through its strategy, risk management, treasury, finance, legal, human resources functions, etc. The corporate segment derives revenue from investing activities

Management monitors the results of the Group's 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 investment income, net realised and unrealised gains/(losses) on investments, finance costs, etc. are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, 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 Mainland China. No inter-segment transactions occurred in 2010 and 2009.

In 2010 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)*

The segment income statements for the years ended 31 December 2010 and 2009 are as follows:

| 2010 | 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* |
|---|---|---|---|---|---|---|---|---|
| Turnover | 115,759 | 10,570 | 3,419 | 5,442 | 4,192 | 14,925 | – | 154,307 |
| Net premiums earned | 98,016 | 6,836 | 2,621 | 4,129 | 2,722 | 8,666 | – | 122,990 |
| Net claims incurred | (66,887) | (4,514) | (1,280) | (2,580) | (1,726) | (5,921) | – | (82,908) |
| Acquisition cost and other underwriting expenses | (19,534) | (1,574) | (519) | (905) | (468) | (412) | – | (23,412) |
| General and administrative expenses | (9,103) | (1,040) | (480) | (578) | (507) | (2,235) | – | (13,943) |
| Underwriting profit/(loss) | 2,492 | (292) | 342 | 66 | 21 | 98 | – | 2,727 |
| Investment income | – | – | – | – | – | 28 | 3,940 | 3,968 |
| Net realised and unrealised gains on investments | – | – | – | – | – | 9 | 1,069 | 1,078 |
| Investment expenses | – | – | – | – | – | (1) | (192) | (193) |
| Interest expenses credited to policyholders' deposits | – | – | – | – | – | (25) | – | (25) |
| Exchange losses, net | – | – | – | – | – | – | (370) | (370) |
| Finance costs | – | – | – | – | – | – | (788) | (788) |
| Sundry income and expenses | – | – | – | – | – | – | 16 | 16 |
| Share of profits and losses of associates | – | – | – | – | – | – | 81 | 81 |
| Profit/(loss) before tax | 2,492 | (292) | 342 | 66 | 21 | 109 | 3,756 | 6,494 |
| Income tax expense | – | – | – | – | – | – | (1,282) | (1,282) |
| Profit/(loss) attributable to owners of the parent | 2,492 | (292) | 342 | 66 | 21 | 109 | 2,474 | 5,212 |

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

| 2009 | 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* |
|---|---|---|---|---|---|---|---|---|
| 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) |
| 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 profits and losses 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)*

The segment assets and liabilities as at 31 December 2010 and 2009 are as follows:

| 2010 | 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 | 8,437 | 3,766 | 1,116 | 2,063 | 1,755 | 11,302 | 173,346 | 201,785 |
| Total liabilities | 102,689 | 10,090 | 2,913 | 7,086 | 4,316 | 18,739 | 31,118 | 176,951 |

| 2009 | 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 |

## 5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| **Turnover** | | |
| Direct premiums written | **153,930** | 119,464 |
| Reinsurance premiums assumed | **377** | 307 |
| | **154,307** | 119,771 |
| **Net premiums earned** | | |
| Turnover | **154,307** | 119,771 |
| Less: Reinsurance premiums ceded | **(17,618)** | (16,422) |
| Net premiums written | **136,689** | 103,349 |
| Less: Change in net unearned premium reserves (note 35) | **(13,699)** | (10,053) |
| Net premiums earned | **122,990** | 93,296 |

## 6. NET CLAIMS INCURRED

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| **Gross claims paid** | **76,389** | 71,812 |
| Less: Paid losses recoverable from reinsurers | **(8,910)** | (13,283) |
| Net claims paid | **67,479** | 58,529 |
| Change in net loss and loss adjustment expense reserves (note 35) | **15,429** | 5,988 |
| Net claims incurred | **82,908** | 64,517 |

## 7. ACQUISITION COST AND OTHER UNDERWRITING EXPENSES

| | Group 2010 RMB million | 2009 RMB million |
|---|---|---|
| Commission expenses | 13,940 | 12,089 |
| Less: Reinsurance commission income | (5,566) | (3,466) |
| Underwriting personnel expenses | 4,906 | 3,827 |
| Business tax and surcharges | 8,015 | 6,161 |
| Insurance protection fund (note 33) | 1,231 | 956 |
| Others | 886 | 228 |
| | 23,412 | 19,795 |

## 8. INVESTMENT INCOME

| | Group 2010 RMB million | 2009 RMB million |
|---|---|---|
| Rental income from investment properties | 156 | 92 |
| Financial assets at fair value through profit or loss | | |
| – Held for trading: | | |
| Interest income | 69 | 74 |
| Dividend income | 96 | 131 |
| Financial assets at fair value through profit or loss | | |
| – Designated upon initial recognition: | | |
| Interest income | 18 | 3 |
| Available for sale financial assets: | | |
| Interest income | 2,299 | 1,469 |
| Dividend income | 331 | 174 |
| Held to maturity investments: | | |
| Interest income | 142 | 1 |
| Loans and receivables: | | |
| Interest income | 857 | 922 |
| | 3,968 | 2,866 |

## 9. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

| | Group 2010 RMB million | Group 2009 RMB million |
|---|---|---|
| Available for sale financial assets: | | |
| Realised gains | 1,475 | 1,276 |
| Impairment losses | (472) | – |
| Financial assets at fair value through profit or loss | | |
| – Held for trading: | | |
| Realised gains | 52 | 32 |
| Unrealised gains/(losses) | (174) | 199 |
| Loans and receivables: | | |
| Reversal of impairment losses | 156 | – |
| Profit on disposal of associates | 41 | 204 |
| | 1,078 | 1,711 |

## 10. EXCHANGE LOSSES, NET

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

| | Group 2010 RMB million | Group 2009 RMB million |
|---|---|---|
| Related to deposits | 268 | (1) |
| Related to claims handling | 9 | 1 |
| Related to general and administrative expenses | 93 | 6 |
| | 370 | 6 |

## 11. FINANCE COSTS

| | Group 2010 RMB million | 2009 RMB million |
|---|---|---|
| Interest on subordinated debts | 680 | 178 |
| Interest on securities sold under agreements to repurchase | 70 | 38 |
| Other finance costs | 38 | 48 |
| | 788 | 264 |

## 12. PROFIT BEFORE TAX

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

| | Notes | 2010 RMB million | 2009 RMB million |
|---|---|---|---|
| Auditors' remuneration, including interim review | | 18 | 18 |
| Depreciation of property, plant and equipment | 28 | 950 | 860 |
| Depreciation of investment properties | 29 | 53 | 29 |
| Amortisation of prepaid land premiums | 30 | 108 | 104 |
| Employee expenses (including directors' and supervisors' remuneration (note 13)): | | | |
| Wages, salaries and staff welfare | | 9,568 | 6,164 |
| Charge of cash-settled appreciation rights expense | | – | 1 |
| Pension scheme contributions | | 766 | 682 |
| Impairment loss on property, plant and equipment | | 2 | – |
| Impairment loss on insurance receivables | 23 | 200 | 668 |
| Minimum lease payments under operating leases in respect of land and buildings | | 352 | 357 |
| Net gain on disposal of items of property, plant and equipment | | (29) | (6) |

## 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:

| | **2010** *RMB'000* | 2009 *RMB'000* |
|---|---|---|
| Fees | **1,121** | 1,382 |
| Other emoluments: | | |
| Salaries, allowances, benefits in kind and performance related bonuses | **1,752** | 2,518 |
| Cash-settled SAR expense | **7,787** | 1,216 |
| Pension scheme contributions | **608** | 622 |
| | **11,268** | 5,738 |

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:

| | **2010** *RMB'000* | 2009 *RMB'000* |
|---|---|---|
| Mr. Cheng Wai Chee, Christopher (Resigned) | **–** | 249 |
| Mr. Lu Zhengfei | **246** | 249 |
| Mr. Luk Kin Yu, Peter | **246** | 249 |
| Mr. Ding Ning Ning | **246** | 249 |
| | **738** | 996 |

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

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

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

| | Fees *RMB'000* | Salaries, allowances, benefits in kind and performance related bonuses *RMB'000* | Cash-settled SAR expense *RMB'000* | Pension scheme contributions *RMB'000* | Total remuneration *RMB'000* |
|---|---|---|---|---|---|
| **2010** | | | | | |
| Chairman of the Board: | | | | | |
| Mr. Wu Yan | – | 636 | – | 213 | 849 |
| Executive directors: | | | | | |
| Mr. Wang Yincheng, (President) | – | 636 | – | 213 | 849 |
| Mdm. Liu Zhenghuan (Resigned) | – | 387 | – | 149 | 536 |
| Non-executive directors: | | | | | |
| Mr. Tse Sze-Wing, Edmund | 137 | – | 7,787 | – | 7,924 |
| Mr. Zhou Shurui | – | – | – | – | – |
| Mr. Li Tao | – | – | – | – | – |
| Supervisors: | | | | | |
| Mr. Ding Yunzhou (Chairman) | – | – | – | – | – |
| Mr. Sheng Hetai | – | – | – | – | – |
| Mr. He Bangshun | – | 93 | – | 33 | 126 |
| Independent supervisor: | | | | | |
| Mr. Li Dianjun | 246 | – | – | – | 246 |
| | 383 | 1,752 | 7,787 | 608 | 10,530 |

These fees were paid at 31 December 2010.

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 supervisors for the year ended 31 December 2010 in accordance with the regulations of the PRC relevant authorities have not been finalised. 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 *RMB'000* | Salaries, allowances, benefits in kind and performance related bonuses *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 | – | 810 | – | 176 | 986 |
| Executive directors: | | | | | |
| Mr. Wang Yincheng, (President) | – | 810 | – | 176 | 986 |
| Mdm. Liu Zhenghuan | – | 620 | – | 180 | 800 |
| 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 | 2,518 | 1,216 | 622 | 4,742 |

## 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% (2009: 25%) in accordance with the relevant PRC income tax rules and regulations.

| | 2010 RMB million | 2009 RMB million |
|---|---|---|
| **Group:** | | |
| Current | | |
| – Charge for the year | 2,063 | 36 |
| – Overprovision in prior years | (49) | (17) |
| Deferred (note 31) | (732) | 365 |
| Total tax charge for the year | 1,282 | 384 |

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate of the PRC, in which the Group is domiciled, to the tax expense at the effective tax rate, and a reconciliation of the applicable rate, i.e. the statutory tax rate, to the effective tax rate, are as follows:

**Group**

| | 2010 RMB million | % | 2009 RMB million | % |
|---|---|---|---|---|
| Profit before tax | 6,494 | | 2,167 | |
| Tax at the statutory tax rate of 25% (2009: 25%) | 1,623 | 25 | 542 | 25 |
| Income not subject to tax | (372) | (6) | (209) | (10) |
| Expenses not deductible for tax | 80 | 1 | 68 | 4 |
| Adjustments in respect of current tax of previous periods | (49) | – | (17) | (1) |
| Tax charge at the Group's effective rate | 1,282 | 20 | 384 | 18 |

In 2010, the National Audit Office of the People's Republic of China ("CNAO") conducted an audit on the assets, liabilities, profit and loss of the PICC Group, and part of its subsidiaries and branches (including the Company) for the year ended 31 December 2009. The Group has made relevant tax provisions based on the results of the CNAO audit report and the Group's current understanding of tax laws. As at 31 December 2010, an additional provision for corporate income tax made arising from the CNAO audit relating to the year ended 31 December 2009 amounting to RMB62 million was charged to the consolidated income statement for the year.

## 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 RMB5,212 million (2009: RMB1,783 million) and 11,142 million (31 December 2009: 11,142 million) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2010 and 2009 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 (2009: Nil).

## 18. COMPONENTS OF OTHER COMPREHENSIVE INCOME

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| Cash flow hedges: | | |
| Net gains/(losses) arising during the year | **(10)** | 10 |
| Available for sale investments: | | |
| Changes in fair value | **(1,643)** | 1,789 |
| Reclassification adjustments for (gains)/losses included in the consolidated income statement | | |
| Gains on disposal | **(1,475)** | (1,276) |
| Impairment losses | **472** | – |
| | **(2,646)** | 513 |

## 19. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | 31 December 2010 *RMB million* | 31 December 2009 *RMB million* | 31 December 2010 *RMB million* | 31 December 2009 *RMB million* |
| Cash on hand, at amortised cost | – | 4 | – | 4 |
| Demand deposits, at amortised cost | 14,823 | 17,393 | 14,819 | 17,391 |
| Securities purchased under resale agreements with original maturity of less than three months, at amortised cost | 50 | – | 50 | – |
| Deposits with banks and other financial institutions with original maturity of less than three months, at amortised cost | 2,854 | 5,690 | 2,854 | 5,690 |
| Deposits with banks and other financial institutions with original maturity of more than three months, at amortised cost | 12,315 | 6,907 | 12,315 | 6,907 |
| Structured deposits with banks and other financial institutions: | | | | |
| at fair value | 199 | – | 199 | – |
| at amortised cost | 1,968 | 2,149 | 1,968 | 2,149 |
| | 32,209 | 32,143 | 32,205 | 32,141 |
| Classification of cash and cash equivalents: | | | | |
| Loans and receivables | 32,010 | 32,143 | 32,006 | 32,141 |
| Designated as fair value through profit or loss financial assets | 199 | – | 199 | – |
| | 32,209 | 32,143 | 32,205 | 32,141 |

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.

## 20. DERIVATIVE FINANCIAL ASSETS

| | Group and Company | |
|---|---|---|
| | **31 December 2010** | 31 December 2009 |
| | ***RMB million*** | *RMB million* |
| Interest rate swaps assets | **6** | 16 |

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 2010:** | | | |
| 7-day fixing Repo rate or 1-year deposit rate by the People's Bank of China | 2.900%-3.920% | 8 April 2011-18 May 2014 | 700 |
| 31 December 2009: | | | |
| 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 loss of RMB7 million (2009: a net gain of RMB7 million) was included in the statement of comprehensive income. There was no gain or loss transferred from other comprehensive income in 2009 and 2010.

## 21. DEBT SECURITIES

| | Group and Company | |
|---|---|---|
| | **31 December 2010** | 31 December 2009 |
| | ***RMB million*** | *RMB million* |
| Listed debt securities, at fair value: | | |
| Debt securities issued by governments | **6,148** | 9,743 |
| Debt securities issued by corporate entities | **6,207** | 3,639 |
| | **12,355** | 13,382 |
| Unlisted debt securities, at fair value: | | |
| Debt securities issued by governments | **17,859** | 11,975 |
| Debt securities issued by banks and other financial institutions | **34,046** | 19,275 |
| Debt securities issued by corporate entities | **20,384** | 13,326 |
| | **72,289** | 44,576 |
| Listed debt securities, at amortised cost: | | |
| Debt securities issued by corporate entities | **950** | – |
| Unlisted debt securities, at amortised cost: | | |
| Debt securities issued by government | **500** | – |
| Debt securities issued by banks and other financial institutions | **5,333** | 500 |
| Debt securities issued by corporate entities | **1,140** | – |
| | **6,973** | 500 |
| | **92,567** | 58,458 |
| Classification of debt securities: | | |
| Fair value through profit or loss – held for trading | **1,678** | 1,649 |
| Available for sale | **82,966** | 56,309 |
| Held to maturity | **7,923** | 500 |
| | **92,567** | 58,458 |

## 22. EQUITY SECURITIES

| | Group and Company | |
|---|---|---|
| | 31 December 2010 | 31 December 2009 |
| | *RMB million* | *RMB million* |
| Listed investments, at fair value: | | |
| Mutual funds | 873 | 616 |
| Shares | 11,809 | 7,278 |
| | 12,682 | 7,894 |
| Unlisted investments, at fair value: | | |
| Mutual funds | 5,689 | 6,166 |
| Unlisted investments, at cost: | | |
| Shares | 630 | 623 |
| | 19,001 | 14,683 |
| Classification of equity securities: | | |
| Fair value through profit or loss – held for trading | 2,019 | 2,711 |
| Available for sale | 16,982 | 11,972 |
| | 19,001 | 14,683 |

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

There was a significant and prolonged decline in the market value of certain equity investments during the year. The directors consider that such a decline indicates that the equity investments have been impaired and an impairment loss of RMB472 million (2009: Nil), which included a reclassification from other comprehensive income of RMB472 million (2009: Nil), has been recognised in the income statement for the year.

## 23. INSURANCE RECEIVABLES, NET

| | Group and Company | |
|---|---|---|
| | **31 December 2010** | 31 December 2009 |
| | ***RMB million*** | *RMB million* |
| Premiums receivable and agents' balances | **5,399** | 6,044 |
| Receivables from reinsurers | **7,107** | 13,262 |
| | **12,506** | 19,306 |
| Less: Impairment provision on: | | |
| Premiums receivable and agents' balances | **(2,035)** | (2,127) |
| Receivables from reinsurers | **(141)** | (9) |
| | **10,330** | 17,170 |

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 2010** | 31 December 2009 |
| | ***RMB million*** | *RMB million* |
| On demand | **6,509** | 8,641 |
| Within 1 month | **961** | 1,126 |
| 1 to 3 months | **1,518** | 1,549 |
| Over 3 months | **1,342** | 5,854 |
| | **10,330** | 17,170 |

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

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

| | Group and Company | |
|---|---|---|
| | **31 December 2010** *RMB million* | 31 December 2009 *RMB million* |
| At 1 January | **2,136** | 1,499 |
| Impairment losses recognised (note 12) | **200** | 668 |
| Amount written off as uncollectible | **(160)** | (31) |
| At 31 December | **2,176** | 2,136 |

Included in the Group's insurance receivables is an amount due from a fellow subsidiary of RMB238 million (31 December 2009: RMB35 million), refer to note 47(c).

## 24. REINSURANCE ASSETS

| | Group and Company | |
|---|---|---|
| | **31 December 2010** *RMB million* | 31 December 2009 *RMB million* |
| Reinsurers' share of: | | |
| Unearned premium reserves (note 35) | **6,279** | 4,636 |
| Loss and loss adjustment expense reserves (note 35) | **9,270** | 9,790 |
| | **15,549** | 14,426 |

## 25. OTHER FINANCIAL ASSETS AND PREPAYMENTS

| | | Group and Company | |
|---|---|---|---|
| | Notes | 31 December 2010 RMB million | 31 December 2009 RMB million |
| Unlisted debts | | 2,200 | 3,290 |
| Capital security fund | (i) | 2,228 | 2,228 |
| Interest receivables | | 1,760 | 1,173 |
| Prepayments and deposits | (ii) | 693 | 653 |
| Other receivables | (iii) | 517 | 395 |
| Securities settlement accounts | | 1,151 | – |
| Amount due from the PICC Group (note 47(c)) | | 139 | 9 |
| Amounts due from fellow subsidiaries (note 47(c)) | | 8 | 14 |
| Amounts due from associates (note 47(c)) | | 1 | 1 |
| Other assets | | 3,649 | 3,184 |
| | | 12,346 | 10,947 |

*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 China Insurance Regulatory Commission ("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 2010 was a consideration of RMB588 million (31 December 2009: 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 before 27 December 2009. The Company obtained the said right pursuant to an agreement dated 27 December 2006 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. As at 31 December 2010, the Company was still in negotiation with the shareholder of the securities company to extend the term of the agreement to register as a shareholder. The Company considered there was no impairment to the consideration as the amount will be fully recovered should the said agreement not be extended.

(iii) Included in the other receivables as at 31 December 2010 was an amount of RMB340 million (31 December 2009: RMB340 million) due from another securities company under liquidation. In 2010, the Company received the right to cash of RMB16 million and listed shares from the PRC stock exchanges with a fair value of RMB139 million as at 31 December 2010. Based on the recoverable amount from the liquidation, the Company reversed corresponding impairments in the amount of RMB155 million, and the balance of the impairment provision was reduced to RMB185 million (31 December 2009: RMB340) as at 31 December 2010.

## 26. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **31 December 2010** *RMB million* | 31 December 2009 *RMB million* | **31 December 2010** *RMB million* | 31 December 2009 *RMB million* |
| Unlisted shares, at cost | | | **1,813** | 812 |
| AVIF | **11** | 19 | **–** | – |
| Goodwill on acquisition | **16** | 16 | **–** | – |
| Share of net assets | **1,584** | 609 | **–** | – |
| | **1,611** | 644 | **1,813** | 812 |

The Group's receivable and payable balance with the associates are disclosed in note 47(c) to the financial statements.

Particulars of associates as at 31 December 2010 and 2009 are as follows:

**31 December 2010**

| **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 Insurance Company Limited ("PICC Life") | Mainland China | 8,802 | 8.615 | Provision of life insurance products |
| Beijing No. 88 West Chang'an Avenue Development Company Limited ("No. 88 Development Company") | Mainland China | 501 | 30.41 | Provision of estate services and property management |

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 |

## 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 8.615% from 14%. A deemed disposal gain of RMB41 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.

In December 2010, the Company, PICC Group and its four subsidiaries entered into the agreement on the joint acquisition of the interest in No. 88 Development Company. The joint transferees and the transferors entered into the formal equity interest transfer agreement on 30 December 2010. Pursuant to this agreement, the Company paid RMB1 billion to acquire a 30.41% equity interest in No. 88 Development Company, based on the fair value of net assets of No. 88 Development Company which amounts to RMB3,288 million. The Company completed the procedures for the registration changes in respect of No. 88 Development Company with the relevant administration authority for industry and commerce on 21 January 2011.

The following table illustrates the summarised financial information of the Group's associates as extracted from their financial statements:

| | No. 88 Development Company | PICC Life | |
|---|---|---|---|
| | 31 December 2010 | 31 December 2010 | 31 December 2009 |
| | *RMB million* | *RMB million* | *RMB million* |
| Share of the associates' assets and liabilities | | | |
| Assets | 1,214 | 16,099 | 13,030 |
| Liabilities | (214) | (15,515) | (12,421) |
| Net assets | 1,000 | 584 | 609 |

| | No. 88 Development Company | PICC Life | |
|---|---|---|---|
| | 2010 | 2010 | 2009 |
| | *RMB million* | *RMB million* | *RMB million* |
| Share of the associates' revenue and profit: | | | |
| Revenue | – | 8,439 | 12,541 |
| Profit | – | 81 | 13 |

During the year ended 31 December 2010, the Group's share of No. 88 Development Company's revenue and profit were less than RMB one million, and therefore, the amount was not presented above.

## 27. INVESTMENTS IN SUBSIDIARIES

| | Company 31 December 2010 RMB million | 31 December 2009 RMB million |
|---|---|---|
| Unlisted shares, at cost | 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 2010 | 10,498 | 1,600 | 3,283 | 2,250 | 17,631 |
| Additions | 75 | 356 | 520 | 183 | 1,134 |
| Transfers | 1,449 | – | – | (1,449) | – |
| Transfers to investment properties (note 29) | (182) | – | – | (539) | (721) |
| Disposals | (60) | (166) | (381) | – | (607) |
| At 31 December 2010 | 11,780 | 1,790 | 3,422 | 445 | 17,437 |
| Accumulated depreciation: | | | | | |
| At 1 January 2010 | (2,287) | (951) | (2,111) | – | (5,349) |
| Charge for the year | (363) | (181) | (406) | – | (950) |
| Transfers to investment properties (note 29) | 62 | – | – | – | 62 |
| Disposals | 36 | 158 | 371 | – | 565 |
| At 31 December 2010 | (2,552) | (974) | (2,146) | – | (5,672) |
| Net book amount: | | | | | |
| At 31 December 2010 | 9,228 | 816 | 1,276 | 445 | 11,765 |

## 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 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 |

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 2010, certain acquired buildings of the Group with a net book amount of RMB568 million (31 December 2009: RMB336 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 2010 amounted to RMB3,915 million (31 December 2009: RMB2,130 million).

## 29. INVESTMENT PROPERTIES

| | Group and Company 2010 RMB million | 2009 RMB million |
|---|---|---|
| Cost: | | |
| At 1 January | **998** | 815 |
| Transfers from property, plant and equipment (note 28) | **721** | 142 |
| Transfers from prepaid land premiums (note 30) | **329** | 41 |
| At 31 December | **2,048** | 998 |
| Accumulated depreciation: | | |
| At 1 January | **(292)** | (210) |
| Charge for the year | **(53)** | (29) |
| Transfers from property, plant and equipment (note 28) | **(62)** | (47) |
| Transfers from prepaid land premiums (note 30) | **(64)** | (6) |
| At 31 December | **(471)** | (292) |
| Net book value at 31 December | **1,577** | 706 |

As at 31 December 2010, the fair value of the investment properties was RMB2,777 million (31 December 2009: RMB1,120 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 | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| At 1 January | **3,750** | 3,769 |
| Additions | **20** | 120 |
| Amortisation recognised during the year | **(108)** | (104) |
| Transfers to investment properties (note 29) | **(265)** | (35) |
| Disposal | **(37)** | – |
| At 31 December | **3,360** | 3,750 |

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

| | Group and Company | |
|---|---|---|
| | **31 December 2010** | 31 December 2009 |
| | ***RMB million*** | *RMB million* |
| Long term leases | **125** | 83 |
| Medium term leases | **3,235** | 3,667 |
| | **3,360** | 3,750 |

## 31. 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 investments *RMB million* | Cash flow hedging *RMB million* | Insurance contract liabilities *RMB million* | Salaries and staff welfare payables *RMB million* | Others *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets:** | | | | | | | |
| At 1 January 2010 | 513 | – | – | – | 54 | – | 567 |
| Deferred tax credited to the income statement during the year (note 15) | 103 | – | – | 190 | 396 | 30 | 719 |
| Deferred tax credited to the equity during the year | – | 630 | – | – | – | – | 630 |
| Gross deferred tax assets at 31 December 2010 | 616 | 630 | – | 190 | 450 | 30 | 1,916 |
| **Deferred tax liabilities:** | | | | | | | |
| At 1 January 2010 | – | (30) | (4) | (451) | – | (13) | (498) |
| Deferred tax charged to the income statement during the year (note 15) | – | – | – | – | – | 13 | 13 |
| Deferred tax credited to equity during the year | – | 30 | 3 | – | – | – | 33 |
| Gross deferred tax liabilities at 31 December 2010 | – | – | (1) | (451) | – | – | (452) |
| Net deferred tax assets at 31 December 2010 | | | | | | | 1,464 |

## 31. DEFERRED TAX *(continued)*

### Group and Company

| | Impairment losses on financial assets *RMB million* | Revaluation of available for sale investments *RMB million* | Cash flow hedging *RMB million* | Insurance contract liabilities *RMB million* | Salaries and staff welfare payables *RMB million* | Others *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|---|---|
| **Deferred tax assets:** | | | | | | | |
| At 1 January 2009 | 510 | – | – | – | 38 | 38 | 586 |
| Deferred tax (charged)/credited to the income statement during the year (note 15) | 3 | – | – | – | 16 | (38) | (19) |
| Gross deferred tax assets at 31 December 2009 | 513 | – | – | – | 54 | – | 567 |
| **Deferred tax liabilities:** | | | | | | | |
| At 1 January 2009 | – | 98 | (1) | (118) | – | – | (21) |
| Deferred tax charged to the income statement during the year (note 15) | – | – | – | (333) | – | (13) | (346) |
| Deferred tax debited to equity during the year | – | (128) | (3) | – | – | – | (131) |
| Gross deferred tax liabilities at 31 December 2009 | – | (30) | (4) | (451) | – | (13) | (498) |
| Net deferred tax assets at 31 December 2009 | | | | | | | 69 |

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.

## 32. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

| | Group and Company | |
|---|---|---|
| | **31 December 2010** | 31 December 2009 |
| | ***RMB million*** | *RMB million* |
| Reinsurance payables | **10,555** | 16,595 |

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

Included in the Group's reinsurance payables is an amount due to a fellow subsidiary of RMB483 million (31 December 2009: RMB36 million), refer to note 47(c).

## 33. ACCRUED INSURANCE PROTECTION FUND

| | Group and Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| At 1 January | **418** | 252 |
| Accrued during the year (note 7) | **1,231** | 956 |
| Paid during the year | **(1,063)** | (790) |
| At 31 December | **586** | 418 |

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 (2009: 0.8%) in accordance with the relevant PRC insurance laws and regulations. No further provision is required once the accumulated balance has reached 6% (2009: 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.

## 34. OTHER LIABILITIES AND ACCRUALS

| | Group and Company | |
|---|---|---|
| | 31 December 2010 RMB million | 31 December 2009 RMB million |
| Premiums received in advance | 6,227 | 8,629 |
| Securities sold under agreements to repurchase | 4,532 | 1,760 |
| Salaries and staff welfare payables | 3,288 | 1,605 |
| Commission payable | 1,860 | 938 |
| Accrued capital expenditure | 246 | 187 |
| Amounts due to fellow subsidiaries (note 47(c)) | 95 | 69 |
| Others | 9,233 | 7,437 |
| | 25,481 | 20,625 |

Securities sold under agreements to repurchase do not qualify for derecognition as the Group has committed to repurchasing these securities under predetermined terms. As at 31 December 2010, the borrowings obtained under these repurchase transactions were RMB4,532 million (31 December 2009: RMB1,760 million), while the carrying amount of financial assets do not qualify for derecognition.

## 35. INSURANCE CONTRACT LIABILITIES

| | Group and Company | |
|---|---|---|
| | 31 December 2010 RMB million | 31 December 2009 RMB million |
| Unearned premium reserves | 60,214 | 44,872 |
| Loss and loss adjustment expense reserves | 62,732 | 47,823 |
| | 122,946 | 92,695 |

## 35. INSURANCE CONTRACT LIABILITIES *(continued)*

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

**Group and Company**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Gross amount *RMB million* | Reinsurers' share *RMB million* (note 24) | Net amount *RMB million* | Gross amount *RMB million* | Reinsurers' share *RMB million* (note 24) | Net amount *RMB million* |
| **Unearned premium reserves:** | | | | | | |
| At 1 January | 44,872 | (4,636) | 40,236 | 39,396 | (9,213) | 30,183 |
| Increase during the year | 33,766 | (2,887) | 30,879 | 19,834 | (523) | 19,311 |
| Release during the year | (18,424) | 1,244 | (17,180) | (14,358) | 5,100 | (9,258) |
| At 31 December | 60,214 | (6,279) | 53,935 | 44,872 | (4,636) | 40,236 |
| **Loss and loss adjustment expense reserves:** | | | | | | |
| At 1 January | 47,823 | (9,790) | 38,033 | 40,293 | (8,248) | 32,045 |
| Increase during the year | 91,298 | (8,390) | 82,908 | 79,342 | (14,825) | 64,517 |
| Release during the year | (76,389) | 8,910 | (67,479) | (71,812) | 13,283 | (58,529) |
| At 31 December | 62,732 | (9,270) | 53,462 | 47,823 | (9,790) | 38,033 |
| **Total insurance contract liabilities** | 122,946 | (15,549) | 107,397 | 92,695 | (14,426) | 78,269 |

## 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 2010 *RMB million* | 31 December 2009 *RMB million* |
| Interest-bearing deposits | 484 | 2,969 |
| Non-interest-bearing deposits | 2,033 | 2,318 |
| | 2,517 | 5,287 |

## 36. POLICYHOLDERS' DEPOSITS *(continued)*

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.

## 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.

On 30 June 2010, the Company issued subordinated debts of RMB6,000 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 4.60% per annum in the first five years and a rate of 6.60% per annum in the remaining years. The Company has an option to redeem the subordinated debts at the end of the first five years.

## 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.

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

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

**Terms *(continued)***

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

| Line | Estimation method |
|---|---|
| All | • Paid and incurred loss development methods;<br>• Incurred Bornhuetter-Fergusons method; and<br>• Expected loss ratio method |

Reinsurance recoveries on unpaid claims are separately estimated for proportional 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, multiply an IBNR ratio |
| Other treaties | • Incurred claims loss development method, and<br>• Bornhuetter-Ferguson method |

**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 rates used for discounting long-tailed liabilities are 2.8% and 3.2% for 2010 and 2009, respectively.

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, 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.

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

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

**Assumptions and sensitivities *(continued)***

With the adoption of a number of changes in accounting policies in the prior year, the most likely scenario approach used in determining outstanding claims was replaced from 2009 by using probability-weighted estimates plus a risk margin, adjusted by the time value of money, and as a result, the development of claim reserves is presented from 2009 in these financial statements.

Reproduced below is an analysis that shows the development of claims over a period of time on a gross basis:

| *RMB million* | Accident year – gross | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | Total |
| Estimated cumulative claims paid as of: | | | | | |
| End of current year | | | 74,371 | 87,117 | |
| One year later | | 73,806 | 74,707 | | |
| Two years later | 52,005 | 73,582 | | | |
| Three years later | 51,803 | | | | |
| Estimated cumulative claims | 51,803 | 73,582 | 74,707 | 87,117 | 287,209 |
| Cumulative claims paid | (50,523) | (70,298) | (63,846) | (43,138) | (227,805) |
| Sub-total | | | | | 59,404 |
| Liability in respect of prior years and unallocated loss adjustment expenses | | | | | 3,328 |
| Unpaid claim expenses | | | | | 62,732 |

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

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

**Assumptions and sensitivities *(continued)***

Reproduced below is an analysis that shows the development of claims over a period of time on a net basis:

| *RMB million* | Accident year – net | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | Total |
| Estimated cumulative claims paid as of: | | | | | |
| End of current year | | | 59,182 | 78,342 | |
| One year later | | 59,354 | 59,270 | | |
| Two years later | 44,933 | 59,074 | | | |
| Three years later | 44,752 | | | | |
| Estimated cumulative claims | 44,752 | 59,074 | 59,270 | 78,342 | 241,438 |
| Cumulative claims paid | (43,727) | (56,520) | (51,457) | (39,209) | (190,913) |
| Sub-total | | | | | 50,525 |
| Liability in respect of prior years and unallocated loss adjustment expenses | | | | | 2,937 |
| Unpaid claim expenses | | | | | 53,462 |

The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from the re-assessment of the ultimate liabilities are recognised in subsequent years' 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 RMB9,903 million (2009: RMB11,577 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 2010 RMB million | 31 December 2009 RMB million |
|---|---|---|
| **Shares** | | |
| Registered, issued and fully paid: | | |
| 7,685,820,000 domestic shares of RMB1.00 each | 7,686 | 7,686 |
| 3,455,980,000 H shares of RMB1.00 each | 3,456 | 3,456 |
| | 11,142 | 11,142 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | 2010 RMB million | 2009 RMB million | 2010 RMB million | 2009 RMB million |
| **Financial assets** | | | | |
| Cash and cash equivalents | 32,209 | 32,143 | 32,209 | 32,143 |
| Derivative financial assets | 6 | 16 | 6 | 16 |
| Debt securities | 92,567 | 58,458 | 92,066 | 58,447 |
| Equity securities | 18,371 | 14,060 | 18,371 | 14,060 |
| Insurance receivables, net | 10,330 | 17,170 | 10,330 | 17,170 |
| Other financial assets and prepayments | 11,630 | 10,352 | 11,695 | 10,352 |
| | 165,113 | 132,199 | 164,677 | 132,188 |
| **Financial liabilities** | | | | |
| Payables to reinsurers | 10,555 | 16,595 | 10,555 | 16,595 |
| Accrued insurance protection fund | 586 | 418 | 586 | 418 |
| Other liabilities and accruals | 16,683 | 10,515 | 16,683 | 10,515 |
| Policyholders' deposits | 2,517 | 5,287 | 2,517 | 5,287 |
| Subordinated debts | 14,157 | 8,000 | 14,519 | 8,249 |
| | 44,498 | 40,815 | 44,860 | 41,064 |

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, insurance receivables, net, payables to reinsurers, other liabilities and accruals, accrued insurance protection fund and policyholders' deposits listed in the above tables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of listed debt securities and equity investments are based on quoted market prices. The fair values of unlisted debt securities and mutual fund investments have been estimated by using the quoted market prices of securities with similar credit, maturity and yield characteristics, or based on executable broker/dealer price quotations, or bid prices quoted by mutual fund management companies. The fair value of subordinated debts has been estimated using quoted market prices for securities with similar credit, terms, maturity and characteristics. The directors believe that the estimated fair values resulting from the valuation technique, and the related changes in fair values, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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 any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

### Financial assets measured at fair value

Group and Company

| As at 31 December 2010 | Level 1 | Level 2 | Total |
|---|---|---|---|
| Financial assets held for trading | | | |
| Equity investments | 2,019 | – | 2,019 |
| Debt securities | 389 | 1,289 | 1,678 |
| Derivative financial assets | | | |
| Interest rate swap contracts | – | 6 | 6 |
| Available for sale investments | | | |
| Equity investments | 16,352 | – | 16,352 |
| Debt securities | 11,966 | 71,000 | 82,966 |
| | 30,726 | 72,295 | 103,021 |

| 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 2010 (31 December 2009: Nil).

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 (2009: Nil).

The Group did not have any financial liabilities measured at fair value as at 31 December 2010 (31 December 2009: Nil).

## 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 2010 | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | 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 | 23,628 | 20,619 | 115% | 17,469 | 15,690 | 111% |

## 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.

## 42. SHARE APPRECIATION RIGHTS *(continued)*

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 SAR 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 RMB8 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.

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

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

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

Reinsurance of the Group is mainly placed with reinsurers with Standard & Poor's ratings of A– (or ratings of an equal level given by other international rating institutions such as A.M. Best, Fitch, Moody's) 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 2010, the top three reinsurance companies owed an aggregate amount of RMB4,221 million (31 December 2009: RMB11,400 million) to the Group.

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:

| | 2010<br>*RMB million* | 2009<br>*RMB million* |
|---|---|---|
| Cash and cash equivalents | 32,209 | 32,143 |
| Derivative financial assets | 6 | 16 |
| Debt securities | 92,567 | 58,458 |
| Insurance receivables, net | 10,330 | 17,170 |
| Other financial assets | 10,421 | 9,019 |
| Total credit risk exposure | 145,533 | 116,806 |

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 2010 | On demand | Past due but not impaired | | | | Past due and impaired | Total |
|---|---|---|---|---|---|---|---|
| | | Less than 30 days | 31 to 90 days | More than 90 days | Sub-total | | |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* |
| Cash and cash equivalents | 32,209 | – | – | – | – | – | 32,209 |
| Derivative financial assets | 6 | – | – | – | – | – | 6 |
| Debt securities | 92,567 | – | – | – | – | – | 92,567 |
| Insurance receivables | 6,619 | 641 | 1,238 | 550 | 2,429 | 3,458 | 12,506 |
| Other financial assets | 10,266 | – | – | – | – | 340 | 10,606 |
| Total | 141,667 | 641 | 1,238 | 550 | 2,429 | 3,798 | 147,894 |
| Less: Impairment provision | – | – | – | – | – | (2,361) | (2,361) |
| Net | 141,667 | 641 | 1,238 | 550 | 2,429 | 1,437 | 145,533 |

| 31 December 2009 | On demand | Past due but not impaired | | | | Past due and impaired | Total |
|---|---|---|---|---|---|---|---|
| | | Less than 30 days | 31 to 90 days | More than 90 days | Sub-total | | |
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *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 |

## 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 9% (31 December 2009: 14%) 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)*

An analysis by the remaining contractual maturity for certain financial assets, reinsurance assets, financial liabilities and insurance contract liabilities is presented below:

| 31 December 2010 | Past due *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 | 14,901 | 6,979 | 3,051 | 5,618 | 3,372 | 33,921 |
| Derivative financial assets | – | – | 4 | 2 | – | 6 |
| Debt securities | | | | | | |
| – Available for sale | – | 1,656 | 13,920 | 44,953 | 39,163 | 99,692 |
| – Fair value through profit and loss | – | 1 | 727 | 603 | 399 | 1,730 |
| – Held to maturity | – | 15 | 220 | 1,418 | 9,930 | 11,583 |
| Reinsurance assets | – | 2,729 | 8,706 | 3,851 | 416 | 15,702 |
| Capital security fund | – | 301 | 1,317 | 705 | – | 2,323 |
| Liabilities: | | | | | | |
| Payables to reinsurers | 2,953 | 7,152 | 325 | 122 | 3 | 10,555 |
| Insurance contract liabilities | – | 21,490 | 77,356 | 22,503 | 1,904 | 123,253 |
| Policyholders' deposits | 306 | – | 143 | 278 | 1,790 | 2,517 |
| Subordinated debts | – | 2 | 818 | 2,880 | 17,136 | 20,836 |

| 31 December 2009 | Past due *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 |

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:

| | 2010 Current* RMB million | 2010 Non-current RMB million | 2010 Total RMB million | 2009 Current* RMB million | 2009 Non-current RMB million | 2009 Total RMB million |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 24,602 | 7,607 | 32,209 | 27,995 | 4,148 | 32,143 |
| Derivative financial assets | 4 | 2 | 6 | – | 16 | 16 |
| Debt securities | 15,457 | 77,110 | 92,567 | 9,831 | 48,627 | 58,458 |
| Equity securities | 2,018 | 16,983 | 19,001 | 2,711 | 11,972 | 14,683 |
| Insurance receivables, net | 9,981 | 349 | 10,330 | 16,917 | 253 | 17,170 |
| Tax recoverable | – | – | – | 89 | – | 89 |
| Reinsurance assets | 11,335 | 4,214 | 15,549 | 10,576 | 3,850 | 14,426 |
| Other financial assets and prepayments | 7,135 | 5,211 | 12,346 | 7,050 | 3,897 | 10,947 |
| Investments in associates | – | 1,611 | 1,611 | – | 644 | 644 |
| Property, plant and equipment | – | 11,765 | 11,765 | – | 12,282 | 12,282 |
| Investment properties | – | 1,577 | 1,577 | – | 706 | 706 |
| Prepaid land premiums | – | 3,360 | 3,360 | – | 3,750 | 3,750 |
| Deferred tax assets | – | 1,464 | 1,464 | – | 69 | 69 |
| Total | 70,532 | 131,253 | 201,785 | 75,169 | 90,214 | 165,383 |

* 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, as at 31 December 2010, the Group held deposits of RMB9,423 million (31 December 2009: RMB10,127 million) and debt securities of RMB765 million (31 December 2009: RMB786 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.

| | | 2010 | | 2009 | |
|---|---|---|---|---|---|
| | 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% | 532 | 532 | 549 | 549 |
| USD | –5% | (532) | (532) | (549) | (549) |

## 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 four to five 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 held by the Group.

*(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 10 trading days (2009: 10 trading days) at a confidence level of 99% (2009: 99%) based on historical data in the past one year.

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 10-day holding period assumes that all positions in the portfolio can be liquidated or hedged in 10 days. This assumption may not hold true in reality, especially when the market is illiquid.

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

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

#### (3) Market risk *(continued)*

*(iii) Price risk (continued)*

| | 2010 RMB million | 2009 RMB million |
|---|---|---|
| Interest rate VaR | 816 | 353 |
| Equity price VaR | 1,850 | 1,371 |

### (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 claims-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 in 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 claims 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:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Gross<br>*RMB million* | Net<br>*RMB million* | Gross<br>*RMB million* | Net<br>*RMB million* |
| Coastal and developed provinces/cities | 67,431 | 58,882 | 54,384 | 46,266 |
| Western China | 31,583 | 28,003 | 25,109 | 21,975 |
| North China | 25,227 | 23,071 | 17,394 | 15,508 |
| Central China | 17,878 | 15,901 | 13,647 | 11,891 |
| North-eastern China | 12,188 | 10,832 | 9,237 | 7,709 |
| Total | 154,307 | 136,689 | 119,771 | 103,349 |

## 44. CONTINGENT LIABILITIES

There were certain outstanding litigation matters against the Group as at 31 December 2010. The management of the Company believes such litigation matters will not cause significant losses to the Group.

Owing to the nature of the insurance business, the Group is involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies, and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Group 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

### (a) As lessor

The Group leases its investment properties (note 29) under operating lease arrangements, with leases negotiated for terms ranging from two to six years.

At 31 December 2010, future minimum lease receivables under non-cancellable operating leases are as follows:

| | Group and Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| Within one year | **143** | 66 |
| In the second to fifth years, inclusive | **249** | 107 |
| After five years | **95** | 67 |
| | **487** | 240 |

### (b) As lessee

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 terms ranging from one to three years (2009: one year).

At 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group and Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| Within one year | **155** | 175 |
| In the second to fifth years, inclusive | **164** | 194 |
| After five years | **63** | 66 |
| | **382** | 435 |

## 46. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 45 above, the Group and the Company had the following capital commitments at the end of the reporting period:

| | Group and Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB million*** | *RMB million* |
| Contracted, but not provided for: | | |
| Property, plant and equipment | **325** | 273 |
| | **325** | 273 |

## 47. RELATED PARTY TRANSACTIONS

### (a) Material transactions with related parties

| | Notes | **2010** *RMB million* | 2009 *RMB million* |
|---|---|---|---|
| Transactions with the holding company: | | | |
| Loss on disposal of an associate | (i) | **–** | 24 |
| Transfer of unlisted debts | (ii) | **975** | – |
| Transactions with fellow subsidiaries: | | | |
| Property purchase | (iii) | **–** | 251 |
| Property rental expenses | (iv) | **142** | 154 |
| Property rental income | (iv) | **3** | 3 |
| Motor vehicle rental expenses | (iv) | **–** | – |
| Management fee | (v) | **101** | 86 |
| Premiums ceded | (vi) | **714** | 62 |
| Reinsurance commission income | (vi) | **269** | 19 |
| Paid losses recoverable from reinsurers | (vi) | **57** | 33 |
| Reinsurance premiums assumed | (vi) | **3** | 3 |
| Commission expenses-reinsurance | (vi) | **–** | – |
| Gross claims paid-reinsurance | (vi) | **–** | 1 |
| Transactions with associates: | | | |
| Commission received | (vii) | **21** | 33 |
| Commission paid | (vii) | **34** | 16 |

## 47. RELATED PARTY TRANSACTIONS *(continued)*

### (a) Material transactions with related parties *(continued)*

*Notes:*

(i) 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 Asset Management Company Limited ("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.

(ii) 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 PICC Group agreed to dispose of and 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.

(iii) 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.

(iv) 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 the year ended 31 December 2010 and 2009, motor vehicle rental expenses were less than RMB one million and, therefore, the amount was not presented above.

(v) On 28 December 2007, the Company and PICC AMC entered into an asset management agreement. Pursuant to the asset management agreement, PICC AMC provided investment and management services in respect of certain financial assets of the Company. The Company paid an annual management fee to PICC AMC, which was 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 were also to be paid to PICC AMC when the investment performance satisfies certain conditions. This agreement expired on 31 December 2009. On 15 January 2010, the Company and PICC AMC entered into a renewed asset management agreement. Pursuant to the renewed 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 renewed agreement commenced from 1 January 2010 and will expire on 31 December 2012 with a term of three years.

(vi) On 6 May 2010, the Company and The People's Insurance Company of China (Hong Kong), Limited ("PICC HK") entered into the Framework Agreement on Reinsurance Business Cooperation, pursuant to which the Company agreed to cede insurance premiums to and receive commissions from PICC HK, and PICC HK agreed to cede insurance premiums to and receive commissions from the Company. This agreement commenced from 1 January 2010 and expired on 31 December 2010.

The commission expenses and the gross claims paid related to the above reinsurance arrangement during the year ended 31 December 2010, and the commission expenses related to the above reinsurance arrangement during the year ended 31 December 2009, were less than RMB one million, respectively, and therefore, the amount was not presented above.

## 47. RELATED PARTY TRANSACTIONS *(continued)*

### (a) Material transactions with related parties *(continued)*

*Notes: (continued)*

(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 would 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 would 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 were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were determined after negotiation between the Company and PICC Life by reference to the market levels. The term of the mutual insurance agency agreement was three years commencing from 1 September 2006. The Company entered into a new agreement with the same clauses with PICC Life on 31 August 2009 when the original agreement expired. The term of the new agreement is three years.

(viii) In December 2010, the Company, PICC Group and its four subsidiaries entered into the agreement on the joint acquisition of the interest in No. 88 Development Company. The joint transferees and the transferors entered into the formal equity interest transfer agreement on 30 December 2010. Pursuant to this agreement, the Company paid RMB1 billion to acquire a 30.41% equity interest in No. 88 Development Company. The joint acquisition agreement and the acquisition constitute connected transactions of the Company.

Under the Listing Rules of The Stock Exchange of Hong Kong Limited, the transactions (i), (ii), (iii), (viii) mentioned above constitute connected transactions, and others constitute continuing connected transactions.

### (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.

## 47. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Outstanding balances with related parties

| | Receivables from reinsurers | | Due from related parties | | Payables from reinsurers | | Due to related parties | |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2010 *RMB million* | 31 December 2009 *RMB million* | 31 December 2010 *RMB million* | 31 December 2009 *RMB million* | 31 December 2010 *RMB million* | 31 December 2009 *RMB million* | 31 December 2010 *RMB million* | 31 December 2009 *RMB million* |
| The PICC Group (note 25) | – | – | 139 | 9 | – | – | – | – |
| Fellow subsidiaries (notes 23, 25, 32, 34) | 238 | 35 | 8 | 14 | 483 | 36 | 95 | 69 |
| Associates (note 25) | – | – | 1 | 1 | – | – | – | – |
| | 238 | 35 | 148 | 24 | 483 | 36 | 95 | 69 |

The balances with the PICC Group, fellow subsidiaries and associates 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)

| | 2010 *RMB '000* | 2009 *RMB '000* |
|---|---|---|
| Short term employee benefits | 1,659 | 2,240 |
| Post-employment benefits | 575 | 532 |
| Total compensation paid to key management personnel | 2,234 | 2,772 |

Further details of directors' emoluments are included in note 13 to the financial statements.

## 48. EVENTS AFTER THE BALANCE SHEET DATE

(1) On 24 February 2011, the Board of Directors approved the issue by the Company of a 10-year subordinated term debt with an aggregate principal amount of not exceeding RMB5,000 million. The proceeds of the subordinated term debt will be used for raising the solvency margin of the Company. The issue of the above debt is subject to (i) the approval by shareholders of the Company at a general meeting; and (ii) the approval by the CIRC and other relevant authorities.

(2) On 24 March 2011, the Board of Directors proposed that 50% of the net profit of the Company for 2010 of RMB5,211 million be appropriated to the discretionary surplus reserve, after the appropriations to the statutory surplus reserve and the general risk reserve according to the relevant laws and regulations.

(3) In March 2011, the Company has received the new business license from the State Administration for Industry and Commerce, in which the registered address of the Company has been changed from No. 69 Dong He Yan Street, Xuanwu District, Beijing, the People's Republic of China to Tower 2, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing, the People's Republic of China.

## 49. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current year's presentation.

## 50. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 24 March 2011.

## INVESTMENT PROPERTIES

| Location | Use | Tenure | Attributable interest of the Group |
|---|---|---|---|
| PICC Plaza,<br>Tower 2, No.2, Jianguomenwai Avenue<br>Chaoyang District, Beijing, PRC | Office building | Medium term lease | 100% |
| PICC Plaza,<br>No.17, North Chaoyang Gate Avenue<br>Beijing, PRC | Office building | Medium term lease | 100% |
| PICC Plaza,<br>No.50, Dalai Street, Haishu District<br>Ningbo, Zhejiang Province, PRC | Office building | Medium term lease | 100% |
| PICC Plaza,<br>No.2, Guangwei Street, Yuexiu District<br>Guangzhou, Guangdong Province, PRC | Office building | Medium term lease | 100% |
| PICC Plaza,<br>No.66, Hongkong Middle Street, Shinan District<br>Qingdao, Shandong Province, PRC | Office building | Medium term lease | 100% |
| PICC Plaza,<br>No.57, Dongyu Street, Jinjiang District<br>Chengdu, Sichuan Province, PRC | Office building | Medium term lease | 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 above.

# 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

Tower 2, No. 2 Jianguomenwai Avenue
Chaoyang District, Beijing 100022, 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) 85176084
Fax: (8610) 85176084
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