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 2011

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. The Company currently has a total share capital of 12,255,980,000 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 China.

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. Since Moody's Investors Service, an international credit rating agency, gave rating to the Company for the first time in 2008, the A1 rating of the Company was affirmed for four consecutive years from 2008 to 2011. A1 rating is the highest financial strength rating available to PRC non-policy guided financial institutions.

- 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 anytime anywhere with various services including telephone services relating to case reporting, survey and dispatch, policy enquires, insurance application appointments, consulting and complaints, road condition tips, disaster forecasts, etc.

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				
	2007 *RMB million*	2008 *RMB million*	2009 *RMB million*	2010 *RMB million* (Restated)	**2011** ***RMB million***
Turnover	88,668	101,878	119,771	154,307	**173,962**
Underwriting profit/(loss)	(1,427)	(2,605)	(2,060)	2,780	**8,016**
Investment income	3,229	3,716	2,866	3,968	**6,529**
Net realised and unrealised gains/(losses) on investments	4,442	319	1,711	1,127	**(2,600)**
Profit/(loss) before tax	4,456	(370)	2,167	6,596	**10,286**
Income tax expense	(1,465)	479	(384)	(1,308)	**(2,259)**
Profit attributable to owners of the parent	2,991	109	1,783	5,288	**8,027**

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

ASSETS AND LIABILITIES

	31 December				
	2007 *RMB million*	2008 *RMB million*	2009 *RMB million*	2010 *RMB million* (Restated)	**2011** ***RMB million***
Total assets	134,265	144,250	165,383	203,557	**265,644**
Total liabilities	108,187	124,506	143,620	176,951	**230,484**
Thereinto: subordinated debts	3,000	3,000	8,000	14,157	**19,299**
Net assets	26,078	19,744	21,763	26,606	**35,160**

The figures for 2007 are not retrospectively adjusted for the changes in accounting policies made in 2009. The figures for 2007, 2008 and 2009 are not retrospectively adjusted for the changes in accounting policies made in 2011.

Mr Wu Yan
Chairman of the Company

Dear Shareholders,

2011 marked the beginning of the "Twelfth Five-Year Plan" and was also a fruitful year for the Company. Over the past year, guided by the scientific outlook on development and by adhering to the key aspirations of "Transforming growth patterns to promote development and strengthening compliance to increase operating profitability", the Company endeavoured to push forward the transformation of its growth patterns. Although the Company was faced with complex and difficult external circumstances such as the slowing down of economic growth, a tightened monetary policy, downturn in the capital market and intensified market competition, the Company managed to achieve strong and rapid development with its overall profits significantly improved, its premium income steadily increased and its development structure optimised. In 2011, the Company completed its first rights issue, raising approximately RMB5 billion and achieving a subscription ratio of over 10 times, which was the highest level by a PRC financial institution in the past three years. All proceeds raised from the rights issue were used to strengthen the capital base of the Company, which substantially improved the Company's capital strength and provided strong support to the sustainable development of its businesses.

The Company achieved a record high in terms of its operating results and further improved its comprehensive strength in 2011. The Company has constantly focused on profitability, and achieved its highest overall profitability and underwriting profits since listing. In 2011, the Company recorded a net profit of RMB8,027 million, representing a year-on-year increase of 51.8%, and achieved an underwriting profit of RMB8,016 million, representing an increase of RMB5,236 million from the previous year. The loss ratio was 65.8%, the expense ratio was 28.2%, and the combined ratio was 94.0%, representing a year-on-year decline of 3.7 percentage points. Investment income amounted to RMB4,037 million. In 2011, the Company's core business indicators continued to improve. Net cash inflow from operating activities was RMB25,642 million, representing a net cash inflow of RMB14.8 for every RMB100 premiums. With the rapid growth in premium income, the balance of premiums receivable at the end of 2011 amounted to RMB5,886 million, and the ratio of premiums receivable was 3.4%, which was the lowest level since listing. Total assets of the Company reached RMB265,644 million, representing a growth of 30.5% compared to the beginning of the year, among which, the total amount of investment assets reached RMB190,037 million, representing an increase of 25.4% from the beginning of the year. Net assets amounted to RMB35,160 million, representing an increase of 32.2% from the beginning of the year. The rate of return on equity maintained a rapid growth momentum at 26.0%.

In September 2011, Chairman Wu Yan (second from the left) visited and sent his regards to the employees of 95518 Customer Service Center during his inspection and research in Hebei Provincial Branch.

In October 2011, during the symposium on insurance work in rural area, Chairman Wu Yan (front row, first from the right) together with relevant leaders of the Ministry of Finance and Counsellors' Office of the State Council visited rural households to take a detailed look at the crops affected by a natural disaster and the status of claims settlement.

The Company's Northern China E-commerce Operation Center is located in the Beijing Digital Information Industry Base, and is the fourth operation center for the tele-marketing business of the Company.

The Company achieved a stable increase in premium income and further enhanced its development capability in 2011. The Company maintained a steady growth in premium income and a stable market share by implementing an effective marketing strategy and strengthening its market competitiveness in key regional markets. In 2011, the Company achieved a turnover of RMB173,962 million, representing a year-on-year growth of 12.7% and a market share of 36.3%. The Company actively promoted the development of emerging channels, and focused on tele-marketing and online sales in its sales channel development. The Company established a Northern China E-commerce Operation Center and added 3,800 new service seats, and achieved an annual premium income of RMB12.45 billion through tele-marketing, which was 3.6 times of the figure in 2010. The Company also accelerated the set up of its online sales platform, with a visitor volume of over 51 million person-times. The annual premiums through online sales reached RMB1.37 billion. The Company continued to improve its marketing capability by enhancing product and service innovation, fully promoting and applying product innovation engines, establishing a product innovation laboratory, promoting the remote sales system through mobile phones and fully launching the market map system.

The Company completed the preliminary stage of building a centralised operation and management platform and further strengthened its internal control and compliance in 2011. The Company continued to improve its inherent quality by adhering to the principles of centralisation, normalisation and standardisation of management. **First of all,** centralisation of information technology was accelerated. The Company actively built its central information system disaster recovery center and centralised operation platform, launched its third-generation motor vehicle insurance and non-motor vehicle insurance business system online, formally started the operation of its Northeastern China Backup Center, completed the centralisation of its 95518 service hotline in the three provinces in Northeastern China, and completed the centralisation of operations for 12 provincial branches. **Secondly**, reform of the Company's Claim Management Business Department was carried out in good order. The Company successfully completed the reform of the organisational structure of its Claim Management Business Department, and built a centralised claim settlement organisational structure and vertical management mode that satisfy the needs of modern insurance operations. **Thirdly**, the establishment of financial services sharing centers was steadily carried out. The Company completed the establishment of financial services sharing centers in its headquarters and all of its provincial branches, launched an online cost management and control system, promoted centralised and standardised management of capital settlement, financial accounting and finance auditing, and therefore substantially improved its capital utilisation efficiency. **Fourthly**, the internal control and compliance system was constantly improved.

Based on the internal control and apprasial manuals, the Company constantly improved its defects on internal control at operation levels, streamlined key risk points and control points, and implemented rigid management and control measures through its IT system. The Company is included by the Ministry of Finance as one of the first batch of model enterprises in China that implement the Basic Standard for Internal Control of Enterprises.

In 2011, the Company expanded the scope of its business development in the context of safeguarding economic and social development and serving people's livelihood, further enhancing its good social image. In 2011, the Company underwrote a cumulative insured amount of RMB380 billion for the planting and animal farming sectors, covering 425 million mu of crops, 718 million mu of forests, 45 million live pigs and breeding sows, and 0.21 billion households of farmers. The Company also contributed to key national projects and the development of strategic and emerging industries through, among others, acting as the exclusive or leading underwriter for a variety of milestone insurance projects such as the West-East natural gas transmission project (Term II) and the Chengdu-Chongqing high-speed railway and supporting the development of high and new technical enterprises through offering science and technology insurance. The Company extensively developed insurance business relating to community security, safe production, travel and environmental pollution and innovatively launched food safety insurance, fuel gas insurance and passenger cableway insurance, striving to bring into play the important role of liability insurance in building a harmonious society. The Company maintained the top A1 rating for four consecutive years, which is the highest financial strength rating for PRC non-policy guided financial institutions, and was awarded the "Best Property Insurance Company of the Year" and the "Most Trusted Property Insurance Company of the Year".

In May 2011, the Company organised an Open Day activity for investors and media at the PICC South China Information Center in Foshan, Guangdong Province. Chairman Wu Yan (front row, eighth from the left), President Wang Yincheng (front row, seventh from the left), Vice President Zhao Shuxian (front row, sixth from the left), Vice President Jia Haimao (middle row, fourth from the left) and Vice President Jiang Caishi (front row, third from the left) attended the activity.

2012 is a critical year for the Company to fully implement the "Twelfth Five-Year Plan" and construct a new development phase. In view of the overall environment for economic and social development and the development of the non-life insurance industry, while we are faced with difficulties and challenges, the Company remains in a strategically important period in its development. **With respect to the socioeconomic development**, the national economy will continue to develop steadily in a complex and dynamic environment and the growth in the economy in aggregate will further boost the insurance industry's confidence in development. In particular, the macro trend in the transformation of the national economy and the society has provided greater space for the insurance industry to promote a healthy development of the economy, to serve the general public and improve their livelihood, and to participate in administration of the society. **With respect to the development of the industry**, despite intensified market competition and uncertainties brought about by the liberalisation of motor vehicle insurance premium rates, new trends and changes in the development of the economy, society and the insurance sector have provided the

Company with a valuable opportunity. A comprehensive transformation of the industry's development mode, more mature regulation of the insurance sector, a recurred increase in sales volume of new motor vehicles, a steady growth in motor vehicle insurance business and a further refined market competition order are all conducive to improving the business performance of insurance companies. **With respect to the Company's own development**, the continuous optimisation of the Company's business structure facilitates the change to its growth pattern, the establishment of its centralised operation platform enhances its ability to create value, and the enhancement of its operation model ensures the continuous improvement of the quality of its development. The Company's business growth capability has significantly strengthened, the underwriting profitability has experienced a considerable growth, and the efficiency of capital utilisation has remarkably increased during recent years. **At the same time**, the further improvement of the insurance financial structure of PICC Group, the further promotion of the interaction among PICC Group, and the establishment of an integrated information platform will all provide strong support and guarantee to the comprehensive transformation and continuous development of the Company.

In 2012, the Company will adhere to the scientific outlook on development as the general guideline, continue to strengthen the reform and transformation of its operation, fully build a new development phase, consolidate the achievement from the promotion of the transformation of its operation and management mode in recent years and speed up the implementation of centralisation of management nationwide. The Company will optimise its resources allocation among sales channels and regions. While stimulating the potentials of traditional channels and promoting the development of emerging channels, the Company will also develop strategies for defending and surpassing its counterparts in key areas, thereby strengthening its leading position in the industry. **First of all, active marketing strategies will be implemented to continuously enhance the Company's competitiveness**. The Company will strengthen its capability of overall planning and endeavour to make a breakthrough in building a business expansion mechanism which fits the economic and social development. The Company will consolidate internal and external resources, implement a strategy of regional differentiation and a proactive financial policy, accelerate the development of motor vehicle and non-motor vehicle insurance businesses, and explore the finance-backed insurance market and insurance market in counties to strengthen the leading market position of the Company. **Secondly, the sales service system will be enhanced to increase the sales service capability**. The Company will implement a strategy of integrated channels and an operation mode of differentiated channels by persistently adhering to its customer-oriented principle and targeting at optimising the overall effectiveness of sales channels. The Company will promote the development strategies of "consolidating the urban market and exploring the market in villages and towns", strengthen the establishment of business outlets in urban and rural areas, strategically develop tele-marketing, online sales, mobile platform and other emerging channels and build up an all-round sales system. **Thirdly, the centralised platform will be enhanced to continuously optimise the operation and management mode**. The Company will strengthen the function of product lines, promote the centralisation of information technology, vertical management of claim settlement, establishment of financial services sharing centers and building of internal control and compliance system in an in-depth way, introduce innovative management tools, increase the operation efficiency and continuously upgrade and refine management. **Fourthly, the construction of the internal control system will be enhanced to upgrade risk control**. The Company will enhance the construction of its underwriting system, increase its capability to prevent underwriting risks, continuously improve its risk management organisational structure, promote overall risk management, speed up the informationalisation process and accomplish intelligent risk management.

Standing at the new starting line, we will confidently and continuously seize and take advantage of opportunities. We will enhance our competitiveness and profitability with greater enthusiasm and effort, create a new phase for the Company's development and reform, reward our shareholders with better results and contribute to the society with the sense of responsibility of a people's enterprise.

Wu Yan
Chairman

Beijing, the PRC
28 March 2012

DIRECTORS

Wu Yan, age 51, Chairman of the Board of Directors of the Company, Chairman of the Board of Directors of PICC Group. Mr Wu is also the Chairman of the Board of Directors of PICC Life Insurance Company Limited and PICC Asset Management Company Limited, and a member of the 11th National Committee of the Chinese People's Political Consultative Conference. From 1985 to 1998, Mr Wu was the Deputy Secretary of the Communist Youth League of Xinjiang Autonomous Region, the Party Secretary of the Communist Party Committee of the city of Bole, a member of the Standing Committee of Beortalar Autonomous County Communist Party Committee, the Party Secretary of the Communist Youth League of Xinjiang Autonomous Region, and the Vice Minister of the Organisation Department of the Central Committee of the Communist Youth League. 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. From January 2007 to March 2012, Mr Wu was the Chairman of the Board of Directors and President of PICC Group. 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 51, Ph.D, a senior accountant, Vice Chairman of the Board of Directors, an Executive Director and the President of the Company, an Executive Director and a Vice President of PICC Group. Mr Wang is also a Vice Chairman of the Insurance Association of China and a Vice Chairman of the China Association of Actuaries. Mr Wang joined The People's Insurance Company of China ("PICC") in 1982 and was previously the Deputy General Manager (in charge) 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 30 years of operation and management experience in the PRC insurance industry.

Guo Shengchen, age 57, 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 38 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 Provincial Branch, Deputy General Manager of PICC Xiamen Branch and Executive Deputy General Manager of the Products Development Center of PICC. He has 24 years of operation and management experience in the PRC insurance industry.

Zhou Shurui, age 58, a senior administrative engineer, a Non-executive Director of the Company, currently a Vice President 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, Vice President of The People's Insurance Company (Group) of China and the Chairman of the Supervisory Committee of PICC Group. Mr Zhou graduated from Hebei Normal University with a college diploma and a bachelor's degree, and completed the postgraduate program in banking at the Central University of Finance and Economics. He has 30 years of experience in management.

Yu Xiaoping, age 55, 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 30 years of operation and management experience in the PRC financial sector.

Li Tao, age 46, 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 27 years of experience in research and management, etc.

Tse Sze-Wing, Edmund (Gold Bauhinia Star), age 74, 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 51 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 OTC Markets Group Inc. in the United States of America.
*** This company is listed on the stock exchanges in New York and Tokyo.

Luk Kin Yu, Peter, age 71, 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 64, 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 30 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.

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 31 years of operation and management experience in the PRC fiscal and financial sectors.

* This company is listed on the Hong Kong Stock Exchange.
** This company was formerly listed on the Hong Kong Stock Exchange.

Sheng Hetai, age 41, 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 15 years of management experience in the PRC insurance industry.

Lu Zhengfei, age 49, 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 of 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 56, 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 29 years of extensive experience in insurance operation and management both in and outside the PRC.

Shen Ruiguo, age 55, 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 PICC Changchun Branch in Jilin Province, Chief Auditor of PICC Property Insurance Company's Changchun Branch in Jilin Province, Manager of the Planning and Finance Division of Jilin Provincial Branch of PICC Property Insurance Company, Manager of the Planning and Finance Division, Chief Auditor and Deputy General Manager of PICC Jilin Provincial Branch, Deputy General Manager of Jilin Provincial Branch of the Company, General Manager of Jilin Provincial 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 Jilin Provincial Committee and has 28 years of operation and management experience in the PRC insurance industry.

OTHER SENIOR MANAGEMENT

Zhao Shuxian, age 59, 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 34 years of operation and management experience in the PRC insurance industry.

Jia Haimao, age 58, 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 Provincial Branch of the Company. Mr Jia has 28 years of operation and management experience in the PRC insurance industry.

Wang Yueshu, age 57, a postgraduate and a senior economist, the Responsible Compliance Officer and the Responsible Auditing Officer of the Company. Mr Wang joined PICC in 1979 and was previously the Manager of the Operations Division of PICC Hebei Provincial Branch, General Manager of PICC Handan Branch in Hebei Province, Chief Economist and Deputy General Manager of PICC Hebei Provincial Branch, General Manager of Hebei Provincial Branch of the Company and a Vice President of PICC Health Insurance Company Limited. Mr Wang has 33 years of operation and management experience in the PRC insurance industry.

Wang Dedi, age 54, 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 Provincial Branch, and General Manager of Beijing Branch of the Company. Mr Wang has 20 years of operation and management experience in the PRC insurance industry.

Jiang Caishi, age 46, a postgraduate, Ph.D, an Executive Vice President of the Company. Mr Jiang joined PICC in 1988 and was seconded to New York, the United States of America 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 24 years of operation and management experience in the PRC insurance industry.

Lin Zhiyong, age 48, a postgraduate, Master, a senior economist, an Executive Vice President of the Company. Mr Lin joined PICC in 1980 and was previously the Deputy General Manager and General Manager of Quanzhou Branch of PICC Property Insurance Company, Deputy General Manager and General Manager of PICC Fuzhou Branch, and Deputy General Manager and General Manager of PICC Fujian Provincial Branch. Mr Lin was granted the "National May Day Labor Medal" in 1998, and won the honorary title of "National Excellent Communist Party Member" in 1999. In 2010, Mr Lin was elected an "Excellent Entrepreneur of Fujian Province". Mr Lin is the present Chairman of the Insurance Association of Fujian Province. He has 31 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 12 years of management experience in the PRC insurance industry.

Shen Dong, age 43, 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 Provincial Branch, Deputy General Manager of Guangxi Provincial 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 20 years of financial management experience in the PRC insurance industry.

OVERVIEW

In 2011, pursuant to the operating policies of "Transforming growth patterns to promote development and strengthening management and control to increase operating profitability", the Company further enhanced its development capability and inherent qualities, achieved the best operating results since listing and continued its leading position in the non-life insurance market in the PRC.

- **The Company's business scale hit a record high**. In 2011, the turnover of the Company and its subsidiaries increased by 12.7% on a year-on-year basis to RMB173,962 million, and the Company attained a 36.3% *(Note)* market share in the non-life insurance market in the PRC. In particular, the turnover of the motor vehicle insurance business reached RMB128,032 million, representing a year-on-year increase of 10.6%, and the turnover of the non-motor vehicle insurance businesses reached RMB45,930 million, representing a year-on-year increase of 19.2%.

- **The Company's profitability level increased significantly**. In 2011, the Company and its subsidiaries recorded a combined ratio of 94.0%, representing a significant year-on-year decline of 3.7 percentage points, an underwriting profit of RMB8,016 million, representing a year-on-year increase of RMB5,236 million or 188.3%, and a net profit of RMB8,027 million, representing a year-on-year increase of RMB2,739 million or 51.8%.

- **The Company's capital strength increased steadily**. In 2011, the Company raised approximately RMB5 billion in capital through completing its rights issue. As at 31 December 2011, the total assets of the Company and its subsidiaries reached RMB265,644 million, representing a year-on-year increase of 30.5%. The shareholders' equity totalled RMB35,160 million, representing a year-on-year increase of 32.2%. The solvency adequacy ratio was 184.0%, representing a year-on-year increase of 69.4 percentage points, achieving the class II adequacy level.

- **The Company's inherent qualities continued to improve**. In 2011, all product lines and 38 provincial branches of the Company and its subsidiaries recorded profits. The Company had ample cash flow, with net cash inflow from operating activities amounting to RMB25,642 million. The size of investment assets gained steady growth and amounted to RMB190,037 million. The rate of return on equity reached 26.0%, remaining at a relatively high level in the non-life insurance industry.

Note: Calculated according to the PRC insurance industry data for 2011 published on the website of the China Insurance Regulatory Commission ("CIRC").

The Company's Online Sales Center held an activity to celebrate its first anniversary in December 2011. President Wang Yincheng (middle row, fourth from the left), Vice President Guo Shengchen (middle row, third from the left), Vice President Zhao Shuxian (middle row, fourth from the right), Vice President Wang He (middle row, second from the left), Vice President Wang Dedi (middle row, third from the right), Vice President Jiang Caishi (middle row, first from the left) and Vice President Lin Zhiyong (middle row, second from the right) attended the celebration activity.

As at 27 December 2011, the Company's Jiangsu Provincial Branch achieved an annual premium income of over RMB10 billion solely from auto insurance, becoming the first provincial branch with over RMB10 billion annual auto insurance premiums nationwide. Pictured here is President Wang Yincheng (left) presenting the bonus to Jiangsu Provincial Branch.

Looking back, in 2011, the Company strived to carry out reform and transformation, focused on being market and customer oriented, continued its profitable development and promoted sales channels reform and resources integration. The Company endeavoured to improve the quality of service, enhanced its overall competitiveness through centralised operation as well as management and control, and achieved remarkable results in various aspects of its operations.

I Closely monitored the market, integrated sales channels and optimised services to promote a steady growth of business

In 2011, the Company implemented market-oriented benchmarking management, formulated its development strategies by closely monitoring the market, rationally allocating resources to align with the market, conducted performance appraisal based on market performance, and continued to maintain its leading position. The Company launched human resources reform for its sales team and integrated its sales channels. The Company accelerated the development of new sales channels such as tele-marketing and online sales, steadily promoted the establishment of an insurance service system at the basic level for the agriculture industry, rural areas and farmers, launched the pilot community insurance service stations, and continued to improve the insurance service network covering both urban and rural areas. The Company also strengthened customer service performance appraisal and service quality monitoring, improved the service quality management system and developed a value-added service system, and continued to enhance customer satisfaction, effectively promoting a steady growth of its business.

II Set up an operation as well as management and control platform, achieved centralised management and control, improved operational efficiency and significantly strengthened profitability

In 2011, the Company achieved centralisation of data, operations and management through the building of a nationwide centralised operation as well as management and control platform. The Company launched the third generation core business systems online, consolidated the management and control rules of different systems and improved the operational efficiency. As a result, the capabilities for identifying underwriting risks as well as business management and control were enhanced. The Company established the Claim Management Business Department, implemented vertical management of claim service teams to achieve the standardisation of claim services and the centralisation of claim costs, therefore strengthened the effectiveness of management and control of claim services. The Company also established financial services sharing centers, improved the efficiency of financial management and capital utilisation, and strengthened the control of financial risks and cost management. With effective business selections, claim management and control as well as financial management, the Company was able to enjoy a significant increase in profitability.

In September 2011, the Company held a mobilisation meeting for the comprehensive promotion of the reform in the Claim Management Business Department. President Wang Yincheng (fourth from the left), Vice President Guo Shengchen (third from the right), Vice President Jia Haimao (third from the left), Secretary of Commission for Discipline Inspection Wang Yueshu (second from the right), Vice President Wang Dedi (second from the left), Vice President Jiang Caishi (first from the right) and Vice President Lin Zhiyong (first from the left) attended the meeting.

In February 2011, the Company's Support and Service Center for Northeast China opened for business. President Wang Yincheng (middle) and Vice President Wang Dedi (first from the left) attended the opening ceremony.

In January 2011, an opening ceremony was held for the Financial Services Sharing Center at the Company's headquarters and Vice President Wang He (seventh from the left) attended the ceremony.

III Continued to strengthen compliance to achieve steady operations

In 2011, based on the Internal Control Manual and Internal Control Appraisal Manual, the Company achieved organic integration of its internal control system and management model by regularly streamlining its internal control process for the centralised management and control model, new sales channels and new functional areas. The Company also advanced the development of the system of risk alert indicators to lay foundations for the dynamic monitoring of overall risks, and advocated a compliance culture through educational activities focusing on the theme of compliance culture.

IV Contributed to key national strategies, supported national economic development, fulfilled social responsibilities and enhanced corporate image

In 2011, while strengthening its traditional businesses, the Company vigorously explored insurance opportunities in areas including agriculture, science and technology, culture and credit, devoted significant efforts to developing insurance business relating to industries including public security, safe production, tourism, environment, special equipment, culture, education and medical treatment, introduced various types of innovative insurance products, contributed to key national strategies, supported national economic development and fulfilled its social responsibilities. The Company acted as the exclusive or leading underwriter for a variety of milestone insurance projects such as the West-East natural gas transmission project (Term II) and the Chengdu-Chongqing high-speed railway.

In 2011, Moody's Investors Service affirmed the A1 rating for the Company's insurance financial strength, which is the highest financial strength rating for PRC non-policy guided financial institutions, indicating the Company's strength and credit standing in the non-life insurance market. In the contest for the "Golden Dragon Awards • the Golden Medal List for PRC Financial Institutions" co-hosted by the Institute of Finance of Chinese Academy of Social Sciences and *Financial News*, the Company was awarded the "Best Property Insurance Company of the Year" grand prize. In the contest for the "2011 Awards for Financial Institutions with Excellent Competitiveness" co-hosted by the Chinese Academy of Social Sciences and *China Business Journal*, the Company was awarded the "2011 Insurance Company with Excellent Competitive Brand".

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			
	2011		2010	
	RMB million	*%*	*RMB million*	*%*
			(Restated)	
Net premiums earned	**133,134**	**100.0**	122,990	100.0
Net claims incurred	**(87,546)**	**(65.8)**	(82,908)	(67.4)
Total expenses (including acquisition cost and other underwriting expenses, and general and administration expenses)	**(37,572)**	**(28.2)**	(37,302)	(30.3)
Underwriting profit	**8,016**	**6.0**	2,780	2.3

TURNOVER

	Year ended 31 December	
	2011	2010
	RMB million	*RMB million*
Motor vehicle insurance	**128,032**	115,759
Commercial property insurance	**11,828**	10,570
Liability insurance	**6,440**	5,442
Accidental injury and health insurance	**5,343**	4,192
Cargo insurance	**4,044**	3,419
Other insurance	**18,275**	14,925
Total	**173,962**	154,307

Turnover of the Company and its subsidiaries was RMB173,962 million in 2011, representing an increase of RMB19,655 million (or 12.7%) from RMB154,307 million in 2010. The overall steady business growth was largely driven by the motor vehicle insurance and agriculture insurance segments, and the relatively rapid growth in the accidental injury and health insurance, cargo insurance, homeowners insurance as well as liability insurance segments.

In 2011, growth in the domestic sales of new motor vehicles in the PRC declined significantly due to factors such as cancellation of tax concessions for purchases, rising fuel prices, and purchase limitation policy in certain cities targeting traffic congestion alleviation. In response to the change in domestic production and sales volumes of motor vehicles, the Company proactively expanded tele-marketing and online sales channels, consolidated its own sales channel resources, promoted strategic cooperation with motor vehicle manufacturers, strengthened the management of policy renewals and facilitated the overall business growth by stepping up efforts to leverage on existing businesses. Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB128,032 million in 2011, representing an increase of RMB12,273 million (or 10.6%) from RMB115,759 million in 2010.

In 2011, the Company and its subsidiaries achieved a turnover of the commercial property insurance segment of RMB11,828 million, representing an increase of RMB1,258 million (or 11.9%) from RMB10,570 million in 2010. The increasing renewal rate of quality existing policies and the increasing rate of successful transformation of construction insurance to commercial property insurance were important factors contributing to the growth of commercial property insurance business. Meanwhile, the rationalisation of market competition and continued growth of fixed asset investment also laid solid foundation for the development of commercial property insurance business.

Turnover of the liability insurance segment of the Company and its subsidiaries was RMB6,440 million in 2011, representing an increase of RMB998 million (or 18.3%) from RMB5,442 million in 2010. Such increase was mainly attributable to the Company exploring new clients in industries such as safety regulation, education, transportation, tourism and special equipment.

Turnover of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB5,343 million in 2011, representing an increase of RMB1,151 million (or 27.5%) from RMB4,192 million in 2010. The Company's accident insurance for motor vehicle drivers and passengers experienced a rapid growth as a result of the Company consolidating its sales channel resources and client resources. At the same time, the Company's social security supplemental health insurance business grew rapidly as it had been strongly promoted under the State's new policy of health care reform.

Turnover of the cargo insurance segment of the Company and its subsidiaries was RMB4,044 million in 2011, representing an increase of RMB625 million (or 18.3%) from RMB3,419 million in 2010. During 2011, both the volume and price of domestic railway freight transportation increased and the total value of China's foreign trade import for the whole year had a relatively rapid growth, thus stimulating the growth of cargo insurance segment for railway freight transportation and imports.

Turnover of the other insurance segment of the Company and its subsidiaries was RMB18,275 million in 2011, representing an increase of RMB3,350 million (or 22.4%) from RMB14,925 million in 2010. During 2011, the product line of homeowners insurance of the Company was further improved, forming a product library in which the main insurance was highlighted, together with a wide range of types of riders and a higher flexibility of separating and combining the main insurance and riders. As a result, product sales was further expanded. The Central and the local governments stepped up their efforts to financially support the agriculture insurance business by further expanding the areas and types of agricultural products subsidised, as well as the proportions of subsidies. The above factors drove the rapid growth of the other insurance segment.

NET PREMIUMS EARNED

	Year ended 31 December	
	2011	2010
	RMB million	*RMB million*
Motor vehicle insurance	**104,926**	98,016
Commercial property insurance	**7,448**	6,836
Liability insurance	**4,661**	4,129
Accidental injury and health insurance	**3,689**	2,722
Cargo insurance	**2,809**	2,621
Other insurance	**9,601**	8,666
Total	**133,134**	122,990

Net premiums earned of the Company and its subsidiaries was RMB133,134 million in 2011, representing an increase of RMB10,144 million (or 8.2%) from RMB122,990 million in 2010.

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			
	2011		2010	
	Net claims incurred	Loss ratio	Net claims incurred	Loss ratio
	RMB million	*%*	*RMB million*	*%*
Motor vehicle insurance	(72,066)	(68.7)	(66,887)	(68.2)
Commercial property insurance	(4,116)	(55.3)	(4,514)	(66.0)
Liability insurance	(2,774)	(59.5)	(2,580)	(62.5)
Accidental injury and health insurance	(2,330)	(63.2)	(1,726)	(63.4)
Cargo insurance	(1,105)	(39.3)	(1,280)	(48.8)
Other insurance	(5,155)	(53.7)	(5,921)	(68.3)
Total	(87,546)	(65.8)	(82,908)	(67.4)

Net claims incurred of the Company and its subsidiaries was RMB87,546 million in 2011, representing an increase of RMB4,638 million (or 5.6%) from RMB82,908 million in 2010. Loss ratio decreased by 1.6 percentage points from 67.4% in 2010 to 65.8% in 2011, primarily due to the decrease in the loss ratios of insurance segments such as commercial property insurance and cargo insurance.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB72,066 million in 2011, representing an increase of RMB5,179 million (or 7.7%) from RMB66,887 million in 2010. Loss ratio remained stable. As the Company gradually strengthened its rigid control over violations in the course of claim settlement through the new claim settlement system for motor vehicle insurance, and further carried out the systematic optimisation of the injury-related medical treatment follow-up module, its risk control capability was continuously enhanced. However, risk factors such as the decrease in the premium adequacy ratio of compulsory motor vehicle liability insurance and the increase in the cost of injury-related claims increased the overall cost of the motor vehicle insurance segment to a certain extent.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries was RMB4,116 million in 2011, representing a decrease of RMB398 million (or -8.8%) from RMB4,514 million in 2010. In recent years, the Company, while focusing on the risk pricing and risk control of the commercial property insurance segment, has carried out differentiated and flexible authorisation management with respect to various risks, products and branches, and such strict underwriting management and control has continued to improve the business quality. In 2011, there was a remarkable decline in the claim ratio of commercial property insurance segment, with a decrease in loss ratio from 66.0% in 2010 to 55.3% in 2011.

Net claims incurred of the liability insurance segment of the Company and its subsidiaries was RMB2,774 million in 2011, representing an increase of RMB194 million (or 7.5%) from RMB2,580 million in 2010. Loss ratio decreased from 62.5% in 2010 to 59.5% in 2011. In 2011, there was an increasing sufficiency level of premiums for businesses with high loss ratios, such as medical liability insurance and employer liability insurance, as well as an improvement in the overall business quality.

Net claims incurred of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB2,330 million in 2011, representing an increase of RMB604 million (or 35.0%) from RMB1,726 million in 2010. Loss ratio basically remained at the same level compared to 2010.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries was RMB1,105 million in 2011, representing a decrease of RMB175 million (or -13.7%) from RMB1,280 million in 2010. In 2011, the Company effectively diversified its cargo risks through reasonable reinsurance arrangements. At the same time, as the Company conducted loading and discharging inspections and took other measures for preventing losses, there was a steady decline in the claim ratio of cargo insurance segment, and the loss ratio decreased from 48.8% in 2010 to 39.3% in 2011.

TOTAL EXPENSES

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

	Year ended 31 December			
	2011		2010	
	Total expenses *RMB million*	Expense ratio *%*	Total expenses *RMB million*	Expense ratio *%*
			(Restated)	
Motor vehicle insurance	**(28,185)**	**(26.9)**	(28,597)	(29.2)
Commercial property insurance	**(3,019)**	**(40.5)**	(2,611)	(38.2)
Liability insurance	**(1,566)**	**(33.6)**	(1,481)	(35.9)
Accidental injury and health insurance	**(1,244)**	**(33.7)**	(974)	(35.8)
Cargo insurance	**(956)**	**(34.0)**	(997)	(38.0)
Other insurance	**(2,602)**	**(27.1)**	(2,642)	(30.5)
Total	**(37,572)**	**(28.2)**	(37,302)	(30.3)

In 2011, the total expenses of the Company and its subsidiaries were RMB37,572 million, representing an increase of RMB270 million (or 0.7%) from RMB37,302 million in 2010, which was lower than the business growth over the same period. In 2011, with the market order being further regulated, the cost incurred from underwriting was effectively controlled. The Company continued to strengthen the classified management of its businesses and steadily pushed forward the differentiated allocation of expense resources. The expense ratio declined to 28.2% in 2011 from 30.3% 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 2011 Underwriting profit *RMB million*	2011 Underwriting profit ratio *%*	2010 Underwriting profit/(loss) *RMB million* (Restated)	2010 Underwriting profit/(loss) ratio *%* (Restated)
Motor vehicle insurance	**4,675**	**4.4**	2,532	2.6
Commercial property insurance	**313**	**4.2**	(289)	(4.2)
Liability insurance	**321**	**6.9**	68	1.6
Accidental injury and health insurance	**115**	**3.1**	22	0.8
Cargo insurance	**748**	**26.7**	344	13.2
Other insurance	**1,844**	**19.2**	103	1.2
Total	**8,016**	**6.0**	2,780	2.3

In 2011, with order of the domestic property insurance market being further regulated, the Company and its subsidiaries reinforced their risk management. As a result, there was a remarkable improvement in the underwriting quality, an increase in the premium rates and a steady decline in the claim ratios of some insurance segments. An underwriting profit of RMB8,016 million was achieved in 2011, representing a significant increase of RMB5,236 million (or 188.3%) from RMB2,780 million in 2010. The underwriting profit ratio reached 6.0%.

INVESTMENT RESULTS

Composition of Investment Assets

	31 December 2011		31 December 2010	
	Balance	Percentage	Balance	Percentage
	RMB million	*%*	*RMB million*	*%*
By category:				
Cash and cash equivalents *(Note)*	14,135	7.4	17,727	11.7
Fixed Income Investment:	146,765	77.2	109,249	72.1
Term deposits	44,503	23.4	14,482	9.6
Debt securities	98,062	51.6	92,567	61.1
Unlisted debts	4,200	2.2	2,200	1.4
Equity Investment:	24,643	13.0	20,612	13.6
Mutual funds	6,980	3.7	6,562	4.3
Shares	14,902	7.9	11,809	7.8
Unlisted shares	630	0.3	630	0.4
Investment in associates	2,131	1.1	1,611	1.1
Other investment assets	4,494	2.4	3,946	2.6
Total of Investment Assets	190,037	100.0	151,534	100.0

Note: Cash and cash equivalents are mainly in Renminbi and exclude deposits with banks and other financial institutions with original maturity of more than three months and structured deposits with banks and other financial institutions.

In 2011, the steady growth in the underwriting business and the increase in the underwriting profit brought to the Company a relatively stable cash flow which was then used as investment assets. As at the end of the reporting period, the investment assets of the Company increased by RMB38,503 million (or 25.4%) compared to the end of the previous year. On the other hand, the Company significantly reduced its working capital through an overview management of its businesses and investment capital. As at the end of the reporting period, the cash and cash equivalents of the Company decreased by RMB3,592 million (or -20.3%) compared to the end of the previous year. As a result, the structure of investment assets of the Company continuously improved.

In 2011, in view of the continued volatile and depressed capital market, the Company increased its allocation to negotiated deposits and enhanced the yield rate of debt securities held, thus the Company's fixed income investment assets increased by 5.1% and would continue to bring stable income to the Company in the coming years. The Company avoided systematic risk in the market through direct investment and active management of working capital, and effectively improved the efficiency of the use of funds while optimising its investment asset allocation structure. The Company also actively participated in infrastructure debt investment programs to expand the channels of its use of funds subject to strict credit risk control.

On 15 June 2011 and 15 December 2011, the Company entered into agreements to participate in the capital increase of PICC Life Insurance Company Limited ("PICC Life") by the amounts of approximately RMB545 million and RMB431 million respectively. Upon completion of the above two capital increases in PICC Life, the shareholding of the Company remained unchanged, representing 8.615% of the enlarged issued share capital of PICC Life.

Investment Income

	Year ended 31 December	
	2011	2010
	RMB million	*RMB million*
Rental income from investment properties	**199**	156
Interest income	**5,727**	3,385
Dividend income	**603**	427
Total of investment income	**6,529**	3,968

Investment income of the Company and its subsidiaries was RMB6,529 million in 2011, representing an increase of RMB2,561 million from RMB3,968 million in 2010. In 2011, the Company continued to enlarge the size of investment assets and increased the investment in term deposits, which offered a stable rate of return, thereby increasing the interest income by RMB2,342 million on a year-on-year basis.

Net Realised and Unrealised Gains/(Losses) on Investments

	Year ended 31 December	
	2011	2010
	RMB million	*RMB million*
		(Restated)
Realised gains/(losses) on investments	**(510)**	1,527
Unrealised losses on investments	**(253)**	(174)
Impairment losses	**(2,029)**	(316)
Profit on deemed disposal of an associate	**–**	41
Gains on changes in fair value of investment properties	**192**	49
Total of net realised and unrealised gains/(losses) on investments	**(2,600)**	1,127

In 2011, net realised and unrealised losses on investments of the Company and its subsidiaries were RMB2,600 million. Due to the continued capital market downturn, the Company made provisions on the available-for-sale investment assets and disposed part of its equity securities, therefore losses on investments were incurred in 2011 compared to the previous year.

OVERALL RESULTS

	Year ended 31 December	
	2011	2010
	RMB million	*RMB million*
		(Restated)
Profit before tax	**10,286**	6,596
Income tax expense	**(2,259)**	(1,308)
Profit attributable to owners of the parent	**8,027**	5,288
Total assets *(Note)*	**265,644**	203,557

Note: Based on the data as of 31 December 2011 and 31 December 2010.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB10,286 million in 2011, representing an increase of RMB3,690 million from RMB6,596 million in 2010.

INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB2,259 million in 2011, representing an increase of RMB951 million from RMB1,308 million in 2010. The increase in the income tax expense of the Company and its subsidiaries was primarily due to a significant increase in the profit before tax in 2011.

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 2011, and net profit increased by RMB2,739 million from RMB5,288 million in 2010 to RMB8,027 million in 2011. Basic earnings per share attributable to ordinary equity holders of the parent in 2011 was RMB0.683.

CASH FLOW

	Year ended 31 December	
	2011	2010
	RMB million	*RMB million*
Net cash inflow from operating activities	**25,642**	34,152
Net cash outflow from investing activities	**(44,681)**	(43,675)
Net cash inflow from financing activities	**15,447**	4,163
Net decrease in cash and cash equivalents *(Note)*	**(3,592)**	(5,360)

In 2011, the net cash inflow from operating activities of the Company and its subsidiaries amounted to RMB25,642 million, and the cash flow remained ample.

In 2011, the amount of entrusted investment assets of the Company and its subsidiaries increased steadily. Net cash outflow from investing activities of the Company and its subsidiaries was RMB44,681 million. In particular, the cash outflow from deposits with banks and other financial institutions with original maturity of more than three months amounted to RMB40,247 million.

Net cash inflow from financing activities of the Company and its subsidiaries was RMB15,447 million in 2011, representing an increase of RMB11,284 million on a year-on-year basis. The cash inflow was due to the issuance of fixed-rate subordinated term debts of RMB5 billion and the raising of approximately RMB5 billion through the Company's rights issue in 2011.

As of 31 December 2011, the cash and cash equivalents *(Note)* of the Company and its subsidiaries amounted to RMB14,135 million.

Note: Cash and cash equivalents are mainly in Renminbi and exclude 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 2011, June 2010, September 2009 and December 2006, the Company issued fixed-rate subordinated term debts of RMB5 billion, RMB6 billion, RMB5 billion and RMB3 billion respectively, in each issuance with a term of 10 years, to institutional investors in the PRC for the primary purpose of increasing the Company's solvency margin.

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

Save for the subordinated term debts and the credit facility mentioned above, the Company and its subsidiaries did not obtain working capital by borrowing.

The Company and its subsidiaries expect that they can fund their working capital needs in the future from cash generated from operating activities. The Company and its subsidiaries have sufficient working capital.

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 its information system. Capital expenditure of the Company and its subsidiaries was RMB2,629 million in 2011.

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 RMB20,523 million on 31 December 2011. The Company's actual solvency margin calculated pursuant to the regulations of CIRC was RMB37,768 million and the solvency margin adequacy ratio was 184.0% *(Note)*.

Note: In calculating the solvency margin, the assessment standards for premium reserves as promulgated by 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 2011, the gearing ratio *(Note)* of the Company and its subsidiaries was 79.5%, representing a decrease of 0.5 percentage point from 80.0% as of 31 December 2010.

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 2011. The management of the Company believes that 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 positions or operating results of the Company and its subsidiaries.

EVENTS AFTER THE BALANCE SHEET DATE

On 5 March 2012, the Company was notified by PICC Asset Management Company Limited ("PICC AMC") that on 1 March 2012, PICC AMC entered into a share subscription agreement with Industrial Bank Co., Ltd. ("IBC"), where PICC AMC agreed to subscribe for approximately 1.38 billion subscription shares at a total consideration of approximately RMB17.6 billion, of which PICC AMC plans to use the entrusted assets of the Company to subscribe for approximately 0.63 billion subscription shares (representing approximately 4.9% of the enlarged issued share capital of IBC) at a consideration of approximately RMB8,021 million. The subscription shares shall be subject to a lock-up period of 36 months from the date of completion. The Company has been informed by PICC AMC that completion of the share subscription agreement shall be subject to certain conditions including, but not limited to, the obtaining of the approval of the IBC share issue at the shareholders' general meeting of IBC, and the necessary approval of the IBC share issue by the relevant regulatory authorities.

On 28 March 2012, the Board of Directors of the Company proposed that 80% of the profit attributable to owners of the parent for 2011 of RMB8,027 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.

CREDIT RISK

Credit risk is the risk of an economic loss incurred by the Company and its subsidiaries resulting from the inability of debtors of the Company and its subsidiaries to make any principal or interest payment when due. The accounts receivable for insurance assets, reinsurance assets, debt securities and deposits with commercial banks of the Company and its subsidiaries are subject to credit risk.

The Company and its subsidiaries are committed to credit sales only to corporate customers or individual customers purchasing part of the policies through insurance intermediaries. The ability to collect premiums in a timely manner remains one of the key performance indicators 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 agencies 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 investee companies prior to making investments and by strictly conforming to the regulations laid down by 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 banks 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 in US dollars. The Company and its subsidiaries are also exposed to exchange rate risks with respect to their holdings in certain assets such as bank deposits, debt securities and certain insurance liabilities which are denominated in foreign currencies, primarily in 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 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 Company and its subsidiaries' interest risk policy requires the Company to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires the Company to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, reprice interest on floating rate instruments at intervals of less than one year, and manage variable interest rate risk through interest rate swap instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

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 2011, the interest rate swap contracts held by the Company had an aggregate notional amount of RMB1,250 million.

DEVELOPMENT OF NEW PRODUCTS

In 2011, the Company intensively focused on the hot spots of the market and the needs of the clients, seamlessly combined its products and services, broadened the contents of each product it developed, strived to establish an effective product and service system and made every effort to promote the profitable development of its business. In 2011, the Company submitted a total of 465 insurance provisions and premium rates to the insurance regulatory authority for approval and filing, which consisted of 148 national provisions and premium rates and 317 regional provisions and premium rates, as well as 159 main insurance provisions and premium rates and 306 rider provisions and premium rates. As of 31 December 2011, the Company had 5,068 insurance provisions in use and operation, including 3,407 national provisions and 1,661 regional provisions.

EMPLOYEES

As at the end of 2011, the Company had 140,942 employees (among which 61,440 employees signed labour contracts with the Company's head office). Staff remuneration payment by the Company and its subsidiaries in 2011 was RMB14,527 million, which mainly included basic salaries, performance-related bonus, and various insurance and benefits contributed in accordance with the relevant PRC laws and regulations. The Company and its subsidiaries enhanced the performance and work efficiency of employees by, among others, 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.

In 2011, Peng Si (right), son of an employee of the Company's Guangzhou Branch, was widely acclaimed for donating his liver to save his mother's life. Pictured here is President Wang Yincheng (left) presenting the "PICC Filial Piety Award" to Peng Si.

The Board of Directors presents its report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2011 (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 2011 are set out on pages 57 to 159 of this annual report.

The Company paid an interim dividend of RMB0.225 (inclusive of applicable tax) per share on 31 October 2011.

The Board of Directors proposes that 80% of RMB8,027 million (profit attributable to owners of the parent for 2011) 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. The Board of Directors does not propose 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 27 and 28 to the financial statements, respectively.

SHARE CAPITAL

The movements in the share capital of the Company during the Year are as follows:

The Company conducted the rights issue (including domestic share rights issue and H share rights issue) in 2011 and issued 768,582,000 domestic shares and 345,598,000 H shares (the "Rights Issue"). The gross proceeds raised from the domestic share rights issue amounted to approximately RMB3,451 million and that raised from H share rights issue amounted to approximately HK$1,901 million (equivalent to approximately RMB1,543 million), making a total amount of approximately RMB4,994 million. The expenses incurred in connection with the domestic share rights issue and H share rights issue were approximately RMB1.73 million and HK$40.44 million (equivalent to approximately RMB32.83 million), respectively. The net proceeds of the Rights Issue, after deducting the expenses from the gross proceeds, will be used to strengthen the capital base of the Company so as to improve its solvency margin.

Note: Conversions of HK$ into RMB are made at the rate of RMB0.8119 to HK$1.00.

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 2011, the Company's distributable reserves totalled RMB10,221 million.

SUBORDINATED DEBTS

During the Year, the Company issued the subordinated term debts, details of which 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 RMB29 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 in office during the Year and the changes in the members of the Board of Directors and the members of the Supervisory Committee from 1 January 2011 to the date of this 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 12 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 13 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 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 46 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 item (viii) under note 46(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 2011 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. Mr Guo Shengchen, an Executive Director of the Company, is a former Supervisor of PICC Life (ceased to hold the position on 12 April 2011).

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 2011 to the date of this report.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

As at 31 December 2011, 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 *(Note 1)*	Nature of interests	Percentage of total number of domestic shares in issue *(Note 1)*	Percentage of total number of shares in issue *(Note 1)*
PICC Group	Beneficial owner	8,454,402,000	Long position	100%	69.0%

Name of shareholder	Capacity	Number of H shares *(Note 2)*	Nature of interests	Percentage of total number of H shares in issue *(Note 2)*	Percentage of total number of shares in issue *(Note 2)*
United States Treasury *(Notes 3, 5)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
AIG *(Notes 3, 4, 5)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Jill M. Considine *(Notes 3, 5)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%

Name of shareholder	Capacity	Number of H shares *(Note 2)*	Nature of interests	Percentage of total number of H shares in issue *(Note 2)*	Percentage of total number of shares in issue *(Note 2)*
Chester B. Feldberg *(Notes 3, 5)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Douglas L. Foshee *(Notes 3, 5)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania *(Notes 4, 5)*	Beneficial owner	562,549,380	Long position	16.28%	5.05%
Commerce and Industry Insurance Company *(Notes 4, 5)*	Beneficial owner	330,911,400	Long position	9.58%	2.97%
Lexington Insurance Company *(Notes 4, 5)*	Beneficial owner	209,577,220	Long position	6.06%	1.88%
BlackRock, Inc.	Interest of controlled corporations	228,228,118	Long position	6.00%	1.86%
		17,241,813	Short position	0.45%	0.14%
JPMorgan Chase & Co.	Beneficial owner, investment manager, and custodian corporation/approved lending agent	218,224,946 *(Note 6)*	Long position	6.31%	1.96%
	Beneficial owner	21,189,294	Short position	0.61%	0.19%
	Custodian corporation/ approved lending agent	106,227,206	Lending pool	3.07%	0.95%

Notes:

1. The Company conducted the Rights Issue in 2011 on the basis of 1 rights share for every 10 existing shares, and the rights shares were issued on 30 December 2011. The number of shares held by the domestic shareholder and its percentage of shareholding set out above are based on that recorded in the Company's register of members of domestic shareholders, which represent the shareholding status of such shareholder after the completion of the Rights Issue. Prior to the completion of the Rights Issue, such shareholder held 7,685,820,000 domestic shares of the Company.

2. The numbers of H shares held by the H shareholders and their percentages of shareholdings set out above represent the latest disclosure of interests notices made by such H shareholders pursuant to the SFO on or prior to 31 December 2011. Except for BlackRock, Inc., the percentages of shareholdings stated in the said notices represented the percentages to the number of shares before the Rights Issue. After the completion of the Rights Issue, the numbers of H shares held by the H shareholders have changed, however, the Company has not received any disclosure of interests notices made pursuant to the SFO in relation thereto.

3. The interests of AIG set out above represent its latest disclosure of interests notice made pursuant to the SFO, which have not reflected the H shares issued by the Company in the Rights Issue. 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 H shares held by the controlled corporations of AIG.

4. Birmingham Fire Insurance Company of Pennsylvania (now known as "Chartis Property Casualty Company"), Commerce and Industry Insurance Company and Lexington Insurance Company are the controlled corporations of AIG. AIG owned 100% shareholding in each of Birmingham Fire Insurance Company of Pennsylvania and Commerce and Industry Insurance Company, and 70% shareholding in Lexington Insurance Company.

5. It is confirmed by AIG that upon the completion of the Rights Issue, AIG was interested in 1,213,341,800 H shares of the Company. Such shares were held by AIG's controlled corporations, of which Chartis Property Casualty Company held 618,804,318 shares, Commerce and Industry Insurance Company held 364,002,540 shares and Lexington Insurance Company held 230,534,942 shares.

6. Such 218,224,946 shares included 37,221,740 shares held in the capacity as beneficiary owner, 74,776,000 shares held in the capacity as investment manager and 106,227,206 shares held in the capacity as custodian corporation/approved lending agent.

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 2011 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 report, 31% of the issued share capital of the Company is held by the public, therefore the Company continues to comply with the minimum public float requirement under the Listing Rules.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

The Company's continuing connected transactions of the Year subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules include: (i) the property leasing agreement entered into between the Company and PICC Investment Holding Company Limited ("PICC Investment"); (ii) the asset management agreement entered into between the Company and PICC AMC; and (iii) the framework agreement on reinsurance business cooperation entered into between the Company and The People's Insurance Company of China (Hong Kong) Limited ("PICC HK"). PICC Group is the controlling shareholder of the Company and holds respectively 100%, 81% and 75% of the issued share capital of PICC Investment, PICC AMC and PICC HK. Therefore, according to the Listing Rules, PICC Investment, PICC AMC and PICC HK are connected persons of the Company.

(i) Since 19 September 2008, the Company has entered into property leasing agreements with PICC Investment continuously. According to its operational needs, the Company needs to use certain properties owned by PICC Investment, primarily as offices for its business and operations. The property leasing agreement entered into between the Company and PICC Investment on 19 September 2008 expired on 6 July 2011. Under this agreement, the Company and PICC Investment leased certain properties from each other. The Company paid an annual rent of approximately RMB158 million to PICC Investment and PICC Investment paid an annual rent of approximately RMB2.5 million to the Company. The Company and PICC Investment renewed the property leasing agreement on 15 December 2011. The term of this renewed agreement is three years, commencing from 7 July 2011 and expiring on 6 July 2014. Under this renewed agreement, the Company would pay an annual rent of approximately RMB105 million to PICC Investment and PICC Investment would pay an annual rent of approximately RMB2.1 million to the Company. Under these agreements, the rental expenses and rental income of the Company in 2011 amounted to RMB123 million and RMB2 million, respectively.

(ii) Since 10 October 2003, the Company has entered into asset management agreements with PICC AMC continuously. Possessing the asset management experience and expertise, PICC AMC is principally engaged in the provision of asset management and asset management advisory services in the PRC. The Company considered it appropriate for the Company to enter into the asset management agreements with PICC AMC. On 15 January 2010, the Company and PICC AMC renewed the asset management agreement. The term of this agreement is three years, commencing from 1 January 2010 and expiring on 31 December 2012. Under this agreement, the Company would entrust PICC AMC to manage and invest the assets entrusted to it by the Company from time to time and would pay the management fee to PICC AMC for its services. The management fee would be calculated by multiplying the daily net asset value of the entrusted assets and the rates as agreed under this agreement. When the investment performance reaches the target and the investment management and service capability appraisal satisfies certain conditions as agreed under this agreement, the Company would pay PICC AMC an appropriate performance bonus of no more than RMB2 million. Under this agreement, the management fee of the Company in 2011 amounted to RMB124 million.

(iii) Since 6 May 2010, the Company has entered into framework agreements on reinsurance business cooperation with PICC HK continuously. PICC HK is principally engaged in general insurance business, reinsurance business and the application of its own fund and insurance fund in Hong Kong, and is one of the reinsurers of the Company. The Company entered into the framework agreement on reinsurance business cooperation with PICC HK so as to diversify risks and stabilise the operation. On 25 March 2011, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation. The term of this agreement is one year, commencing from 1 January 2011 and expiring on 31 December 2011. Pursuant to this agreement, the Company agreed to cede insurance premiums to PICC HK and receive commission, and PICC HK agreed to cede insurance premiums to the Company and receive commission. The commission payable to the Company and PICC HK respectively would be based on the premiums ceded and the relevant rates agreed under the specific reinsurance agreements. In the year of 2011, the Company ceded insurance premiums of RMB450 million to PICC HK and received commission of RMB133 million (excluding taxes), and PICC HK ceded insurance premiums of RMB2 million to the Company and received commission of an amount less than RMB1 million.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions mentioned above and confirmed that:

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

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

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

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

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

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

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

4. none of the transactions exceeded the relevant annual upper limits previously disclosed in the Company's announcements.

Other Connected Transactions

The Company's connected transactions of the Year subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules are as follows:

On 15 June 2011 and 15 December 2011, the Company entered into agreements with PICC Group, PICC AMC, Sumitomo Life Insurance Company, Asia Financial Holdings Ltd., Bangkok Bank Public Company Limited and PICC Life, pursuant to which the Company agreed to subscribe for shares at an amount of approximately RMB545 million and RMB431 million to increase its share capital in PICC Life. Upon completion of the two share capital increases in PICC Life, the proportion of shareholding held by the Company remained unchanged, representing 8.615% of the enlarged issued share capital of PICC Life. The Company considered that the business of PICC Life is maintaining a relatively rapid growth and the capital increases in PICC Life would be beneficial to the business development of PICC Life, and entering into these agreements would enable the Company to maintain its shareholding in PICC Life at the same level. PICC Group is the controlling shareholder of the Company and holds respectively 71% and 81% of the issued share capital of PICC Life and PICC AMC. Therefore, according to the Listing Rules, PICC Group, PICC Life and PICC AMC are connected persons of the Company.

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

CORPORATE GOVERNANCE

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

AUDIT COMMITTEE

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

AUDITORS

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

By Order of the Board of Directors
Wu Yan
Chairman

Beijing, the PRC
28 March 2012

Dear Shareholders,

In 2011, 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 supervision over financial matters, internal control and compliance, and therefore maintained effective operation of corporate governance and protected the interests of the shareholders, the Company and its employees.

During the Year, the Supervisory Committee had its third session elected with Mr Zhou Liqun as the Chairman of this new session. During the Year, the Supervisory Committee convened three meetings, at which seven resolutions, including the Auditors' Report and the Audited Financial Statements for 2010, the Profit Distribution Plan for 2010 and the Payment of Interim Dividend for 2011, were considered and approved. The Supervisory Committee submitted the Report of the Supervisory Committee of the Company for 2010 to the shareholders' general meeting, at which it was approved. The Supervisory Committee also, by being physically present or reviewing the proposals in writing of six meetings of the Audit Committee, twelve meetings of the Board of Directors and three shareholders' general meetings, earnestly reviewed and studied the resolutions of the shareholders' general meetings 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 Supervisors Representing Employees fully expressed employees' intentions and requests, and protected employees' legal rights and interests.

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 meetings 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 2011 and the audited annual financial statements for 2011 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 2012, 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 supervision over financial matters, internal control, compliance and risk control as its supervision focus, strengthen its supervision, enhance the supervisory quality, earnestly safeguard the interests of the Company, its shareholders and employees and diligently perform all its duties.

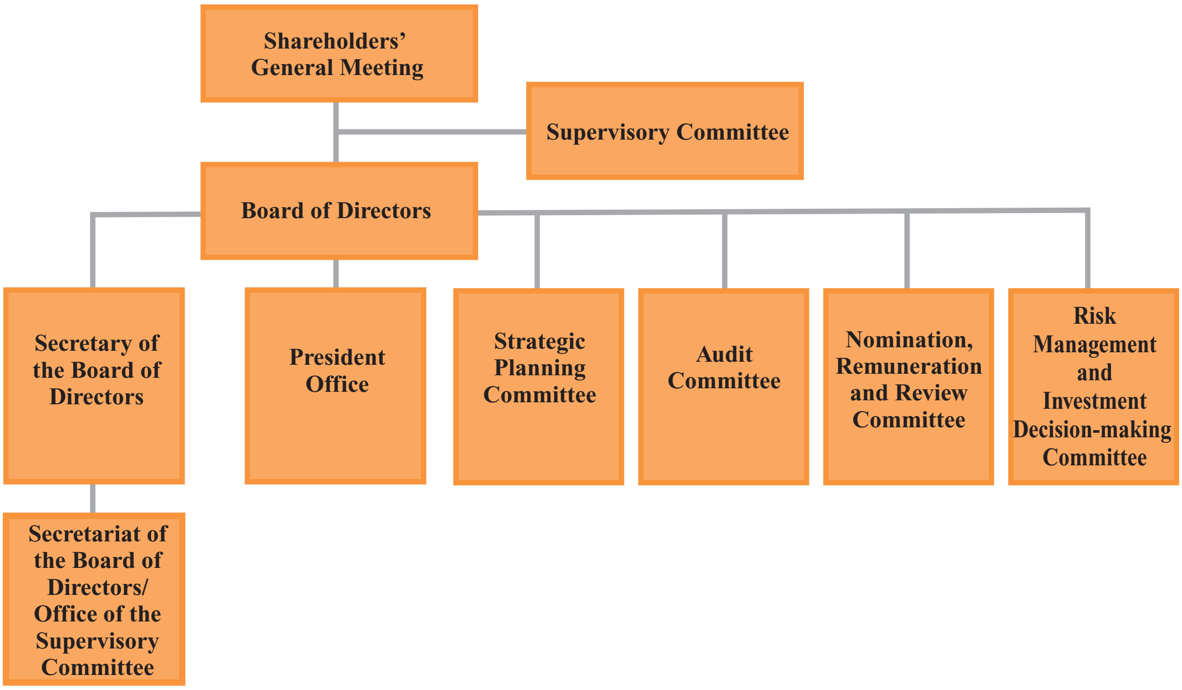
By Order of the Supervisory Committee
Zhou Liqun
Chairman of the Supervisory Committee

Beijing, the PRC
28 March 2012

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 2011, 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 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 the code provision A.4.2 of the Code on Corporate Governance Practices, the Company had complied with all the code provisions of the Code on Corporate Governance Practices during the Year.

OVERVIEW *(continued)*

The terms of office of the Directors, Mr Wu Yan, Mr Wang Yincheng, Mr Tse Sze-Wing, Edmund, Mr Lu Zhengfei, Mr Zhou Shurui 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 the 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 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. The terms of office of Mr Luk Kin Yu, Peter and Mr Ding Ningning should have expired on 28 April 2011 and 17 January 2012 respectively, and according to the foregoing provisions of the Company Law, each of Mr Luk and Mr Ding has currently continued to serve as a Director until the newly elected director has commenced his/her term of office.

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 and the period from 29 April 2011 to the date of this report.

BOARD OF DIRECTORS

Overview

During the Year, the Board of Directors convened three shareholders' general meetings and submitted twenty-three proposals to the shareholders' general meetings for consideration and approval. Twelve Board meetings were convened, at which forty-eight 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 the annual performance appraisals of the Company's Directors and senior management, carried out work in connection with the change of session of the Board of Directors, considered and approved matters including the distribution of interim dividends and the rights issue of domestic and H shares, and enhanced the management standard of the Company's internal control, compliance management and risk management and control.

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.

BOARD OF DIRECTORS *(continued)*

Composition

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

Name	Position	Date of Commencement of Directorship	Term
Mr Wu Yan	Chairman, Executive Director	23 March 2007	From 17 January 2011 to 16 January 2014
Mr Wang Yincheng	Vice Chairman, Executive Director	6 July 2003	From 17 January 2011 to 16 January 2014
Mr Guo Shengchen	Executive Director	17 January 2011	From 17 January 2011 to 16 January 2014
Mr Wang He	Executive Director	17 January 2011	From 17 January 2011 to 16 January 2014
Mr Zhou Shurui	Non-executive Director	6 July 2003	From 17 January 2011 to 16 January 2014
Ms Yu Xiaoping	Non-executive Director	17 January 2011	From 17 January 2011 to 16 January 2014
Mr Li Tao	Non-executive Director	18 October 2006	From 17 January 2011 to 16 January 2014
Mr Tse Sze-Wing, Edmund	Non-executive Director	15 June 2004	From 17 January 2011 to 16 January 2014
Mr Lu Zhengfei (retired)	Independent Non–executive Director	24 February 2004	From 24 February 2007 to 23 February 2010 *(Note)*
Mr Luk Kin Yu, Peter	Independent Non–executive Director	29 April 2005	From 29 April 2008 to 28 April 2011 *(Note)*
Mr Ding Ningning	Independent Non–executive Director	18 January 2006	From 18 January 2009 to 17 January 2012 *(Note)*
Mr Ip Shu Kwan, Stephen (resigned)	Independent Non–executive Director	17 January 2011	Resigned from 1 November 2011
Mr Liao Li	Independent Non–executive Director	17 January 2011	From 17 January 2011 to 16 January 2014

Note: The terms of directorship of Mr Lu Zhengfei, Mr Luk Kin Yu, Peter and Mr Ding Ningning should have expired on 23 February 2010, 28 April 2011 and 17 January 2012, respectively. In accordance with the provisions of the Company Law, Mr Lu Zhengfei continued to serve as a Director until the assumption of office of the third session of the Board of Directors on 17 January 2011, and Mr Lu retired on the same day. Each of Mr Luk Kin Yu, Peter and Mr Ding Ningning has currently continued to serve as a Director until the newly elected director has commenced his/her term of office.

BOARD OF DIRECTORS *(continued)*

Composition *(continued)*

Changes of Directors from 1 January 2011 to the date of this 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 elected Mr Wu Yan as the Chairman and Mr Wang Yincheng as the Vice Chairman again. Mr Lu Zhengfei retired as an Independent Non-executive Director on the same day.

Mr Ip Shu Kwan, Stephen resigned as an Independent Non-executive Director of the Company with effect from 1 November 2011.

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 any amendments to the Articles of Association, drawing up plans for merger, division, change of form or dissolution of the Company, appointing or removing the President, Vice Presidents, Secretary of the Board of Directors, Responsible Compliance Officer, Responsible Financial Officer and Assistants 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 twelve meetings and considered forty-eight 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	12/12	100%
Wang Yincheng	12/12	100%
Guo Shengchen	12/12	100%
Wang He	12/12	100%
Zhou Shurui	12/12	100%
Yu Xiaoping	12/12	100%
Li Tao	12/12	100%
Tse Sze-Wing, Edmund	12/12	100%
Luk Kin Yu, Peter	12/12	100%
Ding Ningning	12/12	100%
Ip Shu Kwan, Stephen	7/7	100%
Liao Li	12/12	100%

Notes:

1. Mr Lu Zhengfei retired on 17 January 2011. The Board of Directors had not convened any meetings during the term of office of Mr Lu Zhengfei in the Year, thus there is no record of attendance by Mr Lu Zhengfei above.

2. Mr Ip Shu Kwan, Stephen resigned on 1 November 2011.

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

- convened three shareholders' general meetings and submitted twenty-three proposals to the shareholders' general meetings including the proposals regarding the nominees for the third session of the Board of Directors, the Report of the Board of Directors for 2010, the Auditors' Report and the audited financial statements for 2010, the profit distribution plan for 2010, and the issue of subordinated term debts;

- elected the Chairman and Vice Chairman of the third session of the Board of Directors, approved the chairmen and members of the committees under the third session of the Board of Directors;

- considered and 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;

- considered and approved the total amount of remuneration payable by the Company for the Year, conducted the annual performance appraisal of the 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 2010, 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;

BOARD OF DIRECTORS *(continued)*

Summary of Work Undertaken *(continued)*

- approved the establishment by the Company's headquarters of the Credit Guarantee Insurance Department, the System Requirements Management Department, the Car Dealers Business Department, the Bank Insurance Business Department, the Brokerage and Agency Business Department, the Individual Agency and Marketing Business Department, the Jinan Monitoring and Auditing Center, the Zhengzhou Monitoring and Auditing Center, and the Wuhan Monitoring and Auditing Center; approved the establishment by the Company's headquarters of the Eastern China Operation Center and Backup Center for E-commerce;

- considered and approved the appointment of Mr Lin Zhiyong as a Vice President of the Company;

- considered and approved the financial statements of compulsory third party motor insurance for 2010;

- considered and approved the 2011 interim results and the distribution of interim dividends;

- 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 2010;

- considered and approved the Company's participation in the capital increase of PICC Life;

- amended and improved the Provisional Measures for the Administration of Connected Transactions of the Company to comply with the new regulatory requirements;

- considered and approved the proposal for the Company to carry out equity investments;

- considered and approved the proposal on the rights issue of the domestic and H shares of the Company and relevant matters in relation to the issuance.

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.

Securities Transactions

The Company 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 enquired with all the Directors and Supervisors and they all confirmed that they had complied with the requirements under the Model Code and such guidelines during the Year.

DIRECTORS *(continued)*

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 report, the Company is of the view that all the Independent Non-executive Directors are independent.

CHAIRMAN/PRESIDENT

During the Year, Mr Wu Yan is the Chairman of the Board of Directors, and Mr Wang Yincheng is the President of the Company. The Chairman is responsible for providing leadership for the Board of Directors and ensuring that the Board of Directors works effectively and discharges its responsibilities properly. The President is responsible for taking charge of the operations and management of the Company, organising the implementation of the resolutions of the Board, the annual operational plans and investment plans, proposing the plans for internal management structure and the basic management system, and making proposals to the Board of Directors on the appointment or removal of the other senior management personnel. Details of the duties and responsibilities of the Chairman and the President were set out on page 36 of the Company's 2005 Annual Report and page 44 of the Company's 2010 Annual Report.

AUDIT COMMITTEE

Overview

During the Year, the Audit Committee had its new session elected. In accordance with the Working Rules of the Audit Committee of the Company and relevant regulatory requirements, the Audit Committee continued to perform its duties diligently, and provided the Board of Directors and the management team with numerous valuable opinions and suggestions regarding the financial affairs, internal control, and operation and management, thus had made active contribution to the further enhancement of the Company's corporate governance.

Composition

Chairman: Lu Zhengfei (the second session), Liao Li (the third session)
Members of the second session: Luk Kin Yu, Peter and Li Tao
Members of the third session: Luk Kin Yu, Peter, Ding Ningning, Ip Shu Kwan, Stephen (resigned) and Li Tao

Notes:

1. The term of the second session of the Audit Committee for the Year ran from 1 January 2011 to 16 January 2011. On 17 January 2011, the Board of Directors approved the composition of the third session of the Audit Committee, and its term commenced on the same day.

2. Mr Ip Shu Kwan, Stephen resigned as an Independent Non-executive Director of the Company with effect from 1 November 2011, and his capacity as a member of the Audit Committee terminated on the same day.

AUDIT COMMITTEE *(continued)*

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 RMB18.65 million to the auditors for audit-related services, including the fees for the audit of the financial statements for 2010 and the review of the interim financial statements for 2011. In the Year, the Company paid RMB0.16 million to the auditors for non-audit services. Such services have not affected the independence and objectivity of the auditors.

Summary of Work Undertaken

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

Name	**Lu Zhengfei**	**Liao Li**	**Luk Kin Yu, Peter**	**Ding Ningning**	**Ip Shu Kwan, Stephen**	**Li Tao**
Number of meetings attended/ Number of meetings that require attendance	1/1	5/5	6/6	5/5	3/3	6/6
Attendance rate	100%	100%	100%	100%	100%	100%

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

The engagement of and communication with the auditors:

- considered the auditors' reports on the work plans for and results of the audit for 2010 and on the interim review work for 2011, discussed with the auditors about the nature, scope and responsibilities of the audit and review, advised the auditors to provide more information in relation to the industry and the Company's peers in the industry for comparison and analysis, make more valuable recommendations on management to the Company and cooperate with the Company in carrying out corrective measures;

- considered respectively the opinions of the auditors and the management on the fees for the interim review and the annual audit for 2011, considered the terms of engagement of auditors, 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.

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

Reviewed the financial reports:

- reviewed the financial statements and results announcements for 2010 and for the interim period of 2011, and discussed with the management on, among other things, the Company's dividend policy and how to keep the solvency margin adequacy ratio at a high level;

- reviewed the annual information disclosure report for 2010, and acquired an understanding from the management on the differences between the financial reporting standards adopted in the annual information disclosure report and the annual report;

- reviewed the financial statements of compulsory third party motor insurance for 2010, and discussed with the management on the further improvement in the operation and management of the compulsory third party motor insurance.

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

- considered and approved the Company's Internal Control Assessment Report for 2010, the Compliance Assessment Reports for 2010 and for the interim period of 2011, and discussed with the management on how to balance between the system and implementation and between costs and benefits, as well as on compliance rectifications in respect of internal control management;

- considered and approved the Company's report on improvement based on the Management Letter for 2009, considered the Management Letter for 2010, and advised the management to attach great importance to the suggestions in the management letters and proactively carry out corrective measures;

- supervised and provided guidance on the internal audit and finance and accounting work, considered the report of the Auditing Department and the Responsible Auditing Officer of the Company on the work summary for 2010 and the work plan for 2011 (including audit budget), provided opinions on the further increased use of audit results; considered the report of the Finance and Accounting Department on the work summary for 2010 and the work plan for 2011, and discussed with the management on the differences between the relevant financial ratios of the Company and its peers in the industry;

- considered and approved the proposals for five material connected transactions, considered the report on the audit results of administration of connected transactions, considered and approved the report on the implementation of the connected transaction administration system for 2010, the report on the connected transactions for 2010, and the proposal for amendments to the Company's Provisional Measures for the Administration of Connected Transactions.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE

Overview

The Nomination, Remuneration and Review Committee is responsible for matters relating to the nomination, remuneration and performance appraisals of the Directors of the Company. During the Year, the Nomination, Remuneration and Review Committee had its new session elected. The Nomination, Remuneration and Review Committee nominated the vice president candidate to the Board of Directors, conducted the annual appraisal, and made constructive suggestions to the Board of Directors.

Composition

Chairman: Ding Ningning (the third session)
Members of the second session: Wang Yincheng, Lu Zhengfei, Luk Kin Yu, Peter, Ding Ningning and Zhou Shurui
Members of the third session: Guo Shengchen, Luk Kin Yu, Peter, Ip Shu Kwan, Stephen (resigned) and Liao Li

Notes:

1. The term of the second session of the Nomination, Remuneration and Review Committee for the Year ran from 1 January 2011 to 16 January 2011. On 17 January 2011, the Board of Directors approved the composition of the third session of the Nomination, Remuneration and Review Committee, and its term commenced on the same day.

2. Mr Ip Shu Kwan, Stephen resigned as an Independent Non-executive Director of the Company with effect from 1 November 2011, and his capacity as a member of the Nomination, Remuneration and Review Committee terminated on the same day.

Duties and Responsibilities

The Nomination, Remuneration and Review Committee is responsible for assessing the structure and composition of the Board of Directors on a regular basis, recommending candidates for directorship, formulating remuneration policies and structure, formulating appraisal standards and conducting annual appraisals for directors, the President and other senior management personnel. Details of the duties and responsibilities of the Committee were set out on page 41 of the Company's 2005 Annual Report.

Nomination of Directors

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates as new directors, and then recommend such candidates to the Board of Directors. The Board of Directors shall then determine whether such candidates' appointments should be proposed for approval at the shareholders' general meeting. The major criteria considered by the Nomination, Remuneration and Review Committee and the Board of Directors are the 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.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

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 duties, and their performance-related bonuses are subject to various considerations, including 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.

Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held three meetings, at which four 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	Ding Ningning	Guo Shengchen	Luk Kin Yu, Peter	Ip Shu Kwan, Stephen	Liao Li
Number of meetings attended/ Number of meetings that require attendance	3/3	3/3	3/3	3/3	3/3
Attendance rate	100%	100%	100%	100%	100%

Notes:

1. The second session of the Nomination, Remuneration and Review Committee in office had not convened any meetings in the Year, thus there is no record of attendance by the members of the second session above.

2. Mr Ip Shu Kwan, Stephen resigned on 1 November 2011.

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

- made a nomination of Mr Lin Zhiyong as a candidate for the Vice President of the Company, and such nomination was 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 approved by the Board of Directors and at the shareholders' general meeting;

- considered the performance appraisal plan for the senior management for 2010 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, Secretary of the Board of Directors, Chief Accountant, Chief Claim Assessor, Chief Risk Officer with performance appraisal scores, and made recommendations for bonus coefficients for the Chairman and the President, which were approved by the Board of Directors.

STRATEGIC PLANNING COMMITTEE

Overview

During the Year, the Strategic Planning Committee had its new session elected. The Strategic Planning Committee reviewed the major investment plans, profit distributions and major strategic measures of the Company during the Year.

Composition

Chairman: Wu Yan (the second and third sessions)
Members of the second session: Tse Sze-Wing, Edmund, Ding Ningning and Li Tao
Members of the third session: Wang Yincheng, Li Tao, Tse Sze-Wing, Edmund and Ding Ningning

Note: The term of the second session of the Strategic Planning Committee for the Year ran from 1 January 2011 to 16 January 2011. On 17 January 2011, the Board of Directors approved the composition of the third session of the Strategic Planning Committee, and its term commenced on the same day.

Duties and Responsibilities

The Strategic Planning Committee is responsible for formulating medium and long term development strategies, and considering the business plans, 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 ten meetings and considered fifteen proposals. The main tasks accomplished by the Strategic Planning Committee in the Year included the followings:

- considered and approved the recommendation to the shareholders' general meeting to authorise the Board of Directors to issue subordinated term debts;

- considered and approved the proposal for the Company to carry out equity investments;

- considered and approved the profit distribution plan for 2010, considered and approved the 2011 interim results and the distribution of interim dividends;

- considered and approved the establishment by the Company's headquarters of the Credit Guarantee Insurance Department, the System Requirements Management Department, the Car Dealers Business Department, the Bank Insurance Business Department, the Brokerage and Agency Business Department, the Individual Agency and Marketing Business Department, the Jinan Monitoring and Auditing Center, the Zhengzhou Monitoring and Auditing Center, and the Wuhan Monitoring and Auditing Center; considered and approved the establishment by the Company's headquarters of the Eastern China Operation Center and Backup Center for E-commerce;

- considered and approved the proposal on the rights issue of the domestic and H shares of the Company and relevant matters in relation to the issuance;

- considered and approved the Company's participation in the capital increase of PICC Life.

RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE

Overview

During the Year, the Risk Management and Investment Decision-making Committee had its new session elected. The Risk Management and Investment Decision-making Committee reviewed the risk assessment report and debt investment plan of the Company, and carried out work with respect to effective identification and control of risks.

Composition

Chairman: Wu Yan (the second and third sessions)
Members of the second session: Wang Yincheng, Luk Kin Yu, Peter and Zhou Shurui
Members of the third session: Wang Yincheng, Wang He, Zhou Shurui and Yu Xiaoping

Note: The term of the second session of the Risk Management and Investment Decision-making Committee for the Year ran from 1 January 2011 to 16 January 2011. On 17 January 2011, the Board of Directors approved the composition of the third session of the Risk Management and Investment Decision-making Committee, and its term commenced on the same day.

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, reviewing the management system for the use of insurance funds, the rules and regulations and decision-making process in respect of the operations of using insurance funds, and formulating the annual strategic asset allocation plans 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 two meetings and considered two proposals. The main tasks accomplished by the Risk Management and Investment Decision-making Committee in the Year included the followings:

- considered and approved the Risk Assessment Report for 2010;

- considered and approved the Company's participation in the Debt Plan for the Beijing (PICC) Real Estate Project.

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.

In 2011, the Company further promoted the work of internal control appraisal and improvement based on the results of the Internal Control Appraisal and Improvement Project. Firstly, the Company urged the correction of defects in internal control and carried out rigid control in the information system on potentially non-compliant operations; secondly, the Company gradually improved the internal control management system to standardise and regulate internal control management and internal control appraisal of the Company; and thirdly, the Company carried out self-appraisal on internal control on a comprehensive basis to systematically screen any potential operation risks of the Company.

To review and continuously enhance the effectiveness of the Company's internal control system, 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 2011, 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 2011.

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

The Company's Supervisory Committee in the Year comprised:

The second session:	Chairman:	Ding Yunzhou
	Supervisors:	Li Dianjun, Sheng Hetai and He Bangshun
The third session:	Chairman:	Zhou Liqun
	Supervisors:	Sheng Hetai, Lu Zhengfei, Qu Yonghuan and Shen Ruiguo

Note: The term of the second session of the Supervisory Committee for the Year ran from 1 January 2011 to 16 January 2011. The term of the third session of the Supervisory Committee commenced on 17 January 2011.

SUPERVISORY COMMITTEE *(continued)*

Composition *(continued)*

Changes of the members of the Supervisory Committee from 1 January 2011 to the date of this report are as follows:

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. On the same day, the Supervisory Committee elected Mr Zhou Liqun as the Chairman of the Supervisory Committee. Mr Ding Yunzhou, as the Chairman of the second session of the Supervisory Committee, and Mr Li Dianjun and Mr He Bangshun, as members of the same session, retired on the same day.

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 the Year, the Supervisory Committee held three meetings, at which seven proposals were considered and approved. The meeting attendance rate of each Supervisor reached 100% and the attendance is recorded as follows:

Name	Zhou Liqun	Sheng Hetai	Lu Zhengfei	Qu Yonghuan	Shen Ruiguo
Number of meetings attended/ Number of meetings that require attendance	3/3	3/3	3/3	3/3	3/3
Attendance rate	100%	100%	100%	100%	100%

Note: The second session of the Supervisory Committee in office had not convened any meetings in the Year, thus there is no record of attendance by the members of the second session above.

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

RIGHTS OF SHAREHOLDERS

Methods of Convening Special General Meetings

According to the Articles of Association and the Procedural Rules for Shareholders' General 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 fifteen 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 new resolution(s) and submit such proposed resolution(s) in writing to the Board of Directors ten days prior to the annual general meeting. The Board of Directors shall notify other shareholders of such proposed resolution(s) within two days after receipt of such proposal(s) 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 communicated its operating results and business development trends timely with investors after the announcements of the 2010 annual results and the 2011 interim results by way of results briefings and roadshows. In May 2011, the Company held the first Open Day activity for investors in Guangzhou to further strengthen communications with investors. 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' annual general meeting held on 24 June 2011. The meeting considered the proposals regarding the Report of the Board of Directors, the Report of the Supervisory Committee, the Auditors' Report, the audited financial statements and the profit distribution plan for 2010, the Directors' and Supervisors' fees for 2011, the engagement of auditors and the general mandate for the Board of Directors to issue additional shares. All resolutions were passed by way of poll at the meeting.

"BEST CALL CENTER IN CHINA"

The Company's 95518 Customer Service Center was awarded the "Best Call Center in China" prize by, among others, the Customer Relationship Management Committee of the China Federation of IT Promotion in May 2011, and was awarded the "Best Call Center in China" prize in the "Golden Headset • Best Call Center in China Awards" hosted by CCMWorld Group, an authoritative third-party evaluation institution, in October 2011.

"MOST TRUSTED PROPERTY INSURANCE COMPANY OF THE YEAR"

In October 2011, the Company was awarded the "Most Trusted Property Insurance Company of the Year" prize in the "Financial and Economic Billboard Awards" for the insurance industry hosted by the website HEXUN.

"FIRST PLACE IN THE INSURANCE SERVICE SATISFACTION SURVEY AMONG MOTOR VEHICLE USERS IN CHINA"

In November 2011, J.D. POWER Asia Pacific, one of the leading professional consumer research institutions, released the results of its survey on insurance service satisfaction among motor vehicle users in the PRC market in 2011, in which the Company ranked first in the overall satisfaction level.

"2011 INSURANCE COMPANY WITH EXCELLENT COMPETITIVE BRAND"

In November 2011, the results of the "2011 Awards for Financial Institutions with Excellent Competitiveness", jointly hosted by the Chinese Academy of Social Sciences and *China Business Journal*, were released, and the Company was awarded the "2011 Insurance Company with Excellent Competitive Brand" prize.

"2011 CHINA INSURANCE INNOVATION PRIZE"

In November 2011, the "Fourth China Insurance Culture and Brand Innovation Forum and the Sixth China Insurance Innovation Awards Presentation Ceremony" was held in Shenzhen. The Company won 12 product innovation and marketing prizes, including "Most Potential Insurance Product", "Most Influential Insurance Product" and "Top Marketing and Planning Award", and once again became the non-life insurance company winning the most product innovation prizes.

"2011 BEST EMPLOYER IN BEIJING"

In December 2011, the "China Best Employer of the Year (2011) Beijing Awards Presentation Ceremony" was held in Beijing. The Company obtained a nomination for top 100 among 1,190 candidates nationwide and won the title of "2011 Best Employer in Beijing".

"BEST PROPERTY INSURANCE COMPANY OF THE YEAR"

In December 2011, the awards presentation ceremony for the "Golden Dragon Awards", the golden medal list for PRC financial institutions, was held in Beijing. The Company, with its excellent operating results in 2011 and its ever improving inherent quality, was awarded the "Best Property Insurance Company of the Year" and became the only property insurance company winning the "Golden Dragon Prize".

"BEST E-COMMERCE PLATFORM IN THE INSURANCE INDUSTRY" AND "2011 BEST MOTOR VEHICLE INSURANCE BRAND"

In December 2011, the "2011 Oriental Wealth Billboard" awards hosted by the website www.eastmoney.com were announced, and the Company was awarded two grand prizes, namely "Best E-commerce Platform in the Insurance Industry" and "2011 Best Motor Vehicle Insurance Brand".

"2011 MOST RESPECTED INSURANCE COMPANY"

In January 2012, the Company was awarded the "2011 Most Respected Insurance Company" grand prize by the website SOHU.

"INSURANCE COMPANY OF THE YEAR"

In January 2012, the results of the "China Financial and Economic Billboard Awards", a large-scale internet election activity initiated by the website HEXUN and jointly hosted by authoritative institutions including the China Securities Market Research and Design Center, were announced. The Company, with its comprehensive strength and effective brand promotion, was awarded the "Insurance Company of the Year".

"EXCELLENT NON-LIFE INSURANCE COMPANY OF THE YEAR"

In January 2012, the awards presentation ceremony for the "2011 China Insurance Industry Billboard" hosted by *Insurance Manager*, an authoritative magazine in the insurance industry, was held in Beijing. The Company, having achieved a balanced development in terms of its size, quality and profit during the course of its reform and transformation, was awarded the "Excellent Non-Life Insurance Company of the Year" grand prize.

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 57 to 159, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 2011, 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
Hong Kong
28 March 2012

	Notes	2011 *RMB million*	2010 *RMB million* (Restated)
TURNOVER	5	**173,962**	154,307
Net premiums earned	5	**133,134**	122,990
Net claims incurred	6	**(87,546)**	(82,908)
Acquisition cost and other underwriting expenses	7	**(20,290)**	(23,412)
General and administrative expenses		**(17,282)**	(13,890)
UNDERWRITING PROFIT		**8,016**	2,780
Investment income	8	**6,529**	3,968
Net realised and unrealised gains/(losses) on investments	9	**(2,600)**	1,127
Investment expenses		**(159)**	(193)
Interest expenses credited to policyholders' deposits		**(17)**	(25)
Exchange losses, net		**(328)**	(370)
Sundry income		**220**	325
Sundry expenses		**(167)**	(309)
Finance costs	10	**(1,316)**	(788)
Share of profits and losses of associates		**108**	81
PROFIT BEFORE TAX	11	**10,286**	6,596
Income tax expense	14	**(2,259)**	(1,308)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		**8,027**	5,288
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB)	15	**0.683**	0.452

Details of the dividends approved for the year are disclosed in note 16 to the financial statements.

	Notes	2011 RMB million	2010 RMB million (Restated)
PROFIT FOR THE YEAR		**8,027**	5,288
OTHER COMPREHENSIVE INCOME			
Net movement in cash flow hedges	17	**45**	(10)
Income tax effect		**(11)**	3
		34	(7)
Net losses on available-for-sale financial assets	17	**(2,431)**	(2,646)
Income tax effect		**608**	660
		(1,823)	(1,986)
Gains on investment property revaluation	17	**560**	1,005
Income tax effect		**(140)**	(251)
		420	754
Share of other comprehensive income of associates		**(556)**	(148)
Other comprehensive income for the year, net of tax		**(1,925)**	(1,387)
Total comprehensive income for the year attributable to owners of the parent		**6,102**	3,901

	Notes	31 December 2011 RMB million	31 December 2010 RMB million (Restated)	1 January 2010 RMB million (Restated)
ASSETS				
Cash and cash equivalents	18	58,638	32,209	32,143
Derivative financial assets	19	51	6	16
Debt securities	20	98,062	92,567	58,458
Equity securities	21	22,512	19,001	14,683
Insurance receivables, net	22	22,093	10,330	17,170
Tax recoverable		–	–	89
Reinsurance assets	23	24,275	15,549	14,426
Other financial assets and prepayments	24	15,347	12,346	10,947
Investments in associates	25	2,131	1,611	644
Property, plant and equipment	27	12,770	11,765	12,282
Investment properties	28	4,443	3,940	2,147
Prepaid land premiums	29	3,410	3,360	3,565
Deferred tax assets	30	1,912	873	–
TOTAL ASSETS		265,644	203,557	166,570
LIABILITIES				
Payables to reinsurers	31	25,746	10,555	16,595
Accrued insurance protection fund	32	536	586	418
Tax payable		526	709	–
Other liabilities and accruals	33	36,332	25,481	20,625
Insurance contract liabilities	34	145,717	122,946	92,695
Policyholders' deposits	35	2,328	2,517	5,287
Subordinated debts	36	19,299	14,157	8,000
Deferred tax liabilities	30	–	–	245
TOTAL LIABILITIES		230,484	176,951	143,865
EQUITY				
Equity attributable to owners of the parent				
Issued capital	38	12,256	11,142	11,142
Reserves		22,904	15,464	11,563
TOTAL EQUITY		35,160	26,606	22,705
TOTAL EQUITY AND LIABILITIES		265,644	203,557	166,570

	Attributable to owners of the parent								
	Issued capital *RMB million*	Share premium account *RMB million*	Asset revaluation reserve** *RMB million*	Available-for-sale investment revaluation reserve *RMB million*	Cash flow hedging reserve *RMB million*	Surplus reserve*** *RMB million*	General risk reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2011									
As previously reported	11,142	4,739	–	(2,047)	5	1,374	1,009	8,612	24,834
Changes in accounting policies	–	–	1,405	–	–	37	30	300	1,772
As restated	11,142	4,739	1,405	(2,047)	5	1,411	1,039	8,912	26,606
Profit for the year	–	–	–	–	–	803	803	6,421	8,027
Other comprehensive income									
Net movement in cash flow hedges, net of tax	–	–	–	–	34	–	–	–	34
Net losses on available-for-sale financial assets, net of tax	–	–	–	(1,823)	–	–	–	–	(1,823)
Gains on investment property revaluation, net of tax	–	–	420	–	–	–	–	–	420
Share of other comprehensive income of associates	–	–	29	(585)	–	–	–	–	(556)
Total comprehensive income for the year	–	–	449	(2,408)	34	803	803	6,421	6,102
Appropriations to discretionary surplus reserve****	–	–	–	–	–	2,605	–	(2,605)	–
Interim 2011 dividend*****	–	–	–	–	–	–	–	(2,507)	(2,507)
Rights issue******	1,114	3,880	–	–	–	–	–	–	4,994
Share issue expenses******	–	(35)	–	–	–	–	–	–	(35)
At 31 December 2011	12,256	8,584*	1,854*	(4,455)*	39*	4,819*	1,842*	10,221*	35,160

* These reserve accounts comprise the consolidated reserves of RMB22,904 million (31 December 2010: RMB15,464 million (restated)) in the consolidated statement of financial position as at 31 December 2011.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

*** This account contains both statutory and discretionary surplus reserve.

**** On 24 June 2011, the shareholders of the Company at a general meeting approved that 50% of the profit attributable to owners of the parent for 2010, after the appropriations to the statutory surplus reserve and the general risk reserve, be appropriated to the discretionary surplus reserve, according to the relevant laws and regulations.

***** On 12 August 2011, the Board of Directors of the Company approved the 2011 interim dividend distribution of RMB0.225 per ordinary share totalling RMB2,507 million.

****** On 6 July 2011, the Board of Directors of the Company approved the rights issue proposal. The Company completed the rights issue of 346 million H shares at an issue price of HK$5.50 per H rights share and 768 million domestic shares at an issue price of RMB4.49 per domestic share on the basis of 1 rights share for every 10 existing H shares and domestic shares held by members registered on 8 December 2011, respectively. The Company raised total proceeds of RMB4,994 million, of which an amount of RMB1,114 million was recorded in issued capital and RMB3,845 million was recorded in the share premium account after a deduction of the share issue expenses of RMB35 million.

	Attributable to owners of the parent (Restated)								
	Issued capital *RMB million*	Share premium account *RMB million*	Asset revaluation reserve** *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									
As previously reported	11,142	4,739	–	87	12	853	488	4,442	21,763
Changes in accounting policies	–	–	651	–	–	29	22	240	942
As restated	11,142	4,739	651	87	12	882	510	4,682	22,705
Profit for the year	–	–	–	–	–	529	529	4,230	5,288
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)
Gains on investment property revaluation, net of tax	–	–	754	–	–	–	–	–	754
Share of other comprehensive income of associates	–	–	–	(148)	–	–	–	–	(148)
Total comprehensive income for the year	–	–	754	(2,134)	(7)	529	529	4,230	3,901
At 31 December 2010	11,142	4,739*	1,405*	(2,047)*	5*	1,411*	1,039*	8,912*	26,606

* These reserve accounts comprise the consolidated reserves of RMB15,464 million (restated) (31 December 2009: RMB11,563 million (restated)) in the consolidated statement of financial position as at 31 December 2010.

** The asset revaluation reserve arose from the change in use from owner-occupied properties to investment properties.

	Notes	2011 RMB million	2010 RMB million (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		10,286	6,596
Adjustments for:			
Investment income	8	(6,529)	(3,968)
Net realised and unrealised gains/(losses) on investments	9	2,600	(1,127)
Interest expenses credited to policyholders' deposits		17	25
Exchange losses, net		328	370
Share of profits and losses of associates		(108)	(81)
Depreciation of property, plant and equipment	11, 27	1,118	950
Amortisation of prepaid land premiums	11, 29	133	108
Impairment loss on property, plant and equipment	11	–	2
Net gain on disposal of items of property, plant and equipment	11	(7)	(29)
Finance costs	10	1,316	788
Investment expenses		159	193
Impairment loss on insurance receivables	11	307	200
Decrease/(increase) in insurance receivables		(12,070)	6,640
Increase in other financial assets and prepayments		(329)	(46)
Increase/(decrease) in payables to reinsurers		15,191	(6,040)
Increase/(decrease) in accrued insurance protection fund		(50)	168
Increase in other liabilities and accruals		2,259	1,491
Increase in insurance contract liabilities, net		14,045	29,128
Cash generated from operations		28,666	35,368
PRC income tax paid		(3,024)	(1,216)
Net cash flows from operating activities		25,642	34,152
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		5,195	2,798
Rental income received from investment properties		199	156
Dividend income received from equity securities		603	427
Payment for capital expenditure		(2,629)	(1,212)
Proceeds from disposal of items of property, plant and equipment		262	110
Payment for share subscription and acquisition of an associate		(976)	(1,001)
Payment for purchases of debt and equity securities		(62,062)	(88,589)
Proceeds from disposal of unlisted debts		–	1,090
Payment for purchase of unlisted debts		(2,000)	–
Proceeds from sale of debt and equity securities		47,346	48,097
Placement of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits		(40,247)	(10,776)
Maturity of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits		9,628	5,225
Net cash flows used in investing activities		(44,681)	(43,675)

continued/..

	Notes	2011 RMB million	2010 RMB million
Net cash flows used in investing activities		**(44,681)**	(43,675)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from rights issue		**4,959**	–
Proceeds from issue of subordinated debts		**4,983**	5,981
Proceeds from investments in securities sold under agreements to repurchase, net		**9,369**	1,621
Decrease in policyholders' deposits		**(206)**	(2,795)
Interest paid		**(1,151)**	(644)
Dividends paid		**(2,507)**	–
Net cash flows from financing activities		**15,447**	4,163
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(3,592)**	(5,360)
Cash and cash equivalents at beginning of year		**17,727**	23,087
CASH AND CASH EQUIVALENTS AT END OF YEAR		**14,135**	17,727
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand	18	**–**	–
Demand deposits	18	**13,244**	14,823
Securities purchased under resale agreements with original maturity of less than three months	18	**891**	50
Deposits with banks and other financial institutions with original maturity of less than three months	18	**–**	2,854
		14,135	17,727

Statement of Financial Position

31 December 2011

	Notes	31 December 2011 RMB million	31 December 2010 RMB million (Restated)	1 January 2010 RMB million (Restated)
ASSETS				
Cash and cash equivalents	18	58,634	32,205	32,141
Derivative financial assets	19	51	6	16
Debt securities	20	98,062	92,567	58,458
Equity securities	21	22,512	19,001	14,683
Insurance receivables, net	22	22,093	10,330	17,170
Tax recoverable		–	–	89
Reinsurance assets	23	24,275	15,549	14,426
Other financial assets and prepayments	24	15,347	12,346	10,947
Investments in associates	25	2,789	1,813	812
Investments in subsidiaries	26	3	3	3
Property, plant and equipment	27	12,718	11,765	12,282
Investment properties	28	4,579	3,940	2,147
Prepaid land premiums	29	3,410	3,360	3,565
Deferred tax assets	30	1,891	873	–
TOTAL ASSETS		266,364	203,758	166,739
LIABILITIES				
Payables to reinsurers	31	25,746	10,555	16,595
Accrued insurance protection fund	32	536	586	418
Tax payable		526	709	–
Other liabilities and accruals	33	36,332	25,481	20,625
Insurance contract liabilities	34	145,717	122,946	92,695
Policyholders' deposits	35	2,328	2,517	5,287
Subordinated debts	36	19,299	14,157	8,000
Deferred tax liabilities	30	–	–	245
TOTAL LIABILITIES		230,484	176,951	143,865
EQUITY				
Issued capital	38	12,256	11,142	11,142
Reserves		23,624	15,665	11,732
TOTAL EQUITY		35,880	26,807	22,874
TOTAL EQUITY AND LIABILITIES		266,364	203,758	166,739

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 Tower 2, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing 100022, 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 operating 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 (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 investment properties, certain debt securities, certain equity securities, derivatives and certain 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

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is 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 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 2011, the net profit attributable to non-controlling interests amounted to RMB195 (2010: a net loss of RMB848). As at 31 December 2011, the net assets attributable to non-controlling interests amounted to RMB21,748 (31 December 2010: RMB21,553).

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.

New standard, interpretations and amendments thereof, adopted by the Group

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*
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*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

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

New standard, interpretations and amendments thereof, adopted by the Group *(continued)*

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

(a) HKFRS 1 Amendment *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*

The amendment allows a first-time adopter of HKFRSs with the same relief currently available to existing HKFRS adopters from providing comparative information for periods ended before 31 December 2009 for the disclosures required by the Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* issued in March 2009. The amendment has had no impact on the financial position or performance of the Group.

(b) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard has had no impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 46 to the consolidated financial statements.

(c) HKAS 32 Amendment *Financial Instruments: Presentation – Classification of Rights Issues*

The amendment revises the definition of a financial liability in HKAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no significant impact on the financial position or performance of the Group.

(d) HK(IFRIC)-Int 14 Amendments to *Prepayments of a Minimum Funding Requirement*

The amendments remove an unintended consequence arising from the treatment of prepayments of future contributions when an entity is subject to minimum funding requirement and makes an early payment of contributions to cover such requirements. The amendments permit a prepayment of future service cost by the entity to be recognised as a pension asset. As the Group has not entered into such defined benefit schemes, the adoption of the amendments has had no impact on the financial position or performance of the Group.

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

New standard, interpretations and amendments thereof, adopted by the Group *(continued)*

(e) HK(IFRIC)-Int 19 *Extinguishing Financial Liabilities with Equity Instruments*

The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are 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 recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has no such renegotiation on the terms of its financial liabilities, the adoption of the interpretation has had no impact on the financial position or performance of the Group.

(f) Amendments to a number of HKFRSs issued in May 2010

Improvements to HKFRSs 2010 issued in May 2010 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 financial position or performance of the Group.

Change in accounting policies

During the year, the Group has changed its accounting policies with respect to the subsequent measurement of investment properties from the cost model to the fair value model, with changes in fair value recognised in profit or loss. The Group believes that subsequent measurement using the fair value model provides more relevant information about the financial performance of these assets.

The change was made retrospectively, restating the comparative balances and recognising accumulated fair value gains in the asset revaluation reserve and retained profits. The fair values were determined based on the valuation carried out by an external independent valuer.

The effects of the above changes in respect of the accounting policies in relation to the subsequent measurement of investment properties are summarised in note 2.4.

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 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*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*

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

HKFRS 1 Amendments introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation, whereby these entities can elect fair value as the deemed cost for assets and liabilities affected by severe hyperinflation in their first HKFRS financial statements. The amendments also remove 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.

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. The amendments would not have any significant financial impact on the Group.

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

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 2015. The Group is in the process of making an assessment of the impact of the new standard.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013. The amendments would not have any significant financial impact on the Group.

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

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013. The amendments would not have any significant financial impact on the Group.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013. The amendments are unlikely to have any significant impact on the Group.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. The amendments are unlikely to have any significant impact on the Group.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013. The amendment would not have any significant impact on the Group.

HK(IFRIC)-Int 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the costs incurred are accounted for in accordance with HKAS 2 *Inventories*. To the extent that the benefit is improved access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as a stripping activity asset under non-current assets. The Group expects to adopt the interpretation from 1 January 2013. The interpretation would not have any significant financial impact on the Group.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

The following tables summarise the impact of the changes in accounting policies in respect of the investment properties as further explained in note 2.2 to the financial statements.

Effects on the statements of financial position of the Group and the Company as at 31 December 2010

	Investment properties *RMB million*
Balance previously reported at 31 December 2010	1,577
Restatement effect on opening balances at 1 January 2010	1,255
Effect on total assets at 31 December 2010:	
Increase in fair value of investment properties in 2010	1,055
Add-back of depreciation and amortisation on investment properties in 2010	53
Restated balance at 31 December 2010	3,940

	Retained profits *RMB million*	Asset revaluation reserve *RMB million*
Balances previously reported at 31 December 2010	8,612	–
Restatement effect on opening balances at 1 January 2010	240	651
Effect on total comprehensive income for the year:		
Increase in fair value of investment properties in 2010 (net of tax and appropriations to surplus reserve and general risk reserve)	29	754
Add-back of depreciation and amortisation on investment properties in 2010 (net of tax and appropriations to surplus reserve and general risk reserve)	31	–
Restated balances at 31 December 2010	8,912	1,405

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

Effects on the statements of financial position of the Group and the Company as at 1 January 2010

	Investment properties *RMB million*
Balance previously reported at 1 January 2010	706
Restatement effect on opening balances at 1 January 2009	1,024
Effect on total assets at 1 January 2010:	
Increase in fair value of investment properties in 2009	382
Add-back of depreciation and amortisation on investment properties in 2009	35
Restated balance at 1 January 2010	2,147

	Retained profits *RMB million*	Asset revaluation reserve *RMB million*
Balances previously reported at 1 January 2010	4,442	–
Restatement effect on opening balances at 1 January 2009	115	495
Effect on total comprehensive income for the year:		
Increase in fair value of investment properties in 2009 (net of tax and appropriations to surplus reserve and general risk reserve)	104	156
Add-back of depreciation and amortisation on investment properties in 2009 (net of tax and appropriations to surplus reserve and general risk reserve)	21	–
Restated balances at 1 January 2010	4,682	651

This change in accounting policies was applied retrospectively and the restated basic earnings per share is RMB0.475 for the year ended 31 December 2010, which is calculated based on the weighted average number of ordinary shares in issue before the adjustment made to reflect the effect of the rights issue in 2011. The impact on net profit for the year ended 31 December 2010 due to the restatement is as follows:

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

Effects on the income statement of the Group for the year ended 31 December 2010

	RMB million
Net profit for the year ended 31 December 2010 (before restatement)	5,212
Fair value gain on investment properties recognised directly in profit or loss (net of tax)	36
Depreciation and amortisation written back (net of tax)	40
Net profit for the year ended 31 December 2010 (after restatement)	5,288

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries 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*.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

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

(a) the party is a person or a close member of that person's family and that person, (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies: (i) the entity and the Group are members of the same group; (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity); (iii) the entity and the Group are joint ventures of the same third party; (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity; (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; (vi) the entity is controlled or jointly controlled by a person identified in (a); and (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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 identifiable net 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

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

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 year of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

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

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as an asset revaluation reserve. On disposal of the investment property, the asset revaluation reserve included in equity is transferred to retained profits as a movement in reserves.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net 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.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated 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 is included and recognised in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

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 them to maturity. Held-to-maturity investments 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 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 investments 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, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments 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 investments 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 investments are stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 also recognises an associated liability. The transferred asset 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.

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 plus, in the case of loans and borrowings, 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

The subsequent 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 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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 cash flow hedging reserve, while any ineffective portion is recognised immediately in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedge accounting *(continued)*

Initial recognition and subsequent measurement (continued)

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 expire. 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 12 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.

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 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contract liabilities *(continued)*

Derecognition of insurance contract liabilities

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension scheme

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

Employees 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 41). 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 are recognised according to the terms of the relevant contract.

2.5 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 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 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 arising on settlement or translation of monetary items 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. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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 the 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, and deterioration of going concern expectations; and

– Adverse changes relative to the investee's technology, market, customer base, macroeconomic indicators and 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 24 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 described 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 and the time value of money 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.

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

Estimation uncertainty *(continued)*

Fair value of investment properties

The fair value of investment properties is based on regular appraisals by independent professional valuers. The fair values represent the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The valuations are based on either: (i) current prices in an active market for similar properties, or if unavailable; (ii) recent prices of similar properties taking into consideration factors such as transaction conditions, transaction date and location; or (iii) a discounted cash flow analysis of each property. The discounted cash flow analyses are based on calculations of the future rental income in accordance with the terms in existing leases and estimations of the rental values when leases expire.

For each reporting period, every property is valued by an independent professional valuer.

The valuation of investment properties involves various assumptions and techniques. The use of different assumptions and techniques could produce significantly different valuations.

Change in significant accounting estimates

There are no other significant changes in accounting estimates except for the change in actuarial assumptions at end of the reporting period.

When measuring the insurance contract liabilities, the Group determines actuarial assumptions such as risk margin, discount rate and expense assumptions, based on current information available at the end of the reporting period.

As at 31 December 2011, The Group used information currently available to determine the risk margin assumption and the impact of the corresponding changes on insurance contract liabilities was taken into profit or loss. As a result of such changes in assumptions, insurance contract liabilities were increased by RMB585 million as at 31 December 2011 and the profit before tax for the 2011 was reduced by RMB585 million.

The above change in significant accounting estimates has been approved by the Board of Directors of the Company on 28 March 2012.

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 2011 and 2010.

In 2011 and 2010, 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 2011 and 2010 are as follows:

2011	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	128,032	11,828	4,044	6,440	5,343	18,275	–	173,962
Net premiums earned	104,926	7,448	2,809	4,661	3,689	9,601	–	133,134
Net claims incurred	(72,066)	(4,116)	(1,105)	(2,774)	(2,330)	(5,155)	–	(87,546)
Acquisition cost and other underwriting expenses	(16,194)	(1,738)	(503)	(961)	(645)	(249)	–	(20,290)
General and administrative expenses	(11,991)	(1,281)	(453)	(605)	(599)	(2,353)	–	(17,282)
Underwriting profit	4,675	313	748	321	115	1,844	–	8,016
Investment income	–	–	–	–	–	15	6,514	6,529
Net realised and unrealised losses on investments	–	–	–	–	–	(8)	(2,592)	(2,600)
Investment expenses	–	–	–	–	–	(1)	(158)	(159)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(17)	–	(17)
Exchange losses, net	–	–	–	–	–	–	(328)	(328)
Finance costs	–	–	–	–	–	–	(1,316)	(1,316)
Sundry income and expenses	–	–	–	–	–	–	53	53
Share of profits and losses of associates	–	–	–	–	–	–	108	108
Profit before tax	4,675	313	748	321	115	1,833	2,281	10,286
Income tax expense	–	–	–	–	–	–	(2,259)	(2,259)
Profit attributable to owners of the parent	4,675	313	748	321	115	1,833	22	8,027

4. OPERATING SEGMENT INFORMATION *(continued)*

2010	Motor Vehicle *RMB million* (Restated)	Commercial Property *RMB million* (Restated)	Cargo *RMB million* (Restated)	Liability *RMB million* (Restated)	Accidental Injury and Health *RMB million* (Restated)	Other *RMB million* (Restated)	Corporate *RMB million* (Restated)	Total *RMB million* (Restated)
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	(9,063)	(1,037)	(478)	(576)	(506)	(2,230)	–	(13,890)
Underwriting profit/(loss)	2,532	(289)	344	68	22	103	–	2,780
Investment income	–	–	–	–	–	28	3,940	3,968
Net realised and unrealised gains on investments	–	–	–	–	–	9	1,118	1,127
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	2,532	(289)	344	68	22	114	3,805	6,596
Income tax expense	–	–	–	–	–	–	(1,308)	(1,308)
Profit/(loss) attributable to owners of the parent	2,532	(289)	344	68	22	114	2,497	5,288

4. OPERATING SEGMENT INFORMATION *(continued)*

The segment assets, liabilities and other segment information as at 31 December 2011 and 2010 are as follows:

2011	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	24,659	5,203	1,383	2,503	2,039	13,377	216,480	265,644
Total liabilities	133,529	11,610	3,227	8,396	5,286	22,334	46,102	230,484
Other segment information: Depreciation and amortisation	970	88	31	49	40	137	–	1,315

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* (Restated)	Total *RMB million* (Restated)
Total assets	8,437	3,766	1,116	2,063	1,755	11,302	175,118	203,557
Total liabilities	102,689	10,090	2,913	7,086	4,316	18,739	31,118	176,951
Other segment information: Depreciation and amortisation	834	76	25	39	30	108	–	1,112

5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	Group 2011 RMB million	2010 RMB million
Turnover		
Direct premiums written	173,553	153,930
Reinsurance premiums assumed	409	377
	173,962	154,307
Net premiums earned		
Turnover	173,962	154,307
Less: Reinsurance premiums ceded	(37,343)	(17,618)
Net premiums written	136,619	136,689
Less: Change in net unearned premium reserves (note 34)	(3,485)	(13,699)
Net premiums earned	133,134	122,990

6. NET CLAIMS INCURRED

	Group 2011 RMB million	2010 RMB million
Gross claims paid	88,583	76,389
Less: Paid losses recoverable from reinsurers	(11,597)	(8,910)
Net claims paid	76,986	67,479
Change in net loss and loss adjustment expense reserves (note 34)	10,560	15,429
Net claims incurred	87,546	82,908

7. ACQUISITION COST AND OTHER UNDERWRITING EXPENSES

	Group 2011 *RMB million*	2010 *RMB million*
Commission expenses	14,661	13,940
Less: Reinsurance commission income	(12,470)	(5,566)
Underwriting personnel expenses	6,826	4,906
Business tax and surcharges	8,948	8,015
Insurance protection fund (note 32)	1,388	1,231
Others	937	886
	20,290	23,412

8. INVESTMENT INCOME

	Group 2011 *RMB million*	2010 *RMB million*
Rental income from investment properties	199	156
Financial assets at fair value through profit or loss		
– Held for trading:		
Interest income	48	69
Dividend income	21	96
– Designated upon initial recognition:		
Interest income	25	18
Available-for-sale financial assets:		
Interest income	2,780	2,299
Dividend income	582	331
Held-to-maturity investments:		
Interest income	882	142
Loans and receivables:		
Interest income	1,992	857
	6,529	3,968

9. NET REALISED AND UNREALISED GAINS/(LOSSES) ON INVESTMENTS

	Group	
	2011	2010
	RMB million	*RMB million*
		(Restated)
Available-for-sale financial assets:		
Realised gains/(losses)	**(331)**	1,475
Impairment losses	**(2,029)**	(472)
Financial assets at fair value through profit or loss		
– Held for trading:		
Realised gains/(losses)	**(179)**	52
Unrealised losses	**(253)**	(174)
Loans and receivables:		
Reversal of impairment losses	**–**	156
Fair value gains on investment properties (note 28)	**192**	49
Profit on deemed disposal of an associate	**–**	41
	(2,600)	1,127

10. FINANCE COSTS

	Group	
	2011	2010
	RMB million	*RMB million*
Interest on subordinated debts	**932**	680
Interest on securities sold under agreements to repurchase	**321**	70
Other finance costs	**63**	38
	1,316	788

11. PROFIT BEFORE TAX

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

	Notes	**2011** *RMB million*	2010 *RMB million* (Restated)
Auditors' remuneration, including interim review		**17**	18
Depreciation of property, plant and equipment	27	**1,118**	950
Amortisation of prepaid land premiums	29	**133**	108
Employee expenses (including directors' and supervisors' remuneration):	12		
Wages, salaries and staff welfare		**13,488**	9,568
Pension scheme contributions		**1,039**	766
Impairment loss on property, plant and equipment		**–**	2
Impairment loss on insurance receivables	22	**307**	200
Minimum lease payments under operating leases in respect of land and buildings		**468**	352
Net gain on disposal of items of property, plant and equipment		**(7)**	(29)

12. 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:

	2011 *RMB'000*	2010 *RMB'000*
Fees	1,283	1,121
Other emoluments:		
Salaries, allowances, benefits in kind and performance related bonuses	2,507	1,752
Cash-settled SAR expense	–	7,787
Pension scheme contributions	919	608
	4,709	11,268

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:

	2011 *RMB'000*	2010 *RMB'000*
Mr. Lu Zhengfei (Retired in January 2011)	–	246
Mr. Luk Kin Yu, Peter	234	246
Mr. Ding Ning Ning	234	246
Mr. Ip Shu Kwan, Stephen (Appointed in January 2011, resigned in November 2011)	193	–
Mr. Liao Li (Appointed in January 2011)	234	–
	895	738

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

12. 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*
2011					
Chairman of the Board:					
Mr. Wu Yan	–	–	–	–	–
Executive directors:					
Mr. Wang Yincheng, (President)	–	701	–	247	948
Mr. Guo Shengchen	–	595	–	209	804
Mr. Wang He	–	541	–	209	750
Non-executive directors:					
Mr. Zhou Shurui	–	–	–	–	–
Mdm. Yu Xiaoping	–	–	–	–	–
Mr. Li Tao	–	–	–	–	–
Mr. Tse Sze-Wing, Edmund	137	–	–	–	137
Supervisors:					
Mr. Zhou Liqun (Chairman)	–	–	–	–	–
Mr. Sheng Hetai	–	–	–	–	–
Mdm. Qu Yonghuan	–	412	–	153	565
Mr. Shen Ruiguo	–	258	–	101	359
Independent supervisor:					
Mr. Lu Zhengfei	234	–	–	–	234
Mr. Li Dianjun (resigned)	17	–	–	–	17
	388	2,507	–	919	3,814

These fees have been paid as at 31 December 2011.

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 41).

In accordance with the regulations of the relevant authorities in the PRC, the Company didn't pay any compensation to Mr. Wu Yan, the chairman of the Board of Directors, and the total compensation packages for executive directors and employee supervisors have not been finalised. The total compensation packages will be disclosed when determined.

12. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

(b) Chairman 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*
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

13. 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.

14. INCOME TAX EXPENSE

The provision for PRC income tax is calculated based on the statutory rate of 25% (2010: 25%) in accordance with the relevant PRC income tax rules and regulations.

	2011 RMB million	2010 RMB million (Restated)
Group:		
Current		
– Charge for the year	2,806	2,063
– Underprovision/(overprovision) in prior years	35	(49)
Deferred (note 30)	(582)	(706)
Total tax charge for the year	2,259	1,308

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

	2011 RMB million	2010 RMB million (Restated)
Profit before tax	10,286	6,596
Tax at the statutory tax rate of 25% (2010: 25%)	2,572	1,649
Income not subject to tax	(458)	(372)
Expenses not deductible for tax	110	80
Adjustments in respect of current tax of previous periods	35	(49)
Tax charge at the Group's effective rate	2,259	1,308

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

The calculation of basic earnings per share is based on the following:

	2011	2010 (Restated)
Earnings:		
Profit for the year attributable to ordinary equity holders of the parent (RMB million)	8,027	5,288
Shares:		
Weighted average number of ordinary shares in issue (in million shares)	11,745	11,699
Basic earnings per share (RMB yuan)	0.683	0.452

Basic earnings per share was calculated as the profit for the year attributable to ordinary equity holders of the parent divided by the weighted average number of ordinary shares in issue.

The weighted average number of ordinary shares in issue during the year and the comparative period were adjusted to reflect the effect of the rights issues.

Diluted earnings per share amounts for the years ended 31 December 2011 and 2010 have not been disclosed as no diluting events existed during these years.

16. DIVIDEND PER SHARE

	2011 *RMB million*	2010 *RMB million*
Interim dividends on ordinary shares approved for 2011: RMB0.225 per share (2010: Nil)	2,507	–

On 12 August 2011, the Board of Directors of the Company approved the 2011 interim dividend distribution of RMB0.225 per ordinary share totalling RMB2,507 million.

The Board of Directors does not propose any final dividend for the year (2010: Nil).

17. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Group	
	2011	2010
	RMB million	*RMB million*
		(Restated)
Cash flow hedges:		
Changes in fair value	**55**	(10)
Reclassification adjustments for gains included in the consolidated income statement	**(10)**	–
	45	(10)
Available-for-sale investments:		
Changes in fair value	**(4,791)**	(1,643)
Reclassification adjustments for (gains)/losses included in the consolidated income statement		
– (Gains)/losses on disposal	**331**	(1,475)
– Impairment losses	**2,029**	472
	(2,431)	(2,646)
Investment property revaluation:		
Revaluation gains arising during the year	**560**	1,005

18. CASH AND CASH EQUIVALENTS

	Group			Company		
	31 December 2011 RMB million	31 December 2010 RMB million	1 January 2010 RMB million	31 December 2011 RMB million	31 December 2010 RMB million	1 January 2010 RMB million
Cash on hand, at amortised cost	–	–	4	–	–	4
Demand deposits, at amortised cost	13,244	14,823	17,393	13,240	14,819	17,391
Securities purchased under resale agreements with original maturity of less than three months, at amortised cost	891	50	–	891	50	–
Deposits with banks and other financial institutions with original maturity of no more 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	43,574	12,315	6,907	43,574	12,315	6,907
Structured deposits with banks and other financial institutions:						
At fair value	189	199	–	189	199	–
At amortised cost	740	1,968	2,149	740	1,968	2,149
	58,638	32,209	32,143	58,634	32,205	32,141
Classification of cash and cash equivalents:						
Loans and receivables	58,449	32,010	32,143	58,445	32,006	32,141
Financial assets designated as fair value through profit or loss	189	199	–	189	199	–
	58,638	32,209	32,143	58,634	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, interest risk and foreign exchange risk during the year and since their initial designation were immaterial.

19. DERIVATIVE FINANCIAL ASSETS

	Group and Company		
	31 December 2011 *RMB million*	31 December 2010 *RMB million*	1 January 2010 *RMB million*
Interest rate swaps assets	51	6	16

The Company is exposed to the variability of cash flows on financial assets which bear interest at a variable rate, and therefore the Company 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 2011:			
3-month SHIBOR 5-day mean or 1-year deposit rate by the People's Bank of China	3.650%-4.950%	18 May 2014-24 February 2018	1,250
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
1 January 2010			
7-day fixing repo rate or 1-year deposit rate by the People's Bank of China	2.900%-4.000%	10 August 2010-18 May 2014	850

The cash flow hedges were assessed to be highly effective and a net gain of RMB34 million (2010: a net loss of RMB7 million) was included in the statement of comprehensive income. There was a gain of RMB10 million transferred from other comprehensive income to profit or loss in 2011 (2010: Nil). There was no gain or loss transferred from other comprehensive income arising from cash flow hedge ineffectiveness in 2010 and 2011.

20. DEBT SECURITIES

	Group and Company		
	31 December 2011 RMB million	31 December 2010 RMB million	1 January 2010 RMB million
Listed debt securities, at fair value:			
Debt securities issued by governments	810	6,148	9,743
Debt securities issued by corporate entities	7,450	6,207	3,639
	8,260	12,355	13,382
Unlisted debt securities, at fair value:			
Debt securities issued by governments	14,082	17,859	11,975
Debt securities issued by banks and other financial institutions	28,232	34,046	19,275
Debt securities issued by corporate entities	16,615	20,384	13,326
	58,929	72,289	44,576
Listed debt securities, at amortised cost:			
Debt securities issued by corporate entities	1,280	950	–
Unlisted debt securities, at amortised cost:			
Debt securities issued by governments	2,925	500	–
Debt securities issued by banks and other financial institutions	23,897	5,333	500
Debt securities issued by corporate entities	2,771	1,140	–
	29,593	6,973	500
	98,062	92,567	58,458
Classification of debt securities:			
Fair value through profit or loss – held for trading	1,132	1,678	1,649
Available-for-sale	66,057	82,966	56,309
Held-to-maturity	30,873	7,923	500
	98,062	92,567	58,458

21. EQUITY SECURITIES

	Group and Company		
	31 December 2011 *RMB million*	31 December 2010 *RMB million*	1 January 2010 *RMB million*
Listed investments, at fair value:			
Mutual funds	**925**	873	616
Shares	**14,902**	11,809	7,278
	15,827	12,682	7,894
Unlisted investments, at fair value:			
Mutual funds	**6,055**	5,689	6,166
Unlisted investments, at cost:			
Shares	**630**	630	623
	22,512	19,001	14,683
Classification of equity securities:			
Fair value through profit or loss – held for trading	**1,971**	2,019	2,711
Available-for-sale	**20,541**	16,982	11,972
	22,512	19,001	14,683

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

There was a significant or prolonged decline in the market value of certain equity investments during the year. The Company consider that such a decline indicates that the equity investments have been impaired and an impairment loss of RMB2,029 million (2010: Impairment loss of RMB472 million), which included a reclassification from other comprehensive income of RMB2,029 million (2010: Impairment loss of RMB472 million), has been recognised in the income statement for the year.

22. INSURANCE RECEIVABLES, NET

	Group and Company		
	31 December 2011	31 December 2010	1 January 2010
	RMB million	*RMB million*	*RMB million*
Premiums receivable and agents' balances	6,009	5,399	6,044
Receivables from reinsurers	18,537	7,107	13,262
	24,546	12,506	19,306
Less: Impairment provision on:			
Premiums receivable and agents' balances	(2,259)	(2,035)	(2,127)
Receivables from reinsurers	(194)	(141)	(9)
	22,093	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 2011	31 December 2010	1 January 2010
	RMB million	*RMB million*	*RMB million*
On demand	12,958	6,509	8,641
Within 1 month	1,572	961	1,126
1 to 3 months	4,779	1,518	1,549
Over 3 months	2,784	1,342	5,854
	22,093	10,330	17,170

22. INSURANCE RECEIVABLES, NET *(continued)*

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

	Group and Company	
	2011	2010
	RMB million	*RMB million*
At 1 January	**2,176**	2,136
Impairment losses recognised (note 11)	**307**	200
Amount written off as uncollectible	**(30)**	(160)
At 31 December	**2,453**	2,176

Included in the Group's insurance receivables is an amount due from a fellow subsidiary of RMB304 million (31 December 2010: RMB238 million). For details, please refer to note 46(c).

23. REINSURANCE ASSETS

	Group and Company		
	31 December	31 December	1 January
	2011	2010	2010
	RMB million	*RMB million*	*RMB million*
Reinsurers' share of:			
Unearned premium reserves (note 34)	**12,197**	6,279	4,636
Loss and loss adjustment expense reserves (note 34)	**12,078**	9,270	9,790
	24,275	15,549	14,426

24. OTHER FINANCIAL ASSETS AND PREPAYMENTS

		Group and Company		
		31 December 2011	31 December 2010	1 January 2010
	Notes	RMB million	RMB million	RMB million
Unlisted debts		4,200	2,200	3,290
Capital security fund	(i)	2,228	2,228	2,228
Interest receivables		2,956	1,760	1,173
Prepayments and deposits	(ii)	651	693	653
Other receivables	(iii)	971	517	395
Securities settlement accounts		–	1,151	–
Amount due from the PICC Group (note 46(c))		136	139	9
Amounts due from fellow subsidiaries (note 46(c))		27	8	14
Amounts due from associates (note 46(c))		5	1	1
Other assets		4,173	3,649	3,184
		15,347	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 (the "CIRC") as a security fund. The use of the security fund is subject to the approval of the CIRC. As the Company completed the rights issue at the end of December 2011, the Company was still in the process of increasing capital security fund in the related banks required by the CIRC.

(ii) Included in the prepayments and deposits as at 31 December 2011 was a consideration of RMB588 million (31 December 2010: 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 2011, 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. The fair value of the right to the equity in the new securities company could not be measured reliably.

(iii) Included in the other receivables as at 31 December 2011 was an amount of RMB185 million (31 December 2010: RMB340 million) due from another securities company under liquidation. The amount was fully impaired as at 31 December 2011 (31 December 2010: RMB185 million).

25. INVESTMENTS IN ASSOCIATES

	Group			Company		
	31 December 2011 RMB million	31 December 2010 RMB million	1 January 2010 RMB million	31 December 2011 RMB million	31 December 2010 RMB million	1 January 2010 RMB million
Unlisted shares, at cost				2,789	1,813	812
AVIF	3	11	19	–	–	–
Goodwill on acquisition	220	16	16	–	–	–
Share of net assets	1,908	1,584	609	–	–	–
	2,131	1,611	644	2,789	1,813	812

The Group's receivable and payable balances with the associates are disclosed in note 46(c) to the financial statements.

Particulars of associates as at 31 December 2011, 2010 and 2009 are as follows:

31 December 2011

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 Co., Ltd. ("PICC Life")	Mainland China	15,133	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

25. INVESTMENTS IN ASSOCIATES *(continued)*

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	Mainland China	8,802	8.615%	Provision of life insurance products
No.88 Development Company	Mainland China	501	30.41%	Provision of estate services and property management

1 January 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	Mainland China	5,417	14%	Provision of life insurance products

On 15 June 2011, the Company entered into an agreement, pursuant to which the Company agreed to subscribe for shares at an amount of approximately RMB545 million to increase the share capital of PICC Life. Upon completion of the increase in share capital of PICC Life in June 2011, the equity interest held by the Company remained unchanged, representing 8.615% of the enlarged issued share capital of PICC Life.

On 15 December 2011, the Company entered into an agreement, pursuant to which the Company agreed to subscribe for shares at an amount of approximately RMB431 million to increase the share capital of PICC Life. Upon completion of the increase in share capital of PICC Life in December 2011, the equity interest held by the Company remained unchanged, representing 8.615% of the enlarged issued share capital of PICC Life. On 11 January 2012, PICC Life completed registration alteration at the Industrial and Commercial registration and increased its registered capital to RMB20,133,405,133.

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.

25. INVESTMENTS IN ASSOCIATES *(continued)*

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 2011 *RMB million*	31 December 2010 *RMB million*	31 December 2011 *RMB million*	31 December 2010 *RMB million*	1 January 2010 *RMB million*
Share of the associates' assets and liabilities					
Assets	1,277	1,214	23,529	16,099	13,030
Liabilities	(438)	(214)	(22,460)	(15,515)	(12,421)
Net assets	839	1,000	1,069	584	609

	No. 88 Development Company		PICC Life	
	2011 *RMB million*	2010 *RMB million*	2011 *RMB million*	2010 *RMB million*
Share of the associates' revenue and profit:				
Revenue	17	–	6,911	8,439
Profit	43	–	65	81

During the year ended 31 December 2010, the Group's share of No.88 Development Company's revenue and profit were less than RMB1 million, and therefore, the amount was not presented above.

26. INVESTMENTS IN SUBSIDIARIES

	Company		
	31 December 2011 *RMB million*	31 December 2010 *RMB million*	1 January 2010 *RMB million*
Unlisted shares, at cost	3	3	3

Particulars of the subsidiaries are as follows:

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

* Registered as limited companies under the PRC Company Law.

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

27. PROPERTY, PLANT AND EQUIPMENT

Group

	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 2011	11,780	1,790	3,422	445	17,437
Additions	87	236	1,649	235	2,207
Transfers	267	–	68	(335)	–
Transfers from investment properties (note 28)	359	–	–	–	359
Transfers to investment properties (note 28)	(256)	–	–	(17)	(273)
Disposals	(72)	(541)	(633)	(4)	(1,250)
At 31 December 2011	12,165	1,485	4,506	324	18,480
Accumulated depreciation:					
At 1 January 2011	(2,552)	(974)	(2,146)	–	(5,672)
Charge for the year (note 11)	(462)	(221)	(435)	–	(1,118)
Transfers to investment properties (note 28)	88	–	–	–	88
Disposals	9	498	485	–	992
At 31 December 2011	(2,917)	(697)	(2,096)	–	(5,710)
Net book amount:					
At 31 December 2011	9,248	788	2,410	324	12,770
At 31 December 2010	9,228	816	1,276	445	11,765

27. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	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 28)	(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 (note 11)	(363)	(181)	(406)	–	(950)
Transfers to investment properties (note 28)	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
At 31 December 2009	8,211	649	1,172	2,250	12,282

27. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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 2011	11,780	1,790	3,422	445	17,437
Additions	87	236	1,649	235	2,207
Transfers	267	–	68	(335)	–
Transfers from investment properties (note 28)	359	–	–	–	359
Transfers to investment properties (note 28)	(318)	–	–	(17)	(335)
Disposals	(72)	(541)	(633)	(4)	(1,250)
At 31 December 2011	12,103	1,485	4,506	324	18,418
Accumulated depreciation:					
At 1 January 2011	(2,552)	(974)	(2,146)	–	(5,672)
Charge for the year (note 11)	(462)	(221)	(435)	–	(1,118)
Transfers to investment properties (note 28)	98	–	–	–	98
Disposals	9	498	485	–	992
At 31 December 2011	(2,907)	(697)	(2,096)	–	(5,700)
Net book amount:					
At 31 December 2011	9,196	788	2,410	324	12,718
At 31 December 2010	9,228	816	1,276	445	11,765

27. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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 28)	(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 28)	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
At 31 December 2009	8,211	649	1,172	2,250	12,282

27. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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 2011, certain acquired buildings of the Group with a net book amount of RMB392 million (31 December 2010: RMB568 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 2011 amounted to RMB3,411 million (31 December 2010: RMB3,915 million).

28. INVESTMENT PROPERTIES

Group

	2011 *RMB million*	2010 *RMB million* (Restated)
At 1 January	3,940	2,147
Transfers from property, plant and equipment and prepaid land premiums (notes 27 and 29)	298	739
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums (note 17)	560	1,005
Increase in fair value of investment properties during the year (note 9)	192	49
Transfers to property, plant and equipment and prepaid land premiums (notes 27 and 29)	(547)	–
At 31 December	4,443	3,940

28. INVESTMENT PROPERTIES *(continued)*

Company

	2011 *RMB million*	2010 *RMB million* (Restated)
At 1 January	3,940	2,147
Transfers from property, plant and equipment and prepaid land premiums (notes 27 and 29)	350	739
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums	644	1,005
Increase in fair value of investment properties during the year	192	49
Transfers to property, plant and equipment and prepaid land premiums (notes 27 and 29)	(547)	–
At 31 December	4,579	3,940

As per note 2.2, the Group changed its accounting policies during the year for the subsequent measurement of investment properties from the cost model to the fair value model retrospectively, restating the comparative balances. The fair values were determined based on the valuation carried out by an external independent valuer.

The Group's investment properties were revalued as at 1 January 2010, 31 December 2010 and 31 December 2011 by an independent professional valuer, DTZ DEBENHAM TIE LEUNG Limited. Valuations were based on either: (i) the direct comparison approach assuming the sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market; or (ii) capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

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

Rental income generated from these investment properties amounting to RMB199 million (2010: RMB156 million) was recognised in the income statement for the year.

As at 31 December 2011 and 31 December 2010, none of the Group's investment properties was pledged to secure general banking facilities granted to the Group.

29. PREPAID LAND PREMIUMS

Group

	2011 RMB million	2010 RMB million (Restated)
At 1 January	3,360	3,565
Additions	112	20
Transfers from investment properties (note 28)	188	–
Amortisation recognised during the year (note 11)	(133)	(108)
Transfers to investment properties (note 28)	(113)	(80)
Disposal	(4)	(37)
At 31 December	3,410	3,360

Company

	2011 RMB million	2010 RMB million (Restated)
At 1 January	3,360	3,565
Additions	112	20
Transfers from investment properties (note 28)	188	–
Amortisation recognised during the year (note 11)	(133)	(108)
Transfers to investment properties (note 28)	(113)	(80)
Disposal	(4)	(37)
At 31 December	3,410	3,360

29. PREPAID LAND PREMIUMS *(continued)*

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

Group

	31 December 2011 *RMB million*	31 December 2010 *RMB million* (Restated)	1 January 2010 *RMB million* (Restated)
Long term leases	**135**	125	83
Medium term leases	**3,275**	3,235	3,482
	3,410	3,360	3,565

Company

	31 December 2011 *RMB million*	31 December 2010 *RMB million* (Restated)	1 January 2010 *RMB million* (Restated)
Long term leases	**135**	125	83
Medium term leases	**3,275**	3,235	3,482
	3,410	3,360	3,565

30. DEFERRED TAX

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

Group

	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*	Revaluation of investment properties *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets:								
At 1 January 2011	616	630	–	190	450	–	30	1,916
Deferred tax (charged)/credited to the income statement during the year (note 14)	542	–	–	(190)	228	–	66	646
Deferred tax directly credited to the equity during the year	–	608	–	–	–	–	–	608
Gross deferred tax assets at 31 December 2011	1,158	1,238	–	–	678	–	96	3,170
Deferred tax liabilities:								
At 1 January 2011	–	–	(1)	(451)	–	(591)	–	(1,043)
Deferred tax charged to the income statement during the year (note 14)	–	–	–	–	–	(64)	–	(64)
Deferred tax directly debited to equity during the year	–	–	(11)	–	–	(140)	–	(151)
Gross deferred tax liabilities at 31 December 2011	–	–	(12)	(451)	–	(795)	–	(1,258)
Net deferred tax assets at 31 December 2011								1,912

30. DEFERRED TAX *(continued)*

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*	Revaluation of investment properties *RMB million*	Others *RMB million*	Total *RMB million*
Deferred tax assets:								
At 1 January 2011	616	630	–	190	450	–	30	1,916
Deferred tax (charged)/credited to the income statement during the year	542	–	–	(190)	228	–	66	646
Deferred tax directly credited to the equity during the year	–	608	–	–	–	–	–	608
Gross deferred tax assets at 31 December 2011	1,158	1,238	–	–	678	–	96	3,170
Deferred tax liabilities:								
At 1 January 2011	–	–	(1)	(451)	–	(591)	–	(1,043)
Deferred tax charged to the income statement during the year	–	–	–	–	–	(64)	–	(64)
Deferred tax directly debited to equity during the year	–	–	(11)	–	–	(161)	–	(172)
Gross deferred tax liabilities at 31 December 2011	–	–	(12)	(451)	–	(816)	–	(1,279)
Net deferred tax assets at 31 December 2011								1,891

30. 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*	Revaluation of investment properties *RMB million* (Restated)	Others *RMB million*	Total *RMB million* (Restated)
Deferred tax assets:								
At 1 January 2010	513	–	–	–	54	–	–	567
Deferred tax credited to the income statement during the year (note 14)	103	–	–	190	396	–	30	719
Deferred tax directly 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)	–	(314)	(13)	(812)
Deferred tax (charged)/credited to the income statement during the year (note 14)	–	–	–	–	–	(26)	13	(13)
Deferred tax directly (debited)/ credited to equity during the year	–	30	3	–	–	(251)	–	(218)
Gross deferred tax liabilities at 31 December 2010	–	–	(1)	(451)	–	(591)	–	(1,043)
Net deferred tax assets at 31 December 2010								873

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.

31. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	Group and Company		
	31 December 2011 *RMB million*	31 December 2010 *RMB million*	1 January 2010 *RMB million*
Reinsurance payables	**25,746**	10,555	16,595

The reinsurance payables are non-interest-bearing and are due within three months from the settlement dates or are repayable on demand.

Included in the Group's reinsurance payables is an amount due to a fellow subsidiary of RMB182 million (31 December 2010: RMB483 million). For details, please refer to note 46(c).

32. ACCRUED INSURANCE PROTECTION FUND

	Group and Company	
	2011 *RMB million*	2010 *RMB million*
At 1 January	**586**	418
Accrued during the year (note 7)	**1,388**	1,231
Paid during the year	**(1,438)**	(1,063)
At 31 December	**536**	586

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 (2010: 0.8%) in accordance with the relevant PRC insurance laws and regulations. No further provision is required once the accumulated balance has reached 6% (2010: 6%) of the Group's total assets as determined in accordance with PRC GAAP.

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

33. OTHER LIABILITIES AND ACCRUALS

	Group and Company		
	31 December 2011 *RMB million*	31 December 2010 *RMB million*	1 January 2010 *RMB million*
Premiums received in advance	**6,879**	6,227	8,629
Securities sold under agreements to repurchase	**12,943**	4,532	1,760
Salaries and staff welfare payables	**4,232**	3,288	1,605
Commission payable	**2,668**	1,860	938
Accrued capital expenditure	**74**	246	187
Amounts due to fellow subsidiaries (note 46(c))	**54**	95	69
Others	**9,482**	9,233	7,437
	36,332	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 2011, the borrowings obtained under these repurchase transactions were RMB12,943 million (31 December 2010: RMB4,532 million), while the carrying amounts of financial assets do not qualify for derecognition.

As at 31 December 2011, debt securities of approximately RMB15,903 million (31 December 2010: RMB4,793 million) were pledged as securities sold under agreements to repurchase. Securities sold under agreements to repurchase are generally repurchased within three months.

34. INSURANCE CONTRACT LIABILITIES

	Group and Company		
	31 December 2011 *RMB million*	31 December 2010 *RMB million*	1 January 2010 *RMB million*
Unearned premium reserves	**69,617**	60,214	44,872
Loss and loss adjustment expense reserves	**76,100**	62,732	47,823
	145,717	122,946	92,695

34. INSURANCE CONTRACT LIABILITIES *(continued)*

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

Group and Company

	2011			2010		
	Gross amount *RMB million*	Reinsurers' share *RMB million* (note 23)	Net amount *RMB million*	Gross amount *RMB million*	Reinsurers' share *RMB million* (note 23)	Net amount *RMB million*
Unearned premium reserves:						
At 1 January	60,214	(6,279)	53,935	44,872	(4,636)	40,236
Increase during the year	141,498	(24,820)	116,678	125,300	(12,004)	113,296
Release during the year	(132,095)	18,902	(113,193)	(109,958)	10,361	(99,597)
At 31 December	69,617	(12,197)	57,420	60,214	(6,279)	53,935
Loss and loss adjustment expense reserves:						
At 1 January	62,732	(9,270)	53,462	47,823	(9,790)	38,033
Increase during the year	101,951	(14,405)	87,546	91,298	(8,390)	82,908
Release during the year	(88,583)	11,597	(76,986)	(76,389)	8,910	(67,479)
At 31 December	76,100	(12,078)	64,022	62,732	(9,270)	53,462
Total insurance contract liabilities	145,717	(24,275)	121,442	122,946	(15,549)	107,397

35. 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 2011	31 December 2010	1 January 2010
	RMB million	*RMB million*	*RMB million*
Interest-bearing deposits	**356**	484	2,969
Non-interest-bearing deposits	**1,972**	2,033	2,318
	2,328	2,517	5,287

Certain contracts offered by the Group require that the policyholders place a deposit with the Group which is refundable upon maturity, varying 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.

36. 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 did not 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.

On 3 June 2011, 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 5.38% per annum in the first five years and a rate of 7.38% per annum in the remaining years. The Company has an option to redeem the subordinated debts at the end of the first five years.

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

(a) Insurance contract liabilities

Terms

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

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

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

Line	Estimation method
All	• Paid and incurred loss development methods; • Paid and incurred Bornhuetter-Fergusons method; and • 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 • Bornhuetter-Ferguson method

Assumptions and sensitivities

The principal assumption underlying the estimates is the Company'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 2.9%-3.2% and 2.8% for 2011 and 2010, 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.

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

(a) Insurance contract liabilities *(continued)*

Assumptions and sensitivities *(continued)*

The sensitivity of certain variables like legislative change and 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.

With the adoption of a number of changes in accounting policies in the 2009, 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	**2011**	Total
Estimated cumulative claims paid as of:						
End of current year			74,371	87,117	**99,669**	
One year later		73,806	74,707	85,301		
Two years later	52,005	73,582	74,180			
Three years later	51,803	73,716				
Four years later	51,896					
Estimated cumulative claims	51,896	73,716	74,180	85,301	**99,669**	384,762
Cumulative claims paid	(51,017)	(71,726)	(69,491)	(68,013)	**(51,918)**	(312,165)
Sub-total						72,597
Liability in respect of prior years and unallocated loss adjustment expenses						3,503
Unpaid claim expenses						76,100

37. 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	2011	Total
Estimated cumulative claims paid as of:						
End of current year			59,182	78,342	84,612	
One year later		59,354	59,270	77,090		
Two years later	44,933	59,074	59,611			
Three years later	44,752	59,011				
Four years later	44,823					
Estimated cumulative claims	44,823	59,011	59,611	77,090	84,612	325,147
Cumulative claims paid	(44,115)	(57,476)	(56,404)	(61,765)	(44,468)	(264,228)
Sub-total						60,919
Liability in respect of prior years and unallocated loss adjustment expenses						3,103
Unpaid claim expenses						64,022

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, sliding scale commission and loss participation limit 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 RMB28,476 million (2010: RMB9,903 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.

38. ISSUED CAPITAL

	31 December 2011 *RMB million*	31 December 2010 *RMB million*	1 January 2010 *RMB million*
Shares			
Registered, issued and fully paid:			
Domestic shares of RMB1.00 each	8,454	7,686	7,686
H shares of RMB1.00 each	3,802	3,456	3,456
	12,256	11,142	11,142

Summary of the movements during the year in the Company's issued capital is as follows:

	Number of shares in issue				
	Domestic shares *million*	**H shares** *million*	**Issued capital** *RMB million*	**Share premium amount** *RMB million*	**Total** *RMB million*
At 31 December 2010 and 1 January 2010	7,686	3,456	11,142	4,739	15,881
Rights issue	768	346	1,114	3,880	4,994
Share issue expenses	–	–	–	(35)	(35)
At 31 December 2011	8,454	3,802	12,256	8,584	20,840

The Company completed the rights issue of 346 million H shares on the basis of one H rights share for every ten existing H shares held by members registered on 8 December 2011, at an issue price of HK$5.50 per H rights share. The Company raised net proceeds of RMB1,510 million, of which an amount of RMB346 million was recorded in issued capital and RMB1,164 million was recorded in the share premium account after a deduction of the issue expenses of RMB33 million.

The Company completed the rights issue of 768 million domestic shares on the basis of one domestic rights share for every ten existing domestic shares held by members registered on 8 December 2011, at an issue price of RMB4.49 per domestic share. The Company raised net proceeds of RMB3,449 million, of which an amount of RMB768 million was recorded in issued capital and RMB2,681 million was recorded in the share premium account after a deduction of the issue expenses of RMB2 million.

As at the date of approval of the financial statements, the Company has filed with the CIRC for change of registered capital and Articles of Association, and already received the approval from the regulator. As of now, the Company has completed the registration with the Administration for Industry and Commerce for the aforesaid changes. Subsequent to the completion of registration procedures, the registered capital of the Company increased to RMB12,255,980,000 from RMB11,141,800,000.

39. 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		
	2011	2010	2009	2011	2010	2009
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Financial assets						
Cash and cash equivalents	58,638	32,209	32,143	58,638	32,209	32,143
Derivative financial assets	51	6	16	51	6	16
Debt securities	98,062	92,567	58,458	98,024	92,066	58,447
Equity securities	21,882	18,371	14,060	21,882	18,371	14,060
Insurance receivables, net	22,093	10,330	17,170	22,093	10,330	17,170
Other financial assets	14,589	11,630	10,352	14,796	11,695	10,352
	215,315	165,113	132,199	215,484	164,677	132,188
Financial liabilities						
Payables to reinsurers	25,746	10,555	16,595	25,746	10,555	16,595
Accrued insurance protection fund	536	586	418	536	586	418
Other liabilities and accruals	26,347	16,683	10,515	26,347	16,683	10,515
Policyholders' deposits	2,328	2,517	5,287	2,328	2,517	5,287
Subordinated debts	19,299	14,157	8,000	19,260	14,519	8,249
	74,256	44,498	40,815	74,217	44,860	41,064

The fair values of the financial assets and liabilities are measured 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:

The fair values of cash and cash equivalents, insurance receivables, 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.

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

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).

Financial assets measured at fair value

Group and Company

As at 31 December 2011	Level 1	Level 2	Total
Financial assets held for trading			
Equity investments	1,745	226	1,971
Debt securities	10	1,122	1,132
Financial assets designated as fair value through profit or loss	–	189	189
Derivative financial assets			
Interest rate swap contracts	–	51	51
Available-for-sale investments			
Equity investments	19,813	98	19,911
Debt securities	7,260	58,797	66,057
	28,828	60,483	89,311

39. FAIR VALUE AND FAIR VALUE HIERARCHY *(continued)*

Financial assets measured at fair value *(continued)*

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
Financial assets designated as fair value through profit or loss	–	199	199
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	72,494	103,220

There was no fair value measurement in Level 3 as at 31 December 2011 (31 December 2010: Nil).

During the year, due to changes in availability of market observable inputs, the Group transferred certain equity securities and certain debt securities between Level 1 and Level 2, but no transfers into or out of Level 3 (2010: Nil).

The Group did not have any financial liabilities measured at fair value as at 31 December 2011 (31 December 2010: Nil).

40. 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 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 Group also increased share capital and issued subordinated debt instruments to enhance its solvency position. The table below summarises the minimum regulatory capital and the regulatory capital held by the Company:

	31 December 2011			31 December 2010		
	Regulatory capital held	Minimum regulatory capital	Solvency margin ratio	Regulatory capital held	Minimum regulatory capital	Solvency margin ratio
	RMB million	*RMB million*		*RMB million*	*RMB million*	
Solvency margin	37,768	20,523	184%	23,628	20,619	115%

41. 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 SAR will be fully vested immediately.

41. 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 Ministry of Finance 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.

42. 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 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 20 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.

42. 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 2011, the top three reinsurance companies owed an aggregate amount of RMB14,326 million (31 December 2010: RMB4,221 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:

	2011 *RMB million*	2010 *RMB million*
Cash and cash equivalents	58,638	32,209
Derivative financial assets	51	6
Debt securities	98,062	92,567
Insurance receivables, net	22,093	10,330
Other financial assets	13,421	10,421
Total credit risk exposure	192,265	145,533

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.

42. 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 2011	On demand	Past due and impaired Less than 30 days	Past due and impaired 31 to 90 days	Past due and impaired More than 90 days	Past due and impaired Sub-total	Past due but not impaired	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	58,638	–	–	–	–	–	58,638
Derivative financial assets	51	–	–	–	–	–	51
Debt securities	98,062	–	–	–	–	–	98,062
Insurance receivables	13,116	1,418	4,595	1,946	7,959	3,471	24,546
Other financial assets	13,421	–	–	–	–	185	13,606
Total	183,288	1,418	4,595	1,946	7,959	3,656	194,903
Less: Impairment provision	–	–	–	–	–	(2,638)	(2,638)
Net	183,288	1,418	4,595	1,946	7,959	1,018	192,265

31 December 2010	On demand	Past due and impaired Less than 30 days	Past due and impaired 31 to 90 days	Past due and impaired More than 90 days	Past due and impaired Sub-total	Past due but not impaired	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

42. 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 in the 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 according to statistical techniques and past experience.

As at the end of the reporting date, the Group held 5% (31 December 2010: 9%) 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.

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

31 December 2011	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	13,244	1,335	4,221	44,118	6,516	69,434
Derivative financial assets	–	–	7	51	1	59
Debt securities						
– Available-for-sale	–	629	2,541	40,528	37,593	81,291
– Fair value through profit or loss	–	96	428	484	240	1,248
– Held-to-maturity	–	238	1,341	6,316	53,838	61,733
Reinsurance assets	–	4,973	11,471	7,130	813	24,387
Capital security fund	–	302	957	974	259	2,492
Liabilities:						
Payables to reinsurers	11,907	9,362	4,238	234	5	25,746
Insurance contract liabilities	–	31,105	69,446	41,474	4,067	146,092
Policyholders' deposits	252	197	97	–	1,782	2,328
Subordinated debts	–	6	1,305	7,090	20,374	28,775

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial risks *(continued)*

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

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 or 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

The Group has no significant concentration of liquidity or funding risk.

The table below summarises the expected recovery of all assets:

	2011 Current* *RMB million*	2011 Non-current *RMB million*	2011 Total *RMB million*	2010 Current* *RMB million* (Restated)	2010 Non-current *RMB million* (Restated)	2010 Total *RMB million* (Restated)
Cash and cash equivalents	15,997	42,641	58,638	24,602	7,607	32,209
Derivative financial assets	7	44	51	4	2	6
Debt securities	2,760	95,302	98,062	15,457	77,110	92,567
Equity securities	1,970	20,542	22,512	2,018	16,983	19,001
Insurance receivables, net	19,468	2,625	22,093	9,981	349	10,330
Reinsurance assets	16,380	7,895	24,275	11,335	4,214	15,549
Other financial assets and prepayments	7,899	7,448	15,347	7,135	5,211	12,346
Investments in associates	–	2,131	2,131	–	1,611	1,611
Property, plant and equipment	–	12,770	12,770	–	11,765	11,765
Investment properties	–	4,443	4,443	–	3,940	3,940
Prepaid land premiums	–	3,410	3,410	–	3,360	3,360
Deferred tax assets	–	1,912	1,912	–	873	873
Total	64,481	201,163	265,644	70,532	133,025	203,557

* Expected recovery or settlement within 12 months from the end of each reporting period.

42. 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 their issuers 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 2011, the Group held deposits of RMB4,087 million (31 December 2010: RMB9,423 million) and debt securities of RMB550 million (31 December 2010: RMB765 million), of which their carrying values were 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.

		2011		2010	
	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%	215	215	532	532
USD	–5%	(215)	(215)	(532)	(532)

42. 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's interest risk policy requires it to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities, reprice interest on floating rate instruments at intervals of less than one year, and manage variable interest rate risk through interest rate swap instruments. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

(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 their 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 (2010: 10 trading days) at a confidence level of 99% (2010: 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.

42. RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(a) Financial risks *(continued)*

(3) Market risk *(continued)*

(iii) Price risk (continued)

	2011 *RMB million*	2010 *RMB million*
Interest rate VaR	800	816
Equity price VaR	1,923	1,850

(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.

42. 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 Company's concentration of insurance risk before and after reinsurance, measured by geographical turnover and net premiums written, is as follows:

	2011		2010	
	Gross	Net	Gross	Net
	RMB million	*RMB million*	*RMB million*	*RMB million*
Coastal and developed provinces/cities	75,388	58,160	67,431	58,882
Western China	37,348	29,577	31,583	28,003
Northern China	27,895	22,605	25,227	23,071
Central China	20,508	16,172	17,878	15,901
North-eastern China	12,823	10,105	12,188	10,832
Total	173,962	136,619	154,307	136,689

43. CONTINGENT LIABILITIES

There were certain outstanding litigation matters against the Group as at 31 December 2011. 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.

44. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties (note 28) under operating lease arrangements, with leases negotiated for terms ranging from two to twenty years (2010: two to six years).

Future minimum lease receivables under non-cancellable operating leases are as follows:

	Group and Company	
	2011	2010
	RMB million	*RMB million*
Within one year	**147**	143
In the second to fifth years, inclusive	**316**	249
After five years	**97**	95
	560	487

(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 (2010: one to twenty years), and those for motor vehicles are negotiated for terms ranging from one to three years (2010: one to three years).

Future minimum lease payments under non-cancellable operating leases are as follows:

	Group and Company	
	2011	2010
	RMB million	*RMB million*
Within one year	**117**	155
In the second to fifth years, inclusive	**174**	164
After five years	**43**	63
	334	382

45. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 44 above, the Group and the Company had the following capital commitments at the end of the year:

	Group and Company	
	2011	2010
	RMB million	RMB million
Contracted, but not provided for:		
Property, plant and equipment	389	325

46. RELATED PARTY TRANSACTIONS

(a) Material transactions with related parties

	Notes	2011 RMB million	2010 RMB million
Transactions with the holding company:			
Transfer of unlisted debts	(i)	–	975
Interim dividend distribution	(ii)	1,729	–
Rights issue	(iii)	3,451	–
Transactions with fellow subsidiaries:			
Property rental expenses	(iv)	123	142
Property rental income	(iv)	2	3
Management fee	(v)	124	101
Premiums ceded	(vi)	450	714
Reinsurance commission income	(vi)	156	269
Paid losses recoverable from reinsurers	(vi)	285	57
Reinsurance premiums assumed	(vi)	2	3
Gross claims paid-reinsurance	(vi)	1	–
Transactions with associates:			
Commission received	(vii)	9	21
Commission paid	(vii)	65	34
Shares subscribed	(viii)	976	–

Notes:

(i) 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. PICC Group is the controlling shareholder of the Company.

46. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: (continued)

(ii) On 12 August 2011, the Board of Directors of the Company approved the 2011 interim dividend distribution of RMB0.225 per ordinary share totalling RMB2,507 million. As the PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB1,729 million to the PICC Group.

(iii) On 30 December 2011, the Company completed the rights issue of 768 million domestic shares on the basis of one domestic rights share for every ten existing domestic shares, at an issue price of RMB4.49 per domestic share. The PICC Group subscribed for shares with an amount of approximately RMB3,451 million. Upon completion of the share capital increase of the Company, the proportion of shareholding by the PICC Group remained unchanged, representing 68.98% of the enlarged issued share capital of the Company.

(iv) On 19 September 2008, the Company entered into a Property Leasing Agreement and Motor Vehicle Rental Agreement with PICC Investment Holding Company Limited ("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. On 15 December 2011, the Company and PICC Investment renewed the Property Leasing agreement. Pursuant to the renewed agreement, the Company and PICC Investment continue to lease certain properties from each other. The renewed agreement commenced from 7 July 2011 and will expire on 6 July 2014 with a term of three years. During the years ended 31 December 2011 and 2010, motor vehicle rental expenses were less than RMB1 million and, therefore, the amount was not presented above. PICC Investment is a fellow subsidiary of the Company.

(v) On 28 December 2007, the Company and PICC Assets Management Company Limited (the "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 management fee to PICC AMC, which was calculated based on the daily net asset value of the entrusted assets and the applicable rates. Other than 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) of the Company. The renewed agreement commenced from 1 January 2010 and will expire on 31 December 2012 with a term of three years. PICC AMC is a fellow subsidiary of the Company.

(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. On 25 March 2011, the Company and PICC HK renewed the Framework Agreement on Reinsurance Business Cooperation. Pursuant to the renewed agreement, 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. The renewed agreement commenced from 1 January 2011 and expired on 31 December 2011. PICC HK is a fellow subsidiary of the Company.

The commission expenses related to the above reinsurance arrangement during the year ended 31 December 2011, and the commission expenses and the gross claims paid related to the above reinsurance arrangement during the year ended 31 December 2010, were less than RMB1 million, respectively, and therefore, the amount was not presented above.

46. 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 acted 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. PICC Life is an associate of the Company.

(viii) On 15 June 2011, the Company entered into an agreement with PICC Group, PICC AMC, Sumitomo Life Insurance Company, Asia Financial Holdings Ltd., Bangkok Bank Public Company Limited and PICC Life, pursuant to which the Company agreed to subscribe for shares at an amount of approximately RMB545 million to increase the share capital of PICC Life, a fellow subsidiary and an associated company of the Company. Upon completion of the share capital increase of PICC Life, the proportion of shareholding held by the Company remained unchanged, representing 8.615% of the enlarged issued share capital of PICC Life.

On 15 December 2011, the Company entered into an agreement with PICC Group, PICC AMC, Sumitomo Life Insurance Company, Asia Financial Holdings Ltd., Bangkok Bank Public Company Limited and PICC Life, pursuant to which the Company agreed to subscribe for shares at an amount of approximately RMB431 million to increase the share capital of PICC Life. Upon completion of the share capital increase of PICC Life, the proportion of shareholding held by the Company remained unchanged, representing 8.615% of the enlarged issued share capital of PICC Life.

Under the Listing Rules of The Stock Exchange of Hong Kong Limited, the transactions (i) and (viii) mentioned above constitute connected transactions, and (iv), (v), (vi), (vii) constitute continuing connected transactions.

(b) Transactions with other state-owned enterprises in the PRC

The Company operates in an economic environment predominated by enterprises controlled, jointly-controlled or significantly influenced 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, and the sale, purchase, redemption of bonds or equity instruments. 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.

46. 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 2011 *RMB million*	31 December 2010 *RMB million*	31 December 2011 *RMB million*	31 December 2010 *RMB million*	31 December 2011 *RMB million*	31 December 2010 *RMB million*	31 December 2011 *RMB million*	31 December 2010 *RMB million*
The PICC Group (note 24)	–	–	136	139	–	–	–	–
Fellow subsidiaries (notes 22, 24, 31 and 33)	304	238	27	8	182	483	54	95
Associates (note 24)	–	–	5	1	–	–	–	–
	304	238	168	148	182	483	54	95

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)

	2011 *RMB '000*	2010 *RMB '000*
Short term employee benefits	1,837	1,659
Post-employment benefits	665	575
Total compensation paid to key management personnel	2,502	2,234

Further details of directors' emoluments are included in note 12 to the financial statements.

47. EVENTS AFTER THE BALANCE SHEET DATE

On 5 March 2012, the Company was notified by PICC AMC that on 1 March 2012, PICC AMC entered into a Share Subscription Agreement with Industrial Bank Co., Ltd. (the "IBC"), where PICC AMC agreed to subscribe for approximately 1.38 billion subscription shares at a total consideration of approximately RMB17.6 billion, of which PICC AMC plans to use the entrusted assets of the Company to subscribe for approximately 0.63 billion subscription shares (representing approximately 4.9% of the enlarged issued share capital of IBC) at a consideration of approximately RMB8.021 billion. The subscription shares shall be subject to a lock-up period of 36 months from the date of completion. The Company has been informed by PICC AMC that completion of the Share Subscription Agreement shall be subject to certain conditions including, but not limited to, the obtaining of the approval of the IBC share issue at the shareholders' general meeting of IBC, and the necessary approval of the IBC share issue by the relevant regulatory authorities.

On 28 March 2012, the Board of Directors of the Company proposed that 80% of the profit attributable to owners of the parent for 2011 of RMB8,027 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.

48. COMPARATIVE FIGURES

As further explained in note 2.2 to the consolidated financial statements, due to the change in accounting policies in relation to the subsequent measurement of investment properties, the Group has revised the accounting treatment and presentation of certain items and balances in these financial statements to comply with the new accounting policies. Accordingly, certain prior year adjustments have been made, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

49. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 28 March 2012.

INVESTMENT PROPERTIES

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

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LEGAL REPRESENTATIVE

Wu Yan

SECRETARY OF THE BOARD OF DIRECTORS

Zhang Xiaoli

COMPANY SECRETARY

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AUDITORS

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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