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

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

(Stock Code: 2328)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The Board of Directors is pleased to announce the audited results of the Company and its subsidiaries for the year ended 31 December 2012, together with comparative figures for prior years, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**2012** **RMB million**	2011 RMB million
TURNOVER	*5*	**193,487**	173,962
Net premiums earned	*5*	**155,304**	133,134
Net claims incurred	*6*	**(98,722)**	(87,546)
Acquisition costs and other underwriting expenses	*7*	**(29,505)**	(20,290)
General and administrative expenses		**(19,496)**	(17,282)
UNDERWRITING PROFIT		**7,581**	8,016
Investment income	*8*	**8,387**	6,529
Net realised and unrealised losses on investments	*9*	**(913)**	(2,600)
Investment expenses		**(182)**	(159)
Interest expenses credited to policyholders' deposits		**(5)**	(17)
Exchange losses, net		**(13)**	(328)
Sundry income		**194**	220
Sundry expenses		**(137)**	(167)
Finance costs		**(1,629)**	(1,316)
Share of profits of associates		**66**	108
PROFIT BEFORE TAX	*10*	**13,349**	10,286
Income tax expense	*11*	**(2,944)**	(2,259)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		**10,405**	8,027
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB)	*12*	**0.849**	0.683

Details of the dividends approved for the year are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2012 RMB million**	31 December 2011 RMB million
ASSETS			
Cash and cash equivalents		**66,020**	58,638
Derivative financial assets		**28**	51
Debt securities		**97,148**	98,062
Equity securities		**35,055**	22,512
Insurance receivables, net	*14*	**22,662**	22,093
Tax recoverable		**382**	–
Reinsurance assets		**22,637**	24,275
Prepayments and other assets		**20,919**	15,347
Investments in associates		**2,584**	2,131
Property, plant and equipment		**13,981**	12,770
Investment properties		**4,538**	4,443
Prepaid land premiums		**3,497**	3,410
Deferred tax assets		**973**	1,912
TOTAL ASSETS		**290,424**	265,644
LIABILITIES			
Payables to reinsurers	*15*	**16,667**	25,746
Accrued insurance protection fund		**575**	536
Tax payable		**–**	526
Other liabilities and accruals		**46,793**	36,332
Insurance contract liabilities	*16*	**159,529**	145,717
Policyholders' deposits		**1,983**	2,328
Subordinated debts		**19,427**	19,299
TOTAL LIABILITIES		**244,974**	230,484
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**12,256**	12,256
Reserves		**33,194**	22,904
TOTAL EQUITY		**45,450**	35,160
TOTAL EQUITY AND LIABILITIES		**290,424**	265,644

Notes:

1. CORPORATE INFORMATION

The Company is a limited liability joint stock company incorporated in 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 products and 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 PICC Group, which is incorporated in the PRC.

2. 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 ("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 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 2012. 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 it 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.

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 2012, the net profit attributable to non-controlling interests amounted to RMB323 (2011: RMB195). For the year ended 31 December 2012, the total comprehensive income attributable to non-controlling interests amounted to RMB323 (2011: RMB195). As at 31 December 2012, the net assets attributable to non-controlling interests amounted to RMB22,071 (31 December 2011: RMB21,748).

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

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

(a) HKFRS 7 Amendments *Financial Instruments: Disclosures – Transfers of Financial Assets*

The amendments require additional disclosures about financial assets that have been transferred but not derecognised to enable users of the Group's financial statements to understand the relationship of those assets that have not been derecognised with their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognised assets to enable users to evaluate the nature of, and risks associated with, such involvement. The amendments have had no significant impact on the financial position or performance of the Group.

(b) HKAS 12 Amendments *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The amendments clarify the determination of deferred tax for investment property measured at fair value and 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 has investment properties measured at fair value. The jurisdictions in which the Group operates do not have a different tax charge for sale or consumption of the assets. The amendments have had no significant impact on the financial position or performance of the Group.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has seven 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 others 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, which is a measure of underwriting profit.

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

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

Segment liabilities exclude 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 2012 and 2011.

In 2012 and 2011, no direct premiums written from transactions with a single external customer amounted to 10% or more of the Group's total direct premiums written.

The segment income statements for the years ended 31 December 2012 and 2011 are as follows:

2012

	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Turnover	141,755	12,256	3,838	7,364	6,484	21,790	–	193,487
Net premiums earned	121,725	7,544	2,652	5,403	4,367	13,613	–	155,304
Net claims incurred	(78,446)	(4,820)	(972)	(2,995)	(2,729)	(8,760)	–	(98,722)
Acquisition costs and other underwriting expenses	(25,119)	(1,837)	(503)	(1,168)	(729)	(149)	–	(29,505)
General and administrative expenses	(13,644)	(770)	(553)	(806)	(716)	(3,007)	–	(19,496)
Underwriting profit	4,516	117	624	434	193	1,697	–	7,581
Investment income	–	–	–	–	–	16	8,371	8,387
Net realised and unrealised gains/(losses) on investments	–	–	–	–	–	11	(924)	(913)
Investment expenses	–	–	–	–	–	(1)	(181)	(182)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(5)	–	(5)
Exchange losses, net	–	–	–	–	–	–	(13)	(13)
Finance costs	–	–	–	–	–	–	(1,629)	(1,629)
Sundry income and expenses	–	–	–	–	–	–	57	57
Share of profits of associates	–	–	–	–	–	–	66	66
Profit before tax	4,516	117	624	434	193	1,718	5,747	13,349
Income tax expense	–	–	–	–	–	–	(2,944)	(2,944)
Profit attributable to owners of the parent	4,516	117	624	434	193	1,718	2,803	10,405

2011

	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Others *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 costs 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 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

The segment assets, liabilities and other segment information of the Group as at 31 December 2012 and 2011 are as follows:

31 December 2012

	Motor vehicle *RMB million*	**Commercial property** *RMB million*	**Cargo** *RMB million*	**Liability** *RMB million*	**Accidental injury and health** *RMB million*	**Others** *RMB million*	**Corporate** *RMB million*	**Total** *RMB million*
Total assets	**19,608**	**6,967**	**1,309**	**3,142**	**2,391**	**14,865**	**242,142**	**290,424**
Total liabilities	**131,440**	**13,207**	**3,169**	**9,594**	**6,163**	**24,985**	**56,416**	**244,974**
Other segment information:								
Depreciation and amortisation	**1,215**	**103**	**33**	**63**	**56**	**184**	**–**	**1,654**

31 December 2011

	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Others *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

5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	Group	
	2012	2011
	RMB million	*RMB million*
Turnover		
Direct premiums written	**193,018**	173,553
Reinsurance premiums assumed	**469**	409
	193,487	173,962
Net premiums earned		
Turnover	**193,487**	173,962
Less: Reinsurance premiums ceded	**(29,356)**	(37,343)
Net premiums written	**164,131**	136,619
Less: Change in net unearned premium reserves	**(8,827)**	(3,485)
Net premiums earned	**155,304**	133,134

6. NET CLAIMS INCURRED

	Group	
	2012	2011
	RMB million	*RMB million*
Gross claims paid	**109,169**	88,583
Less: Paid losses recoverable from reinsurers	**(17,070)**	(11,597)
Net claims paid	**92,099**	76,986
Change in net loss and loss adjustment expense reserves	**6,623**	10,560
Net claims incurred	**98,722**	87,546

7. ACQUISITION COSTS AND OTHER UNDERWRITING EXPENSES

	Group	
	2012	2011
	RMB million	*RMB million*
Commission expenses	**17,025**	14,661
Less: Reinsurance commission income	**(9,041)**	(12,470)
Underwriting personnel expenses	**9,129**	6,826
Business tax and surcharges	**9,820**	8,948
Insurance protection fund	**1,544**	1,388
Others	**1,028**	937
	29,505	20,290

8. INVESTMENT INCOME

	Group	
	2012	2011
	RMB million	*RMB million*
Rental income from investment properties	**194**	199
Financial assets at fair value through profit or loss		
– Held for trading:		
Interest income	**40**	48
Dividend income	**136**	21
– Designated upon initial recognition:		
Interest income	**7**	25
Available-for-sale financial assets:		
Interest income	**2,406**	2,780
Dividend income	**510**	582
Held-to-maturity investments:		
Interest income	**1,606**	882
Loans and receivables:		
Interest income	**3,488**	1,992
	8,387	6,529

9. NET REALISED AND UNREALISED LOSSES ON INVESTMENTS

	Group	
	2012	2011
	RMB million	*RMB million*
Available-for-sale financial assets:		
Realised losses	**(247)**	(331)
Impairment losses	**(1,350)**	(2,029)
Financial assets at fair value through profit or loss		
Realised gains/(losses)	**228**	(179)
Unrealised gains/(losses)	**340**	(253)
Fair value gains on investment properties	**116**	192
	(913)	(2,600)

10. PROFIT BEFORE TAX

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

	2012	2011
	RMB million	*RMB million*
Depreciation of property, plant and equipment	**1,428**	1,118
Amortisation of prepaid land premiums	**125**	133
Employee expenses (including directors' and supervisors' remuneration):		
Wages, salaries and staff welfare	**15,765**	13,488
Pension scheme contributions	**1,401**	1,039
Impairment loss on insurance receivables *(Note 14)*	**236**	307
Minimum lease payments under operating leases in respect of land and buildings	**601**	468
Net gain on disposal of items of property, plant and equipment	**(5)**	(7)
Auditors' remuneration:		
Audit-related services, including interim review	**16**	16
Non-audit services	**2**	1

11. INCOME TAX EXPENSE

The provision for PRC income tax is calculated based on the statutory rate of 25% (2011: 25%) in accordance with the relevant PRC income tax rules and regulations.

	2012	2011
	RMB million	*RMB million*
Group:		
Current		
– Charge for the year	**2,517**	2,806
– Adjustment in prior years	**181**	35
Deferred	**246**	(582)
Total tax charge for the year	**2,944**	2,259

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 is as follows:

	2012	2011
	RMB million	*RMB million*
Group		
Profit before tax	**13,349**	10,286
Tax at the statutory tax rate of 25% (2011: 25%)	**3,337**	2,572
Income not subject to tax	**(533)**	(458)
Expenses not deductible for tax	**138**	110
Adjustments in respect of current tax of previous periods	**2**	35
Tax charge at the Group's effective rate	**2,944**	2,259

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB10,405 million (2011: RMB8,027 million) and 12,256 million (31 December 2011: 11,745 million) weighted average number of ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2012 and 2011 have not been disclosed as no diluting events existed during these years.

13. DIVIDEND

	2012	2011
	RMB million	*RMB million*
Interim dividends on ordinary shares approved for 2012:		
RMB0.21 per share (2011: RMB0.225)	**2,574**	2,507

On 20 August 2012, the Board of Directors of the Company approved the 2012 interim dividend distribution of RMB0.21 per ordinary share totalling RMB2,574 million.

The Board of Directors does not propose any final dividend for the year (2011: Nil).

14. INSURANCE RECEIVABLES, NET

	Group and Company	
	31 December	31 December
	2012	2011
	RMB million	*RMB million*
Premiums receivable and agents' balances	**6,156**	6,009
Receivables from reinsurers	**18,921**	18,537
	25,077	24,546
Less: Impairment provision on:		
Premiums receivable and agents' balances	**(2,222)**	(2,259)
Receivables from reinsurers	**(193)**	(194)
	22,662	22,093

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	31 December
	2012	2011
	RMB million	*RMB million*
On demand	**13,081**	12,958
Within 1 month	**1,354**	1,572
1 to 3 months	**5,256**	4,779
Over 3 months	**2,971**	2,784
	22,662	22,093

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

	Group and Company	
	2012	2011
	RMB million	*RMB million*
At 1 January	**2,453**	2,176
Impairment losses recognised *(Note 10)*	**236**	307
Amount written off as uncollectible	**(274)**	(30)
At 31 December	**2,415**	2,453

Included in the Group's insurance receivables is an amount due from a fellow subsidiary of RMB404 million (31 December 2011: RMB304 million).

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 installments are usually granted.

15. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	Group and Company	
	31 December	31 December
	2012	2011
	RMB million	*RMB million*
Reinsurance payables	**16,667**	25,746

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 RMB321 million (31 December 2011: RMB182 million).

16. INSURANCE CONTRACT LIABILITIES

	Group and Company	
	31 December	31 December
	2012	2011
	RMB million	*RMB million*
Unearned premium reserves	**75,634**	69,617
Loss and loss adjustment expense reserves	**83,895**	76,100
	159,529	145,717

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

Group and Company	2012 Gross amount RMB million	2012 Reinsurers' share RMB million	2012 Net amount RMB million	2011 Gross amount RMB million	2011 Reinsurers' share RMB million	2011 Net amount RMB million
Unearned premium reserves:						
At 1 January	**69,617**	**(12,197)**	**57,420**	60,214	(6,279)	53,935
Increase during the year	**154,917**	**(20,319)**	**134,598**	141,498	(24,820)	116,678
Release during the year	**(148,900)**	**23,129**	**(125,771)**	(132,095)	18,902	(113,193)
At 31 December	**75,634**	**(9,387)**	**66,247**	69,617	(12,197)	57,420
Loss and loss adjustment expense reserves:						
At 1 January	**76,100**	**(12,078)**	**64,022**	62,732	(9,270)	53,462
Increase during the year	**116,964**	**(18,242)**	**98,722**	101,951	(14,405)	87,546
Release during the year	**(109,169)**	**17,070**	**(92,099)**	(88,583)	11,597	(76,986)
At 31 December	**83,895**	**(13,250)**	**70,645**	76,100	(12,078)	64,022
Total insurance contract liabilities	**159,529**	**(22,637)**	**136,892**	145,717	(24,275)	121,442

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

OVERVIEW

In 2012, by strengthening the building up of its sales and service system and its operation and management platform, and through vigorous implementation of progressive marketing strategies, the Company achieved a relatively rapid growth in the business scale, a balanced development of profitability and a steady improvement of comprehensive strengths.

- **Relatively rapid growth in business scale**. In 2012, the turnover of the Company and its subsidiaries increased by 11.2% on a year-on-year basis to RMB193,487 million, representing a 34.9% *(Note)* market share in the property and casualty insurance market in the PRC. In particular, the turnover of the motor vehicle insurance segment reached RMB141,755 million, representing a year-on-year increase of 10.7%, and the turnover of the non-motor vehicle insurance businesses reached RMB51,732 million, representing a year-on-year increase of 12.6%.

- **Balanced development of profitability**. In 2012, the Company and its subsidiaries recorded an underwriting profit of RMB7,581 million and a total investment income of RMB7,540 million, thereby forming a profitable development structure featuring positive interaction between underwriting and investment; and recorded a net profit of RMB10,405 million, representing a year-on-year increase of 29.6% and a rate of return on equity of 25.8%, being in a leading position in the industry worldwide.

- **Steady improvement of comprehensive strengths**. As of 31 December 2012, the total assets of the Company and its subsidiaries reached RMB290,424 million, representing a growth of 9.3% compared to the end of the year 2011; the shareholders' equity totalled RMB45,450 million, representing a growth of 29.3% compared to the end of the year 2011; the total amount of investment assets reached RMB217,000 million, representing a stable growth; and the solvency adequacy ratio was 175%, maintaining the class II adequacy level.

Note: Calculated according to the 2012 PRC insurance industry data published on the website of CIRC.

In 2012, the Company, guided by its new era development strategy, and by continuously improving its marketing capability, optimising the sales and service system, enhancing its operational efficiency, strengthening risk control capability as well as continously improving its inherent qualities, achieved a record high in its operating results and continously made new progresses in its tranformation and development.

(I) Seizing opportunities and implementing progressive marketing strategies to enhance marketing capability

In 2012, the Company took initiatives to serve economic and social development, actively conducted market researches and made every effort to implement progressive marketing strategies. By consolidating its sales channels, the Company vigorously explored the private motor vehicle market in the urban areas, enhanced the authorisation management of car dealers channel and the headquarters-to-headquarters strategic cooperation, enhanced in all aspects the management of renewal rate of motor vehicle insurance and increased the market share of incremental premiums of the motor vehicle insurance. The Company deeply explored the insurance opportunities relating to commercial group insurance market and non-motor vehicle insurance market for individuals in the urban areas, improved the strategic synergy among product lines and took full advantage of its brand excellence. The Company made great efforts to develop the policy-encouraged businesses including agriculture insurance business and health insurance business by seizing the opportunities arising from the national policies; and achieved substantial breakthrough in new business areas by strategic development of the emerging markets and by serving the national "Go global" strategy. By carrying out differentiated market development, the Company effectively promoted the steady growth of business while at the same time consolidated its leading position in the market.

(II) Building a multi-dimensional marketing structure and extending coverage of its service network to optimise its sales and service system

In 2012, the Company enhanced the building up of the sales and service system and finetuned the sales channel management, set up a unified three-dimensional sales structure based on "region, product lines and channel"; and pushed forward further the human resources reform for the sales team and preliminarily achieved an accurate compatibility among products, sales personnel and customers. The Company promoted the establishment of an insurance service system at the basic level to serve agriculture, rural areas and farmers, strengthened the after-sales service of tele-marketing and online sales and fully extended the coverage of its service network. The Company deepened the building up of its standardised service, improved the customer resource management capability and continued to enhance customer experience. Through implementing various measures for optimisation of the sales and service system, the Company further enhanced the influence of its "Satisfaction with Services from PICC" brandname, which had laid a solid foundation for the comprehensive customer-oriented transformation.

(III) Setting up a centralised and simplified operation platform and optimising operational efficiency to continuously improve profitability

In 2012, the Company set up a centralised and simplified operation platform by implementing a nationwide centralised information system, which continuously optimised its operational efficiency, and significantly improved the underwriting management and control capabilities as well as the effect of differentiated allocation of resources. The Company deepened the reform of its Claim Management Unit with the effect of the vertical claim management system being continuously released and the level of the standardisation of claim services and the centralisation of claim costs being elevated on an ongoing basis. The Company fully completed the construction of the financial services sharing centers at the provincial level and promoted the use of a new generation of financial system, thereby steadily improving the efficiency of financial management and capital utilisation as well as cost control capability. With increasing improvement of its capability in respect of underwriting, claim management and financial management and control, the Company's operating results recorded a historical high again.

(IV) Optimising internal supervision and management structure and establishing overall risk management system to enhance risk management and control capabilities

In 2012, the Company preliminarily established an overall risk management system covering all departments, products, regions and risk types. The Company effectively controlled the operation risks at key sections by implementing a series of measures including the launch of motor vehicle insurance pricing and quotation system, the continuous refining of the underwriting system, the launch of research on disaster risks, the formation of property insurance risk control teams and claim settlement inspection teams, and the optimisation of reserves evaluation and management. The Company further improved the layout of the Monitoring and Auditing Centers, implemented the audit rectification closed-loop system, further strengthened the independence and objectivity of the surveillance and audit work, and enhanced the internal control and compliance to a higher level. These measures helped strengthen the Company's risk management and control capabilities.

(V) Expanding the coverage of service in terms of people's livelihood and enhancing the claim service level to demonstrate commitment to social responsibility

In 2012, while consolidating its traditional businesses, the Company vigorously explored insurance business opportunities in areas closely related to people's livelihood including agriculture, public security, tourism, environment, culture, education and medical treatment, and achieved new breakthroughs in science and technology insurance, intellectual property rights insurance, liability insurance and trade credit insurance. Meanwhile, with the aim of "becoming an insurance company to the satisfaction of the people", the Company greatly speeded up the claim settlement process, continued to improve the claim service level and fully demonstrated commitment to social responsibility, thereby enhancing the Company's overall brand image and reputation.

In 2012, the Company was affirmed by Moody's Investors Service, Inc. the A1 rating, which is the highest financial strength rating for PRC enterprises, and the rating outlook on the Company's insurance financial strength is stable, which fully demonstrated the Company's strength and credit standing in the property and casualty insurance market. In 2012, the Company was elected into the Top 100 HK-listed Companies – Top 100 Comprehensive Strength, was awarded two grand prizes in the 2012 Eastmoney Billboard election, namely the Best Insurance Company of 2012 and the Best E-commerce Platform of 2012, was awarded Insurance Company of the Year (Chinese Property Insurance Company) in the CBN Financial Value Ranking, won the title of "the Most Trusted Insurance Company" in the Fifth PRC Asset Management Golden Shell Award election, and was awarded the Most Responsible Enterprise of 2012 at the Eighth International Forum on Corporate Social Responsibility.

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			
	2012		2011	
	RMB million	***%***	*RMB million*	*%*
Net premiums earned	**155,304**	**100.0**	133,134	100.0
Net claims incurred	**(98,722)**	**(63.6)**	(87,546)	(65.8)
Total expenses (including acquisition cost and other underwriting expenses, and general and administration expenses)	**(49,001)**	**(31.5)**	(37,572)	(28.2)
Underwriting profit	**7,581**	**4.9**	8,016	6.0

TURNOVER

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Motor vehicle insurance	**141,755**	128,032
Commercial property insurance	**12,256**	11,828
Liability insurance	**7,364**	6,440
Accidental injury and health insurance	**6,484**	5,343
Cargo insurance	**3,838**	4,044
Other insurance	**21,790**	18,275
Total	**193,487**	173,962

The following table sets forth a breakdown of the direct premiums written of the Company and its subsidiaries by distribution channels for the relevant periods.

	Year ended 31 December			
	2012		2011	
	Amount	**Percentage**	Amount	Percentage
	RMB million	***%***	*RMB million*	*%*
Insurance agents	**124,389**	**64.5**	122,171	70.4
Individual insurance agents	**69,279**	**35.9**	72,304	41.7
Ancillary insurance agents	**45,729**	**23.7**	40,238	23.2
Professional insurance agents	**9,381**	**4.9**	9,629	5.5
Direct sales	**57,599**	**29.8**	41,034	23.6
Insurance brokers	**11,030**	**5.7**	10,348	6.0
Total	**193,018**	**100.0**	173,553	100.0

Turnover of the Company and its subsidiaries was RMB193,487 million in 2012, representing an increase of RMB19,525 million (or 11.2%) from RMB173,962 million in 2011. The overall steady business growth was largely driven by the development of motor vehicle insurance and agriculture insurance, and the relatively rapid growth in the accidental injury and health insurance, liability insurance and credit and surety insurance.

Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB141,755 million in 2012, representing an increase of RMB13,723 million (or 10.7%) from RMB128,032 million in 2011. In 2012, the growth in the domestic production and sales of motor vehicles in the PRC slowed down, certain cities introduced purchase limitation policy and the competition in the motor vehicle insurance markets intensified. The Company proactively implemented a progressive marketing strategy and accelerated to promote the transformation of motor vehicle insurance in terms of the mode of management, development and service, as a result of which the incremental premiums steadily increased. Meanwhile, the Company continued to vigorously promote the policy renewal and regain, and the renewal rate for motor vehicle insurance increased steadily.

In 2012, turnover of the commercial property insurance segment of the Company and its subsidiaries was RMB12,256 million, representing an increase of RMB428 million (or 3.6%) from RMB11,828 million in 2011. In 2012, in addition to its continued effort in marketing traditional products of commercial property insurance, the Company paid special attention to explore the market and channel in respect of products dedicated to small and micro enterprises, through which a steady growth of the commercial property insurance business was achieved.

In 2012, turnover of the liability insurance segment of the Company and its subsidiaries was RMB7,364 million, representing an increase of RMB924 million (or 14.3%) from RMB6,440 million in 2011. In 2012, the Company actively cooperated with a broad spectrum of competent authorities in charge of different sectors such as work safety administration, education, transport, tourism, special equipment, among others, to nurture demands and push for a steady growth of business in respect of medical liability insurance, work safety liability insurance, public liability insurance, employer liability insurance and carrier liability insurance.

In 2012, turnover of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB6,484 million, representing an increase of RMB1,141 million (or 21.4%) from RMB5,343 million in 2011. In 2012, the Company pushed forward and steadily developed the motor vehicle accident insurance for both drivers and passengers, insurance for school children and young children, and accident insurance for construction projects through integration of its own channel resources and customer resources. The Company also made a great effort to promote the existing advanced urban and rural health insurance development model by capitalising on the opportunities presented by the national medical and healthcare system reform, and achieved a rapid development of the health insurance business.

In 2012, turnover of the cargo insurance segment of the Company and its subsidiaries was RMB3,838 million. The average premium rate of cargo insurance experienced certain decrease as a result of multiple factors including the slowdown in the growth rate of domestic export and a drop in price and volume of import business. The turnover of cargo insurance segment in 2012 represented a decrease of RMB206 million (or -5.1%) from RMB4,044 million in 2011.

In 2012, turnover of the other insurance segment of the Company and its subsidiaries was RMB21,790 million, representing an increase of RMB3,515 million (or 19.2%) from RMB18,275 million in 2011. In 2012, the Company basically completed the construction of an insurance sales and service system at the basic level for agriculture, rural areas and farmers, further strengthened the development of policy-subsidised agriculture insurance business and specialised local agriculture insurance business, and realised the continuous and rapid development of agriculture insurance business. In the meantime, attributable to the growth of demands in credit and surety insurance market, the Company stepped up efforts on the promotion of credit and surety insurance business, resulting in the continued growth in the turnover of credit and surety insurance business.

NET PREMIUMS EARNED

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Motor vehicle insurance	**121,725**	104,926
Commercial property insurance	**7,544**	7,448
Liability insurance	**5,403**	4,661
Accidental injury and health insurance	**4,367**	3,689
Cargo insurance	**2,652**	2,809
Other insurance	**13,613**	9,601
Total	**155,304**	133,134

Net premiums earned of the Company and its subsidiaries was RMB155,304 million in 2012, representing an increase of RMB22,170 million (or 16.7%) from RMB133,134 million in 2011.

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			
	2012		2011	
	Net claims incurred	**Loss ratio**	Net claims incurred	Loss ratio
	RMB million	***%***	*RMB million*	*%*
Motor vehicle insurance	**(78,446)**	**(64.4)**	(72,066)	(68.7)
Commercial property insurance	**(4,820)**	**(63.9)**	(4,116)	(55.3)
Liability insurance	**(2,995)**	**(55.4)**	(2,774)	(59.5)
Accidental injury and health insurance	**(2,729)**	**(62.5)**	(2,330)	(63.2)
Cargo insurance	**(972)**	**(36.7)**	(1,105)	(39.3)
Other insurance	**(8,760)**	**(64.4)**	(5,155)	(53.7)
Total	**(98,722)**	**(63.6)**	(87,546)	(65.8)

Net claims incurred of the Company and its subsidiaries was RMB98,722 million in 2012, representing an increase of RMB11,176 million (or 12.8%) from RMB87,546 million in 2011. Loss ratio decreased by 2.2 percentage points from 65.8% in 2011 to 63.6% in 2012, primarily due to the decrease in the loss ratios of insurance segments such as motor vehicle insurance, liability insurance, accidental injury and health insurance and cargo insurance.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB78,446 million in 2012, representing an increase of RMB6,380 million (or 8.9%) from RMB72,066 million in 2011. Loss ratio decreased by 4.3 percentage points from 68.7% in 2011 to 64.4% in 2012. In 2012, in view of the adverse impacts arising from the upgrading of standards for personal injury compensation and the continuous increase in price of auto spare parts, the Company strengthened the support to and control of its on-site survey and loss assessment by the back-stage personnel through its mobile survey and loss assessment system and the new claim settlement system for motor vehicle insurance; and introduced new approach to settlement of claims involving personal injury, strengthened the management of recovery business and improved the management and control over claim settlement risks.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries in 2012 was RMB4,820 million, representing an increase of RMB704 million (or 17.1%) from RMB4,116 million in 2011. Loss ratio increased by 8.6 percentage points from 55.3% in 2011 to 63.9% in 2012, mainly due to an intensified impact from natural disasters such as floods, rainstorms, etc.

Net claims incurred of the liability insurance segment of the Company and its subsidiaries was RMB2,995 million in 2012, representing an increase of RMB221 million (or 8.0%) from RMB2,774 million in 2011. Loss ratio decreased by 4.1 percentage points from 59.5% in 2011 to 55.4% in 2012. In 2012, the Company further improved the quality of the underwriting business by strengthening the control over the underwriting of the liability insurance; and continuously upgraded the professional standard of the claim settlement section by optimising the claim settlement process and refining the practice on claim settlement of liability insurance.

Net claims incurred of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB2,729 million in 2012, representing an increase of RMB399 million (or 17.1%) from RMB2,330 million in 2011. Loss ratio decreased by 0.7 percentage point from 63.2% in 2011 to 62.5% in 2012. In 2012, the Company stepped up efforts in incentivising the underwriting of quality business of accidental injury and health insurance and strengthened the building up of professional underwriting teams, which further optimised the underwriting business combination.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries was RMB972 million in 2012, representing a decrease of RMB133 million (or -12.0%) from RMB1,105 million in 2011. Loss ratio decreased by 2.6 percentage points from 39.3% in 2011 to 36.7% in 2012, primarily due to the decline in the claim ratio of large claim in cargo insurance segment.

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			
	2012		2011	
	Total expenses *RMB million*	**Expense ratio** *%*	Total expenses *RMB million*	Expense ratio *%*
Motor vehicle insurance	**(38,763)**	**(31.8)**	(28,185)	(26.9)
Commercial property insurance	**(2,607)**	**(34.6)**	(3,019)	(40.5)
Liability insurance	**(1,974)**	**(36.5)**	(1,566)	(33.6)
Accidental injury and health insurance	**(1,445)**	**(33.1)**	(1,244)	(33.7)
Cargo insurance	**(1,056)**	**(39.8)**	(956)	(34.0)
Other insurance	**(3,156)**	**(23.2)**	(2,602)	(27.1)
Total	**(49,001)**	**(31.5)**	(37,572)	(28.2)

Total expenses of the Company and its subsidiaries was RMB49,001 million in 2012 with the expense ratio increased by 3.3 percentage points from 28.2% in 2011 to 31.5% in 2012. In 2012, the Company continued to deepen the implementation of the established underwriting strategies, continuously stepped up efforts in the differentiated allocation of sales expenses, vigorously pushed forward the construction of sales and service system, perfected the network of business outlets in counties, towns and villages, launched the transformation of business outlets in urban areas and strengthened the after-sales service of tele-marketing and online sales, resulting in an obvious increase in the underwriting-related expenses.

UNDERWRITING PROFIT

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

	Year ended 31 December			
	2012		2011	
	Underwriting profit	**Underwriting profit ratio**	Underwriting profit	Underwriting profit ratio
	RMB million	***%***	*RMB million*	*%*
Motor vehicle insurance	**4,516**	**3.8**	4,675	4.4
Commercial property insurance	**117**	**1.5**	313	4.2
Liability insurance	**434**	**8.1**	321	6.9
Accidental injury and health insurance	**193**	**4.4**	115	3.1
Cargo insurance	**624**	**23.5**	748	26.7
Other insurance	**1,697**	**12.4**	1,844	19.2
Total	**7,581**	**4.9**	8,016	6.0

In 2012, faced with complex and volatile macroeconomic circumstances both at home and abroad, the Company continued to maintain a good profitability through implementing active marketing strategies, stepping up resources input, strengthening the market development effort, optimising the sales and service capability and speeding up the reform and transformation. The Company and its subsidiaries achieved an underwriting profit of RMB7,581 million in 2012, representing a decrease of RMB435 million (or -5.4%) from RMB8,016 million in 2011. The underwriting profit ratio was 4.9%, representing a decrease of 1.1 percentage points from 6.0% in 2011.

INVESTMENT RESULTS

Composition of Investment Assets

	31 December 2012		31 December 2011	
	Balance	**Percentage**	Balance	Percentage
	RMB million	***%***	*RMB million*	*%*
By category:				
Cash and cash equivalents *(Note 1)*	**12,890**	**5.9**	14,135	7.3
Term deposits	**53,130**	**24.5**	44,503	23.1
Debt securities	**97,148**	**44.8**	98,062	50.8
Equity securities	**35,055**	**16.1**	22,512	11.7
Unlisted debts	**8,000**	**3.7**	4,200	2.2
Investment properties	**4,538**	**2.1**	4,443	2.3
Investment in associates	**2,584**	**1.2**	2,131	1.1
Other investment assets *(Note 2)*	**3,655**	**1.7**	2,957	1.5
Total of Investment Assets	**217,000**	**100.0**	192,943	100.0

Notes:

1. Cash and cash equivalents are mainly in RMB 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.

2. Other investment assets include derivative financial assets, capital security fund, etc.

In 2012, the Company achieved a steady growth in the underwriting business, which provided a stable cash flow support for the development of the investment business of the Company. As at the end of the reporting period, the investment assets of the Company increased by RMB24,057 million (or 12.5%) on a year-on-year basis. While increasing the overall size of the investment assets, the Company timely adjusted the investment product combination based on the operation of the money market and the capital market and its own risk preference, improved the quality of the investment portfolio and achieved a balance between profit earning and risk taking.

In 2012, the Company increased its negotiated deposits allocation and adjusted the duration of debt securities assets, thereby bringing a stable income to the Company. Through direct investment and active management of working capital, the Company effectively improved the efficiency of the use of funds. The Company also actively participated in infrastructure debt investment programs to expand the channels of its use of funds on the basis of strict credit risk control.

On 1 March 2012, PICC AMC (which manages the entrusted assets of the Company) entered into an agreement with IBC for the subscription of shares in IBC. PICC AMC used the entrusted assets of the Company of approximately RMB7,812 million to subscribe for 632 million shares in IBC (representing 4.98% of the enlarged issued share capital of IBC). As at 31 December 2012, all the conditions precedent set out in the share subscription agreement were satisfied, and the consideration for the subscribed shares was fully paid in cash on the same date.

Investment Income

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Rental income from investment properties	**194**	199
Interest income	**7,547**	5,727
Dividend income	**646**	603
Total of investment income	**8,387**	6,529

Investment income of the Company and its subsidiaries was RMB8,387 million in 2012, representing an increase of RMB1,858 million (or 28.5%) from RMB6,529 million in 2011. In 2012, the Company increased the investment in negotiated deposits, which offered a stable return. The interest income increased by RMB1,820 million on a year-on-year basis.

Net Realised and Unrealised Losses on Investments

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Realised losses on investments	**(19)**	(510)
Unrealised gains/(losses) on investments	**340**	(253)
Impairment losses	**(1,350)**	(2,029)
Gains on changes in fair value of investment properties	**116**	192
Total of net realised and unrealised losses on investments	**(913)**	(2,600)

In 2012, the Company took active measures to cope with the fluctuations in the capital market and adjusted the product combination of equity investments, and as a result, the realised and unrealised gains on investments improved on a year-on-year basis, and the impairment losses on available-for-sale financial assets were reduced as compared to the previous year. Net realised and unrealised losses on investments of the Company and its subsidiaries decreased to RMB913 million in 2012 from RMB2,600 million in 2011, therefore net losses on investments decreased by RMB1,687 million (or -64.9%) compared to the previous year.

OVERALL RESULTS

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Profit before tax	**13,349**	10,286
Income tax expense	**(2,944)**	(2,259)
Profit attributable to owners of the parent	**10,405**	8,027
Total assets *(Note)*	**290,424**	265,644

Note: Based on the data as of 31 December 2012 and 31 December 2011.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB13,349 million in 2012, representing an increase of RMB3,063 million from RMB10,286 million in 2011.

INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB2,944 million in 2012, representing an increase of RMB685 million from RMB2,259 million in 2011. 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 2012.

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 2012, and net profit increased by RMB2,378 million from RMB8,027 million in 2011 to RMB10,405 million in 2012. Basic earnings per share attributable to ordinary equity holders of the parent in 2012 was RMB0.849.

CASH FLOW

	Year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Net cash inflow from operating activities	**9,897**	25,642
Net cash outflow from investing activities	**(16,670)**	(44,681)
Net cash inflow from financing activities	**5,528**	15,447
Net decrease in cash and cash equivalents	**(1,245)**	(3,592)

In 2012, the net cash inflow from operating activities of the Company and its subsidiaries amounted to RMB9,897 million, representing a decrease of RMB15,745 million from RMB25,642 million in 2011. In 2012, an increase in the Company's claim settlement speed led to a remarkable increase in cash expenditure on the direct payment of claims, and the expansion in business scale and increased profitability respectively led to a reasonable increase in cash expenditure on reinsurance and tax payment, resulting in a decrease in the net cash inflow from operating activities of the Company on a year-on-year basis.

In 2012, the net cash outflow from investing activities of the Company and its subsidiaries decreased by RMB28,011 million compared to 2011. In particular, the amount spent on the purchase of debt and equity securities decreased by RMB4,440 million, and the deposits with banks and other financial institutions with original maturity of more than three months decreased by RMB30,310 million.

Net cash inflow from financing activities of the Company and its subsidiaries was RMB5,528 million in 2012, representing a decrease of RMB9,919 million compared to 2011. The year-on-year decline in net cash inflow from financing activities in 2012 was due to the issuance of fixed-rate subordinated term debts of RMB5 billion and the completion of approximately RMB5 billion rights issue by the Company in 2011.

As at 31 December 2012, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB12,890 million.

LIQUIDITY

The cash flow of the Company and its subsidiaries is primarily derived from cash generated from operating activities, which are principally 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, each 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 announcement, 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 primarily includes expenditures for operational properties under construction and acquisition of motor vehicles for operational purposes as well as development of the information system. Capital expenditure of the Company and its subsidiaries was RMB2,253 million in 2012.

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 RMB24,771 million on 31 December 2012. The Company's actual solvency margin calculated pursuant to the regulations of the CIRC was RMB43,260 million and the solvency margin adequacy ratio was 175% *(Note)*.

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

GEARING RATIO

As of 31 December 2012, the gearing ratio *(Note)* of the Company and its subsidiaries was 77.7%, representing a decrease of 1.8 percentage points from 79.5% as of 31 December 2011.

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 2012. 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 proceedings. 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 REPORTING PERIOD

On 28 January 2013, the Company entered into an agreement, pursuant to which the Company agreed to increase the share capital in PICC Life, an associate of the Company, by approximately RMB485 million. Upon completion of the share capital increase 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.

On 25 March 2013, the Board of Directors proposed that 55% of the profit after tax of the Company for 2012 of RMB10,439 million, totalling RMB5,741 million, be appropriated to the discretionary surplus reserve, after making the appropriations to the statutory surplus reserve and the general risk reserve according to the requirements of the relevant laws and regulations.

CREDIT RISK

Credit risk is the risk of 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 on the rating of corporate bonds to be purchased issued by the CIRC with the majority of its corporate bond products being rated higher than AA level.

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 RMB, 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 business) 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 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 rate risk policy requires the Company and its subsidiaries to manage interest rate risk by maintaining an appropriate match of fixed and floating interest rate instruments. The policy also requires the Company and its subsidiaries 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 floating 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 2012, the interest rate swap contracts held by the Company had an aggregate notional amount of RMB1,250 million.

DEVELOPMENT OF NEW PRODUCTS

In 2012, the Company intensively focused on the hot spots of the market and the needs of 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 2012, the Company submitted a total of 302 insurance provisions and premium rates to the insurance regulatory authority for approval and filing, which consisted of 92 national provisions and premium rates and 210 regional provisions and premium rates, as well as 186 main insurance provisions and premium rates and 116 rider provisions and premium rates. As of 31 December 2012, the Company had 5,307 insurance provisions in use and operation, including 3,483 national provisions and 1,824 regional provisions.

EMPLOYEES

As at the end of 2012, the Company had 156,364 employees (among which 62,995 employees signed labour contracts with the Company's headquarters). Staff remuneration payment by the Company and its subsidiaries in 2012 was RMB17,166 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 providing various career development paths, strengthening personnel training, implementation of performance appraisal and other measures. The Company is of the view that the Company and its subsidiaries maintain a good relationship with their employees.

LOOKING FORWARD

The Company has changed its development mode from scale focused to profit focused, its management mode from extensive and dispersed to intensive and centralised, and its work style from micro-driven to strategic driven.

In 2013, the Company is facing new development scenario. At the 18th National Congress of the Communist Party of China, the "simultaneous development of new industrialisation, informationlisation, urbanisation and agricultural modernisation" was promoted, which will provide greater development potentials for the Company to better serve the modern finance, social security, agriculture security, disaster prevention and mitigation and social management. At present, the Company has further improved its strategic management system and preliminarily established a centralised model; its progressive marketing strategy has begun to realise results and the sales and service system has also achieved remarkable progress in its year of building-up, thereby increasing the Company's development capability and operational efficiency. In particular, the successful listing of PICC Group will provide strong support for the development of the Company, and the continuous deepening of resources consolidation and sharing will invigorate the continuous and rapid development of the Company.

In 2013, the Company will conduct customer-oriented top-tier design and accelerate the comprehensive customer-oriented transformation by focusing on customer development and maintenance, exploration and direction of customers' demands and needs, value enhancement, customer experience improvement, etc., with the following priorities and initiatives:

- to carry out in-depth research and analysis of customers' consumption demands, perform more targeted and forward-looking product research and development, strengthen the interactions between product research and development and sales, and satisfy customers' diverse insurance demands;

- to actively respond to deregulation of motor vehicle insurance premium rates, focus on providing customers with high quality services, strengthen the management of the process relating to insurance renewal and regain, refine the new policy management model, implement differentiated underwriting policies and sales expenses policies, and accomplish profitable development of motor vehicle insurance business;

- to implement differentiated product line marketing strategies, vigorously explore new business areas, strengthen product line co-operation, establish a business marketing mechanism at the headquarters and accelerate the development of non-motor vehicle insurance businesses;

- to make every effort to enhance the quality of claim services, further improve the speed of claim settlement, speed up customer-oriented comprehensive transformation of non-motor vehicle insurance claim settlement, build advanced claim models and optimise the value chain of claim services;

- to deepen the development of the operation platform, achieve precise business marketing and comprehensively improve the capability of responsiveness to customer demand.

The customer-oriented comprehensive transformation reflects not only the objective need for the Company to follow the development trend of the industry transformation, but also the inherent demand of the Company to perform its social responsibilities and safeguard the people's high quality of life. A series of initiatives for the customer-oriented comprehensive transformation will fully promote the transformation and upgrading of the Company, accelerate the conversion of the operation and management model from being "product-driven" to being "customer-driven", and lay a more solid foundation for the development of the Company into a globally leading property and casualty insurance company.

PROFIT APPROPRIATION AND FINAL DIVIDEND

The Company paid an interim dividend of RMB0.21 (inclusive of applicable tax) per share on 31 October 2012.

The Board proposed that 55% of RMB10,439 million (profit after tax of the Company for 2012) be appropriated to the discretionary surplus reserve, after making the appropriations to the statutory surplus reserve and the general risk reserve according to the requirements of the relevant laws and regulations. The Board of Directors does not propose any final dividend for 2012.

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 2012.

CORPORATE GOVERNANCE

Save for one of the requirements set out in the code provision A.4.2 of the Corporate Governance Code (the same as the code provision A.4.2 of the Code on Corporate Governance Practices) and Rule 3.10A of the Listing Rules, the Company complied with all the effective code provisions of the Corporate Governance Code and the Code on Corporate Governance Practices in 2012.

The terms of directorship of Mr. Luk Kin Yu, Peter and Mr. Ding Ningning should have expired on 28 April 2011 and 17 January 2012, respectively. 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, 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 Corporate Governance Code (the same as the code provision A.4.2 of the Code on Corporate Governance Practices) during the period from 29 April 2011 to the date of this announcement.

As at 31 December 2012, the Board comprised four executive directors, four non-executive directors and three independent non-executive directors. In order to comply with the requirement under the Listing Rules that the number of independent non-executive directors shall represent at least one-third of the members of the board of directors, the Board nominated Mr. Lin Hanchuan as an independent non-executive director of the Company, and the shareholders considered and appointed Mr. Lin Hanchuan as an independent non-executive director of the Company at the special general meeting of the Company held on 25 March 2013. Accordingly, the Company failed to meet the requirement under Rule 3.10A of the Listing Rules that the number of independent non-executive directors shall represent at least one-third of the members of the board of directors during the period from 31 December 2012 to the approval of the appointment of Mr. Lin Hanchuan as an independent non-executive director of the Company at the special general meeting.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

"Board" or "Board of Directors"	the board of directors of the Company
"CIRC"	China Insurance Regulatory Commission
"Code on Corporate Governance Practices"	the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (which was revised as the Corporate Governance Code effective during 2012)
"Company"	PICC Property and Casualty Company Limited

"Company Law"	the Company Law of the People's Republic of China
"Corporate Governance Code"	the corporate governance code section contained in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules effective during 2012
"IBC"	Industrial Bank Co., Ltd.
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"PICC AMC"	PICC Asset Management Company Limited
"PICC Group"	The People's Insurance Company (Group) of China Limited
"PICC Life"	PICC Life Insurance Company Limited
"PRC" or "China"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent

By Order of the Board
Wu Yan
Chairman

Beijing, the PRC
25 March 2013

On the date of this announcement, the Chairman of the Board is Mr. Wu Yan (executive director), the Vice Chairman is Mr. Wang Yincheng (executive director), Mr. Guo Shengchen and Mr. Wang He are executive directors, the non-executive directors are Mr. Zhou Shurui, Ms. Yu Xiaoping, Mr. Li Tao and Mr. Tse Sze-Wing, Edmund, and the independent non-executive directors are Mr. Luk Kin Yu, Peter, Mr. Ding Ningning, Mr. Liao Li and Mr. Lin Hanchuan.