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 2012

Company Profile

The Company, the largest property and casualty insurance company in mainland China, was established in July 2003 with 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 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 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, and has wide influence and outstanding reputation domestically and abroad. Since the first rating of the Company by Moody's Investors Service, an international credit rating agency, in 2008, the Company has consistently been rated the A1 rating for five consecutive years from 2008 to 2012. 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 and strengthens 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 property and casualty 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 property and casualty 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.

- Business Network and Service Excellence: The Company has a strong sales and service network with more than 13,000 business offices and outlets, covering both urban and rural areas across the country. By the end of 2012, the Company had established insurance service stations in 0.25 million administrative villages, approaching an 82% coverage rate at the village and township level across the country, and the number of persons engaging in agriculture insurance services at the basic level reached nearly 0.31 million.

- Technology and Market Excellence: The Company endeavors to strengthen the informationalisation process and raise the overall informationalisation level continuously, and has successively developed and applied information systems into the sales, customer service, operation management, management of claim settlement, risk control and other areas. The Company enjoys a stable customer base and its business partners include entities engaging in all kinds of businesses both at home and abroad. In 2012, the market share of the Company was 34.9%.

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				
	2008	2009	2010	2011	**2012**
	RMB million	*RMB million*	*RMB million*	*RMB million*	***RMB million***
Turnover	101,878	119,771	154,307	173,962	**193,487**
Underwriting profit/(loss)	(2,605)	(2,060)	2,780	8,016	**7,581**
Investment income	3,716	2,866	3,968	6,529	**8,387**
Net realised and unrealised gains/(losses) on investments	319	1,711	1,127	(2,600)	**(913)**
Profit/(loss) before tax	(370)	2,167	6,596	10,286	**13,349**
Income tax expense	479	(384)	(1,308)	(2,259)	**(2,944)**
Profit attributable to owners of the parent	109	1,783	5,288	8,027	**10,405**

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

ASSETS AND LIABILITIES

	31 December				
	2008	2009	2010	2011	**2012**
	RMB million	*RMB million*	*RMB million*	*RMB million*	***RMB million***
Total assets	144,250	165,383	203,557	265,644	**290,424**
Total liabilities	124,506	143,620	176,951	230,484	**244,974**
Thereinto: subordinated debts	3,000	8,000	14,157	19,299	**19,427**
Net assets	19,744	21,763	26,606	35,160	**45,450**

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

Mr Wu Yan
Chairman of the Company

In 2012, the Company continued with the consolidation and strengthening of its achievements in recent years in transforming its operation and management model, focused on enhancing its two major supporting systems, i.e., the sales and service system and the operation and management platform, and accelerated the nationwide centralisation of its management. While maintaining rapid growth of its business, the Company at the same time achieved the best operating results over the past ten years since its listing. The rate of return on equity exceeded 20% for three consecutive years.

In 2012, the Company's premium income maintained solid growth, and its comprehensive strengths significantly increased. Its turnover in 2012 amounted to RMB193,487 million, representing a year-on-year growth of 11.2% (or RMB19,525 million), and its increment in premium income ranked 1st in the market. Its market share in 2012 was 34.9%, which further strengthened its leading position in the market. The premium income from tele-marketing and online sales reached RMB28,090 million, representing a year-on-year growth of 103.3%. Five provincial branches of the Company each recorded a breakthrough in premium income of more than RMB10 billion. As at the end of 2012, the total assets of the Company reached RMB290,424 million, representing an increase of RMB24,780 million as compared to the beginning of the Year, among which investment assets reached RMB217,000 million; and net assets reached RMB45,450 million, representing an increase of RMB10,290 million as compared to the beginning of the Year.

In 2012, the Company's net profit continued to increase and its inherent qualities continued to rise. In 2012, the Company achieved an underwriting profit of RMB7,581 million and a combined ratio of 95.1%. Its total investment income amounted to RMB7,540 million, and the total investment yield was 3.7%, representing a year-on-year increase of 1.4 percentage points. The net profit of the Company made a historic leap and broke through the RMB10 billion benchmark for the first time, amounting to RMB10,405 million, representing a year-on-year increase of 29.6%. The rate of return on equity reached 25.8%, and maintained its leading position in the industry. As at the end of 2012, the Company maintained adequate loss and loss adjustment expense reserves with a net loss and loss adjustment expense reserves of RMB70,645 million, amounting to 45.5% of the net premiums earned. Since the first rating of the Company by the international rating agency, Moody's Investors Service, in 2008, the Company has for five consecutive years from 2008 to 2012 been rated the A1 rating, which is the highest financial strength rating among domestic non-policy guided financial institutions. In 2012, the Company was ranked the 50th in the "Top 100 Comprehensive Strength" in the "Top 100 Hong Kong-listed Companies".

In 2012, the Company achieved remarkable progress in the built up of the sales and service system, which further strengthened its bases of development. 2012 was the year the Company built up its sales and service system, during which it firmly built up its sales channels. **Firstly**, with respect to building up the rural outlets, the Company implemented the "No. 1 Project", which achieved a sales network coverage of 81.7% at the village and township level, established insurance service stations in 0.25 million administrative villages and had nearly 0.31 million part-time insurance workers, which was an unprecedented building-up of the basic level insurance system to service agriculture, rural areas and farmers. **Secondly**, with respect to building-up of the urban sales networks, the Company launched the urban network transformation project, transformed and upgraded 739 outlets of its current network and established 156 new community shop outlets. The Company completely launched the marketing map system, representing a breakthrough in customer resources management and resulting in the improvement and enhancement of the capability of the Company in market resources analysis and renewal process management. **Thirdly**, with respect to construction of tele-marketing and online sales systems, the Company strengthened its after-sales service of tele-marketing and online sales and achieved a leading position in the industry in terms of the brand attention of its tele-motor vehicle insurance products.

In 2012, the Company vigorously enhanced its internal control and compliance systems, which further strengthened its risk management capability. The Company continued to push forward its internal control assessment and improvement, built-up the information technology and intelligence system on risk management, and preliminarily established a comprehensive risk management system covering all departments, products, regions and risks types. Through organisational procedure optimisation and technology upgrading, the Company also strengthened its risk management system. Through fully implementing the motor vehicle insurance pricing and quotation system, promoting the construction of loss ratio R system of non-motor vehicle insurance, continuously refining the underwriting system, carrying out researches on disaster risks, forming property insurance risk control teams and claim settlement inspection teams, optimising reserves estimation and management, the Company effectively controlled the critical operational risks. The Company also continuously optimised the organisational structure of its internal supervision and management, improved the layout of its monitoring and auditing centers, launched the nationwide centralisation of auditing, thereby further strengthened the independence and objectivity of its surveillance and audit work.

An Open Day activity for investors and media was organised in the Company's headquarters on 16 and 17 May 2012. The Company's senior officials, including Chairman Wu Yan (front row, fourth from the left), President Wang Yincheng (front row, fourth from the right), Vice President Guo Shengchen (front row, third from the left), Vice President Jia Haimao (front row, third from the right), Vice President Wang He (front row, second from the left), Secretary of Commission for Discipline Inspection Wang Yueshu (front row, second from the right), Vice President Wang Dedi (front row, first from the left) and Vice President Jiang Caishi (front row, first from the right) attended the activity to communicate and interact with investors and media representatives.

In 2012, the Company continued to enhance its service capability, thereby further raising its social image and influence. In 2012, the Company focused on ways to solve the "difficult claim settlement" and handling of client complaints, comprehensively improved the claim service and substantially reduced claim settlement period for motor vehicle insurance under RMB10,000 as compared to the previous year, which further strengthened the level of our customer satisfaction, brand image and reputation. The Company was awarded as the "2012 Best Insurance Company", the "Golden Shell Award – Most Trusted Insurance Company" and the "2012 Most Responsible Enterprise". In 2012, the Company continuously expanded the service coverage of agriculture insurance, achieving nationwide coverage of insurance for the planting and animal farming, and launched 80 agriculture insurance products. The Company played a main channelling role for the insurance industry to serve the construction of new rural areas – during the Year, underwrote 0.13 billion household times of farmers, a cumulative insured amount of RMB472.5 billion and RMB631.9 billion for agriculture and farmhouses, respectively, and 0.52 billion mu of forests.

In 2013, the Company is facing a 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 strategies have 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 thoroughly implement the principle of "maintaining solid growth and focusing on value creation" and by watching closely the market, continue to improve the centralisation and differentiation management on key sections of underwriting and claim settlement, continue to enhance the centralised cost control and management model, and make every effort to speed up the customer-oriented transformation and upgrading, with a view to continuously enhancing the profitability of the Company. **Firstly**, the Company will carry out in-depth research and analysis of the diversity of customers' consumption demands, so as to raise the targeting ability of its product research and development. **Secondly**, the Company will pay close attention to the reform relating to deregulation of motor vehicle insurance premium rates, and by focusing on maintaining customer relationship, push forward the stable development of motor vehicle insurance business. **Thirdly**, the Company will make every effort to solve issues relating "difficult claim settlement" of motor vehicle insurance and continue to improve the service quality of claim settlement. **Fourthly**, the Company will strengthen the construction of platforms and comprehensively improve the capability of responsiveness to customer demands with a view to improving customer experience.

In this year, the Company will adhere to scientific development, focus on value creation and better perform the various tasks with a view to continuously driving the growth of the Company's value and achieving better performance results at a new higher starting line.

Wu Yan
Chairman

Beijing, the PRC
25 March 2013

DIRECTORS

Wu Yan, aged 52, 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 and 12th 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 Hong Kong Stock Exchange.
** This company is listed on the New York Stock Exchange, Hong Kong Stock Exchange and Shanghai Stock Exchange.

Wang Yincheng, aged 52, 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 31 years of operation and management experience in the PRC insurance industry.

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

Guo Shengchen, aged 58, a university graduate, 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 39 years of operation and management experience in the PRC financial and insurance industries.

Wang He, aged 55, 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 25 years of operation and management experience in the PRC insurance industry.

Zhou Shurui, aged 59, 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 31 years of experience in management.

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

Yu Xiaoping, aged 56, 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 31 years of operation and management experience in the PRC financial sector.

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

Li Tao, aged 47, 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 28 years of experience in research and management, etc.

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

Tse Sze-Wing, Edmund (Gold Bauhinia Star), aged 75, Ph.D (Hon.), a Non-executive Director of the Company. Mr Tse is currently the Non-Executive Chairman and a Non-executive Director of AIA Group Limited* and a Non-Executive Director of PCCW Limited*. Mr Tse was formerly the Senior Vice Chairman of AIG**, the Chairman and Chief Executive Officer of American International Assurance Company, Limited, and the Honorary Chairman 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 52 years of extensive experience in the insurance industry throughout the world and Asia.

* These companies are 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, aged 72, 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 member of the Risk Committee and Audit Committee of RBWM (Retail Banking and Wealth Management) of HSBC Holdings plc.*. Mr Luk has substantial experience in the insurance industry.

* This company has a dual primary listing on the stock exchanges in London and Hong Kong.

Ding Ningning, aged 65, Ph.D, 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, a Director of the China Energy Research Society and a Director of the China International Association for Urban and Rural Development . Mr Ding has been conducting research at the DRC for 31 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, and 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, aged 46, Ph.D, an Independent Non-executive Director of the Company. Mr Liao is currently an Executive Associate Dean of PBC School of Finance of Tsinghua University ("PBCSF") and a professor and doctoral supervisor in finance of PBCSF. 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*. 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 the School of Economics and Management of Tsinghua University 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.

Lin Hanchuan, aged 64, Ph.D, a professor, a doctoral supervisor, enjoying the special allowance awarded by the State Council, an Independent Non-executive Director of the Company. Mr Lin is a member of the University Council and the Deputy Director of the Academic Degree Committee of the University of International Business and Economics, the Chief Expert of Beijing Center for Enterprise Globalization and Management Research, and concurrently the Vice Chairman of the Chinese Industrial Economic Association and an Executive Director of the Chinese Institute of Business Administration. Mr Lin was formerly the Dean of the School of Economics of Zhongnan University of Economics and Law, and an Independent Director of Hubei Kaile Science and Technology Co., Ltd.* from May 2002 to May 2008. He has received over 20 awards above provincial level and was awarded Sun Yefang Economics Prize. Mr Lin graduated from Zhongnan University of Economics and Law with a doctorate degree in economics. Mr Lin has substantial experience in the areas of economic and management research.

* This company is listed on the Shanghai Stock Exchange.

SUPERVISORS

Zhou Liqun, aged 49, Ph.D, 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 and Chairman of the Board of Directors of PICC Investment Holding Company Limited. 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 concurrently been holding the positions of Chairman of the Board of Directors of PICC Investment Holding Company Limited since July 2008 and Vice President of PICC Group* since March 2009, and was previously Chairman of the Board of Directors of China Huawen Investment Holding Company Limited and Shanghai Xin Huawen Investment Company Limited, and an Independent Director of Bank of Qingdao. Mr Zhou graduated from Xiamen University with a doctorate degree in economics. He has 32 years of operation and management experience in the PRC fiscal and financial sectors.

*	These companies are listed on the Hong Kong Stock Exchange.
**	This company was formerly listed on the Hong Kong Stock Exchange.

Sheng Hetai, aged 42, Ph.D, a senior economist, a Supervisor of the Company since October 2006, currently the Assistant to the President and General Manager of the Strategic Planning Department of PICC Group*. Mr Sheng joined PICC in 1998 and was previously the Manager of the Research Division of the Marketing Development Department of PICC, Deputy General Manager of the Products Development Center of PICC, Deputy General Manager of the Research and Development Department, 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 16 years of management experience in the PRC insurance industry.

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

Lu Zhengfei, aged 50, Ph.D, a professor, a doctoral supervisor, 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 and a member of the Standing Committee of the Chinese Audit Association. 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*, China National Materials Company Limited*, Lian Life Insurance Co., Ltd. and MIT AUTOMOBILE SERVICE 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, aged 57, a senior accountant, a Senior Specialist of the Company, an Employee Representative 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 30 years of extensive experience in insurance operation and management both in and outside the PRC.

Shen Ruiguo, aged 56, a postgraduate, a senior accountant, General Manager of the Monitoring Department/ Auditing Department of the Company, an Employee Representative 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 29 years of operation and management experience in the PRC insurance industry.

OTHER SENIOR MANAGEMENT

Zhao Shuxian, aged 60, Master, 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 35 years of operation and management experience in the PRC insurance industry.

Jia Haimao, aged 59, 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 29 years of operation and management experience in the PRC insurance industry.

Wang Yueshu, aged 58, a postgraduate, 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 34 years of operation and management experience in the PRC insurance industry.

Wang Dedi, aged 55, 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 21 years of operation and management experience in the PRC insurance industry.

Jiang Caishi, aged 47, 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 25 years of operation and management experience in the PRC insurance industry.

Lin Zhiyong, aged 49, 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". He has 32 years of operation and management experience in the PRC insurance industry.

Zhang Xiaoli, aged 48, 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 13 years of management experience in the PRC insurance industry.

Shen Dong, aged 44, a university graduate, a senior accountant, the Responsible Financial Officer, the Chief Accountant and the General Manager of the Finance and Accounting Department 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 in economics and afterwards graduated from Beijing University of Aeronautics and Astronautics with a master's degree in software engineering. Mr Shen has 21 years of financial management experience in the PRC insurance industry.

In 2012, Guangdong, Shandong and Sichuan Provincial Branches of the Company each recorded a breakthrough in premium income of more than RMB10 billion, bringing the number of provincial-level branches of the Company with a premium income of more than RMB10 billion to a total of five. In 2012, the Company's two branches at municipal level, namely Suzhou Branch and Nanjing Branch, each recorded a breakthrough in premium income of more than RMB3 billion. President Wang Yincheng and Vice President Jiang Caishi attended the celebration ceremonies.

In February 2012, the Company's President Wang Yincheng (middle) paid an investigation and research visit to Hetian, Xinjiang to earnestly implement the spirit of instruction given out at the end of 2011 by Li Keqiang, the former Vice Premier of the State Council (the current Premier of the State Council), who confirmed the practice of Hetian Branch of the Company of providing supplemental medical insurance for people who are eligible to receive minimum living subsidy.

The First Technology Innovation Conference of the Company was held in Foshan, Guangdong on 10 December 2012.

A press conference was held in the Company's headquarters on 7 March 2012 to launch the mobile terminal application software known as "PICC in the palm", which can provide clients with information release, insurance purchase through mobile phones, electronic claim settlements and several value-added services.

In December 2012, PICC Group's Vice President Ding Yunzhou (middle row, sixth from the left) and the Company's President Wang Yincheng (middle row, sixth from the right), Vice President Guo Shengchen (middle row, fifth from the left), Vice President Zhao Shuxian (middle row, fifth from the right), Vice President Wang He (middle row, fourth from the left), Secretary of Commission for Discipline Inspection Wang Yueshu (middle row, third from the left), Vice President Wang Dedi (middle row, fourth from the right) and Vice President Lin Zhiyong (middle row, third from the right) paid an investigation and research visit to the E-Commerce Southern Operation Center of the Company.

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 resources 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 comprehensive risk management system to enhance risk management and control capabilities

In 2012, the Company preliminarily established a comprehensive risk management system covering all departments, products, regions and risk types. The Company effectively controlled the operational 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 Hong Kong-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 administrative 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 progressive marketing strategies 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 channels 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 were 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 *RMB million*	Loss ratio *%*	Net claims incurred *RMB million*	Loss ratio *%*
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 were 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 were 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 its 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 were 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 were 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 were 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 structure of underwriting business.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries were 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 were 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 the 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 *RMB million*	Underwriting profit ratio *%*	Underwriting profit *RMB million*	Underwriting profit ratio *%*
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 is 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 the 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 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 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.

The Board of Directors presents its report and the audited financial statements of the Company and its subsidiaries for the Year.

PRINCIPAL ACTIVITIES

The Company is engaged 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 business 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 are mainly engaged in providing insurance agency services and training services for the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Details of the discussion and analysis of the operating results and financial conditions for the Year by the management of the Company are set out in the "Management Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

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 2012 are set out on pages 69 to 162 of this annual report.

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.

The Company paid an interim dividend of RMB0.21 (inclusive of applicable tax) per ordinary share on 31 October 2012. The Board of Directors does not propose any final dividend for the Year.

INFORMATION ON TAX DEDUCTION FOR H SHAREHOLDERS

H shareholders are taxed for the dividends distributed by the Company in accordance with the Enterprise Income Tax Law of the PRC, the Individual Income Tax Law of the PRC and other relevant laws, regulations and rules. However, H shareholders may enjoy tax relief in accordance with the provisions of applicable tax treaties entered into by the countries/regions where they belong to by virtue of residential identification and the PRC. Please refer to the announcement published by the Company on the HKExnews website of the Hong Kong Stock Exchange on 20 August 2012 for details.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions regarding pre-emptive rights in respect of the transfer of shares or issue of new shares of joint stock limited companies under the Company Law.

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 2012, the distributable reserves of the Company and its subsidiaries totalled RMB9,542 million and the distributable reserves of the Company totalled RMB9,577 million.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year amounted to RMB29 million, of which RMB19 million was donations for public benefits.

MAJOR CUSTOMERS

The aggregate turnover of the Company and its subsidiaries attributable to their five largest customers did not exceed 30% 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 from 1 January 2012 to the date of this report are set out in the "Corporate Governance Report" section of this annual report.

There were no changes in the members of the Supervisory Committee of the Company from 1 January 2012 to the date of this 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

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 management fee and, when the investment performance and other factors satisfy the agreed conditions, a performance bonus. The particulars of this agreement are set forth in the section headed "Connected Transactions" below.

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 SFO as at 31 December 2012 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.

During the Year, the Company did not grant any rights to its Directors, Supervisors or President (including their spouses or children under the age of 18) to subscribe for shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

PICC Life (an associate of the Company) and PICC Health, subsidiaries of PICC Group, the controlling shareholder of the Company, are also engaged 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.

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.

Mr Tse Sze-Wing, Edmund, a Non-executive Director of the Company, is the Non-executive Chairman and a Non-executive Director of AIA Group Limited, whose wholly-owned subsidiary American International Assurance Company, Limited is also engaged in accidental injury insurance and short-term health insurance business in some provinces and cities in the PRC. Mr Tse Sze-Wing, Edmund is a Non-executive Director of the Company, who is not involved in the daily operation and management 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 2012 to the date of this report.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

To the knowledge of Directors, as at 31 December 2012, the following persons held interests or short positions in the shares or underlying shares of the Company that were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or notified to the Company and the Hong Kong Stock Exchange by other means:

Name of shareholder	Capacity	Number of domestic shares	Nature of interests	Percentage of total number of domestic shares in issue	Percentage of total number of shares in issue
PICC Group	Beneficial owner	8,454,402,000	Long position	100%	69.0%

Name of shareholder	Capacity	Number of H shares *(Note 1)*	Nature of interests	Percentage of total number of H shares in issue *(Note 1)*	Percentage of total number of shares in issue *(Note 1)*
United States Treasury *(Notes 2, 4)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
AIG *(Notes 2, 3, 4)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Jill M. Considine *(Notes 2, 4)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Chester B. Feldberg *(Notes 2, 4)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Douglas L. Foshee *(Notes 2, 4)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania *(Notes 3, 4)*	Beneficial owner	562,549,380	Long position	16.28%	5.05%
Commerce and Industry Insurance Company *(Notes 3, 4)*	Beneficial owner	330,911,400	Long position	9.58%	2.97%
Lexington Insurance Company *(Notes 3, 4)*	Beneficial owner	209,577,220	Long position	6.06%	1.88%

Name of shareholder	Capacity	Number of H shares *(Note 1)*	Nature of interests	Percentage of total number of H shares in issue *(Note 1)*	Percentage of total number of shares in issue *(Note 1)*
BlackRock, Inc.	Interest of controlled corporations	294,446,532	Long position	7.74%	2.40%
		37,991,521	Short position	0.99%	0.31%
JPMorgan Chase & Co.	Beneficial owner, investment manager, and custodian corporation/ approved lending agent	191,614,395 *(Note 5)*	Long position	5.04%	1.56%
	Beneficial owner	7,703,015	Short position	0.20%	0.06%
	Custodian corporation/ approved lending agent	156,244,873	Lending pool	4.11%	1.27%

Notes:

1. The information on the numbers of H shares held by the H shareholders and their percentages of shareholdings set out above is extracted from the latest disclosure of interests notices made by such H shareholders pursuant to the SFO on or prior to 31 December 2012. The Company conducted a rights issue in 2011 on the basis of 1 rights share for every 10 existing shares, and the rights shares were issued in 2011. 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. Hence, except for BlackRock, Inc. and JPMorgan Chase & Co., the numbers of H shares held by the H shareholders and the percentages of shareholdings stated in the notices represented the numbers and percentages before the rights issue.

2. 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 aforementioned rights issue. AIG was once a controlled corporation of 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 were once deemed to be interested in the H shares held by the controlled corporations of AIG. As confirmed by AIG, as of 31 December 2012, United States Treasury as well as Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee no longer had any interests in AIG. Therefore, the above-mentioned entities are no longer deemed to be interested in the H shares of the Company held by the controlled corporations of AIG.

3. 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. Based on the latest disclosure of interests notice made by 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.

4. It is confirmed by AIG that upon the completion of the aforementioned 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 H shares, Commerce and Industry Insurance Company held 364,002,540 H shares and Lexington Insurance Company held 230,534,942 H shares.

5. Such 191,614,395 H shares included 34,457,722 H shares held in the capacity as beneficiary owner, 911,800 H shares held in the capacity as investment manager and 156,244,873 H 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 that are required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and to be recorded in the register required to be kept under Section 336 of the SFO or being substantial shareholders of the Company, as at 31 December 2012.

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

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; (ii) the asset management agreement entered into between the Company and PICC AMC; (iii) the framework agreement on reinsurance business cooperation entered into between the Company and PICC HK; and (iv) the contracts for purchasing life insurance products for the employees of the Company entered into successively between the headquarters and several branches of the Company and PICC Life. PICC Group is the controlling shareholder of the Company and holds respectively 100%, 81%, 75% and approximately 71% of the issued share capital of PICC Investment, PICC AMC, PICC HK and PICC Life. Therefore, according to the Listing Rules, PICC Investment, PICC AMC, PICC HK and PICC Life are connected persons of the Company.

(i) The Company and PICC Investment have entered into property leasing agreements since 19 September 2008. 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. Pursuant to this renewed agreement, the Company and PICC Investment lease certain properties from each other. According to its operational needs, the Company needs to use certain properties owned by PICC Investment, primarily as offices for its business and operations. Under the renewed agreement, the annual cap for the rent expected to be paid by the Company to PICC Investment during the Year was RMB105 million. In the Year, the annual rent paid by the Company to PICC Investment amounted to RMB105 million and the annual rent paid by PICC Investment to the Company amounted to RMB2 million.

(ii) The Company and PICC AMC have entered into asset management agreements since 10 October 2003. With the experience and expertise in asset management, PICC AMC is principally engaged in the provision of asset management and asset management advisory services in the PRC, and 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 for another term of three years commencing from 1 January 2010 and expiring on 31 December 2012. Under this renewed agreement, the Company would entrust assets to be managed and invested by PICC AMC from time to time and would pay 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 the agreement. When the investment performance reaches the target and if the investment management and service capability appraisal satisfies certain conditions as agreed under the agreement, the Company would pay PICC AMC an appropriate performance bonus of no more than RMB2 million. Under the renewed agreement, the annual cap for the management fee and performance bonus (if any) expected to be paid by the Company to PICC AMC during the Year was RMB152 million. In the Year, the management fee paid by the Company according to this renewed agreement amounted to RMB128 million. From 1 January 2013 to the date of this report, the Company continued to entrust PICC AMC with management of the entrusted assets of the Company, and the Company and PICC AMC are negotiating matters relating to the renewal of the asset management agreement.

(iii) The Company and PICC HK have entered into framework agreements on reinsurance business cooperation since 6 May 2010. 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 for the purposes of risk diversification and stabilisation of operations. On 28 March 2012, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation. The term of the renewed agreement was one year commencing from 1 January 2012 and expiring on 31 December 2012. Pursuant to the renewed 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. Under the framework provided in the renewed agreement, the parties to the agreement could enter into various types of reinsurance agreements in respect of particular reinsurance businesses. The amount of insurance premiums ceded and rate of commission received for each particular reinsurance business would be decided by the two parties by reference to the market level and after arm's length negotiation. Under the renewed agreement, the annual caps for the insurance premiums ceded to PICC HK by the Company and the commission (excluding taxes) received by the Company from PICC HK were expected to be RMB520 million and RMB150 million, respectively. In the Year, the insurance premiums ceded to PICC HK by the Company and the commission (excluding taxes) received by the Company from PICC HK amounted to RMB446 million and RMB149 million, respectively. The insurance premiums ceded to the Company by PICC HK amounted to RMB4 million and the commission received by PICC HK from the Company was RMB1 million. On 25 March 2013, 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 2013 and expiring on 31 December 2013.

(iv) During the Year, for the purposes of further improving the retirement pension protection system and to realise long-term incentives for its employees, the headquarters and several branches of the Company successively entered into contracts for the purchases of life insurance products (i.e. purchased various life insurance products including group annuity insurance) from PICC Life for the employees of the Company.

The Company was aware that during the Year, its headquarters entered into contracts for the purchases of life insurance products (including group annuity insurance) from PICC Life. The insurance premiums paid by the headquarters of the Company to PICC Life for such purchases in the Year only amounted to approximately RMB64 million, not exceeding the threshold for disclosure under the Listing Rules. However, later, when reviewing statistics of the connected transactions entered into between the Company and connected persons for the Year, the Company noticed that several branches of the Company also successively entered into contracts for the purchases of life insurance products including group annuity insurance from PICC Life in the Year. In the Year, such insurance premiums paid by such branches to PICC Life amounted to a total sum of approximately RMB191 million and when aggregated with the premiums paid by the headquarters of the Company, the aggregate insurance premiums paid amounted to approximately RMB255 million, which exceeded the threshold for disclosure on an aggregate basis. The transactions were subject to the reporting, annual review and announcement requirements but were exempt from the independent shareholders' approval requirement. As soon as the Company becoming aware of the total amount of such transactions, the Company promptly made an announcement on the purchases of life insurance products from PICC Life for the Year, and complied with the reporting and annual review requirements.

In the year 2011, the headquarters of the Company did not purchase any insurance products from PICC Life, and only one branch purchased insurance products from PICC Life with an aggregate amount of insurance premiums not exceeding the threshold for disclosure under the Listing Rules. Hence, the transaction in 2011 was exempt from the reporting, annual review, announcement and independent shareholders' approval requirements.

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 Company has engaged the auditors to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their conclusions in respect of the continuing connected transactions mentioned above in accordance with Rule 14A.38 of the Listing Rules. The Company has provided a copy of the letter to the Hong Kong Stock Exchange. The auditors of the Company have reviewed the continuing connected transactions mentioned above and confirmed to the Board of Directors that:

1. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions mentioned above have not been approved by the Company's Board of Directors;

2. for the aforementioned continuing connected transactions involving the provision of goods or services by the Company, nothing has come to their attention that causes them to believe that these continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Company;

3. nothing has come to their attention that causes them to believe that the continuing connected transactions mentioned above were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. nothing has come to their attention that causes them to believe that the aggregate amount of each of the continuing connected transactions mentioned above has exceeded the annual caps disclosed in the previous announcements dated 15 December 2011, 12 August 2011, 28 March 2012 and 12 March 2013 made by the Company in respect of each of the disclosed continuing connected transactions mentioned above.

Save for item (iv) stated above, the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules. The Company made an announcement to disclose details of the continuing connected transaction set out in the above item (iv) on 12 March 2013.

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 (converted to Ernst & Young Hua Ming LLP in 2012), 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 LLP 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
25 March 2013

Dear Shareholders,

In 2012, all members of the Supervisory Committee of the Company performed their supervisory duties in accordance with the relevant provisions of the Company Law and the Articles of Association, abided by the principle of good faith and continued to base their work on supervision over meetings and focus on supervision over financial matters, internal control and compliance, and therefore effectively maintained efficient operation of corporate governance and protected the interests of the shareholders, the Company and its employees.

Meetings of the Supervisory Committee

During the Year, the Supervisory Committee convened two meetings in March and August 2012 respectively, at which the resolutions were considered and unanimously approved, including the Auditors' Report and the Audited Financial Statements for 2011, the Profit Distribution Plan for 2011, the Report of the Supervisory Committee for 2011, the Corporate Governance Report for 2011 – the Supervisory Committee section, the 2012 Interim Report and the 2012 Interim Profit Distribution Plan.

Work of the Supervisory Committee

During the Year, the Supervisory Committee attended the Company's 2011 shareholders' general meeting and submitted the Report of the Supervisory Committee of the Company for 2011 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 the five meetings of the Audit Committee and the nine meetings of the Board of Directors, earnestly reviewed and studied the resolutions of the shareholders' general meeting and meetings of the Board of Directors, fully expressed its opinions and suggestions, and strengthened supervision over significant issues of the Company. At the same time, the Supervisory Committee performed supervision over the legality of the substance and procedures of the meetings, further regulated the corporate governance structure of the Company through its participation, and supervised and urged the Company to run its business according to laws and regulations. The Employee Representative Supervisors fully expressed employees' intentions and requests in the supervision process, and earnestly protected employees' legal rights and interests.

The Supervisory Committee focused on supervision over financial matters, internal control and compliance, strengthened communication with external auditors, listened to the reports on the audit plan and the annual audit of the operating results of the Company for the Year from the auditors with particular focus on the key issues and difficult issues in the audit, put forward requirements for the auditors' work and evaluated the audited results.

Independent Opinions Issued by the Supervisory Committee

The Supervisory Committee issues the following opinions in relation to the supervision and inspection work during the Year:

The operation compliance of the Company. The Directors and senior management of the Company had performed their duties set forth in the Articles of Association in diligence and good faith, and had diligently implemented all resolutions of the shareholders' general meeting and those of the Board. 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.

Authenticity of financial reports. The reviewed financial statements for the interim period of 2012 and the audited annual financial statements for 2012 of the Company and its subsidiaries were prepared strictly in accordance with the relevant accounting standards. Accounting treatments have been applied consistently. The financial statements have given a true and fair view of the financial conditions and operating results of the Company and its subsidiaries.

Connected transactions. The connected transactions of the Company were conducted on an arm's length basis, on normal commercial terms and in the interests of the Company's shareholders as a whole. There was no indication of any infringement of the interests of the independent minority shareholders and the Company.

In 2013, the Supervisory Committee will continue to perform its supervisory duties diligently 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, regard maintaining effective operation and sound development of corporate governance of the Company as its responsibilities, strengthen its supervision, enhance the supervisory quality, earnestly safeguard the interests of the Company, its shareholders and employees and diligently perform all its duties.

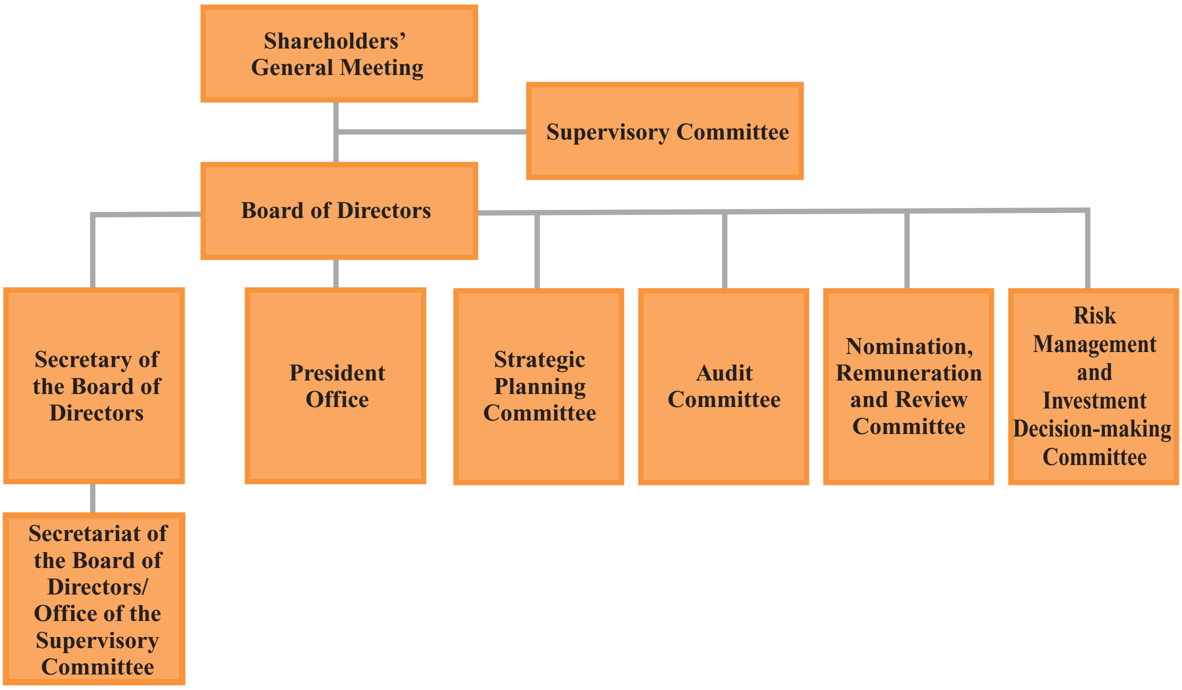
By Order of the Supervisory Committee
Zhou Liqun
Chairman of the Supervisory Committee

Beijing, the PRC
25 March 2013

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, the Articles of Association and other relevant laws, regulations and rules, the Company has been continuously enhancing its corporate governance.

In 2012, 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, the Measures on Administration of Information Disclosure of Insurance Companies, the Measures on Equity Management of Insurance Companies and the Basic Code on Internal Control of Insurance Companies issued by the CIRC, and the requirements under the applicable code provisions of the Code on Corporate Governance Practices and the Corporate Governance Code.



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 had complied with all the effective code provisions of the Corporate Governance Code and the Code on Corporate Governance Practices during the Year.

OVERVIEW *(continued)*

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 report.

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 extraordinary 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 extraordinary general meeting.

BOARD OF DIRECTORS

Overview

During the Year, the Board convened one shareholders' general meeting and submitted nine proposals to the shareholders' general meeting. Nine Board meetings were convened, at which forty-one proposals were considered and approved. The Board formulated the business development plan, financial budget, fixed assets investment plan, strategic allocations of and investment policies on custodian assets, etc. The Board also conducted the annual performance appraisals of the Company's Directors and senior management, considered and approved the distribution of interim dividends and the participation in the share subscription project of IBC, revised the working rules of the Audit Committee, Nomination, Remuneration and Review Committee and Strategic Planning Committee, and enhanced the management of the Company's internal control, compliance management and risk management and control.

The Board 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 propose resolutions to be included 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, 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 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 Corporate Governance Code, and the relevant provisions of the Company Law, the Guidelines and the Articles of Association, the Board continued to regulate its operations and enhanced its corporate governance.

BOARD OF DIRECTORS *(continued)*

Composition

During the Year, the Board comprised the following Directors:

Name	Position	Date of Commencement of Directorship Term	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 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 Liao Li	Independent Non–executive Director	17 January 2011	From 17 January 2011 to 16 January 2014

Note: 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, 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 in Directors during the period from 1 January 2012 to the date of this report are as follows:

At the shareholders' extraordinary general meeting of the Company convened on 25 March 2013, Mr Lin Hanchuan was appointed as an independent non-executive director of the Company with a term of office commencing immediately from the end of such extraordinary general meeting to the expiry of the term of the current session of the Board. The qualification of Mr Lin Hanchuan is subject to the approval by the CIRC.

Duties and Responsibilities

The Board is responsible for providing leadership, monitoring and controlling the operations of the Company, formulating the overall strategies, policies, financial budgets and final accounts, determining the annual operation plans and investment plans, determining the fundamental management system and internal management structure, assessing the performance of the Company and supervising the work of the management. The Board 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, 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, 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 is ultimately responsible for the internal control, risk management and compliance management of the Company.

The Board delegates the daily business operations and management of the Company to the management. The statutory functions and powers of the Board, however, in principle, may not be delegated to the Chairman of the Board, any individual director or any other individual or organisation. Certain specific decision-making matters that require authorisation indeed shall be authorised by way of the resolution of the Board in accordance with the law. The authorisation shall be granted on a case by case basis, and in no event shall the functions and powers of the Board be generally or permanently delegated to any other organisation or individual.

BOARD OF DIRECTORS *(continued)*

Summary of Work Undertaken

During the Year, the Board convened one shareholders' general meeting and submitted nine proposals to the shareholders' general meeting. Nine Board meetings were convened, at which forty-one proposals were considered and approved. The attendance of each Director is recorded as follows:

Name	Board: Number of meetings attended/Number of meetings that require attendance	Board: Attendance rate	Shareholders' General Meeting: Number of meetings attended/Number of meetings held	Shareholders' General Meeting: Attendance rate
Mr Wu Yan	8/9	89%	1/1	100%
Mr Wang Yincheng	9/9	100%	1/1	100%
Mr Guo Shengchen	9/9	100%	1/1	100%
Mr Wang He	9/9	100%	0/1	0%
Mr Zhou Shurui	9/9	100%	0/1	0%
Ms Yu Xiaoping	9/9	100%	1/1	100%
Mr Li Tao	8/9	89%	1/1	100%
Mr Tse Sze-Wing, Edmund	9/9	100%	0/1	0%
Mr Luk Kin Yu, Peter	8/9	89%	0/1	0%
Mr Ding Ningning	9/9	100%	1/1	100%
Mr Liao Li	9/9	100%	0/1	0%

Note: During the Year, Mr Wu Yan, Mr Li Tao and Mr Luk Kin Yu, Peter attended eight meetings in person and attended one meeting by proxy by appointing other individual directors to attend the meeting on their behalf.

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

- convened one shareholders' general meeting and submitted nine proposals to the shareholders' general meeting, including the Report of the Board of Directors for 2011, the Auditors' Report and the audited financial statements for 2011, the profit distribution plan for 2011, etc;

- 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; optimised and perfected the Company's post and remuneration system;

- considered and approved the Company's Internal Control Assessment Report, Risk Assessment Report and Compliance Assessment Report for 2011, 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; formulated the Administrative Measures on Internal Control Assessment of the Company;

BOARD OF DIRECTORS *(continued)*

Summary of Work Undertaken *(continued)*

- considered and approved the Solvency Report for 2011, the Information Disclosure Report for 2011, the Financial Report on Compulsory Third Party Motor Insurance for 2011, the Report on Implementation of Connected Transactions Management System for 2011 and the Report on Connected Transactions for 2011 of the Company;

- considered and approved the participation in the share subscription project of IBC;

- considered and approved the 2012 interim results and the distribution of interim dividends;

- considered and approved the Company's commencement of investment in real estate;

- considered and approved the restructuring and development of PICC Qingdao Insurance Agency Company Limited (a non-wholly-owned subsidiary of the Company) into a nationwide sales company;

- formulated the Company's Measures on the Implementation of Multi-dimensional Accounting to comply with the new regulatory requirements;

- amended and refined the Working Rules of the Audit Committee, the Working Rules of the Nomination, Remuneration and Review Committee and the Working Rules of the Strategic Planning Committee of the Company to comply with the new regulatory requirements;

- proposed the appointment of Mr Lin Hanchuan as an independent non-executive director of the Company on 25 January 2013, and such proposal was considered and approved at the extraordinary general meeting held on 25 March 2013.

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 the 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. Following the codification of the obligations to disclose inside information in the SFO, the Company amended accordingly the guidelines on trading securities of the Company and such amendments were considered and approved by the Board on 25 March 2013.

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.

Directors' Continuous Professional Development

Based on the experience and background of each of the newly-appointed directors, the Company arranges induction training sessions to help them better understand the Company. Such induction training sessions usually cover a brief introduction to the Company, its organisational structure, its business operation and management and its governance practices, among others, and also include meetings and communications with the Company's senior management staff and surveys of some of the Company's branches. Each newly-appointed director would receive, when joining the Board, a copy of the Directorship Guidelines which contains a brief introduction to the Company, its corporate governance, directors' rights, obligations and duties, relevant laws, regulations, rules and internal rules of the Company, etc. The Directorship Guidelines is updated on a regular basis.

During the Year, the Directors received regularly documents, materials and information on the introductions of the Company's business and operation, relevant laws and regulations, and on regulatory and governance matters. In addition, the Company encouraged all Directors to attend related trainings, the costs of which were borne by the Company.

The Year saw all Directors of the Company participating earnestly in continuous professional development. All Directors received trainings or were updated on researches conducted in areas of corporate governance, information disclosure, relevant laws and regulations, professional knowledge and professional norms, etc., which continuously enhanced their related knowledge and skills, and they proactively put forward various timely and appropriate advice and suggestions on the Company's management and development.

DIRECTORS *(continued)*

Directors' Continuous Professional Development *(continued)*

Wu Yan and Zhou Shurui: Attended various trainings and meetings organised by PICC Group to deepen their understanding of the relevant laws and regulations of the PRC and abroad and the regulatory requirements on issue and listing of H shares, information disclosure, connected transactions and continuing duties and obligations of directors, etc.

Wang Yincheng, Guo Shengchen, Wang He: Attended various trainings and meetings organised by PICC Group and various training sessions of the Classroom Shared with Presidents of the Company, which covered areas such as corporate governance, information disclosure, entrepreneurship, development of an enterprise' soft power and impact enhancement, core values, new trends in informatisation development, intelligent insurance and China's economic situation under the new international environment after the 18th CPC National Congress.

Yu Xiaoping: Attended various trainings and meetings organised by PICC Group to deepen her understanding of the relevant laws and regulations of the PRC and abroad and the regulatory requirements on issue and listing of H shares, information disclosure, connected transactions and continuing duties and obligations of directors, etc.; attended a seminar on "Enterprises: International Finance and Outbound Investment" organised by the Organisation Department of the CPC Central Committee at Beijing University during the period from 14 October to 28 October 2012.

Li Tao: Attended various trainings and meetings organised by PICC Group to deepen his understanding of the relevant laws and regulations of the PRC and abroad and the regulatory requirements on issue and listing of H shares, information disclosure, connected transactions and continuing duties and obligations of directors, etc.; attended the Sixth Joint Meeting of Board Secretaries of Insurance Companies organised by the CIRC and the 2012 Annual Meeting of Corporate Governance Commission under the Insurance Association of China to learn the latest insurance regulatory policies and corporate governance knowledge.

Tse Sze-Wing, Edmund: Attended the "Training Seminar for Insurance Companies' Directors, Supervisors and Senior Management Staff Newly Appointed in Year 2012" organised by the CIRC, which covered topics on current status of the insurance market and the Twelfth Five-year Plan, a seminar on the Insurance Law, interpretation of the ancillary rules of the Insurance Law, compliance operation and case management in the insurance sector, ways of dealing with commercial bribery in the insurance sector, crises management, dealing with media, etc; attended trainings provided by external providers of professional training on directors' duties and Hong Kong competition law.

Luk Kin Yu, Peter: Attended trainings provided by external providers of professional training relating to independent directors' duties, which covered areas of accounting, taxation, law, compliance, information disclosure, etc.

Ding Ningning: continued to observe and research on movements of the on-going global financial crisis and changes in the Central Government's macroeconomic policies during the period of Central Government leadership changes, and the outcome of his researches crystalised into achievements; was invited to lecture attendants of EMBA courses run by business schools of universities and training courses run by various government institutions.

Liao Li: continued to observe and research on corporate governance issues, chaired and attended a number of corporate governance-related academic seminars; lectured attendants of MBA and EMBA courses relating to corporate governance; his book specialising in corporate governance research and titled "Non-tradable Share Reform and China's Capital Market" was published in 2012 (Commercial Press, 2012 edition).

CHAIRMAN/PRESIDENT

During the Year, Mr Wu Yan is the Chairman of the Board, and Mr Wang Yincheng is the President of the Company. The Chairman is responsible for providing leadership for the Board and ensuring that the Board 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 for the appointment or removal of the other senior management. 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 amended the Working Rules of the Audit Committee of the Company in accordance with the Corporate Governance Code which became effective during the Year and the amendments were approved by the Board, which implemented the new regulatory requirements in its operation. During the Year, the Audit Committee continued to fulfill earnestly its duties of supervising and directing internal and external audits, reviewing financial reports, supervising financial reporting procedures, strengthening internal control and management, etc., and put forward a number of proposals and suggestions to the Board and the management on financial affairs, internal control and business operation and management, thereby making a positive contribution to further enhancing the level of the Company's corporate governance.

Composition

During the Year, the Audit Committee comprised:

Chairman: Liao Li (Independent Non-executive Director)

Members: Luk Kin Yu, Peter (Independent Non-executive Director), Ding Ningning (Independent Non-executive Director), Li Tao (Non-executive Director).

During the period from the end of the Year to the date of this report, changes in the Audit Committee's members are as follows:

The Board resolved to appoint Mr Lin Hanchuan, the newly-appointed independent non-executive director, as a member of the Audit Committee with his term of appointment the same as that of his directorship.

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 Committee are set out below:

Its relationship with the external accounting firm engaged by the Company:

- make recommendations to the Board in respect of the appointment, removal or non-reappointment of the external accounting firm providing audit services to the Company, deal with any matters concerning the resignation or dismissal of the external accounting firm;

- consider the remuneration and terms of engagement of the external accounting firm;

- review the independence of the external accounting firm and the effectiveness of their audit procedures, discuss the nature and scope of the audit and the relevant reporting obligations with the external accounting firm before commencement of the audit;

- review and ascertain the independence and objectivity of the external accounting firm in respect of its provision of non-audit services, decide whether to retain such accounting firm to provide non-audit services;

- act as the key representative body for overseeing the Company's relations with the external accounting firm.

Review financial reports of the Company:

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

- in reviewing the relevant financial statements and reports, the Audit Committee shall focus on the review of the changes in accounting policies and practices, material judgment, material audit adjustments, assumptions of going concern and any qualified opinions, and whether the Company in compliance with the applicable accounting standards and other requirements relating to financial reporting; consider any significant or unusual matters that are, or may need to be, reflected in such financial statements and reports, and give due consideration to any matters that have been raised by the Company's department heads responsible for the finance and accounting function, monitoring function and internal audit function, or the external accounting firm.

AUDIT COMMITTEE *(continued)*

Duties and Responsibilities *(continued)*

Supervise and inspect the Company's financial reporting procedures and internal control system, including:

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

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

- supervise the corrective measures and the implementation of such measures concerning the major issues identified by internal and external audit;

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

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

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

- regularly consider the reports on the progress of audit work from the Responsible Auditing Officer, review the reports on internal control assessment submitted by the Responsible Auditing Officer in a timely manner, assess the work of the Responsible Auditing Officer and provide comments to the Board; evaluate the work of the department heads responsible for the finance and accounting function and the internal audit function of the Company;

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

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

- review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee shall ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

AUDIT COMMITTEE *(continued)*

Remuneration of Auditors

In the Year, the Company should pay approximately RMB16.2 million to the auditors for audit-related services, including the fees for the audit of the financial statements for 2012 and the review of the interim financial statements for 2012. In the Year, the Company should pay approximately RMB1.8 million to the auditors for non-audit services, including approximately RMB0.2 million of remuneration for examination services relating to the 2012 dynamic solvency test report, approximately RMB0.3 million of remuneration for translation review services relating to the 2012 annual and 2012 interim filing materials to Kanto Local Finance Bureau of Japan, and approximately RMB1.3 million of remuneration for consultation services relating to the science and technology security management system. Taking into account the respective functions and responsibilities of the Company and the auditors in the implementation and provision of such services, the Company is of the view that such non-audit services have not affected the independence and objectivity of the auditors.

Summary of Work Undertaken

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

Name	Liao Li	Luk Kin Yu, Peter	Ding Ningning	Li Tao
Number of meetings attended/ Number of meetings that require attendance	5/5	5/5	5/5	4/5
Attendance rate	100%	100%	100%	80%

Note: During the Year, Mr Li Tao attended four meetings in person and entrusted Mr Liao Li to attend one meeting on his behalf.

In 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 2011 and on the interim review work for 2012, discussed with the auditors about major audit-related matters, major matters in the Management Letters, and the operations and management of the Company's peers in the industry, advised the auditors to provide more information in relation to the industry and the Company's peers in the industry for horizontal comparison and analysis and to conduct vertical comparison and analysis of the changes in the data of the Company over the years;

- considered respectively the opinions of the auditors and the management on the fees for the interim review and the annual audit for 2012, considered the terms of engagement of auditors, proposed to the Board for the re-engagement of the auditors and obtained the approvals from the Board and the shareholders' general meeting.

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

Reviewed the financial reports, etc.:

- reviewed the financial statements and results announcement for 2011, the financial statements of compulsory third party motor insurance for 2011, the solvency report for 2011, and the financial statements and results announcement for the interim period of 2012, and discussed with the management on, among other things, the Company's operations in compulsory third party motor insurance business and the profitability of different types of insurance;

- reviewed the annual information disclosure report for 2011, and enquired from the management on the differences between the annual information disclosure report and results announcements in disclosure requirements and forms.

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

- considered and approved the Company's Internal Control Assessment Report for 2011, the Compliance Assessment Reports for 2011 and for the interim period of 2012, and provided suggestions on the further perfection of the rules for internal control and compliance work;

- considered and approved the Company's report on improvement based on the Management Letter for 2010; considered the Management Letter for 2011, acknowledged the management's improvement work in respect of management-related suggestions and required follow-up on improvement in this respect;

- supervised and provided guidance on the internal audit and finance and accounting work, considered the reports of the Auditing Department, the Responsible Auditing Officer and the Finance and Accounting Department of the Company respectively on the work summary for 2011 and the work plan for 2012;

- considered and approved proposals for the Administrative Measures on Internal Control Assessment and the Measures on the Implementation of Multi-dimensional Accounting of the Company;

- considered and approved the proposal for the connected transaction relating to the reinsurance business cooperation entered into between the Company and PICC HK, 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 2011, the report on the connected transactions for 2011 and the proposal for the amendments to the Company's Provisional Measures on the Administration of Connected Transactions.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE

Overview

During the Year, the Nomination, Remuneration and Review Committee amended the Working Rules of the Nomination, Remuneration and Review Committee of the Company in accordance with the Corporate Governance Code which became effective during the Year and the amendments were approved by the Board, which implemented the new regulatory requirements in its operation. The Nomination, Remuneration and Review Committee conducted the annual appraisal of the Chairman, Directors, the President and other senior management, and made constructive suggestions to the Board on the remuneration issue of the Company.

Composition

During the Year, the Nomination, Remuneration and Review Committee comprised:

Chairman: Ding Ningning (Independent Non-executive Director)

Members: Guo Shengchen (Executive Director), Luk Kin Yu, Peter (Independent Non-executive Director), Liao Li (Independent Non-executive Director)

Changes in the members of the Nomination, Remuneration and Review Committee from the end of the Year to the date of this report are as follows:

The Board resolved to appoint Mr Lin Hanchuan, the newly-appointed independent non-executive director, as a member of the Nomination, Remuneration and Review Committee with his term of appointment the same as that of his directorship.

Duties and Responsibilities

The Nomination, Remuneration and Review Committee is responsible for assessing the structure and composition of the Board on a regular basis, recommending candidates for directorship, formulating remuneration policies and structure, formulating appraisal standards and conducting annual appraisals of directors, the president and other senior management, and making recommendations in respect of the remuneration packages for the directors and senior management to the Board. Details of the duties and responsibilities are as follows:

- evaluate the reasonableness of the structure of the Board, its size and composition at least annually, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- recommend to the Board candidates for directorship, and examine qualifications of candidates for directorship;
- evaluate the independence of independent directors;
- propose to the Board in respect of the appointment and re-appointment of directors and succession planning for directors;
- propose to the Board in respect of the overall policy and structure for the remuneration of directors, supervisors, the president and other senior management and the procedures for formulating remuneration policy; review the remuneration of the above-mentioned personnel with reference to the corporate goals and objectives formulated by the Board and make recommendations to the Board;

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Duties and Responsibilities *(continued)*

- evaluate and approve the compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that such compensation is consistent with relevant contractual terms or that such compensation is fair;

- evaluate and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are consistent with relevant contractual terms or that such arrangements are fair;

- formulate appraisal standards for directors, the president and other senior management, conduct annual appraisals and make recommendations in relation thereto.

Nomination of Directors

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates as new directors and examine the qualifications of these candidates, and then recommend such candidates to the Board. The Board shall 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 are the candidates' educational background, management and research experience in the financial 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. The Committee may seek independent professional advice when necessary, at the Company's expenses, while performing its responsibilities.

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 in their performance appraisals. Directors' fees and supervisors' fees are determined with reference to the market levels and the circumstances of the Company.

Remuneration Policy of the Company

The remuneration policy of the Company follows the guiding principle of "distribution according to workload undertaken, performance-linked, gross controlled, and market-oriented" and implements a job sequence-based, market-oriented and performance-based remuneration incentive system. Job sequence-based means the remuneration will be paid based on the value of the job and the contribution of the employee to ensure a fair and reasonable distribution; market-oriented emphasises on determination according to the market labour price to ensure the external competitiveness of the Company's remuneration level; and performance-based means the bonus and financial performance are linked and interactive, and guided by the contribution to the financial performance. Meanwhile, the Company implements a welfare plan in accordance with the relevant laws and regulations and operational efficiency in order to provide reasonable protection for the employees.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held three meetings, at which six proposals were considered. Two of the meetings were held for discussing remuneration-related matters. The Committee members' attendance record of the meetings is as follows:

Name	Ding Ningning	Guo Shengchen	Luk Kin Yu, Peter	Liao Li
Number of meetings attended/Number of meetings that require attendance	3/3	3/3	3/3	3/3
Attendance rate	100%	100%	100%	100%

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

- having taken into consideration the market salary levels of comparable companies and the Company's own circumstances, made recommendations to the Board in respect of the fees for the directors and supervisors for 2012, and such recommendations were approved by the Board and at the shareholders' general meeting;
- considered the performance appraisal plan for the senior management for 2011 and made recommendations to the Board in respect thereof, carried out the annual performance appraisals of the Chairman, Directors, the President and Vice Presidents, Secretary of the Board, Chief Accountant, Chief Claim Assessor and 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;
- reviewed the structure, size and composition of the Board;
- having taken into consideration the market salary levels of comparable companies and the Company's own circumstances, made proposals to the Board in respect of the optimisation of the Company's post and remuneration system, which were approved by the Board;
- revised and refined the Working Rules of the Nomination, Remuneration and Review Committee of the Company;
- in January 2013, made a nomination of Mr Lin Hanchuan as an independent non-executive director of the Company, and such nomination was approved by the Board and at the shareholders' general meeting.

STRATEGIC PLANNING COMMITTEE

Overview

During the Year, the Strategic Planning Committee amended the Woking Rules of the Strategic Planning Committee of the Company in accordance with the Corporate Governance Code which became effective during the Year and the amendments were approved by the Board, which implemented the new regulatory requirements in its operation. The Strategic Planning Committee reviewed the annual business development plan, major investments, financial budget, performance results, profit distributions and major strategic measures of the Company.

Composition

Chairman: Wu Yan (Executive Director)

Members: Wang Yincheng (Executive Director), Li Tao (Non-executive Director), Tse Sze-Wing, Edmund (Non-executive Director), Ding Ningning (Independent Non-executive Director)

Duties and Responsibilities

The Strategic Planning Committee is responsible for formulating medium- and long-term development strategies, and considering the business plans, major investments, financing plans, annual financial budgets and final accounts of the Company, and formulating and reviewing corporate governance policies and practices of the Company. Details of the duties and responsibilities are as follows:

- consider draft plan of development strategies for the Company, formulate strategic objectives, strategic steps and strategic measures;
- consider the Company's plans to promote a company through equity investment or establish a company by participating in the purchase of equity interest, and consider the plans for mergers and acquisitions;
- formulate the Company's major investment and financing plans;
- consider the Company's business plans, annual financial budgets, final accounts, profit distribution plans and loss recovery plans;
- consider the Company's annual or medium- and long-term investment plans on fixed assets;
- consider the Company's plans for the disposal of its material assets;
- consider the Company's plans for the issue of shares and bonds;
- consider the Company's plans to increase or reduce its registered capital and to repurchase its own shares;
- consider the Company's plans for mergers, divisions, dissolution, liquidation, etc.;
- consider the Company's proposals for amendment to the Articles of Association;
- consider any delegation by the Board to the management;

STRATEGIC PLANNING COMMITTEE *(continued)*

Duties and Responsibilities *(continued)*

- consider the Company's plans for material modification to its organisational structure;
- formulate and review the Company's corporate governance policies and practices;
- review and supervise the training and continuous professional development for directors and senior management;
- review and supervise the policies and practices in respect of the Company's compliance with laws and regulatory provisions;
- formulate, review and supervise the code of conduct and compliance manual for employees and directors;
- review the Company's compliance with the Corporate Governance Code and the disclosures set out in the Corporate Governance Report.

Summary of Work Undertaken

During the Year, the Strategic Planning Committee held five meetings and considered nine proposals. The Committee members' attendance record of the meetings is as follows:

Name	Wu Yan	Wang Yincheng	Li Tao	Tse Sze-Wing, Edmund	Ding Ningning
Number of meetings attended/Number of meetings that require attendance	5/5	5/5	5/5	5/5	5/5
Attendance rate	100%	100%	100%	100%	100%

The main tasks accomplished by the Strategic Planning Committee in the Year included:

- considered and approved the business development plan and fixed assets investment plan for the Year;
- considered and approved the financial budget for the Year;
- considered and approved the profit distribution plans for 2011 and the first half of 2012, and the distribution of interim dividends for 2012;
- considered and approved the restructuring and development of PICC Qingdao Insurance Agency Company Limited (a non-wholly-owned subsidiary of the Company) into a nationwide sales company;
- revised and refined the Working Rules of the Strategic Planning Committee of the Company;

STRATEGIC PLANNING COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

- reviewed and supervised the policies and practices in respect of the Company's compliance with laws and regulatory provisions; in 2013, the Committee revised the guidelines on the transactions of the Company's securities which apply to directors, supervisors and all employees, and such revised guidelines were approved by the Board;
- reviewed and supervised the Company's corporate governance policies and practices;
- reviewed and supervised the regular update of the Rights and Duties Manual by the Company;
- considered the Company's compliance with the Corporate Governance Code and the disclosures set out in the Corporate Governance Report.

RISK MANAGEMENT AND INVESTMENT DECISION-MAKING COMMITTEE

Overview

During the Year, the Risk Management and Investment Decision-making Committee continued to supervise the operation of the risk management system of the Company, and reviewed the risk assessment report and various investment plans of the Company.

Composition

Chairman: Wu Yan (Executive Director)

Members: Wang Yincheng (Executive Director), Wang He (Executive Director), Zhou Shurui (Non-executive Director), Yu Xiaoping (Non-executive Director)

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, formulating the annual strategic asset allocation plans and investment strategies, etc. Details of the duties and responsibilities of the Committee were set out on page 45 of the Company's 2007 Annual Report.

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

Summary of Work Undertaken

During the Year, the Risk Management and Investment Decision-making Committee held five meetings and considered nine proposals. The Committee members' attendance record of the meetings is as follows:

Name	Wu Yan	Wang Yincheng	Wang He	Zhou Shurui	Yu Xiaoping
Number of meetings attended/ Number of meetings that require attendance	5/5	5/5	5/5	5/5	5/5
Attendance rate	100%	100%	100%	100%	100%

The main tasks accomplished by the Risk Management and Investment Decision-making Committee in the Year included:

- considered and approved the Risk Assessment Report for 2011;
- considered and approved the Company's commencement of investment in real estate;
- considered and approved the strategic allocations of and investment policies on custodian assets;
- considered and approved the participation in the share subscription project of IBC;
- considered and approved the participation in various debt schemes.

INTERNAL CONTROL

The Company believes that sound internal control plays an important role in the operation of the Company. The Board is committed to establishing effective internal control system to ensure that the internal control system of the Company is sound, complete and effective. The Audit Committee under the Board 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 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 Risk Management Committee under the President Office is responsible for guiding, coordinating and supervising the overall risk management work of the Company, considering and assessing material issues of the Company involving operational risks, and submitting its resolutions to material risks to the Board. 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 2012, the Company focused on improving its internal control and compliance management by further capitalising on the methodology applicable for internal control projects. Firstly, the Company continued promoting the update and maintenance of the achievements of the internal control projects, and kept the internal control procedures consistent with the Company's operation and management; secondly, the Company put emphasis upon the correction of significant defects in internal control, and controlled key risks effectively by system design and systematic control; and thirdly, the Company accelerated the establishment of the comprehensive risk management system, launched the internal control, compliance and risk management information system development project, and integrated the internal control and compliance standards to the operating process to standardise the risk control through information technology.

With a view to reviewing and continuously enhancing the effectiveness of the Company's internal control system, the Board and the Audit Committee considered and discussed the Internal Control Assessment Report and the Compliance Assessment Report of the Company for 2012, and the Board and the Risk Management and Investment Decision-making Committee considered and discussed the Risk Assessment Report of the Company for 2012.

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.

SUPERVISORY COMMITTEE *(continued)*

Composition

The Company's Supervisory Committee in the Year comprised:

Chairman: Zhou Liqun

Supervisors: Sheng Hetai (Supervisor), Lu Zhengfei (Independent Supervisor), Qu Yonghuan (Employee Representative Supervisor), Shen Ruiguo (Employee Representative Supervisor)

Duties and Responsibilities

In accordance with the Company Law and the Articles of Association, 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 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 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 in accordance with the relevant provisions of the Company Law and the Articles of Association. During the Year, the Supervisory Committee held two meetings, at which six proposals were considered and approved. The attendance of each supervisor 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	2/2	1/2	1/2	2/2	2/2
Attendance rate	100%	50%	50%	100%	100%

Note: During the Year, Mr Sheng Hetai and Mr Lu Zhengfei attended one meeting in person and entrusted Mr Zhou Liqun to attend the other meeting on their behalf.

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

RIGHTS OF SHAREHOLDERS

Methods of Convening Extraordinary 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 an extraordinary general meeting and such shareholder(s) shall submit the complete proposed resolution to the Board in writing. If the Board is satisfied that the proposed resolution complies with the requirements under the laws, regulations and the Articles of Association, it shall issue a notice of extraordinary general meeting within fifteen days after receipt of the proposed resolution in writing.

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 ten days prior to the annual general meeting. The Board 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. The proposed resolution(s) submitted by a shareholder to the Board shall be delivered in person or by registered mail to the Secretariat of the Board according to the registered address listed in the inside back cover of this Annual Report.

INVESTOR RELATIONS

The Company timely communicated its operating results and business development trends with investors after the announcements of the 2011 annual results and the 2012 interim results by way of results briefings and roadshows. In May 2012, the Company held the second Open Day activity for investors in Beijing to further strengthen communications with investors. The Company also strengthens its day-to-day 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, with a view to establishing and maintaining a good relationship with investors.

The Company carried out a rights issue in 2011. Upon the completion of such rights issue, the registered capital of the Company was changed from RMB11,141,800,000 to RMB12,255,980,000, and its total number of shares was changed from 11,141,800,000 shares to 12,255,980,000 shares. In 2012, the CIRC approved the change to the registered capital of the Company and the amendments to the Articles of Association to reflect the changes to the registered capital and equity structure of the Company following the rights issue. The Company also completed the amendments to the Articles of Association and the relevant procedures in 2012.

The Company appoints the Secretariat of the Board to act as the information inquiry department for investors, which can be contacted by telephone, fax, e-mail and mail, etc. For contact details, please see the telephone number, fax number, e-mail address and registered address of the Company listed in the inside back cover of this Annual Report. On the Company's website www.piccnet.com.cn, there is a section titled "Investor Relations", in which the information is updated on a regular basis.

PARTICULARS OF THE LATEST SHAREHOLDERS' GENERAL MEETING

The latest shareholders' general meeting held in the Year was the shareholders' annual general meeting held on 26 June 2012. 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 2011, the directors' and supervisors' fees for 2012, the engagement of the auditors and the general mandate for the Board to issue additional shares. All resolutions were passed by way of poll at the meeting.

"2012 MOST RESPONSIBLE ENTERPRISE"

In January 2013, at the Eighth International Forum on Corporate Social Responsibility and the Most Responsible Enterprise Award Presentation Ceremony, the Company was awarded the "2012 Most Responsible Enterprise" prize for its outstanding contributions in providing services to the general public, maintaining overall economic and social development and fulfilling its corporate social responsibility.

"BEST PROPERTY INSURANCE BRAND IN THE INSURANCE INDUSTRY"

In January 2013, at the First "2012 Summit Forum on Innovative Development of the Financial Sector and the Presentation Ceremony of Awards to Elected Leaders in the Financial Sector of the Year" hosted by JRJ.com, the Company was awarded the grand prize of the "Best Property Insurance Brand in the Insurance Industry".

"GOLDEN SHELL AWARD – MOST TRUSTED INSURANCE COMPANY" AND "GOLDEN SHELL AWARD – BEST MOTOR VEHICLE INSURANCE BRAND"

In December 2012, at the 2012 21st Century Asset Management Annual Conference and the Fifth PRC Asset Management "Golden Shell Award" Presentation Ceremony hosted by *21st Century Business Herald*, a leading financial media entity in the PRC, the Company won 2 prizes – the "Most Trusted Insurance Company" and the "Best Motor Vehicle Insurance Brand" of 5 prizes granted to the insurance sector, for its excellent operating results in 2012.

"INSURANCE COMPANY OF THE YEAR (CHINESE PROPERTY INSURANCE COMPANY)"

In December 2012, in the "CBN Financial Value Ranking" hosted and judged by *China Business News*, the Company was awarded "Insurance Company of the Year (Chinese Property Insurance Company)", the most important prize among the awards to the insurance sector.

"2012 BEST INSURANCE COMPANY" AND "2012 BEST E-COMMERCE PLATFORM"

In December 2012, the Company was awarded two grand prizes by the website www.eastmoney.com, namely "2012 Best Insurance Company" and "2012 Best E-commerce Platform".

"2012 CHINA INSURANCE INNOVATION GRAND PRIZE"

In November 2012, the results of "China Insurance Innovation Grand Prize" were announced. By virtue of its 6 insurance products, including patent enforcement insurance, school bus carrier liability insurance and "Perfect e-Home" family portfolio insurance, the Company won 9 grand prizes, including the "Most Innovative Insurance Product", "Most Influential Insurance Product in the Market" and "Best Product Package". The Company has won innovation prizes continually over the past years, and is unrivalled among property insurance companies in terms of the number of prizes obtained.

"2012 TENTH CHINA FINANCIAL AND ECONOMIC BILLBOARD AWARDS – BEST NEW CHANNEL BUILDING PRIZE"

In November 2012, at the Tenth China Financial and Economic Billboard Awards • Insurance Strategic Development Summit sponsored exclusively by website HEXUN and jointly organised by SEEC (Stock Exchange Executive Council) and other institutions, the Company was awarded the "2012 Tenth China Financial and Economic Billboard Awards – Best New Channel Building Prize" based on the combined assessment by both online voting and expert appraisal.

"2012 TOP 100 HONG KONG-LISTED COMPANIES – TOP 100 COMPREHENSIVE STRENGTH"

On 5 November 2012, the final winner list of 2012 "Top 100 Hong Kong-listed Companies" jointly held by Hong Kong Finet Group Limited and the website www.QQ.com was officially announced in Hong Kong. The Company was successfully ranked in the main list, ranking the 50th in the "Top 100 Hong Kong-listed Companies – Top 100 Comprehensive Strength".

"HANG SENG CHINA 50 INDEX"

Beginning from 10 September 2012, the Company was included in the Hang Seng China 50 Index by Hang Seng Indexes Company Limited. The Hang Seng China 50 Index measures the overall performance of the top 50 large Chinese companies (in terms of market capitalisation) listed on the stock exchange in mainland China and/or Hong Kong.

"TEN-YEAR GLORIOUS ACHIEVEMENT PRIZE FOR CALL CENTERS IN CHINA", "BEST CALL CENTER IN CHINA" AND "2011-2012 CHINA CUSTOMER SERVICE LEADERSHIP PRIZE"

At the Tenth China Call Center Industry Summit Forum and the Presentation Ceremony of Awards to Best Call Center and Best Manager in China held on 7 June 2012, the Company's 95518 Customer Service Center was awarded the "Ten-Year Glorious Achievement Prize for Call Centers in China", and awarded for a consecutive year the "Best Call Center in China" prize. And, the Company's President Wang Yincheng was awarded the "2011-2012 China Customer Service Leadership 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 69 to 162, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012, 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
25 March 2013

	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	10	**(1,629)**	(1,316)
Share of profits of associates		**66**	108
PROFIT BEFORE TAX	11	**13,349**	10,286
Income tax expense	14	**(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)	15	**0.849**	0.683

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 *RMB million*	2011 *RMB million*
PROFIT FOR THE YEAR		10,405	8,027
OTHER COMPREHENSIVE INCOME			
Net movement in cash flow hedges	17	(23)	45
Income tax effect	30	6	(11)
		(17)	34
Net gains/(losses) on available-for-sale financial assets	17	2,497	(2,431)
Income tax effect	30	(624)	608
		1,873	(1,823)
Gains on investment property revaluation	17	298	560
Income tax effect	30	(75)	(140)
		223	420
Share of other comprehensive income of associates		380	(556)
Other comprehensive income for the year, net of tax		2,459	(1,925)
Total comprehensive income for the year attributable to owners of the parent		12,864	6,102

	Notes	31 December 2012 RMB million	31 December 2011 RMB million
ASSETS			
Cash and cash equivalents	18	66,020	58,638
Derivative financial assets	19	28	51
Debt securities	20	97,148	98,062
Equity securities	21	35,055	22,512
Insurance receivables, net	22	22,662	22,093
Tax recoverable		382	–
Reinsurance assets	23	22,637	24,275
Prepayments and other assets	24	20,919	15,347
Investments in associates	25	2,584	2,131
Property, plant and equipment	27	13,981	12,770
Investment properties	28	4,538	4,443
Prepaid land premiums	29	3,497	3,410
Deferred tax assets	30	973	1,912
TOTAL ASSETS		290,424	265,644
LIABILITIES			
Payables to reinsurers	31	16,667	25,746
Accrued insurance protection fund	32	575	536
Tax payable		–	526
Other liabilities and accruals	33	46,793	36,332
Insurance contract liabilities	34	159,529	145,717
Policyholders' deposits	35	1,983	2,328
Subordinated debts	36	19,427	19,299
TOTAL LIABILITIES		244,974	230,484
EQUITY			
Equity attributable to owners of the parent			
Issued capital	38	12,256	12,256
Reserves		33,194	22,904
TOTAL EQUITY		45,450	35,160
TOTAL EQUITY AND LIABILITIES		290,424	265,644

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	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 2012	12,256	8,584	1,854	(4,455)	39	4,819	1,842	10,221	35,160
Profit for the year	–	–	–	–	–	1,044	1,044	8,317	10,405
Other comprehensive income									
Net movement in cash flow hedges, net of tax	–	–	–	–	(17)	–	–	–	(17)
Net losses on available-for-sale financial assets, net of tax	–	–	–	1,873	–	–	–	–	1,873
Gains on investment property revaluation, net of tax	–	–	223	–	–	–	–	–	223
Share of other comprehensive income of associates	–	–	–	380	–	–	–	–	380
Total comprehensive income for the year	–	–	223	2,253	(17)	1,044	1,044	8,317	12,864
Appropriations to discretionary surplus reserve****	–	–	–	–	–	6,422	–	(6,422)	–
Interim 2012 dividend*****	–	–	–	–	–	–	–	(2,574)	(2,574)
At 31 December 2012	12,256	8,584*	2,077*	(2,202)*	22*	12,285*	2,886*	9,542*	45,450

* These reserve accounts comprise the consolidated reserves of RMB33,194 million (31 December 2011: RMB22,904 million) in the consolidated statement of financial position as at 31 December 2012.

** 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 reserves.

**** On 26 June 2012, the shareholders of the Company at a general meeting approved that 80% of the profit attributable to owners of the parent for 2011, 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 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.

	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	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) 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 or 10 existing 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.

Year ended 31 December 2012

	Notes	2012 RMB million	2011 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		13,349	10,286
Adjustments for:			
Investment income	8	(8,387)	(6,529)
Net realised and unrealised losses on investments	9	913	2,600
Interest expenses credited to policyholders' deposits		5	17
Exchange losses, net		13	328
Share of profits of associates		(66)	(108)
Depreciation of property, plant and equipment	11, 27	1,428	1,118
Amortisation of prepaid land premiums	11, 29	125	133
Net gain on disposal of items of property, plant and equipment	11	(5)	(7)
Finance costs	10	1,629	1,316
Investment expenses		182	159
Impairment loss on insurance receivables	11, 22	236	307
Increase in insurance receivables		(805)	(12,070)
Increase in prepayments and other assets		(1,718)	(329)
Increase/(decrease) in payables to reinsurers		(9,079)	15,191
Increase/(decrease) in accrued insurance protection fund		39	(50)
Increase in other liabilities and accruals		194	2,259
Increase in insurance contract liabilities, net		15,450	14,045
Cash generated from operations		13,503	28,666
Income tax paid		(3,606)	(3,024)
Net cash flows from operating activities		9,897	25,642
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		7,039	5,195
Rental income received from investment properties	8	194	199
Dividend income received from equity securities		646	603
Payment for capital expenditure		(2,253)	(2,629)
Proceeds from disposal of items of property, plant and equipment		67	262
Payment for share subscription and acquisition of an associate		(10)	(976)
Payment for purchases of debt and equity securities		(57,622)	(62,062)
Payment for purchase of unlisted debts		(3,800)	(2,000)
Proceeds from sale of debt and equity securities		47,922	47,346
Placement of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits		(9,937)	(40,247)
Maturity of deposits with banks and other financial institutions with original maturity of more than three months and structured deposits		1,084	9,628
Net cash flows used in investing activities		(16,670)	(44,681)

	Notes	2012 RMB million	2011 RMB million
Net cash flows used in investing activities		**(16,670)**	(44,681)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from rights issue		**–**	4,959
Proceeds from issue of subordinated debts		**–**	4,983
Proceeds from investments in securities sold under agreements to repurchase, net		**10,081**	9,369
Decrease in policyholders' deposits		**(350)**	(206)
Interest paid		**(1,629)**	(1,151)
Dividends paid		**(2,574)**	(2,507)
Net cash flows from financing activities		**5,528**	15,447
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,245)**	(3,592)
Cash and cash equivalents at beginning of year		**14,135**	17,727
CASH AND CASH EQUIVALENTS AT END OF YEAR		**12,890**	14,135
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Demand deposits	18	**12,000**	13,244
Securities purchased under resale agreements with original maturity of no more than three months	18	**690**	891
Deposits with banks and other financial institutions with original maturity of no more than three months	18	**200**	–
		12,890	14,135

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	31 December 2012 RMB million	31 December 2011 RMB million
ASSETS			
Cash and cash equivalents	18	66,015	58,634
Derivative financial assets	19	28	51
Debt securities	20	97,148	98,062
Equity securities	21	35,055	22,512
Insurance receivables, net	22	22,662	22,093
Tax recoverable		382	–
Reinsurance assets	23	22,637	24,275
Prepayments and other assets	24	20,919	15,347
Investments in associates	25	2,799	2,789
Investments in subsidiaries	26	3	3
Property, plant and equipment	27	13,932	12,718
Investment properties	28	4,720	4,579
Prepaid land premiums	29	3,497	3,410
Deferred tax assets	30	940	1,891
TOTAL ASSETS		290,737	266,364
LIABILITIES			
Payables to reinsurers	31	16,667	25,746
Accrued insurance protection fund	32	575	536
Tax payable		–	526
Other liabilities and accruals	33	46,793	36,332
Insurance contract liabilities	34	159,529	145,717
Policyholders' deposits	35	1,983	2,328
Subordinated debts	36	19,427	19,299
TOTAL LIABILITIES		244,974	230,484
EQUITY			
Issued capital	38	12,256	12,256
Reserves		33,507	23,624
TOTAL EQUITY		45,763	35,880
TOTAL EQUITY AND LIABILITIES		290,737	266,364

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 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 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 ("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 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.

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 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).

2.2 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.

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 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The amendments would not have any significant financial impact on the Group.

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

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

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. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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 addresses the issues raised in HK(SIC)-Int 12. The Group is currently assessing the impact that this standard will have on the financial position and performance.

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 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.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

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

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

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, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013. The amendments would not have any significant financial impact on the Group.

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 standard would not have any significant financial impact on the Group.

The HKAS 1 Amendments 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The Group expects to adopt the amendments from 1 January 2013. The amendments will affect presentation only and have no impact on the financial position or performance.

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 revised standard would not have any significant impact on the Group.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

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

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.

The Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

    In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies, makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Associates

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

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and the consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

Related parties

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

(a) the party 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 to measure 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 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-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the 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 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. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

Where goodwill has been allocated to 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation 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.

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%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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 including 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

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 positive net changes in fair value presented as 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement (continued)

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.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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 loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

The 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 in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement (continued)

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedge accounting *(continued)*

Initial recognition and subsequent measurement (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

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

Cash and cash equivalents

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

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

Product classification and unbundling

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

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

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more specified interest rates, a financial instrument price, a commodity price, a foreign exchange rate, an index of price or rates, a 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Product classification and unbundling *(continued)*

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

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 and 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:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contract liabilities *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Reinsurance *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

2.4 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 payments

Employees working in the Group are granted share appreciation rights ("SARs"), 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. 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 over 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Profit appropriation

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to appropriate 10% of the annual statutory net profit (after offsetting any prior years' losses), determined in accordance with PRC GAAP, to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. The Company may also make appropriations from its annual statutory net profit to the discretionary surplus reserve provided that 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 translation of a non-monetary item measured at fair value 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 the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

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.

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.

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

Estimation uncertainty *(continued)*

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 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.

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.

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

Estimation uncertainty *(continued)*

Fair value of investment properties *(continued)*

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

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.

4. OPERATING SEGMENT INFORMATION *(continued)*

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

4. OPERATING SEGMENT INFORMATION *(continued)*

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

4. OPERATING SEGMENT INFORMATION *(continued)*

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*	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

5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	Group 2012 RMB million	2011 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 (note 34)	(8,827)	(3,485)
Net premiums earned	155,304	133,134

6. NET CLAIMS INCURRED

	Group 2012 RMB million	2011 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 (note 34)	6,623	10,560
Net claims incurred	98,722	87,546

7. ACQUISITION COSTS AND OTHER UNDERWRITING EXPENSES

	Group 2012 RMB million	2011 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 (note 32)	1,544	1,388
Others	1,028	937
	29,505	20,290

8. INVESTMENT INCOME

	Group 2012 RMB million	2011 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 RMB million	2011 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 (note 28)	116	192
	(913)	(2,600)

10. FINANCE COSTS

	Group	
	2012 RMB million	2011 RMB million
Interest on subordinated debts	1,069	932
Interest on securities sold under agreements to repurchase	478	321
Other finance costs	82	63
	1,629	1,316

11. PROFIT BEFORE TAX

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

	Notes	2012 RMB million	2011 RMB million
Depreciation of property, plant and equipment	27	1,428	1,118
Amortisation of prepaid land premiums	29	125	133
Employee expenses (including directors' and supervisors' remuneration):	12		
Wages, salaries and staff welfare		15,765	13,488
Pension scheme contributions		1,401	1,039
Impairment loss on insurance receivables	22	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

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:

	2012 *RMB'000*	2011 *RMB'000*
Fees	1,053	1,283
Other emoluments:		
Salaries, allowances, benefits in kind and performance related bonuses	2,543	3,244
Pension scheme contributions	1,285	960
	4,881	5,487

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:

	2012 *RMB'000*	2011 *RMB'000*
Mr. Luk Kin Yu, Peter	229	234
Mr. Ding Ningning	229	234
Mr. Ip Shu Kwan, Stephen (Appointed in January 2011, resigned in November 2011)	–	193
Mr. Liao Li (Appointed in January 2011)	229	234
	687	895

There were no other emoluments payable to the independent non-executive directors during the year (2011: 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*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2012				
Chairman of the Board:				
Mr. Wu Yan	–	–	–	–
Executive directors:				
Mr. Wang Yincheng (President)	–	701	337	1,038
Mr. Guo Shengchen	–	622	294	916
Mr. Wang He	–	541	279	820
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	–	417	209	626
Mr. Shen Ruiguo	–	262	166	428
Independent supervisor:				
Mr. Lu Zhengfei	229	–	–	229
	366	2,543	1,285	4,194

These fees have been paid as at 31 December 2012.

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 were 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*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2011				
Chairman of the Board:				
Mr. Wu Yan	–	–	–	–
Executive directors:				
Mr. Wang Yincheng (President)	–	1,438	288	1,726
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 supervisors:				
Mr. Lu Zhengfei	234	–	–	234
Mr. Li Dianjun (resigned)	17	–	–	17
	388	3,244	960	4,592

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% (2011: 25%) in accordance with the relevant PRC income tax rules and regulations.

Group

	2012 RMB million	2011 RMB million
Current:		
– Charge for the year	2,517	2,806
– Adjustment in prior years	181	35
Deferred (note 30)	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:

Group

	2012 RMB million	2011 RMB million
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

15. 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.

16. DIVIDEND

	2012 RMB million	2011 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).

17. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Group	
	2012 RMB million	2011 RMB million
Cash flow hedges:		
Changes in fair value	(23)	55
Reclassification adjustments for gains included in the consolidated income statement	–	(10)
	(23)	45
Available-for-sale investments:		
Changes in fair value	900	(4,791)
Reclassification adjustments for losses: included in the consolidated income statement		
– Losses on disposal	247	331
– Impairment losses	1,350	2,029
	2,497	(2,431)
Investment property revaluation:		
Revaluation gains arising during the year	298	560

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December 2012 *RMB million*	31 December 2011 *RMB million*	**31 December 2012** *RMB million*	1 January 2011 *RMB million*
Demand deposits, at amortised cost	**12,000**	13,244	**11,995**	13,240
Securities purchased under resale agreements with original maturity of no more than three months, at amortised cost	**690**	891	**690**	891
Deposits with banks and other financial institutions with original maturity of no more than three months, at amortised cost	**200**	–	**200**	–
Deposits with banks and other financial institutions with original maturity of more than three months, at amortised cost	**52,389**	43,574	**52,389**	43,574
Structured deposits with banks and other financial institutions:				
At fair value	**–**	189	**–**	189
At amortised cost	**741**	740	**741**	740
	66,020	58,638	**66,015**	58,634
Classification of cash and cash equivalents:				
Loans and receivables	**66,020**	58,449	**66,015**	58,445
Financial assets designated as fair value through profit or loss	**–**	189	**–**	189
	66,020	58,638	**66,015**	58,634

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.

18. CASH AND CASH EQUIVALENTS *(continued)*

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.

As at 31 December 2012, structured deposits designated as financial assets at fair value through profit or loss were matured.

19. DERIVATIVE FINANCIAL ASSETS

	Group and Company	
	31 December 2012 *RMB million*	31 December 2011 *RMB million*
Interest rate swaps	**28**	51

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 2012 and 2011:			
3-month Shanghai Interbank Offered Rate 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

The cash flow hedges were assessed to be highly effective and a net loss of RMB17 million (2011: a net gain of RMB34 million) was included in the statement of comprehensive income. There was no gain or loss transferred from other comprehensive income to profit or loss in 2012 (2011: a gain of RMB10 million). There was no gain or loss transferred from other comprehensive income arising from cash flow hedge ineffectiveness in 2012 and 2011.

20. DEBT SECURITIES

	Group and Company 31 December 2012 RMB million	31 December 2011 RMB million
Listed debt securities, at fair value:		
Debt securities issued by governments	599	810
Debt securities issued by corporate entities	7,103	7,450
	7,702	8,260
Unlisted debt securities, at fair value:		
Debt securities issued by governments	14,513	14,082
Debt securities issued by banks and other financial institutions	22,690	28,232
Debt securities issued by corporate entities	17,801	16,615
	55,004	58,929
Listed debt securities, at amortised cost:		
Debt securities issued by corporate entities	1,280	1,280
Unlisted debt securities, at amortised cost:		
Debt securities issued by governments	2,926	2,925
Debt securities issued by banks and other financial institutions	27,295	23,897
Debt securities issued by corporate entities	2,941	2,771
	33,162	29,593
	97,148	98,062
Classification of debt securities:		
Fair value through profit or loss – held for trading	1,376	1,132
Available-for-sale	61,330	66,057
Held-to-maturity	34,442	30,873
	97,148	98,062

21. EQUITY SECURITIES

	Group and Company	
	31 December 2012 RMB million	31 December 2011 RMB million
Listed investments, at fair value:		
Mutual funds	1,775	925
Shares	19,936	14,902
	21,711	15,827
Unlisted investments, at fair value:		
Mutual funds	12,126	6,055
Unlisted investments, at cost:		
Shares	1,218	630
	35,055	22,512
Classification of equity securities:		
Fair value through profit or loss – held for trading	2,166	1,971
Available-for-sale	32,889	20,541
	35,055	22,512

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 RMB1,350 million (2011: RMB2,029 million), which represented a reclassification from other comprehensive income of RMB1,350 million (2011: RMB2,029 million), has been recognised in the income statement for the year.

22. INSURANCE RECEIVABLES, NET

	Group and Company 31 December 2012 *RMB million*	31 December 2011 *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 2012 *RMB million*	31 December 2011 *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 31 December 2012 *RMB million*	31 December 2011 *RMB million*
At 1 January	2,453	2,176
Impairment losses recognised (note 11)	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). Please refer to note 46(c) for details.

23. REINSURANCE ASSETS

	Group and Company	
	31 December 2012 RMB million	31 December 2011 RMB million
Reinsurers' share of:		
Unearned premium reserves (note 34)	9,387	12,197
Loss and loss adjustment expense reserves (note 34)	13,250	12,078
	22,637	24,275

24. PREPAYMENTS AND OTHER ASSETS

		Group and Company	
	Notes	31 December 2012 RMB million	31 December 2011 RMB million
Unlisted debts		8,000	4,200
Capital security fund	(i)	2,880	2,228
Interest receivables		3,464	2,956
Prepayments and deposits	(ii)	119	651
Other receivables	(iii)	978	971
Securities settlement accounts		17	–
Amount due from the PICC Group (note 46(c))		–	136
Amounts due from fellow subsidiaries (note 46(c))		49	27
Amounts due from associates (note 46(c))		1	5
Other assets		5,411	4,173
		20,919	15,347

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.

(ii) Included in the prepayments and deposits as at 31 December 2011 was a consideration of 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.

On 31 October 2012, the Company signed an equity transfer agreement with the controlling shareholder of the securities company and was registered as a shareholder of such securities company on 10 December 2012. The Company reclassified such asset from prepayments and deposits to equity securities as at 31 December 2012.

(iii) Included in the other receivables as at 31 December 2012 was an amount of RMB185 million (31 December 2011: RMB185 million) due from another securities company under liquidation. The amount was fully impaired as at 31 December 2012 and 2011.

25. INVESTMENTS IN ASSOCIATES

	Group		Company	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	RMB million	*RMB million*	*RMB million*	*RMB million*
Unlisted shares, at cost:			2,799	2,789
AVIF	–	3	–	–
Goodwill on acquisition	230	220	–	–
Share of net assets	2,354	1,908	–	–
	2,584	2,131	2,799	2,789

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 2012 and 2011 are as follows:

31 December 2012

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")	PRC/Mainland China	20,133	8.615%	Provision of life insurance products
Beijing No.88 West Chang'an Avenue Development Company Limited ("No.88 Development Company")	PRC/Mainland China	501	30.41%	Provision of estate services and property management

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	PRC/Mainland China	15,133	8.615%	Provision of life insurance products
No.88 Development Company	PRC/Mainland China	501	30.41%	Provision of estate services and property management

25. INVESTMENTS IN ASSOCIATES *(continued)*

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 investment in an associate as the Company has representation on the Board of Directors of PICC Life.

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 2012 *RMB million*	31 December 2011 *RMB million*	31 December 2012 *RMB million*	31 December 2011 *RMB million*
Share of the associates' assets and liabilities:				
Total assets	1,357	1,277	28,934	23,529
Total liabilities	(492)	(438)	(27,445)	(22,460)
Net assets	865	839	1,489	1,069
Share of the associates' revenue and profit:				
Revenue	1	17	6,703	6,911
Profit after tax	25	43	41	65

26. INVESTMENTS IN SUBSIDIARIES

	Company 31 December 2012 RMB million	31 December 2011 RMB million
Unlisted shares, at cost	3	3

Particulars of the subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of registered share capital RMB million	Percentage of equity directly attributable to the Company
PICC Hebi Insurance Agency Company Limited*	PRC/Mainland China	0.5	100
PICC Qingdao Insurance Agency Company Limited*	PRC/Mainland China	0.5	90
PICC Hebei Insurance Agency Company Limited*	PRC/Mainland China	1.0	100
PICC Haikou Training Center Company Limited*	PRC/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 2012	12,165	1,485	4,506	324	18,480
Additions	72	261	1,516	607	2,456
Transfers	104	–	2	(106)	–
Transfers from investment properties (note 28)	340	–	–	–	340
Transfers to investment properties (note 28)	(191)	–	–	–	(191)
Disposals	(30)	(212)	(219)	–	(461)
At 31 December 2012	12,460	1,534	5,805	825	20,624
Accumulated depreciation:					
At 1 January 2012	(2,917)	(697)	(2,096)	–	(5,710)
Charge for the year (note 11)	(439)	(224)	(765)	–	(1,428)
Transfers to investment properties (note 28)	75	–	–	–	75
Disposals	11	199	210	–	420
At 31 December 2012	(3,270)	(722)	(2,651)	–	(6,643)
Net book amount:					
At 31 December 2012	9,190	812	3,154	825	13,981

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 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

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 2012	12,103	1,485	4,506	324	18,418
Additions	72	261	1,516	607	2,456
Transfers	104	–	2	(106)	–
Transfers from investment properties (note 28)	340	–	–	–	340
Transfers to investment properties (note 28)	(191)	–	–	–	(191)
Disposals	(30)	(212)	(219)	–	(461)
At 31 December 2012	12,398	1,534	5,805	825	20,562
Accumulated depreciation:					
At 1 January 2012	(2,907)	(697)	(2,096)	–	(5,700)
Charge for the year	(436)	(224)	(765)	–	(1,425)
Transfers to investment properties (note 28)	75	–	–	–	75
Disposals	11	199	210	–	420
At 31 December 2012	(3,257)	(722)	(2,651)	–	(6,630)
Net book amount:					
At 31 December 2012	9,141	812	3,154	825	13,932

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

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 2012, certain acquired buildings of the Group with a net book amount of RMB428 million (31 December 2011: RMB392 million) were in the process of title registration.

28. INVESTMENT PROPERTIES

Group

	2012 RMB million	2011 RMB million
At 1 January	4,443	3,940
Transfers from property, plant and equipment and prepaid land premiums (notes 27 and 29)	157	298
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums (note 17)	298	560
Increase in fair value of investment properties during the year (note 9)	116	192
Transfers to property, plant and equipment and prepaid land premiums (notes 27 and 29)	(476)	(547)
At 31 December	4,538	4,443

Company

	2012 RMB million	2011 RMB million
At 1 January	4,579	3,940
Transfers from property, plant and equipment and prepaid land premiums (notes 27 and 29)	157	350
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums	298	644
Increase in fair value of investment properties during the year	162	192
Transfers to property, plant and equipment and prepaid land premiums (notes 27 and 29)	(476)	(547)
At 31 December	4,720	4,579

28. INVESTMENT PROPERTIES *(continued)*

The fair values were determined based on the valuation carried out by an external independent 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 RMB194 million (2011: RMB199 million) was recognised in the income statement for the year.

As at 31 December 2012 and 31 December 2011, none of the Group's investment properties was pledged to secure general banking facilities granted to the Group.

29. PREPAID LAND PREMIUMS

	Group and Company	
	2012	2011
	RMB million	*RMB million*
At 1 January	**3,410**	3,360
Additions	**120**	112
Transfers from investment properties (note 28)	**136**	188
Amortisation recognised during the year (note 11)	**(125)**	(133)
Transfers to investment properties (note 28)	**(41)**	(113)
Disposal	**(3)**	(4)
At 31 December	**3,497**	3,410

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

	Group and Company	
	31 December 2012	31 December 2011
	RMB million	*RMB million*
Long term leases	**129**	135
Medium term leases	**3,368**	3,275
	3,497	3,410

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 2012	1,158	1,238	–	–	678	–	96	3,170
Deferred tax (charged)/credited to the income statement during the year (note 14)	(220)	–	–	–	4	–	144	(72)
Deferred tax directly credited to the equity during the year	–	(624)	–	–	–	–	–	(624)
Gross deferred tax assets at 31 December 2012	938	614	–	–	682	–	240	2,474
Deferred tax liabilities:								
At 1 January 2012	–	–	(12)	(451)	–	(795)	–	(1,258)
Deferred tax charged to the income statement during the year (note 14)	–	–	–	–	–	(44)	(130)	(174)
Deferred tax directly (debited)/ credited to equity during the year	–	–	6	–	–	(75)	–	(69)
Gross deferred tax liabilities at 31 December 2012	–	–	(6)	(451)	–	(914)	(130)	(1,501)
Net deferred tax assets at 31 December 2012								973

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 2012	1,158	1,238	–	–	678	–	96	3,170
Deferred tax (charged)/credited to the income statement during the year	(220)	–	–	–	4	–	144	(72)
Deferred tax directly credited to the equity during the year	–	(624)	–	–	–	–	–	(624)
Gross deferred tax assets at 31 December 2012	938	614	–	–	682	–	240	2,474
Deferred tax liabilities:								
At 1 January 2012	–	–	(12)	(451)	–	(816)	–	(1,279)
Deferred tax charged to the income statement during the year	–	–	–	–	–	(56)	(130)	(186)
Deferred tax directly (debited)/ credited to equity during the year	–	–	6	–	–	(75)	–	(69)
Gross deferred tax liabilities at 31 December 2012	–	–	(6)	(451)	–	(947)	(130)	(1,534)
Net deferred tax assets at 31 December 2012								940

30. DEFERRED TAX *(continued)*

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

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 2012 *RMB million*	31 December 2011 *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). Please refer to note 46(c) for details.

32. ACCRUED INSURANCE PROTECTION FUND

	Group and Company	
	2012 *RMB million*	2011 *RMB million*
At 1 January	536	586
Accrued during the year (note 7)	1,544	1,388
Paid during the year	(1,505)	(1,438)
At 31 December	575	536

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 (2011: 0.8%) in accordance with the relevant PRC insurance laws and regulations. No further provision is required once the accumulated balance has reached 6% (2011: 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 2012 RMB million	31 December 2011 RMB million
Premiums received in advance	6,938	6,879
Securities sold under agreements to repurchase	23,024	12,943
Salaries and staff welfare payables	4,308	4,232
Commission payable	3,031	2,668
Accrued capital expenditure	404	74
Amounts due to fellow subsidiaries (note 46(c))	54	54
Others	9,034	9,482
	46,793	36,332

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 2012, the borrowings obtained under these repurchase transactions were RMB23,024 million (31 December 2011: RMB12,943 million), while the carrying amounts of financial assets did not qualify for derecognition.

As at 31 December 2012, debt securities of approximately RMB23,931 million (31 December 2011: RMB15,903 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 2012 RMB million	31 December 2011 RMB million
Unearned premium reserves	75,634	69,617
Loss and loss adjustment expense reserves	83,895	76,100
	159,529	145,717

34. INSURANCE CONTRACT LIABILITIES *(continued)*

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

Group and Company

	2012			2011		
	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	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

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 2012 RMB million	31 December 2011 RMB million
Interest-bearing deposits	–	356
Non-interest-bearing deposits	1,983	1,972
	1,983	2,328

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. 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. 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. 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. 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 of all lines of business are based on the following selected methods:

- Paid and incurred loss development methods
- Paid and incurred Bornhuetter-Fergusons method
- 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 of individual large claims multiplied by 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 were 3.5%-3.8% and 2.9%-3.2% for 2012 and 2011, 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.

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

	Accident year – gross					
	2008	2009	2010	2011	2012	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Estimated cumulative claims paid as of:						
End of current year		73,586	86,255	98,733	113,488	
One year later	73,648	74,494	84,962	97,641		
Two years later	73,518	74,088	84,535			
Three years later	73,677	73,841				
Four years later	73,398					
Estimated cumulative claims	73,398	73,841	84,535	97,641	113,488	442,903
Cumulative claims paid	(72,253)	(71,201)	(73,827)	(78,620)	(69,747)	(365,648)
Sub-total						77,255
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						6,640
Unpaid claim expenses						83,895

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:

	Accident year – net					
	2008 *RMB million*	2009 *RMB million*	2010 *RMB million*	2011 *RMB million*	**2012** ***RMB million***	Total *RMB million*
Estimated cumulative claims paid as of:						
End of current year		58,513	77,498	83,793	**94,925**	
One year later	59,212	59,101	76,778	82,935		
Two years later	59,019	59,546	76,250			
Three years later	58,979	59,238				
Four years later	58,820					
Estimated cumulative claims	58,820	59,238	76,250	82,935	**94,925**	372,168
Cumulative claims paid	(57,905)	(57,420)	(66,972)	(67,189)	**(57,827)**	(307,313)
Sub-total						64,855
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						5,790
Unpaid claim expenses						70,645

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 businesses ceded are 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 RMB18,845 million (2011: RMB28,476 million) and thus a credit exposure exists with respect to the businesses 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 2012 *RMB million*	31 December 2011 *RMB million*
Shares		
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each	8,454	8,454
H shares of RMB1.00 each	3,802	3,802
	12,256	12,256

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	
	31 December 2012 *RMB million*	31 December 2011 *RMB million*	31 December 2012 *RMB million*	31 December 2011 *RMB million*
Financial assets:				
Cash and cash equivalents	66,020	58,638	66,020	58,638
Derivative financial assets	28	51	28	51
Debt securities	97,148	98,062	97,373	98,024
Equity securities	33,837	21,882	33,837	21,882
Insurance receivables, net	22,662	22,093	22,662	22,093
Other financial assets	18,838	14,589	19,176	14,796
	238,533	215,315	239,096	215,484
Financial liabilities:				
Payables to reinsurers	16,667	25,746	16,667	25,746
Accrued insurance protection fund	575	536	575	536
Other liabilities and accruals	36,370	26,347	36,370	26,347
Policyholders' deposits	1,983	2,328	1,983	2,328
Subordinated debts	19,427	19,299	18,997	19,260
	75,022	74,256	74,592	74,217

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

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

The fair value of derivative financial assets are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties and interest rate curves and market unobservable input like price volatility.

The fair values of listed debt securities and equity investments are based on quoted market prices. The fair value of restricted equity investments has been estimated by using quoted price of restricted shares taking into account of non-marketability discount estimated using Black-Scholes option pricing model. 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

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 2012	Level 1	Level 2	Level 3	Total
Financial assets held for trading:				
– Equity securities	2,066	100	–	2,166
– Debt securities	–	1,376	–	1,376
Derivative financial assets:				
– Interest rate swaps	–	28	–	28
Available-for-sale investments:				
– Equity securities	23,209	150	8,312	31,671
– Debt securities	5,717	55,613	–	61,330
	30,992	57,267	8,312	96,571

As at 31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets held for trading:				
– Equity securities	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 swaps	–	51	–	51
Available-for-sale investments:				
– Equity securities	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)*

Fair value measurements in Level 3

On 1 March 2012, PICC Assets Management Company Limited (the "PICC AMC") entered into a share subscription agreement with Industrial Bank Co., Ltd. ("IB"), where PICC AMC agreed to subscribe for approximately 632 million IB shares with the entrusted assets of the Company. On 17 December 2012, the CSRC approved this transaction. On 31 December 2012, IB issued 632 million shares to the Company and the Company paid a cash consideration according to the share subscription agreement.

Since such IB shares are subject to a lock-up period of 36 months, in estimation of their fair value, the Company used quoted price of IB shares taking into account of non-marketability discount estimated using Black-Scholes option pricing model. The Company used the historical volatility of IB share price as the significant unobservable input in the fair value measurement of the non-marketability discount. An increase or decrease in historical volatility of IB shares would have a significant impact on the fair value measurement of non-marketability discount and the recorded fair value. Therefore, the above available-for-sale investment for IB was classified to level 3 fair value hierarchy.

During the years ended 31 December 2012 and 2011, 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.

The Group did not have any financial liabilities measured at fair value as at 31 December 2012 (31 December 2011: Nil).

40. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is 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 2012			31 December 2011		
	Regulatory capital held *RMB million*	Minimum regulatory capital *RMB million*	Solvency margin ratio	Regulatory capital held *RMB million*	Minimum regulatory capital *RMB million*	Solvency margin ratio
Solvency margin	43,260	24,771	175%	37,768	20,523	184%

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.

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:

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

(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 mainly invests in corporate debt securities with a PRC rating higher than AA.

The Group only issues insurance policies on credit to corporate customers or to individuals who purchase certain policies through insurance intermediaries. A policyholder usually has a maximum credit period of three months but a longer period can be granted on a discretionary basis. For large corporate customers and certain multi-year policies, payments by instalments are usually arranged. One of the major performance indicators is the ability to collect premiums receivable on a timely basis. The Group's premiums receivable relate to a large number of diversified customers and therefore there is no significant concentration of credit risk.

Reinsurance of the Group is mainly placed with reinsurers with 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 2012, the top three reinsurance companies owed an aggregate amount of RMB14,043 million (31 December 2011: RMB14,326 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:

	31 December 2012 *RMB million*	31 December 2011 *RMB million*
Cash and cash equivalents	**66,020**	58,638
Derivative financial assets	**28**	51
Debt securities	**97,148**	98,062
Insurance receivables, net	**22,662**	22,093
Other financial assets	**18,838**	13,421
Total credit risk exposure	**204,696**	192,265

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

(a) Financial risks *(continued)*

(1) Credit risk *(continued)*

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.

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

31 December 2012	On demand	Past due but not impaired				Past due and impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Sub-total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	66,020	–	–	–	–	–	66,020
Derivative financial assets	28	–	–	–	–	–	28
Debt securities	97,148	–	–	–	–	–	97,148
Insurance receivables	13,259	909	4,955	2,010	7,874	3,944	25,077
Other financial assets	18,838	–	–	–	–	185	19,023
Total	195,293	909	4,955	2,010	7,874	4,129	207,296
Less: Impairment provision	–	–	–	–	–	(2,600)	(2,600)
Net	195,293	909	4,955	2,010	7,874	1,529	204,696

31 December 2011	On demand	Past due but not impaired				Past due and impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Sub-total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	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

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 4% (31 December 2011: 5%) of the total assets as demand deposits and term deposits with original maturity of no more 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 2012	On demand/ Past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 5 years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
Assets:						
Cash and cash equivalents	12,200	852	4,618	59,064	70	76,804
Derivative financial assets	–	1	8	29	–	38
Debt securities:						
– Available-for-sale	–	419	6,843	36,805	31,378	75,445
– Fair value through profit or loss	–	133	627	605	110	1,475
– Held-to-maturity	–	51	1,194	7,035	57,670	65,950
Reinsurance assets	–	5,102	9,813	6,960	940	22,815
Capital security fund	–	428	203	2,778	–	3,409
Liabilities:						
Payables to reinsurers	8,811	7,221	359	262	14	16,667
Insurance contract liabilities	–	34,363	80,522	39,746	4,966	159,597
Policyholders' deposits	226	–	–	–	1,757	1,983
Subordinated debts	–	7	1,304	7,227	19,294	27,832

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

(a) Financial risks *(continued)*

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

31 December 2011	On demand/ Past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 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

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

The table below summarises the expected recovery of all assets:

	31 December 2012			31 December 2011		
	Current* *RMB million*	Non-current *RMB million*	Total *RMB million*	Current* *RMB million*	Non-current *RMB million*	Total *RMB million*
Cash and cash equivalents	14,215	51,805	66,020	15,997	42,641	58,638
Derivative financial assets	9	19	28	7	44	51
Debt securities	6,887	90,261	97,148	2,760	95,302	98,062
Equity securities	2,166	32,889	35,055	1,970	20,542	22,512
Insurance receivables, net	19,980	2,682	22,662	19,468	2,625	22,093
Tax recoverable	382	–	382	–	–	–
Reinsurance assets	14,827	7,810	22,637	16,380	7,895	24,275
Prepayments and other assets	9,266	11,653	20,919	7,899	7,448	15,347
Investments in associates	–	2,584	2,584	–	2,131	2,131
Property, plant and equipment	–	13,981	13,981	–	12,770	12,770
Investment properties	–	4,538	4,538	–	4,443	4,443
Prepaid land premiums	–	3,497	3,497	–	3,410	3,410
Deferred tax assets	–	973	973	–	1,912	1,912
Total	67,732	222,692	290,424	64,481	201,163	265,644

* 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 fair value 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 is 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 2012, the Group held deposits of RMB2,952 million (31 December 2011: RMB4,087 million) and debt securities of RMB769 million (31 December 2011: RMB550 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 rate 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 USD exchange rate, the correlations of these variables are ignored.

		31 December 2012		31 December 2011	
	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%	203	203	215	215
USD	(5%)	(203)	(203)	(215)	(215)

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 (2011: 10 trading days) at a confidence level of 99% (2011: 99%).

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)

	31 December 2012 RMB million	31 December 2011 RMB million
Interest rate VaR	210	800
Equity price VaR	3,344	1,923

(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 settlements 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 as 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:

	2012		2011	
	Gross premiums written *RMB million*	Net premiums written *RMB million*	Gross premiums written *RMB million*	Net premiums written *RMB million*
Coastal and developed provinces/cities	84,971	70,617	75,388	58,160
Western China	41,654	35,860	37,348	29,577
Northern China	29,694	25,941	27,895	22,605
Central China	23,549	20,247	20,508	16,172
North-eastern China	13,619	11,466	12,823	10,105
Total	193,487	164,131	173,962	136,619

43. CONTINGENT LIABILITIES

There were certain outstanding litigation matters against the Group as at 31 December 2012. 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 (2011: two to twenty).

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

	Group and Company	
	31 December 2012 *RMB million*	31 December 2011 *RMB million*
Within one year	153	147
In the second to fifth years, inclusive	284	316
After five years	113	97
	550	560

(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 (2011: one to twenty years), and those for motor vehicles are negotiated for terms ranging from one to three years (2011: one to three years).

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

	Group and Company	
	31 December 2012 *RMB million*	31 December 2011 *RMB million*
Within one year	110	117
In the second to fifth years, inclusive	333	174
After five years	136	43
	579	334

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	
	31 December 2012 RMB million	31 December 2011 RMB million
Contracted, but not provided for:		
Property, plant and equipment	**871**	389

46. RELATED PARTY TRANSACTIONS

(a) Material transactions with related parties

	Notes	**2012** *RMB million*	2011 *RMB million*
Transactions with the holding company:			
Interim dividend distribution	(i)	**1,776**	1,729
Rights issue	(ii)	**–**	3,451
Transactions with fellow subsidiaries:			
Property rental expenses	(iii)	**105**	123
Property rental income	(iii)	**2**	2
Management fee	(iv)	**128**	124
Premiums ceded	(v)	**446**	450
Reinsurance commission income	(v)	**173**	156
Paid losses recoverable from reinsurers	(v)	**232**	285
Reinsurance premiums assumed	(v)	**4**	2
Commission expenses – reinsurance	(v)	**1**	–
Gross claims paid – reinsurance	(v)	**1**	1
Transactions with associates:			
Commission received	(vi)	**14**	9
Commission paid	(vi)	**77**	65
Premiums paid	(vii)	**255**	35
Shares subscribed	(viii)	**–**	976

Notes:

(i) 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. As the PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB1,776 million to the PICC Group.

46. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Notes: (continued)

(ii) 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.

(iii) 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 only renewed the Property Leasing agreement. Pursuant to the renewed agreement, the Company and PICC Investment continued 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, 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.

(iv) On 28 December 2007, the Company and PICC AMC entered into an asset management agreement. Pursuant to the asset management agreement, PICC AMC provided investment and management services in respect of certain financial assets of the Company. The Company paid 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 satisfied 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 and innovative alternative investments) of the Company. The renewed agreement commenced from 1 January 2010 and expired on 31 December 2012 with a term of three years. PICC AMC is a fellow subsidiary of the Company.

(v) On 6 May 2010, the Company and The People's Insurance Company of China (Hong Kong) Limited ("PICC HK") entered into the Framework Agreement on Reinsurance Business Cooperation, pursuant to which the Company agreed to cede insurance premiums to and receive commissions from PICC HK, and PICC HK agreed to cede insurance premiums to and receive commissions from the Company. This agreement commenced from 1 January 2010 and expired on 31 December 2010. The Company and PICC HK renewed the above agreement in 2011 and 2012. PICC HK is a fellow subsidiary of the Company.

The commission expenses borne by the Company for reinsurance premiums assumed under the above reinsurance arrangement during the year ended 31 December 2011 was less than RMB1 million and, therefore, the amount was not presented above.

46. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: (continued)

(vi) 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 was three years. Pursuant to the new agreement, the new agreement had been extended for one year automatically as there were no written objections from the Company and PICC Life 30 days before the agreement expiration. PICC Life is a fellow subsidiary and an associated company of the Company.

(vii) In 2012, the Company purchased life insurance products from PICC Life for the employees of the Company for an aggregate insurance premium of approximately RMB255 million (2011: RMB35 million).

(viii) 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 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, 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 item (viii) mentioned above constitute connected transaction and items (iii), (iv), (v), (vi), (vii) above 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 to reinsurers		Due to related parties	
	31 December 2012 *RMB million*	31 December 2011 *RMB million*	31 December 2012 *RMB million*	31 December 2011 *RMB million*	31 December 2012 *RMB million*	31 December 2011 *RMB million*	31 December 2012 *RMB million*	31 December 2011 *RMB million*
The PICC Group (note 24)	–	–	–	136	–	–	–	–
Fellow subsidiaries (notes 22, 24, 31 and 33)	404	304	49	27	321	182	54	54
Associates (note 24)	–	–	1	5	–	–	–	–
	404	304	50	168	321	182	54	54

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)

	2012 *RMB '000*	2011 *RMB '000*
Short term employee benefits	1,864	2,574
Post-employment benefits	910	706
Total compensation paid to key management personnel	2,774	3,280

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

47. EVENTS AFTER THE REPORTING PERIOD

On 28 January 2013, the Company entered into an agreement, pursuant to which the Company agreed to subscribe for shares at an amount of approximately RMB485 million to increase the share capital of PICC Life, 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 25 March 2013, the Board of Directors of the Company 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 the appropriations to the statutory surplus reserve and the general risk reserve according to the relevant laws and regulations.

48. COMPARATIVE FIGURES

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

49. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 25 March 2013.

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.

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

"AIG"	American International Group, Inc.
"Articles of Association"	the Articles of Association of the Company
"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
"Guidelines"	the Guidelines on Regulating Corporate Governance Structure of Insurance Companies (Trial)
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IBC"	Industrial Bank Co., Ltd.
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PICC AMC"	PICC Asset Management Company Limited
"PICC Group"	The People's Insurance Company (Group) of China Limited
"PICC Health"	PICC Health Insurance Company Limited
"PICC HK"	The People's Insurance Company of China (Hong Kong), Limited
"PICC Investment"	PICC Investment Holding Company 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
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Year"	for the year ended 31 December 2012
"%"	per cent

Corporate Information

REGISTERED NAME

Chinese name: 中國人民財產保險股份有限公司

Abbreviation of Chinese name: 人保財險

English name: PICC Property and Casualty Company Limited

Abbreviation of English name: PICC P&C

PLACE OF LISTING OF H SHARES

The Stock Exchange of Hong Kong Limited

TYPE OF STOCK

H Share

STOCK NAME

PICC P&C

STOCK CODE

2328

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

REGISTERED OFFICE

Tower 2, No. 2 Jianguomenwai Avenue
Chaoyang District, Beijing 100022, the PRC

WEBSITE

www.piccnet.com.cn

LEGAL REPRESENTATIVE

Wu Yan

SECRETARY OF THE BOARD OF DIRECTORS

Zhang Xiaoli

COMPANY SECRETARY

Man Kam Ching

INFORMATION INQUIRY DEPARTMENT

Secretariat of the Board of Directors
Tel: (8610) 85176084
Fax: (8610) 85176084
E-mail: IR@picc.com.cn

AUDITORS

International Auditors
Ernst & Young

Domestic Auditors
Ernst & Young Hua Ming LLP

CONSULTING ACTUARIES

Milliman Asia Limited

LEGAL ADVISORS

as to Hong Kong Laws
Linklaters

as to PRC Laws
King and Wood