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 2013

10th Anniversary of Listing

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 was 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 13,604,137,800 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, marine hull insurance, agriculture insurance, surety insurance and other insurance business, which are denominated in RMB and foreign currencies, and the related reinsurance business as well as investment and fund application business permitted under the relevant laws and regulations of the PRC.

Competitive Advantages

- Brand Excellence: The "PICC" brand name has grown up with the PRC 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, the highest financial strength rating available to PRC non-policy guided financial institutions, for six consecutive years.

- Talent Excellence: The Company has long been maintaining its talent-based strategy of "being 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.

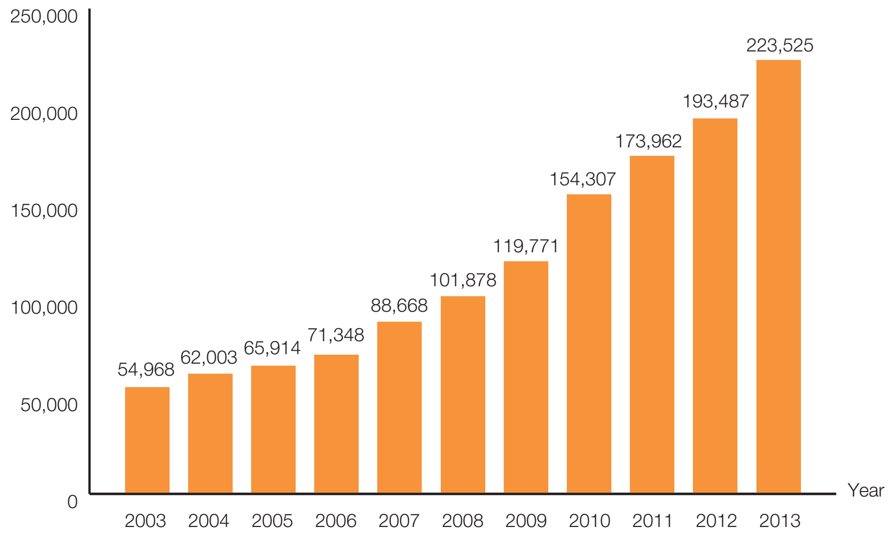
- Product Excellence: The Company has a comprehensive product research and development system, strong product development capabilities and a full range of on-shelf products, covering the whole property and casualty insurance business scope. Many products are innovative and pioneering in the industry. 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 2013, to serve agriculture, rural areas and farmers, the Company achieved a coverage rate of more than 89% of insurance stations at the township level, established insurance outlets in over 0.26 million administrative villages across the country and the number of persons engaging in agriculture insurance services at the basic level was more than 0.32 million.

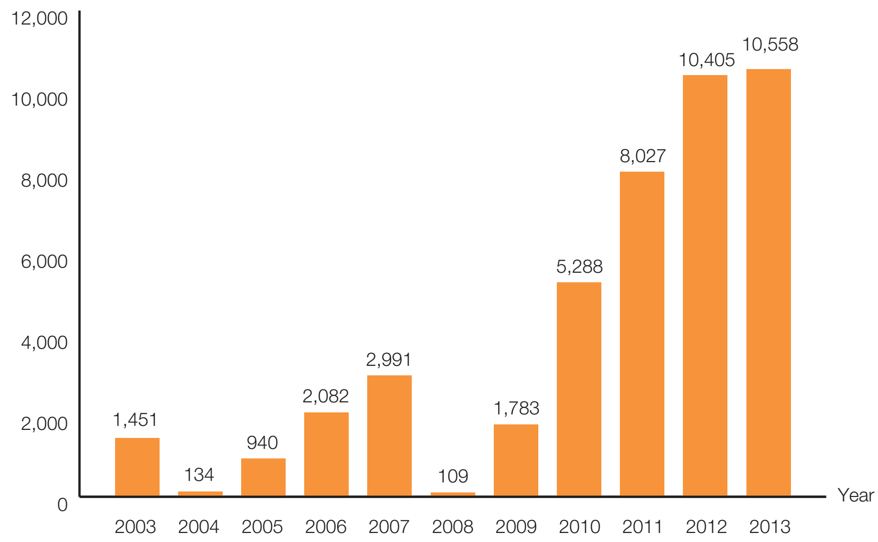
- Technology and Market Excellence: The Company endeavours to strengthen the informationalisation process and continuously raise the overall informationalisation level, and has successively developed and applied information systems into the sales, customer service, operational management, management 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 business. In 2013, the market share of the Company was 34.4%.

Contents

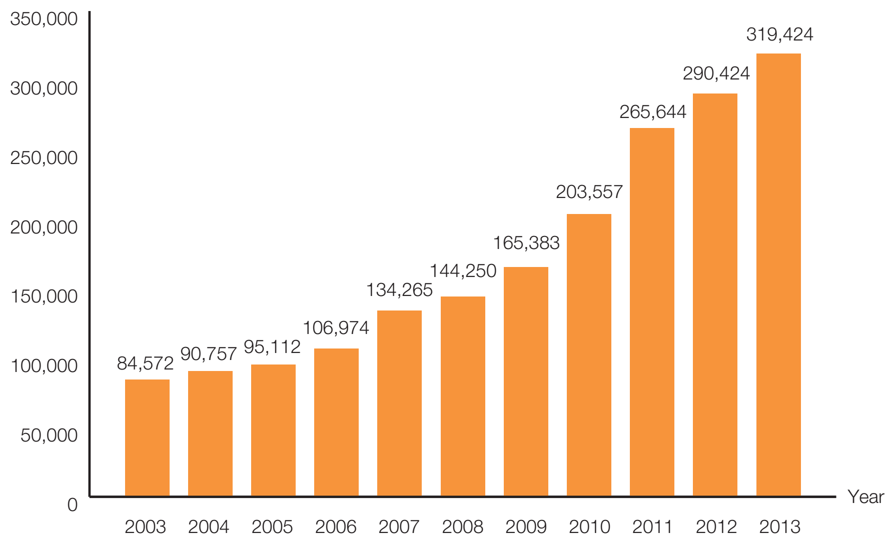
Turnover (RMB million)



Net Profit (RMB million)



Total Assets (RMB million)



the Company recorded a breakthrough
in premium income of
more than RMB100 billion
for the first time on 27 December 2008

the Company recorded a breakthrough
in premium income of
more than RMB150 billion
for the first time on 24 December 2010

the Company recorded a breakthrough
in premium income of
more than RMB200 billion
for the first time on 27 November 2013

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				
	2009	2010	2011	2012	2013
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Turnover	119,771	154,307	173,962	193,487	223,525
Underwriting profit/(loss)	(2,060)	2,780	8,016	7,581	5,960
Investment income	2,866	3,968	6,529	8,387	9,939
Net realised and unrealised gains/(losses) on investments	1,711	1,127	(2,600)	(913)	(342)
Profit before tax	2,167	6,596	10,286	13,349	13,439
Income tax expense	(384)	(1,308)	(2,259)	(2,944)	(2,881)
Profit attributable to owners of the parent	1,783	5,288	8,027	10,405	10,558

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

ASSETS AND LIABILITIES

	31 December				
	2009	2010	2011	2012	2013
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Total assets	165,383	203,557	265,644	290,424	319,424
Total liabilities	143,620	176,951	230,484	244,974	261,920
Thereinto: subordinated debts	8,000	14,157	19,299	19,427	19,562
Total equity	21,763	26,606	35,160	45,450	57,504

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

Mr Wu Yan
Chairman

Dear Shareholders,

2013 marked the tenth anniversary of the Company's listing. Since its listing ten years ago, the Company has experienced an extraordinary development and has achieved an excellent track record. During the past ten years, the turnover of the Company and its subsidiaries increased from RMB54.968 billion to RMB223.525 billion, representing an increase of 3.1 times in a decade; the net profit increased from RMB1.451 billion to RMB10.558 billion, representing an increase of 6.3 times in a decade, and the return on equity exceeded 20%, standing at the leading position among the international peers; and the total assets increased from RMB84.572 billion to RMB319.424 billion, representing an increase of 2.8 times in a decade. The Company has become a commercial insurance enterprise with substantial influence in the global property and casualty insurance industry.

In 2013, faced with an austere environment with intensifying competition in the property and casualty insurance market and frequent serious natural disasters and accidents, the Company achieved a steady growth and maintained the good development momentum brought by the past several years by focusing on value creation and through hard working and persistence.

The Company's premium income maintained a relatively rapid growth. In 2013, the Company and its subsidiaries achieved a turnover of RMB223.525 billion, representing a year-on-year increase of RMB30.038 billion or 15.5%. The increment in premium income of the Company stayed at the 1st place in the industry, representing a new record high of the growth rate in the recent three years and accounting for a market share of 34.4%, further reinforcing the Company's leading position in the market.

The Company's operating performance steadily increased. In 2013, against an increasing underwriting profit pressure in the property and casualty insurance industry, the Company, through enhanced cost control and delicacy management, achieved a combined ratio of 96.7%, representing its operating performance continuously outperforming the average industry performance, with a significant increase in the percentage contribution of underwriting profit among industry peers. In 2013, the Company and its subsidiaries achieved a net profit of RMB10.558 billion and a return on equity of 20.5%, maintaining its leading position in the industry worldwide.

The Company's comprehensive strengths were evidently enhanced. As at the end of 2013, the total assets of the Company and its subsidiaries reached RMB319.424 billion, representing an increase of RMB29.000 billion as compared to the beginning of this year; and the total equity reached RMB57.504 billion, representing an increase of RMB12.054 billion as compared to the beginning of this year. The capital strength was further enhanced, with a solvency margin ratio of 180%, maintaining the Adequate Solvency II level. In 2013, the Company ranked 39th in the "Top 100 Comprehensive Strengths" in the Top 100 Hong Kong–listed Companies ranking, 11 places higher than that in 2012; and the Company has, for six consecutive years, been assigned with a rating of A1 by Moody's Investors Service, which is the highest financial strength rating for non-policy guided financial institutions in mainland China.

The Company's quality and structure of development were continuously optimised. The Company strove towards customer-oriented transformation. In 2013, the renewal rate of the commercial auto insurance sector reached 71%, representing a year-on-year increase of 1.6 percentage points; through continuous enhancement in business marketing among individual customers, the percentages of contribution to premium income by group and individual customers were 45.3% and 54.7% respectively; and tele-marketing and online sales achieved a robust growth with a premium income amounting to RMB40.85 billion, representing a year-on-year increase of 45.4%, further reinforcing the Company's market leading position.

In 2014, with the deepening reform as the driving force, China has the foundation and conditions for maintaining a medium-high rate of economic growth and the giant ship of China's economy is expected to sail smoothly, which will set up a fundamental external environment conducive to the stable growth of the insurance industry. In particular, as the construction of modern urbanisation gradually proceeds, this will form a huge domestic demand for insurance products relating to people's livelihood and social construction, such as catastrophe insurance, agriculture insurance, liability insurance, critical illness insurance and health insurance. Along with the transformation of the government's functions, new development opportunities will emerge from the marketisation of the public services. All of these will provide enormous space for the business development of the Company.

In 2014, guided and supported by PICC Group's overall development strategy, the Company will firmly adhere to its key principles of "deepening the reform and innovation, maintaining a steady growth and focusing more on value creation", press forward the establishment of the customer-oriented integrated operational model, and drive the Company's reform and development to a new stage, by stimulating internal vitality through the reinforcement in construction of units at the basic level, pushing forward development and transformation, and focusing on the enhancement of business quality and operating performance.

Wu Yan
Chairman

Beijing, the PRC
28 March 2014

DIRECTORS

Wu Yan, aged 53, 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.

Guo Shengchen, aged 58, a university graduate, a senior economist, Vice Chairman of the Board of Directors, an Executive Director and the President of the Company. Mr Guo joined The People's Insurance Company of China ("PICC") in 1984 and was previously the Assistant General Manager, Deputy General Manager and General Manager of PICC Beijing Branch, and a Vice President of the Company. He has 40 years of operation and management experience in the PRC financial and insurance industries.

Wang Yincheng, aged 53, Ph.D, a senior accountant, a Non-executive Director of the Company, Vice Chairman of the Board of Directors, an Executive Director and the 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 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, Vice Chairman of the Board of Directors and President of the Company. Mr Wang was an Executive Director of the Company from July 2003 to 4 December 2013. Mr Wang graduated from Zhongnan University of Economics and Law with a doctorate degree in economics. He has 32 years of operation and management experience in the PRC insurance industry.

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

Zhou Shurui, aged 60, a senior administrative engineer, a Non-executive Director of the Company. 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 and a Vice President of PICC Group*. Mr Zhou graduated from Hebei Normal University with a college diploma and a bachelor's degree, and completed the postgraduate program in banking at the Central University of Finance and Economics. He has 32 years of experience in management.

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

Yu Xiaoping, aged 57, a senior economist, a Non-executive Director of the Company, currently a Vice President 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, Deputy Director of the International Finance Bureau, President of the Wuhan Branch and President of the Shenzhen Branch of China Development Bank, and the Chief Investment Officer of PICC Group*. Ms Yu graduated from Shanghai Tongji University with a bachelor's degree and has 32 years of operation and management experience in the PRC financial sector.

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

Li Tao, aged 48, 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 previously 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 graduated from the Party School of the Central Committee of the Communist Party of China with a doctorate degree in economics in 1998. He has 29 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 76, 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 in Social Sciences. Mr Tse also 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 53 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.

Wang He, aged 56, 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 26 years of operation and management experience in the PRC insurance industry.

Luk Kin Yu, Peter, aged 73, an Independent Non-executive Director of the Company. Mr Luk is a fellow member of the Institute of Actuaries in England, the Institute of Actuaries of Australia and the Society of Actuaries in the United States of America, respectively. Mr Luk was previously the Chief Actuary of American International Assurance Company, Limited, the Chief Financial Officer of the Pacific-Asia Division of Manufacturers Life Insurance Co. Ltd., the Appointed Actuary of Australian Casualty and Life Insurance Co. Ltd., the Principal Actuary of Mercer, Campbell, Cook & Knight, and an Executive Director and the Chief Financial Officer of Pacific Century Insurance Holdings Limited. Mr Luk was the President of the Actuarial Society of Hong Kong when it was founded and the President of that society for several sessions. Mr Luk was a member of the Advisory Committee of Insurance, Financial and Actuarial Analysis of The Chinese University of Hong Kong and the Chairman of the Advisory Committee of the Department of Mathematics of City University of Hong Kong. He is the Chief Executive Officer of Plan-B Consulting Limited, an Independent Non-executive Director of HSBC Life Insurance (International) Limited and HSBC Insurance (Asia) Limited and an Independent Non-executive Director of PICC Group*. Mr Luk has substantial experience in the insurance industry.

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

Ding Ningning, aged 66, 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 Director of the China Development Research Foundation, a Director of the China Energy Research Society, a Director of the China International Association for Urban and Rural Development and an Independent Non-executive Director of Huabao International Holdings Limited*. Mr Ding has been conducting research at the DRC for 32 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.

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

Liao Li, aged 47, 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 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.

Lin Hanchuan, aged 65, 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.*. He has received over 20 awards at or above provincial and ministerial level such as 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

Wang Yueshu, aged 59, a postgraduate, a senior economist, Secretary of the Commission for Discipline Inspection of the Company, Chairman of the Supervisory Committee of the Company since November 2013. 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, a Vice President of PICC Health Insurance Company Limited, and the Responsible Compliance Officer and the Responsible Auditing Officer of the Company. Mr Wang has 35 years of operation and management experience in the PRC insurance industry.

Sheng Hetai, aged 43, 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*, the Chairman of the Board of Directors of Zhongsheng International Insurance Brokers Co., Ltd., China Insurance Brokers Co., Ltd. and Prime Insurance Brokers Company Limited. 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 17 years of management experience in the PRC insurance industry.

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

Lu Zhengfei, aged 51, 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, an Executive Director and a member of the Academic Committee of the Chinese Accounting Association, an Executive Director of the Chinese Audit Association, a Director of the Chinese Tax Institute and a Director of China Cost Research Society. 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., MIT AUTOMOBILE SERVICE COMPANY LIMITED and Bank of China 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.
** This company is listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange.

Qu Yonghuan, aged 58, 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 31 years of extensive experience in insurance operation and management both in and outside the PRC.

Shen Ruiguo, aged 57, 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 30 years of operation and management experience in the PRC insurance industry.

OTHER SENIOR MANAGEMENT

Jia Haimao, aged 60, 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 30 years of operation and management experience in the PRC insurance industry.

Yun Zhen, aged 56, a university graduate, a senior economist, an Executive Vice President of the Company. Mr Yun joined PICC in 1985 and was previously the Deputy General Manager and General Manager of PICC Hohhot Central Sub-branch, Deputy General Manager and General Manager of Inner Mongolia Branch of the Company, General Manager of Shandong Provincial Branch of the Company and a Vice President of PICC Life Insurance Company Limited. Mr Yun has 29 years of operation and management experience in the PRC insurance industry.

Wang Dedi, aged 56, 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 22 years of operation and management experience in the PRC insurance industry.

Jiang Caishi, aged 48, Ph.D, a senior economist, 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 26 years of operation and management experience in the PRC insurance industry.

Lin Zhiyong, aged 50, a postgraduate, a 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 33 years of operation and management experience in the PRC insurance industry.

Xie Xiaoyu, aged 52, a postgraduate, an associate researcher, an Executive Vice President of the Company. Ms Xie joined the Company in 2013 and was previously the Deputy Director and Director of the News and Publication Division and Director of the Legal Affairs and Publicity Division of the Department of Human Resources, Labor, Policies and Regulations under the State Administration of Traditional Chinese Medicine of the PRC, Director of the Secretariat Division and the Deputy Director-General of the Department of Drug Registration under the China Drug Administration, Deputy Director-General of the Department of Drug Registration, Deputy Director-General of the Department of Food Safety Supervision and Deputy Director-General of the Department of Food Licensing under the China Food and Drug Administration, Director of the Division of Essential Medicine System of the Department of Medicine Policy and Essential Medicine System under the Ministry of Health of the PRC, and the Chief Operation Officer of Health Management and a Vice President of PICC Health Insurance Company Limited. Ms Xie has 22 years of extensive experience in management.

Zhang Xiaoli, aged 49, a postgraduate, a Master, an Executive Vice President, Secretary of the Board of Directors, the Responsible Compliance Officer, the Responsible Auditing Officer, concurrently 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 China Europe International Business School with an MBA degree. Mr Zhang has 14 years of management experience in the PRC insurance industry.

Gu Wei, aged 45, a postgraduate, a Master, an Assistant to the President, Chief Claims Assessor and General Manager of the Claims Management Unit of the Company. Mr Gu joined PICC in 1995 and was previously the Manager and Assistant to the General Manager of PICC Beijing Branch, Deputy General Manager of Beijing Branch of the Company and General Manager of the Claims Management Department of the Company. Mr Gu has 19 years of operation and management experience in the PRC insurance industry.

Hua Shan, aged 50, a doctoral postgraduate, Ph.D, an Assistant to the President and General Manager of Jiangsu Provincial Branch of the Company. Mr Hua joined PICC in 1984 and was previously the Deputy General Manager of PICC Wuxi Branch, Assistant to the General Manager of PICC Jiangsu Provincial Branch, Assistant to the General Manager of Jiangsu Provincial Branch of the Company, Deputy General Manager of Jiangsu Provincial Branch and concurrently General Manager of Nanjing Branch of the Company, and General Manager of Jiangsu Provincial Branch of the Company. Mr Hua has 30 years of operation and management experience in the PRC insurance industry.

Shen Dong, aged 45, a university graduate, a senior accountant, the Responsible Financial Officer, the Chief Accountant and 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 22 years of financial management experience in the PRC insurance industry.

OVERVIEW

In 2013, by taking initiatives to cope with adverse factors such as complex economic situation and market conditions and major natural disasters and through vigorously promoting its customer-oriented transformation, the Company maintained a sustainable growth in its traditional competitive business, achieved a sound and rapid development of its emerging business, and maintained market leading position in terms of the profitability of its underwriting business. The Company also achieved steady growth in its assets scale, gained significant enhancement of its comprehensive strengths, and hit another historical record high in its operating results.

- **Continuous and relatively rapid growth in business scale, overall stable market share and continuous maintaining of market leading position.** In 2013, the turnover of the Company and its subsidiaries reached RMB223,525 million, representing a year-on-year increase of 15.5%. The development of its business kept pace with the market and its growth rate was the highest in the recent three years. In particular, the turnover of the motor vehicle insurance segment amounted to RMB163,276 million, representing a year-on-year increase of 15.2%, and the turnover of the non-motor vehicle insurance business amounted to RMB60,249 million, representing a year-on-year increase of 16.5%. Its market share, which accounted for 34.4% *(Note)* in the PRC property and casualty insurance market, was basically kept at a stable level and the Company continuously maintained its market leading position.

  Note: Calculated based on the PRC insurance industry data for 2013 published on the website of the CIRC.

- **Positive interaction between underwriting and investment and maintaining of relatively strong profitability.** In 2013, the Company and its subsidiaries achieved a combined ratio of 96.7%, continuously outperforming the market. Due to the frequent major catastrophes, such as typhoons and storms, the underwriting profit for the Year was RMB5,960 million, representing a year-on-year decrease of 21.4%, while the total investment income reached RMB9,674 million, representing a year-on-year increase of 28.3%, which formed a profitable development pattern featuring positive interaction between underwriting and investment. The Company and its subsidiaries achieved a net profit of RMB10,558 million, representing a new historical record in its operating results, and a return on equity of 20.5%, thus maintaining its industry leading position.

- **Steady growth in assets scale and significant enhancement in comprehensive strengths.** As at the end of 2013, the total assets of the Company and its subsidiaries reached RMB319,424 million, representing an increase of 10.0% compared to the end of 2012. The Company raised RMB5,754 million through a rights issue, and the shareholders' equity totalled RMB57,504 million, representing an increase of 26.5% compared to the end of 2012. The total amount of investment assets grew steadily, reaching RMB239,490 million. The solvency margin ratio was 180%, representing an increase of 5 percentage points compared to the end of 2012, maintaining the Adequate Solvency II level.

In 2013, with "maintaining a solid growth and emphasising value creation" as its main keynote and guided by its new era development strategy, the Company intensified its efforts on business expansion, refined its sales and marketing network system, enhanced its services quality, improved its operational efficiency and strengthened its risk control capability. The Company continuously made new progresses in its transformation and development, and achieved good momentum with balanced development in terms of scale, quality and profitability.

(I) Keeping abreast of market demands and serving the overall economic development

The Company considered serving the overall economic and social development as its own duty and continuously strove towards meeting the increasing demand of the insurance market through working diligently, developing its potentials and tapping into new markets. The Company continuously strengthened its leading position in motor vehicle insurance business by improving its process management of renewed and transferred-in auto insurance business and its management model on new auto policies sold through auto dealers, establishing a management system for group and individual motor vehicle insurance business, and proactively promoting the transformation from insurance policy management to customer lifecycle management. By seizing the opportunities arising from government policies, strengthening its cooperation with the government, deepening the exploration of potentials in agriculture insurance, promoting of agriculture-related insurance, setting up a health insurance management center, and implementing specialised operation and management and close-end operation of critical illness insurance, the Company effectively expanded the service coverage of policy-supported business. Further, the Company developed prospective business opportunities, such as actively developing new types of liability insurance, seeking first-mover advantage to develop short-term export credit insurance and domestic trade credit insurance to serve the national "Go global" strategy, and expanding its overseas business to continuously enlarge its service areas. Through a series of differentiated market development initiatives, the Company effectively promoted the steady growth of its business while at the same time consolidated its leading position in the market.

(II) Improving network of channels and refining sales and marketing system

By taking the customers' demand as guidance, improving its network of sales channels, and strengthening its sales channels interaction and synergies, the Company focused on the establishment of a comprehensive and broad coverage sales and marketing system. Such measures included deepening the segmentation of sales channels, implementation of differentiated operations, active development of tele-marketing and online sales, expansion of headquarters to headquarters sales cooperation, improvement of the specialisation of the marketing team construction and strengthening cross-interaction on marketing within the Group. Through such measures, the competitive advantages of the Company's sales channels development were gradually realised and the production capacity of channels was gradually released. By enhancing the strategic synergies between products and channels and developing tailored products specific to different sales channels, the Company had remarkable achievement on integrated sales and marketing and realised steady increases in the penetration rates of the Company's products and customers. Through transforming its outlets in downtown areas and setting up new community outlets, the Company enhanced the building up of its network layout in urban areas. By implementing a vertical structure comprising "township-level stations – administrative village insurance service outlets – part-time insurance workers", the Company further reinforced the foundation of its insurance sales and services to serve "agriculture , rural areas and farmers". The establishment of the improved sales and marketing network will provide an important platform for the Company to upgrade its services and improve customers' experience.

(III) Implementing services innovation and enhancing services quality

The Company deepened its transformation of services and reinforced the building of its customer service system. The levels of customers' experience and satisfaction were continuously increased through measures such as further establishment and enhancement of standardisation and differentiation of services, management of customers by different levels, improvement of the customers club and customers' credit system, and reinforcement of effective interaction between the Company and its customers. Through strengthening of the closed-loop quality management of services, improvement of service quality monitoring system, continuing adoption of service efficiency evaluation and third party customer satisfaction survey, and the launching of anonymous appraisal, the Company achieved effective communication and implementation of its service winning strategy. The Company persistently strengthened its claim settlement services by continuously upgrading its commitment on claim settlement and by building a "fast and economical" service brand on claim settlement services. With vigorous and efficient catastrophe claim settlement work, the Company received positive feedback from the customers and enhancement of its brand reputation.

(IV) Upgrading operational management and reinforcing risk control

By focusing on the key steps in the insurance operational value chain, the Company continuously promoted management upgrading and realised steady enhancement of its operational efficiency, value creation and risk control capabilities. By relying on the bulk data technology, the Company proceeded towards the construction of a marketing management platform based on an integrated view of customers and a customers' master database system to lay a solid foundation for the implementation of precise marketing. The Company further enhanced its underwriting risk identification and pricing capability through innovative system applications, strengthened rigid price control and dynamic and differential authorisation, and promoted the transformation of its underwriting verification system from administrative management model to professional management model. The operational efficiency of the Company's claim settlement experienced overall enhancement through further strengthening of the vertical claim settlement model, the building up of the professional claim settlement team, and improvement of the claim and recovery mechanism and claim auditing system. The Company strengthened its cost management capability by restructuring the overall budget management system, improving the financial resources allocation, and optimising internal accountability mechanism and financial procedures through standardisation, instrumentalisation and systemisation. New charging and payment system was put in place and the capital management system was improved to effectively control the capital risk and increase the capital concentration. Through integrating and streamlining the Company's internal procedures, identification of the key areas of risk control and accountability framework, and the establishment of an interactive mechanism amongst internal audit, external inspection and accountability system, the Company further enhanced its comprehensive risk management system.

In 2013, the Company ranked 39th in the "Top 100 Comprehensive Strengths" in the Top 100 Hong Kong-listed Companies ranking in 2013, 11 places higher than that in 2012. We had been assigned with a rating of A1 by Moody's Investors Service for six consecutive years, which is the highest financial strength rating for non-policy guided financial institutions in mainland China. The Company was also awarded a number of honours including "2013 Financial Institution with Superior Competitiveness and Social Responsibility", "2013 Outstanding Chinese Enterprise in Social Responsibility", "Most Influential Insurance Brand of the Year" and "2013 Best Non-life Insurance Company in Asia".

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			
	2013		2012	
	RMB million	*%*	*RMB million*	*%*
Net premiums earned	182,546	100.0	155,304	100.0
Net claims incurred	(120,902)	(66.2)	(98,722)	(63.6)
Total expenses	(55,684)	(30.5)	(49,001)	(31.5)
Underwriting profit	5,960	3.3	7,581	4.9

TURNOVER

	Year ended 31 December	
	2013	2012
	RMB million	*RMB million*
Motor vehicle insurance	163,276	141,755
Commercial property insurance	12,581	12,256
Accidental injury and health insurance	9,934	6,484
Liability insurance	8,446	7,364
Cargo insurance	3,664	3,838
Other insurance	25,624	21,790
Total	223,525	193,487

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

	Year ended 31 December			
	2013		2012	
	Amount *RMB million*	Percentage *%*	Amount *RMB million*	Percentage *%*
Insurance agents	133,962	60.0	124,389	64.5
Individual insurance agents	72,835	32.6	69,279	35.9
Ancillary insurance agents	49,505	22.2	45,729	23.7
Professional insurance agents	11,622	5.2	9,381	4.9
Direct sales	76,843	34.5	57,599	29.8
Insurance brokers	12,200	5.5	11,030	5.7
Total	223,005	100.0	193,018	100.0

Turnover of the Company and its subsidiaries was RMB223,525 million in 2013, representing an increase of RMB30,038 million (or 15.5%) from RMB193,487 million in 2012. The overall steady business growth was largely driven by the development of motor vehicle insurance, accidental injury and health insurance and agriculture insurance business, and the relatively rapid growth of the credit and surety insurance, liability insurance, construction insurance and homeowners insurance business was also an important factor driving the increase in turnover. Amongst these segments:

Turnover of the motor vehicle insurance segment was RMB163,276 million, representing an increase of RMB21,521 million (or 15.2%) from RMB141,755 million in 2012. With the slight recovery of the domestic motor vehicle market in the PRC, the Company continued to implement progressive marketing strategies. On one hand, the Company seized the market opportunities and made great efforts to increase its shares in the new auto market. On the other hand, the Company pressed ahead with the renewal and bidding back of the existing policies. The comprehensive development of new, transferred-in and renewed auto insurance business effectively drove the growth of the motor vehicle insurance business.

Turnover of the commercial property insurance segment was RMB12,581 million, representing an increase of RMB325 million (or 2.7%) from RMB12,256 million in 2012. The Company proactively coped with the unfavourable external environment. In the situation of dropping premium rates, the Company strove to explore potential markets and achieved a steady growth of the commercial property insurance business by raising the underwriting business volumes.

Turnover of the accidental injury and health insurance segment was RMB9,934 million, representing an increase of RMB3,450 million (or 53.2%) from RMB6,484 million in 2012. On one hand, the Company fully utilised its own channels and client resources and developed synergies between products and channels to pursue a steady development of its accidental insurance business for construction projects, borrowers, motor vehicle drivers and passengers, and school children and young children. On the other hand, to serve the national medical and healthcare system reform, the Company established a health insurance management center and adopted specialised management and operation and close-end operation of critical illness insurance. The Company made full use of its competitive strengths in brand, services and networks to achieve a rapid development of the health insurance business.

Turnover of the liability insurance segment was RMB8,446 million, representing an increase of RMB1,082 million (or 14.7%) from RMB7,364 million in 2012. The Company implemented the differentiated allocation strategy, stepped up inputs into the high-quality, high-end personal liability insurance business and strengthened the development of traditional and emerging markets of employer, medical, personal, extended warranty, natural disaster and environmental pollution liability insurance. These effectively drove a relatively rapid growth of the liability insurance business.

Turnover of the cargo insurance segment was RMB3,664 million, representing a decrease of RMB174 million (or -4.5%) from RMB3,838 million in 2012. The traditional cargo insurance business was reduced as a result of the international economic condition and the structural change in the domestic economy, in particular the fall of the production capacity of large industrial enterprises in the steel and machinery industries. Meanwhile, the premium rates declined significantly as a result of the intensified market competition. In the face of the unfavorable business environment, the Company vigorously developed products such as carry-on baggage insurance to slow down the decline in the turnover of the cargo insurance segment.

Turnover of the other insurance segment was RMB25,624 million, representing an increase of RMB3,834 million (or 17.6%) from RMB21,790 million in 2012. The Company made use of the construction of the insurance service network and the sales and service platform at the basic level for agriculture, rural areas and farmers and introduced scientific and technological innovations to strengthen the delicacy management of the traditional competitive business lines. The Company also launched new types of insurance on a pilot basis such as insurance with premiums subsidised by commodity price adjustment fund, price index insurance and rice paddy production insurance to drive the increase in the turnover of the agriculture insurance business. In respect of the credit and surety insurance business, the Company expanded the business channels, improved the business model of channel differentiation, stepped up efforts to exploit the traditional business with competitive edges, explored the development of emerging business and vigorously upgraded the service quality, resulting in a rapid growth in the turnover of the credit and surety insurance business.

NET PREMIUMS EARNED

	Year ended 31 December	
	2013	2012
	RMB million	*RMB million*
Motor vehicle insurance	**141,810**	121,725
Commercial property insurance	**7,818**	7,544
Accidental injury and health insurance	**7,520**	4,367
Liability insurance	**6,189**	5,403
Cargo insurance	**2,474**	2,652
Other insurance	**16,735**	13,613
Total	**182,546**	155,304

Net premiums earned of the Company and its subsidiaries were RMB182,546 million in 2013, representing an increase of RMB27,242 million (or 17.5%) from RMB155,304 million in 2012.

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			
	2013		2012	
	Net claims incurred *RMB million*	Loss ratio *%*	Net claims incurred *RMB million*	Loss ratio *%*
Motor vehicle insurance	(94,486)	(66.6)	(78,446)	(64.4)
Commercial property insurance	(5,734)	(73.3)	(4,820)	(63.9)
Accidental injury and health insurance	(5,441)	(72.4)	(2,729)	(62.5)
Liability insurance	(3,343)	(54.0)	(2,995)	(55.4)
Cargo insurance	(1,006)	(40.7)	(972)	(36.7)
Other insurance	(10,892)	(65.1)	(8,760)	(64.4)
Total	(120,902)	(66.2)	(98,722)	(63.6)

Net claims incurred of the Company and its subsidiaries in 2013 were RMB120,902 million, representing an increase of RMB22,180 million (or 22.5%) from RMB98,722 million in 2012. The loss ratio was 66.2%, increased by 2.6 percentage points from 63.6% in 2012. Due to the domestic and foreign macroeconomic trends, extraordinary serious natural disasters and its own business structure, and other than liability insurance, construction insurance, marine hull insurance and special risk insurance, the loss ratios of all other insurances increased to different extent. Amongst these segments:

Net claims incurred of the motor vehicle insurance segment were RMB94,486 million, representing an increase of RMB16,040 million (or 20.4%) from RMB78,446 million in 2012. The loss ratio increased by 2.2 percentage points from 64.4% in 2012 to 66.6% in 2013. On one hand, the claim costs increased due to the growing claim ratio of the motor vehicle insurance caused by frequent significant disasters, the regular price adjustment in the after-sale auto fittings market, the sharp increase in the prices of auto spare parts and manpower costs in auto maintenance and repairs, and the raise of the personal injury compensation standards; on the other hand, with the continuous increase in the contribution of premiums written from new channels to the overall premiums of the motor vehicle insurance segment of the Company and the increasing discount rates resulting therefrom, both the premium rates and the premium adequacy ratio decreased. Due to the above-mentioned reasons, the loss ratio of the motor vehicle insurance segment increased.

Net claims incurred of the commercial property insurance segment were RMB5,734 million, representing an increase of RMB914 million (or 19.0%) from RMB4,820 million in 2012. The loss ratio increased by 9.4 percentage points from 63.9% in 2012 to 73.3% in 2013. The loss ratio of the commercial property insurance segment in 2013 was significantly affected by frequent natural disasters such as "Typhoon Fitow", "Typhoon Utor" and "Typhoon Usagi" and the catastrophic rainstorms in some provinces.

Net claims incurred of the accidental injury and health insurance segment were RMB5,441 million, representing an increase of RMB2,712 million (or 99.4%) from RMB2,729 million in 2012. The loss ratio increased by 9.9 percentage points from 62.5% in 2012 to 72.4% in 2013. In 2013, with the rapid expansion of the Company's critical illness insurance business for rural and urban residents, in addition to the overall growth of the health insurance segment, the overall loss ratio of the health insurance segment increased as the underwriting terms of the critical illness insurance for rural and urban residents had a broader coverage and higher protection than previous similar insurances; and the loss ratio of the accidental injury and health insurance segment was apparently on the rise when the disability compensation standards of the disability insurance were raised and the medical costs of the insured of the supplemental medical insurance also increased rapidly as compared to 2012.

Net claims incurred of the liability insurance segment were RMB3,343 million, representing an increase of RMB348 million (or 11.6%) from RMB2,995 million in 2012. The loss ratio decreased by 1.4 percentage points from 55.4% in 2012 to 54.0% in 2013. The Company further improved the business structure and lowered the loss ratio through enhancing the control on the underwriting of the liability insurance and increasing investments in high-end and good quality individual business.

Net claims incurred of the cargo insurance segment were RMB1,006 million, representing an increase of RMB34 million (or 3.5%) from RMB972 million in 2012. The loss ratio increased by 4.0 percentage points from 36.7% in 2012 to 40.7% in 2013.

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			
	2013		2012	
	Total expenses *RMB million*	Expense ratio *%*	Total expenses *RMB million*	Expense ratio *%*
Motor vehicle insurance	**(44,255)**	**(31.2)**	(38,763)	(31.8)
Commercial property insurance	**(3,001)**	**(38.4)**	(2,607)	(34.6)
Accidental injury and health insurance	**(1,771)**	**(23.6)**	(1,445)	(33.1)
Liability insurance	**(2,150)**	**(34.7)**	(1,974)	(36.5)
Cargo insurance	**(655)**	**(26.5)**	(1,056)	(39.8)
Other insurance	**(3,852)**	**(23.0)**	(3,156)	(23.2)
Total	**(55,684)**	**(30.5)**	(49,001)	(31.5)

Total expenses of the Company and its subsidiaries were RMB55,684 million in 2013, increased by RMB6,683 million from RMB49,001 million in 2012, with the expense ratio decreased by 1.0 percentage point from 31.5% in 2012 to 30.5% in 2013. The Company took initiatives to implement the relevant requirements under the "eight-point code" of the central government, thoroughly advocated thrift among its headquarters and branches, rebuilt a comprehensive budget management system, refined the cost and expense management rules, and exerted its advantages in centralised procurement, thereby significantly improving its cost management and control capability and contributing to a decrease in administrative expense ratio compared to last year. The Company continued implementing its established underwriting strategies, intensified its efforts in the differentiated allocation of sales expenses, vigorously pushed forward the construction of the sales network system, developed new sales channels and gradually released the production capacity of channels, all of which resulted in a decrease in the underwriting-related expense ratio.

UNDERWRITING PROFIT

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

	Year ended 31 December			
	2013		2012	
	Underwriting profit/(loss)	Underwriting profit/(loss) ratio	Underwriting profit	Underwriting profit ratio
	RMB million	*%*	*RMB million*	*%*
Motor vehicle insurance	3,069	2.2	4,516	3.8
Commercial property insurance	(917)	(11.7)	117	1.5
Accidental injury and health insurance	308	4.0	193	4.4
Liability insurance	696	11.3	434	8.1
Cargo insurance	813	32.8	624	23.5
Other insurance	1,991	11.9	1,697	12.4
Total	5,960	3.3	7,581	4.9

Mainly due to the increase in the claim costs, the Company and its subsidiaries recorded an underwriting profit of RMB5,960 million in 2013, representing a decrease of RMB1,621 million (or -21.4%) from RMB7,581 million in 2012; and the underwriting profit ratio was 3.3%, decreased by 1.6 percentage points from 4.9% in 2012.

INVESTMENT RESULTS

Composition of Investment Assets

	31 December 2013		31 December 2012	
	Balance	Percentage	Balance	Percentage
	RMB million	*%*	*RMB million*	*%*
By category:				
Cash and cash equivalents	16,272	6.8	12,890	5.9
Term deposits	63,485	26.5	53,130	24.5
Debt securities	105,682	44.1	97,148	44.8
Equity securities	28,964	12.1	35,055	16.1
Subordinated debts, debt investment plans and trust products	12,910	5.4	8,000	3.7
Investment properties	4,591	1.9	4,538	2.1
Investment in associates	3,973	1.7	2,584	1.2
Other investment assets *(Note)*	3,613	1.5	3,655	1.7
Total investment assets	239,490	100.0	217,000	100.0

Note: Other investment assets mainly included derivative financial assets and capital security fund.

In 2013, 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 RMB22,490 million (or 10.4%) on a year-on-year basis. While increasing the overall size of the investment assets, the Company timely adjusted the investment product mix based on the operational rules 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 2013, the Company increased its investments in negotiated deposits, financial assets purchased under resale agreements, debt investment plans and trust products which had high credit ratings and were of good quality, reduced investment in equity securities and moderately adjusted the duration of debt securities assets, thereby bringing a stable income to the Company on the basis of risk control.

On 28 January 2013, the Company entered into an agreement to increase the share capital in PICC Life with an amount of approximately RMB485 million. Upon completion of this capital increase, the shareholding of the Company in PICC Life remained unchanged, representing 8.615% of the enlarged issued share capital of PICC Life.

On 28 April 2013, the Company entered into an agreement with Aerospace Investment to acquire 16.835% of the equity interest in Aerospace Investment for a consideration of RMB2,000 million. The Company paid up its entire capital contribution on 10 October 2013. The Company accounted for its interest in Aerospace Investment as an investment in an associate as the Company has representatives on the board of directors and the supervisory committee of Aerospace Investment.

On 9 December 2013, the Company entered into a transfer agreement with PICC Group to sell its 30.41% equity interest in No. 88 Development Company for a consideration of approximately RMB1,115 million. Upon completion of the transfer, the Company no longer held any equity interest in No. 88 Development Company.

Investment Income

	Year ended 31 December	
	2013	2012
	RMB million	*RMB million*
Rental income from investment properties	**205**	194
Interest income	**8,755**	7,547
Dividend income	**979**	646
Total of investment income	**9,939**	8,387

Investment income of the Company and its subsidiaries was RMB9,939 million in 2013, representing an increase of RMB1,552 million (or 18.5%) from RMB8,387 million in 2012. The Company adopted a prudent and sound investment strategy and increased its investments in securities purchased under resale agreements and negotiated deposits which offered a stable return, and its interest income increased by RMB1,208 million (or 16.0%) on a year-on-year basis. As the regulatory authorities continued to improve the dividend distribution mechanism of listed companies, the dividend income increased by RMB333 million (or 51.5%) compared to last year as a result of the increase in the dividends from equity investments by the Company in domestic listed companies.

Net Realised and Unrealised Losses on Investments

	Year ended 31 December	
	2013	2012
	RMB million	*RMB million*
Realised gains/(losses) on investments	**871**	(19)
Unrealised (losses)/gains on investments	**(19)**	340
Impairment losses	**(1,344)**	(1,350)
Fair value gains on investment properties	**150**	116
Total of net realised and unrealised losses on investments	**(342)**	(913)

In 2013, the Company actively seized the operating opportunities in the market, timely reduced investment in equity securities and adjusted equity investment portfolio, and achieved RMB871 million in realised gains on investments, representing an increase of RMB890 million from realised losses on investments in 2012. Meanwhile, the fluctuation of the interest rates in the bonds market led to a decline in the fair value of bonds and bond funds, and the unrealised gains on investments decreased by RMB359 million from a gain of RMB340 million in 2012 to a loss of RMB19 million in 2013. In total, net realised and unrealised losses on investments decreased by RMB571 million (or 62.5%) compared to last year.

OVERALL RESULTS

	Year ended 31 December	
	2013	2012
	RMB million	*RMB million*
Profit before tax	13,439	13,349
Income tax expense	(2,881)	(2,944)
Profit attributable to owners of the parent	10,558	10,405
Total assets *(Note)*	319,424	290,424

Note: Based on the data as at 31 December 2013 and 31 December 2012.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB13,439 million in 2013, representing an increase of RMB90 million from RMB13,349 million in 2012.

INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB2,881 million in 2013, representing a decrease of RMB63 million from RMB2,944 million in 2012, basically in line with 2012.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the foregoing, there was a stable increase in the overall profit of the Company and its subsidiaries in 2013, and the net profit increased by RMB153 million from RMB10,405 million in 2012 to RMB10,558 million in 2013. Basic earnings per share attributable to owners of the parent in 2013 was RMB0.794.

CASH FLOWS

	Year ended 31 December	
	2013	2012
	RMB million	*RMB million*
Net cash flows from operating activities	22,297	9,897
Net cash flows used in investing activities	(14,405)	(16,670)
Net cash flows (used in)/from financing activities	(4,510)	5,528
Net increase/(decrease) in cash and cash equivalents	3,382	(1,245)

In 2013, the net cash flows from operating activities of the Company and its subsidiaries amounted to RMB22,297 million, representing an increase of RMB12,400 million from RMB9,897 million in 2012. Influenced by the decrease in cession ratio and the reinsurance settlement periods, the net cash flows used in outward reinsurance business in 2013 decreased by RMB8,773 million compared to last year, significantly contributing to the increase in the Company's cash flows from operating activities.

In 2013, the net cash flows used in investing activities of the Company and its subsidiaries were RMB14,405 million, decreased by RMB2,265 million compared to 2012. In particular, the net cash flows used in the debt and equity securities decreased by RMB4,521 million, and the net cash flows used in the investments in associates increased by RMB1,360 million.

In 2013, the net cash flows used in financing activities of the Company and its subsidiaries were RMB4,510 million, representing a decrease of RMB10,038 million compared to the net cash inflows in 2012. The decline in net cash flows from financing activities was primarily due to the increase of RMB15,090 million in cash payment for investments in securities sold under agreements to repurchase, which offset the cash inflow of RMB5,754 million raised by the Company through a rights issue.

As at 31 December 2013, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB16,272 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 incomes, 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.

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

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

CAPITAL EXPENDITURES

The capital expenditures of the Company and its subsidiaries primarily include expenditures for operational properties under construction and acquisition of motor vehicles for operational purposes as well as development of the information system. Capital expenditures of the Company and its subsidiaries were RMB1,972 million in 2013.

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 RMB28,867 million on 31 December 2013. The Company's actual solvency margin calculated pursuant to the regulations of the CIRC was RMB52,026 million and the solvency margin ratio was 180% *(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 at 31 December 2013, the gearing ratio *(Note)* of the Company and its subsidiaries was 75.9%, representing a decrease of 1.8 percentage points from 77.7% as at 31 December 2012.

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 EVENT

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. Most of such legal proceedings 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.

There were certain pending legal proceedings for the Company and its subsidiaries in 2013. After considering professional opinions, the management of Company and its subsidiaries are of the view that such legal proceedings will not bring material losses to the Company and its subsidiaries.

EVENTS AFTER THE REPORTING PERIOD

On 20 February 2014, the Board of Directors approved the issue of a ten-year subordinated term debts with an aggregate principal amount of not exceeding RMB11 billion. The terms and conditions of such issue, including the issue date, issue size and interest rates, will be determined by the Board of Directors after taking into account the market conditions and all other relevant factors. The issue of this subordinated term debts is subject to the approval of shareholders' general meeting of the Company, the CIRC and other relevant governing authorities.

On 28 March 2014, the Board of Directors proposed that 55% of the net profit of the Company for 2013 amounting to RMB5,799 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 PRC laws and regulations. Such proposal for the appropriation to the discretionary surplus reserve is subject to the approval of shareholders' general meeting of the Company.

On 28 March 2014, the Board of Directors proposed the payment of a final dividend of RMB0.221 per share (inclusive of applicable tax) for 2013. Such proposal for the payment of the Final Dividend is subject to the approval of shareholders' general meeting of the Company.

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 mainly by analysing the creditworthiness of investee companies prior to making investments and by strictly conforming to the regulations issued by the CIRC on the ratings of corporate bonds invested by insurance companies. The majority of the corporate bonds held by the Company and its subsidiaries have credit ratings of AA or above.

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 and 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/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, re-price interest on floating rate instruments at intervals of less than one year, and manage floating interest rate risk through such means as 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 at 31 December 2013, the interest rate swap contracts held by the Company had an aggregate notional amount of RMB1,630 million.

DEVELOPMENT OF NEW PRODUCTS

In 2013, the Company intensively focused on the hot spots of the market and the needs of clients and submitted a total of 1,725 insurance provisions and premium rates to the insurance regulatory authority for approval and filing, which consisted of 918 national provisions and premium rates and 807 regional provisions and premium rates, as well as 707 main insurance provisions and premium rates and 1,018 rider provisions and premium rates. As at 31 December 2013, the Company had 6,394 insurance provisions in use and operation, including 4,406 national provisions and 1,988 regional provisions.

EMPLOYEES

As at the end of 2013, the Company had 160,190 employees (among which 64,539 employees signed labour contracts with the Company's headquarters). Staff remuneration payment by the Company and its subsidiaries in 2013 was RMB20,203 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

In 2014, with "transformation and upgrading" as its guidance, the Company will strengthen customer-oriented top-tier design, focus on construction at the basic level, energise and increase the capabilities at the basic level, continue to consolidate the foundation for its transformation and upgrading, and maintain the full momentum of the campaign for reform and transformation. Its priorities and initiatives are:

- to implement a product innovation strategy. The Company will fulfil its social responsibility as a state-owned insurance company through making use of the opportunities brought by China's furtherance of the full-scale reform process, fully utilising its own advantages, actively developing relevant products and an ancillary mechanism for the servicing of such products;

- to implement a sales competency improvement strategy. The Company will strengthen delicacy management and the foundation for the profitable development of motor vehicle insurance business, restructure the development mode of non-motor vehicle insurance business, enhance the business development value contributed by people's livelihood enhancement business and emerging business;

- to implement an operating strategy which entails differentiated channels. The Company will strengthen the strategic collaboration among channels, establish a mechanism for the development of products distributed via channels, optimise the management mode for third-party channels, strengthen the coordination between the headquarters and branches in relation to auto dealers, promote the co-development of tele-marketing and online sales, and speed up the development of the urban and rural networks, so as to increase the overall competitiveness of the channels;

- to promote the cost leadership strategy. The Company will enhance the control over key links in the value chain, implement comprehensive multi-faceted management over areas such as business selection in underwriting, leakage and loss control in claim settlement, saving of back office costs and expenses, etc., strengthen the rigid implementation of policies and control over the implementation process, so as to ensure that the Company's combined ratio will outperform the industry;

- to promote a service capability improvement strategy. The Company will persistently focus on customers' needs, continue to optimise the service value chain, strive to change the service mode from one driven by internal management needs to one driven by external customers' needs, so as to ensure that the Company's various indicators relating to customer services will outperform the industry;

- to promote the claim settlement efficiency improvement strategy. The Company will improve the vertical claim management system, establish a mechanism for the coordination of underwriting and claim settlement work, improve the claim assistance system, give full play to the claim assistance function of the sales staff, train up a professional team, provide innovative tools, optimise the service process and increase customer satisfaction.

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, marine hull insurance, agriculture insurance, surety insurance and other insurance business in mainland China, which are denominated in RMB and foreign currencies, and the related reinsurance business as well as 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

Discussion and analysis of the operating results and financial conditions of the Company and its subsidiaries 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 2013 are set out on pages 69 to 173 of this annual report.

On 28 March 2014, the Board of Directors proposed that 55% of the profit after tax of the Company for the Year of RMB10,545 million, totalling RMB5,799 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. Meanwhile, the Board proposed the distribution of a final dividend of RMB0.221 per share (inclusive of applicable tax). Such proposals for the appropriation to the discretionary surplus reserve and the payment of the Final Dividend are both subject to the approval of the Company's shareholders at the annual general meeting to be held on 27 June 2014 (Friday). If approved, the Final Dividend is expected to be paid on or about 21 August 2014 to the shareholders whose names appear on the register of members of the Company on 9 July 2014 (Wednesday).

The Company paid an interim dividend of RMB0.243 (inclusive of applicable tax) per ordinary share for the Year on 8 November 2013.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of shareholders who are entitled to receive the Final Dividend, the register of members of the Company will be closed from 4 July 2014 (Friday) to 9 July 2014 (Wednesday), both days inclusive, during which no transfer of shares will be registered. Holders of H shares and domestic shares whose names appear on the register of members of the Company on 9 July 2014 (Wednesday) are entitled to receive the Final Dividend. In order for holders of H shares of the Company to qualify for the Final Dividend payment, all transfer documents accompanied by the relevant H share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 3 July 2014 (Thursday) for registration.

In order to determine the list of shareholders who are entitled to attend and vote at the annual general meeting of the Company to be held on 27 June 2014 (Friday), the register of members of the Company will be closed from 28 May 2014 (Wednesday) to 27 June 2014 (Friday), both days inclusive, during which no transfer of shares will be registered. Holders of H shares and domestic shares whose names appear on the register of members of the Company on 27 June 2014 (Friday) are entitled to attend and vote at the annual general meeting. In order for holders of H shares of the Company to qualify for attending and voting at the annual general meeting, all transfer documents accompanied by the relevant H share certificates must be lodged with the Company's H share registrar set out above no later than 4:30 p.m. on 27 May 2014 (Tuesday) for registration.

WITHHOLDING AND PAYMENT OF FINAL DIVIDEND INCOME TAX

Withholding and Payment of Enterprise Income Tax on behalf of Overseas Non-Resident Enterprises

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementing rules, the Company will withhold and pay enterprise income tax at the rate of 10% when it distributes Final Dividend to non-resident enterprise holders of H shares (including any H shares registered in the name of HKSCC Nominees Limited).

Withholding and Payment of Individual Income Tax on behalf of Overseas Individual Shareholders

Pursuant to the applicable provisions of the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementing rules as well as the Tax Notice, the Company will implement the following arrangements in relation to the withholding and payment of individual income tax on behalf of Individual H Shareholders:

- For Individual H Shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these Individual H Shareholders in the distribution of the Final Dividend;

- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of these Individual H Shareholders in the distribution of the Final Dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under relevant tax treaties according to the Tax Notice. Qualified shareholders please submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company's H share registrar, Computershare Hong Kong Investor Services Limited. The Company will then submit the above documents to competent tax authorities and, after their examination and if and when approved, the Company will assist in refunding the excess amount of tax withheld and paid;

- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of these Individual H Shareholders in the distribution of the Final Dividend; and

- For Individual H Shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these Individual H Shareholders in the distribution of the Final Dividend.

Should the H shareholders of the Company have any doubt as to the aforesaid arrangements, they are recommended to consult their own tax advisors on the relevant tax impact in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of H shares of the Company.

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Changes in the property, plant and equipment and investment properties of the Company and its subsidiaries during the Year are set out in notes 28 and 27 to the consolidated financial statements, respectively.

SHARE CAPITAL

Movements in the share capital of the Company during the Year are set forth below:

In 2013, the Company conducted a rights issue, consisting of the domestic share rights issue and the H share rights issue, with a total of 929,984,220 domestic shares and 418,173,580 H shares issued. The domestic share rights issue raised gross proceeds of approximately RMB3,999 million and the H share rights issue raised gross proceeds of approximately HK$2,250 million (equivalent to approximately RMB1,788 million), totalling approximately RMB5,787 million. The expenses in connection with the domestic share rights issue and the H share rights issue were approximately RMB2 million and HK$39 million (equivalent to approximately RMB31 million), respectively. The net proceeds, being gross proceeds after expenses of the rights issue, have been used to strengthen the capital base of the Company and to enhance the Company's solvency position.

Note: Conversions of RMB into HK$ are made at the exchange rate of RMB0.79493 to HK$1.00.

PRE-EMPTIVE RIGHTS

There are no provisions regarding pre-emptive rights in respect of the transfer of shares or issue of new shares of joint stock limited companies under the PRC 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 2013, the distributable reserves of the Company and its subsidiaries were RMB5,122 million and the distributable reserves of the Company were RMB5,143 million.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year were RMB29 million, of which RMB8 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 in office during the Year and the changes in the members of the Board of Directors and the members of the Supervisory Committee from 1 January 2013 to the date of this report are set out in the "Corporate Governance Report" section of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

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

Details of the remuneration of the Directors and Supervisors are set out in note 12 to the consolidated 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 consolidated 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 "Continuing Connected Transactions" below.

MATERIAL CONTRACT

On 9 December 2013, the Company entered into a transfer agreement with PICC Group, its controlling shareholder, to transfer its 30.41% equity interest in No. 88 Development Company to PICC Group for a consideration of approximately RMB1,115 million. 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 2013 that were required to be recorded in the register as 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 also 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, a wholly-owned subsidiary of which, AIA 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 2013 to the date of this report.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

To the knowledge of Directors, as at 31 December 2013, 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 as 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 *(Notes 1 & 2)*	Beneficial owner	9,384,386,220	Long position	100%	69.0%

Name of shareholder	Capacity	Number of H shares	Nature of interests	Percentage of total number of H shares in issue	Percentage of total number of shares in issue
AIG *(Notes 1, 3, 4 & 5)*	Interest of controlled corporations	1,103,038,000	Long position	31.92%	9.9%
Birmingham Fire Insurance Company of Pennsylvania *(Notes 1, 3, 4 & 5)*	Beneficial owner	562,549,380	Long position	16.28%	5.05%
Commerce and Industry Insurance Company *(Notes 1, 3, 4 & 5)*	Beneficial owner	330,911,400	Long position	9.58%	2.97%
Lexington Insurance Company *(Notes 1, 3, 4 & 5)*	Beneficial owner	209,577,220	Long position	6.06%	1.88%
BlackRock, Inc.	Interest of controlled corporations	254,361,371	Long position	6.02%	1.87%
		578,658	Short position	0.01%	0.004%
JPMorgan Chase & Co.	Beneficial owner, investment manager, trustee (excluding bare trustee), custodian corporation/approved lending agent	247,752,243	Long position	5.87%	1.82%
	Beneficial owner	5,121,996	Short position	0.12%	0.04%
	Custodian corporation/ approved lending agent	179,578,823	Lending pool	4.26%	1.32%

Notes:

1. The Company conducted the first rights issue in 2011 on the basis of 1 rights share for every 10 shares, and the rights shares were issued on 30 December 2011 (the "2011 Rights Issue"). The Company conducted the second rights issue in 2013 on the basis of 1.1 rights share for every 10 shares, and the rights shares were issued on 25 June 2013 (the "2013 Rights Issue", and together with the 2011 Rights Issue, the "Rights Issues").

2. The number of shares held by PICC Group and its percentage of shareholding were based on those recorded in the Company's register of members of domestic shareholders as at 31 December 2013, which also represent the shareholding status of PICC Group after the completion of the Rights Issues.

3. After the completion of the Rights Issues, the numbers of H shares held by the H shareholders have changed. However, the Company has not received any disclosure of interests notices by the H shareholders in relation thereto. The information on the numbers of H shares held by the H shareholders and their percentages of shareholdings set out above was based on the disclosure of interests notices available on the website of the Hong Kong Stock Exchange as at 31 December 2013.

4. The number of H shares held by AIG and its percentage of shareholding are those stated in the disclosure of interests notices available on the website of the Hong Kong Stock Exchange before the Rights Issues. AIG was once a controlled corporation of the United States Treasury in its capacity as the beneficiary of AIG Credit Facility Trust and Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee in their capacities 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. However, as confirmed by AIG, as of 14 December 2012, United States Treasury, Jill M. Considine, Chester B. Feldberg and Douglas L. Foshee no longer had any interests in AIG and therefore they are no longer deemed to be interested in the H shares of the Company held by the controlled corporations of AIG. It is further confirmed by AIG that after the completion of the 2013 Rights Issue, AIG was interested in 1,346,809,396 H shares of the Company. Such H shares were held by corporations controlled by AIG, of which Chartis Property Casualty Company held 686,872,792 H shares, Commerce and Industry Insurance Company held 404,042,819 H shares and Lexington Insurance Company held 255,893,785 H shares.

5. Birmingham Fire Insurance Company of Pennsylvania (now known as "Chartis Property Casualty Company"), Commerce and Industry Insurance Company and Lexington Insurance Company are 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. Based on the latest disclosure of interests notice made by Lexington Insurance Company, AIG owned 100% shareholding in Lexington Insurance Company.

Save as disclosed above, the Company is not aware of any other persons having any interests or short positions in the shares or underlying shares of the Company that were 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 as required to be kept under Section 336 of the SFO or being substantial shareholders of the Company as at 31 December 2013.

PUBLIC FLOAT

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

CONNECTED TRANSACTIONS

The connected transactions of the Company in the Year that are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules include: (i) the share capital increase in PICC Life; and (ii) the transfer of equity interest in No. 88 Development Company to PICC Group. PICC Group is the controlling shareholder of the Company and directly and indirectly holds 80% of the issued share capital of PICC Life. Accordingly, PICC Group and PICC Life are connected persons of the Company under the Listing Rules.

(i) On 28 January 2013, the Company entered into a capital increase agreement with PICC Group, PICC AMC, Sumitomo Life Insurance Company, Asia Financial Holdings Ltd., Bangkok Bank Public Company Limited and PICC Life. Pursuant to this agreement, based on the total number of shares in issue then, PICC Life offered to place new shares to all of its shareholders in the ratio of approximately 0.2795 new share for every 1 share, and the total number of new shares placed was approximately 5,628 million shares. The subscription price for each new share was RMB1. All of the shareholders of PICC Life agreed to fully subscribe for the new shares placed to them respectively. Therefore, the Company increased its capital contribution in PICC Life by approximately RMB485 million by way of subscription of new shares. Upon the completion of the placing, the total number of shares in issue of PICC Life increased to approximately 25,761 million shares and its registered capital increased to approximately RMB25,761 million. The shareholding held by each shareholder remains unchanged and the Company holds 8.615% of the enlarged issued share capital of PICC Life. The Company believes that this capital increase is beneficial to the business development of PICC Life and the shareholding of the Company in PICC Life remains unchanged after entering into this agreement.

(ii) On 9 December 2013, the Company entered into a transfer agreement with PICC Group to transfer its 30.41% equity interest in No. 88 Development Company to PICC Group for a consideration of approximately RMB1,115 million. The Company is of the view that there are uncertainties over investment return on domestic commercial real estate and in order to optimise the Company's assets allocation, the Company approved this transfer. The transfer transaction was completed.

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions of the Company in the Year that are 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 framework agreement on reinsurance business cooperation entered into between the Company and PICC HK; (iii) the comprehensive strategic cooperation agreement entered into between the Company and ZSIB; (iv) the asset management agreement entered into between the Company and PICC AMC; (v) the mutual agency agreements entered into between the Company and PICC Life and PICC Health, respectively; (vi) the framework agreement on purchases of life insurance products entered into between the Company and PICC Life; and (vii) the lease agreement for South Information Center and the WAN service agreement entered into between the Company and PICC Group. PICC Group is the controlling shareholder of the Company and holds respectively 100%, 75%, approximately 83% and 81% of the issued share capital of PICC Investment, PICC HK, ZSIB and PICC AMC, and directly and indirectly holds the respective 80% and approximately 92% of the issued share capital of PICC Life and PICC Health. According to the Listing Rules, all of PICC Group, PICC Investment, PICC HK, ZSIB, PICC AMC, PICC Life and PICC Health are therefore connected persons of the Company.

(i) The Company and PICC Investment have entered into property leasing agreements since 7 July 2008. In view of its operational needs, the Company needs to use certain properties owned by PICC Investment, primarily as offices for its business and operations. On 15 December 2011, the Company and PICC Investment renewed the property leasing agreement for a term of 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. For the Year, under the renewed agreement, the annual cap for the rents paid by the Company to PICC Investment was expected to be RMB105 million and the annual rent expected to be paid by PICC Investment to the Company did not exceed the 0.1% threshold under Rule 14A.33 of the Listing Rules and therefore no annual cap was set. The annual rent paid by the Company to PICC Investment was RMB104 million and the annual rent paid by PICC Investment to the Company was RMB2 million for the Year.

(ii) The Company and PICC HK have entered into framework agreements on reinsurance business cooperation since 1 January 2010. PICC HK is one of the reinsurers of the Company and the Company entered into the framework agreement on reinsurance business cooperation with PICC HK so as to disperse risks and stabilise the operation. On 25 March 2013, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2013 and expiring on 31 December 2013. Pursuant to the renewed agreement, the Company agreed to cede insurance premiums to PICC HK and receive commissions, and PICC HK agreed to cede insurance premiums to the Company and receive commissions. Under the framework provided in the renewed agreement, the parties to the agreement may enter into various types of reinsurance agreements in respect of specific reinsurance business. Under the renewed agreement, the annual caps for the insurance premiums ceded to PICC HK by the Company and the commissions (excluding taxes) received by the Company from PICC HK were originally estimated to be RMB380 million and RMB108 million, respectively. As the Company increased its commercial vehicle insurance cession ratio appropriately during the Year, on 23 December 2013, the Company revised the annual caps upwards for the insurance premiums ceded to PICC HK by the Company and the commissions received by the Company from PICC HK for the Year under the renewed agreement. The revised annual caps for the insurance premiums ceded to PICC HK by the Company and the commissions (excluding taxes) received by the Company from PICC HK were RMB480 million and RMB159 million, respectively. As the insurance premiums expected to be ceded to the Company by PICC HK and the commissions (excluding taxes) expected to be received by PICC HK from the Company for the Year did not exceed the 0.1% threshold under Rule 14A.33 of the Listing Rules, no annual caps were set. The insurance premiums ceded to PICC HK by the Company and the commissions (excluding taxes) received by the Company from PICC HK were RMB449 million and RMB142 million, respectively, for the Year. The insurance premiums ceded to the Company by PICC HK were RMB3 million and the commissions received by PICC HK from the Company were RMB1 million for the Year.

On 28 March 2014, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2014 and expiring on 31 December 2014.

(iii) On 17 June 2013, the Company entered into the comprehensive strategic cooperation agreement with ZSIB for a term of three years commencing from 17 June 2013 and expiring on 16 June 2016. Pursuant to this agreement, the Company and ZSIB (and its subsidiaries) cooperate with each other in the insurance brokerage business and other business. Execution of this agreement by the Company with ZSIB is beneficial for resources integration and business cooperation between the Company and ZSIB, and also beneficial for the construction of the Company's distribution channels and the promotion of the Company's development capability in the brokerage business market. The Company and ZSIB or its subsidiaries (depending on specific circumstances) would enter into specific agreements when they carry out specific insurance brokerage business, and the Company would pay brokerage fees for specific business cooperated. Under this agreement, the annual cap for the brokerage fees paid by the Company to ZSIB and its subsidiaries for the Year was expected to be RMB115 million. The brokerage fees paid by the Company to ZSIB and its subsidiaries were RMB96 million for the Year.

(iv) The Company and PICC AMC have entered into asset management agreements since 10 October 2003. With the experience and expertise in asset management and with better management capabilities and appropriate management fee rates, 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 agreement with PICC AMC. On 20 June 2013, the Company and PICC AMC renewed the asset management agreement and its supplemental agreement for a term of three years commencing from 1 January 2013 and expiring on 31 December 2015. Pursuant to the above agreements, the Company would entrust PICC AMC to manage and invest assets of the Company from time to time and would pay management fee to PICC AMC for its services provided. When the investment performance reaches the target and if the investment management and service capability appraisal satisfies the conditions as agreed under these agreements, the Company would pay PICC AMC an appropriate performance bonus. Under these agreements, the annual cap for the management fee and performance bonus (if any) paid by the Company to PICC AMC for the Year was expected to be RMB147 million. The management fee and performance bonus (if any) paid by the Company to PICC AMC was RMB136 million for the Year.

(v) The Company has entered into the mutual agency agreements with PICC Life and PICC Health since 2006 and 2007, respectively. PICC Life and PICC Health have their own distribution channels and client bases, and the Company entered into the mutual agency agreements with PICC Life and with PICC Heath in order to expand the Company's distribution channels. On 30 August 2013, the Company renewed the mutual agency agreements with PICC Life and PICC Health, respectively, both for a term of three years commencing from 31 August 2013 and expiring on 30 August 2016, to continue the mutual agency services on selling insurance products on behalf of each other. Pursuant to these agreements, the Company and PICC Life or PICC Health mutually act as an agency for selling insurance products and receiving premiums on behalf of each other and, depending on the business development, provide other business or services authorised in writing. One party to the agreement would pay agency commissions to the other party for the insurance products sold by such other party as agency. Under these renewed agreements, the annual cap (on an aggregate basis) for the commissions paid by the Company to PICC Life and PICC Health for the Year was expected to be RMB140 million. As the annual commissions expected to be received by the Company from PICC Life and PICC Health for the Year, calculated separately or in aggregate, did not exceed the 0.1% threshold under Rule 14A.33 of the Listing Rules, no annual cap was set. The commissions paid by the Company to PICC Life and PICC Health were RMB78 million, and the commissions received by the Company from PICC Life and PICC Health were RMB26 million for the Year.

(vi) On 5 December 2013, the Company and PICC Life entered into the framework agreement on purchases of life insurance products for a term of three years commencing from 1 January 2013 and expiring on 31 December 2015. Pursuant to this framework agreement, the headquarters and each provincial branch of the Company may enter into purchase agreements with PICC Life and its branches for the purchases of group annuity insurance and other life insurance products. The Company purchases life insurance products for its employees in order to further improve the retirement pension protection system and realise long-term incentives. Execution of this framework agreement by the Company with PICC Life does not affect the rights of the Company and each of its provincial branches to purchase life insurance products from other insurance companies at their discretion. Under this framework agreement, the annual cap for the premiums and management fees paid by the Company to PICC Life was expected to be RMB500 million for the Year. The premiums and management fees paid by the Company to PICC Life were RMB159 million for the Year.

(vii) In line with the needs of the Company's business operations, the Company has since 2011 rented certain areas of the office building in South Information Center of PICC Group as its back up center, the south operation center of the Company's E-commerce Department and the 95518 Customer Service Center of Guangdong Provincial Branch, and accordingly the Company needs to rent server installation positions in the server building and the meeting rooms as well as use the WAN services provided by PICC Group in South Information Center.

On 5 December 2013, the Company entered into the South Information Center lease agreement with PICC Group for an effective term of one year commencing from 1 January 2013 and expiring on 31 December 2013. On expiry of the effective term of this agreement, if neither party to the agreement proposes by notice in writing to terminate the agreement, this agreement will be renewed for another year automatically. The extended term shall be no longer than two years. This agreement has been renewed for one year and the Company expects this agreement will be renewed for another year, with the actual effective term of this agreement reaching three years. Pursuant to this agreement, the Company rents workplaces, meeting rooms and server installation positions in South Information Center from PICC Group and pays rents.

On 23 December 2013, the Company entered into the WAN service agreement with PICC Group for an effective term of two years commencing from 1 January 2013 and expiring on 31 December 2014. On expiry of the effective term of this agreement, this agreement will be renewed for another year if the two parties approve in writing. The Company expects this agreement will be renewed for another year, with the actual effective term of this agreement reaching three years. Pursuant to this agreement, the Company uses the WAN services in South Information Center provided by PICC Group, including the WAN equipment leasing, checkup and maintenance services as well as the WAN technical support services agreed by both parties, and pays WAN service fees to PICC Group.

Under the above lease agreement and the WAN service agreement, the annual cap for the rents and WAN service fees (on an aggregate basis) paid by the Company to PICC Group was expected to be RMB88 million for the Year. The rents and service fees paid by the Company under the lease agreement and the WAN service agreement totalled RMB82 million for the Year.

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 auditor 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. Other than the continuing connected transactions set out in items (v) and (vii), the actual transaction amounts for the Year of which did not exceed the 0.1% threshold and therefore are exempt from being reviewed by the auditor with its conclusions, the auditor has issued its unqualified letter containing its 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 auditor of the Company has reviewed the continuing connected transactions mentioned above (other than the exempted items (v) and (vii)) and confirmed to the Board of Directors that:

1. nothing has come to its attention that causes it to believe that the transactions have not been approved by the Company's Board of Directors;

2. for transactions involving the provision of goods or services by the Company and its subsidiaries, nothing has come to its attention that causes it to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

3. nothing has come to its attention that causes it to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. with respect to the aggregate amount of each of the transactions, nothing has come to its attention that causes it to believe that the transactions have exceeded the maximum aggregate annual value for the period from 1 January 2013 to 31 December 2013 disclosed in the announcements dated 15 December 2011, 20 June 2013, 5 December 2013 and 23 December 2013 made by the Company in respect of each of the transactions.

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

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 of the Company and its subsidiaries for the Year. The composition and the role of the Audit Committee and a summary of its work performance during the Year are set out in the "Corporate Governance Report" section of this annual report.

AUDITORS

In accordance with the relevant requirements of the Ministry of Finance of the PRC in relation to the service term of an accounting firm continuously engaged by a financial enterprise, the service terms of the Company's former international auditor, Ernst & Young, and former domestic auditor, Ernst & Young Hua Ming LLP, reached the prescribed time limit. At the extraordinary general meeting of the Company held on 27 December 2013, Deloitte Touche Tohmatsu was appointed as the international auditor of the Company and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the domestic auditor of the Company to hold office until the conclusion of the forthcoming annual general meeting. Ernst & Young and Ernst & Young Hua Ming LLP retired as auditors of the Company at the conclusion of the aforesaid extraordinary general meeting.

A resolution to re-appoint Deloitte Touche Tohmatsu as the international auditor of the Company and re-appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP as the domestic auditor of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board of Directors
Wu Yan
Chairman

Beijing, the PRC
28 March 2014

Dear Shareholders,

In 2013, all members of the Supervisory Committee performed their supervisory duties diligently in accordance with the relevant provisions of the PRC Company Law and the Articles of Association, strictly abided by the principle of good faith and continued to base their work on supervision over meetings and focused on supervision over financial matters, internal control and compliance, and therefore effectively maintained the efficient operation of the Company's 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 3 meetings in March, August and November 2013, respectively, at which the resolutions were considered and unanimously approved, including the Auditor's Report and the Audited Financial Statements for 2012, the Profit Distribution Plan for 2012, the Report of the Supervisory Committee for 2012, the Corporate Governance Report for 2012 – the Supervisory Committee section, the 2013 Interim Report, the 2013 Interim Profit Distribution Plan, the Nomination of Mr Wang Yueshu as a Supervisor of the Supervisory Committee of the Company, the Convening of an Extraordinary General Meeting and the Election of the Chairman of the Supervisory Committee of the Company.

Work of the Supervisory Committee

During the Year, the Supervisory Committee elected its new chairman. Mr Wang Yueshu was appointed as a Supervisor and elected as the Chairman of the Supervisory Committee. Mr Zhou Liqun resigned as a Supervisor and the Chairman of the Supervisory Committee due to his other work arrangements.

During the Year, the Supervisory Committee attended the Company's 2012 annual general meeting and submitted the Report of the Supervisory Committee of the Company for 2012 to the annual general meeting, at which it was approved. The Supervisory Committee also, by being physically present at or reviewing the proposals in writing of 3 extraordinary general meetings, 10 meetings of the Audit Committee and 17 meetings of the Board of Directors, earnestly reviewed and studied the resolutions of the shareholders' general meetings 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, attended to the hot issues that existed in the Company's operations and management, and gave advices and suggestions to the management in respect of operation and management strengthening and risk control from the perspective of healthy and sustainable development of the Company.

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 compliant operation 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 meetings 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 2013 and the audited annual financial statements for 2013 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.

Related party transactions. The related party 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 2014, the Supervisory Committee will continue to perform its supervisory duties in accordance with the relevant provisions of the PRC Company Law and the Articles of Association, regard maintaining effective operation and sound development of corporate governance of the Company as its responsibilities, proactively broaden the thinking of work, strengthen its supervision, constantly improve its performance capabilities, earnestly safeguard the interests of the Company, its shareholders and employees and diligently perform all its duties.

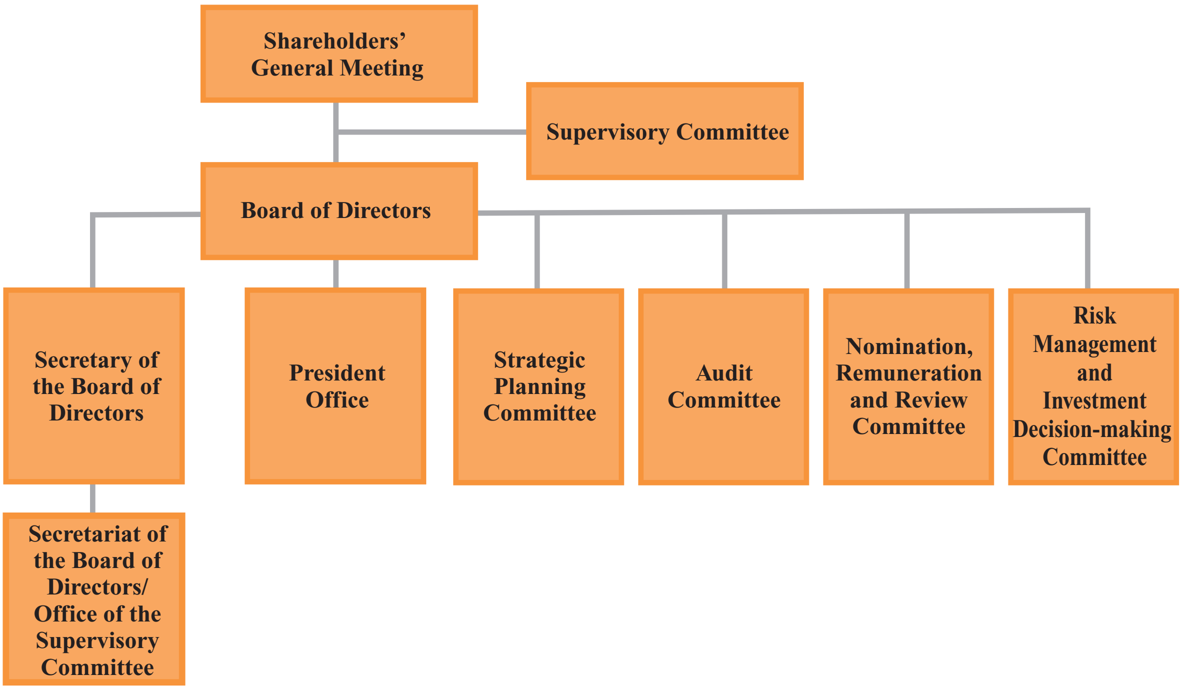
By Order of the Supervisory Committee
Wang Yueshu
Chairman of the Supervisory Committee

Beijing, the PRC
28 March 2014

OVERVIEW

The Company believes that maintaining sound corporate governance is in the interests of the Company, its shareholders and stakeholders. In accordance with the PRC 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 2013, the Company continuously strengthened its internal control and supervision capabilities, refined its management system for related party transactions, and strengthened its compliance development and management in accordance with the Insurance Law of the People's Republic of China, the Measures on Administration of Information Disclosure of Insurance Companies, the Internal Audit Guidelines for Insurance Companies (Trial Implementation) and the Provisional Measures on the Administration of Related Party Transactions of Insurance Companies issued by the CIRC and the requirements under the applicable provisions of the Corporate Governance Code and the SFO.



Save for one of the requirements set out in the code provision A.4.2 of the Corporate Governance Code and Rule 3.10A of the Listing Rules, the Company complied with all the code provisions of the Corporate Governance Code during the Year.

OVERVIEW *(continued)*

According to the code provision A.4.2 of the Corporate Governance Code, each director shall be subject to retirement by rotation at least once every three years. The terms of directorship of Mr Luk Kin Yu, Peter and Mr Ding Ningning, Independent Non-executive Directors, should have expired on 28 April 2011 and 17 January 2012, respectively, and the terms of all the other Directors should have expired on 16 January 2014. In accordance with the provisions of the PRC Company Law, where a director has not yet been re-elected 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 commences his/her term of office. Accordingly, Mr Luk Kin Yu, Peter, Mr Ding Ningning and all the other Directors have currently continued to serve as Directors until the newly elected directors commence their terms of office. As a result, the Company failed to comply with the relevant requirement of the Corporate Governance Code 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. Therefore, the Company failed to comply with 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. In order to comply with the requirement under the Listing Rules, the Board nominated Mr Lin Hanchuan as an Independent Non-executive Director, and the shareholders considered and appointed Mr Lin Hanchuan as an Independent Non-executive Director at the extraordinary general meeting of the Company held on 25 March 2013. Accordingly, the Company has met the requirement under the Listing Rules since its appointment of Mr Lin Hanchuan as an Independent Non-executive Director on 25 March 2013.

BOARD OF DIRECTORS

Overview

During the Year, the Board convened four shareholders' general meetings and submitted sixteen proposals to the shareholders' general meetings. Seventeen Board meetings were convened, at which sixty-two 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 entrusted assets, etc. The Board also conducted the annual performance appraisals of the Directors and senior management; considered and approved the rights issue of domestic shares and H shares, the distribution of interim dividends, the participation in the capital increase of PICC Life, the transfer of the equity interest in No. 88 Development Company and the appointment of the new auditors; amended the Articles of Association, all the procedural rules and the Working Rules of the Nomination, Remuneration and Review Committee, among others; and enhanced the management of the Company's internal control, compliance management, and risk management and control, etc.

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 Corporate Governance Code, and the relevant provisions of the PRC 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
Mr Wu Yan	Chairman, Executive Director	23 March 2007	From 17 January 2011 to 16 January 2014
Mr Guo Shengchen	Vice Chairman, Executive Director *(Note 1)*	17 January 2011	From 17 January 2011 to 16 January 2014
Mr Wang Yincheng	Non-executive Director *(Note 2)*	6 July 2003	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 Wang He	Executive Director	17 January 2011	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
Mr Ding Ningning	Independent Non-executive Director	18 January 2006	From 18 January 2009 to 17 January 2012
Mr Liao Li	Independent Non-executive Director	17 January 2011	From 17 January 2011 to 16 January 2014
Mr Lin Hanchuan	Independent Non-executive Director	25 March 2013	From 25 March 2013 to 16 January 2014

Notes:

1. Mr Guo Shengchen was elected as the Vice Chairman and appointed as the President on 21 January 2014.

2. Mr Wang Yincheng, originally an Executive Director, the Vice Chairman and President of the Company, resigned as the Vice Chairman and President of the Company on 25 October 2013 and was re-designated as a Non-executive Director from 5 December 2013 as approved by the Board.

3. 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, and the terms of all the other Directors should have expired on 16 January 2014. In accordance with the provisions of the PRC Company Law, Mr Luk Kin Yu, Peter, Mr Ding Ningning and all the other Directors have currently continued to serve as Directors until the newly elected directors commence their terms of office.

BOARD OF DIRECTORS *(continued)*

Composition *(continued)*

Changes in the Board members during the period from 1 January 2013 to the date of this report are as follows:

At the extraordinary general meeting of the Company convened on 25 March 2013, Mr Lin Hanchuan was appointed as an Independent Non-executive Director with a term of office commencing immediately after the conclusion of such extraordinary general meeting to the expiry of the term of the current session of the Board.

Mr Wang Yincheng resigned as the Vice Chairman and President of the Company on 25 October 2013 and was re-designated as a Non-executive Director from an Executive Director effective from 5 December 2013.

Mr Guo Shengchen was elected as the Vice Chairman and appointed as the President on 21 January 2014.

Duties and Responsibilities

The Board is responsible for providing leadership, monitoring and controlling the operation 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, responsible auditing officer and assistants to the president and determining their remuneration, rewards and disciplinary matters, among others; electing members of the special committees under the Board; 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 a resolution of the Board according to laws. 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 four shareholders' general meetings and submitted sixteen proposals to the shareholders' general meetings. Seventeen Board meetings were convened, at which sixty-two proposals were considered and approved. The Directors' attendance record of the meetings is as follows:

	Board		Shareholders' General Meeting	
Name	Number of meetings attended/Number of meetings that require attendance	Attendance rate	Number of meetings attended/Number of meetings held	Attendance rate
Wu Yan	16/17	94%	2/4	50%
Guo Shengchen	17/17	100%	4/4	100%
Wang Yincheng	17/17	100%	3/4	75%
Zhou Shurui	17/17	100%	2/4	50%
Yu Xiaoping	17/17	100%	1/4	25%
Li Tao	16/17	94%	2/4	50%
Tse Sze-Wing, Edmund	17/17	100%	0/4	0%
Wang He	17/17	100%	2/4	50%
Luk Kin Yu, Peter	16/17	94%	0/4	0%
Ding Ningning	17/17	100%	3/4	75%
Liao Li	17/17	100%	0/4	0%
Lin Hanchuan	14/14	100%	3/3	100%

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

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

- convened four shareholders' general meetings and submitted sixteen proposals to the shareholders' general meetings, including the Report of the Board of Directors for 2012, the Auditor's Report and the audited financial statements for 2012, the profit distribution plan for 2012, the amendments to the Articles of Association and the procedural rules, the appointments of new Director and new Supervisor, the appointment of new auditors, etc., all of which were approved at the shareholders' general meetings;

- considered and approved the business development plan, financial budget plan, fixed assets investment plan, strategic allocations of and investment policies on entrusted 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 appraisals of the senior management, including the Chairman, Directors and the President, etc.;

- considered and approved the Company's Internal Control Assessment Report, Risk Assessment Report and Compliance Assessment Report for 2012, considered the report on improvement based on the Management Letter for the previous year, reviewed and continuously enhanced the effectiveness of the Company's internal control system;

BOARD OF DIRECTORS *(continued)*

Summary of Work Undertaken *(continued)*

- considered and approved the Solvency Report for 2012, the Information Disclosure Report for 2012, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2012, the Report on Implementation of the Related Party Transactions Management System for 2012 and the Report on Related Party Transactions for 2012 of the Company;

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

- considered and approved the 2013 interim results and the distribution of interim dividends;

- considered and approved the Company's participation in the capital increases of PICC Life and Aerospace Investment;

- considered and approved the transfer of the equity interest in No. 88 Development Company;

- approved Mr Wang Yincheng's re-designation as a Non-executive Director from an Executive Director;

- proposed the appointment of Mr Lin Hanchuan as an Independent Non-executive Director, which was approved at the extraordinary general meeting; appointed Mr Lin Hanchuan as a member of the special committees under the Board;

- considered and approved the appointments of Mr Yun Zhen, Ms Xie Xiaoyu and Mr Zhang Xiaoli as vice presidents and the appointments of Mr Gu Wei and Mr Hua Shan as assistants to the president;

- amended and refined the Articles of Association, the Procedural Rules for Shareholders' General Meeting, the Procedural Rules for the Board of Directors, the Procedural Rules for the Supervisory Committee, the Working Rules of the Nomination, Remuneration and Review Committee, the Guidelines on Transactions of the Company's Securities by the Employees, the Interim Provisions on Information Disclosure and the Provisional Measures on the Administration of Related Party Transactions, and formulated the Internal Audit Regulations on the basis of the Interim Measures on Internal Audit Work, in order to comply with the new regulatory requirements;

- considered and approved the appointment of new auditors, which was approved at the extraordinary general meeting.

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. As the Directors are aware, there are no events or conditions that may cause any material adverse impact on the Company's ability to continue as a going concern.

Securities Transactions

The Company formulated the Guidelines on Transactions of the Company's Securities by the Employees 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 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 accordingly amended the Guidelines on Transactions of the Company's Securities by the Employees during the Year and such amendments were considered and approved by the Board.

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 at 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 communication 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 and rules, 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 Company's business and operating status, 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 participating earnestly in continuous professional development. All Directors received trainings or conducted research in areas of corporate governance, information disclosure, related party transactions, relevant laws and regulations, professional knowledge, 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: Attended various trainings and meetings organised by PICC Group to deepen the understanding of the relevant laws and regulations of the PRC and abroad and the regulatory requirements on information disclosure, related party transactions, continuing duties and obligations of directors and corporate governance, etc.

Guo Shengchen: Attended various trainings and meetings organised by PICC Group and various training sessions of the Classroom Shared with the President Office of the Company, which covered areas of the latest development on finance theory and insurance laws, non-life insurance actuary, budget management, the application of information technologies in the operation and management of a company, social security, social management, the impact of new urbanisation on the future development of the Company, etc.

Wang Yincheng: Attended various trainings and meetings organised by PICC Group and various training sessions of the Classroom Shared with the President Office of the Company, which covered areas of the latest development on finance theory and insurance laws, non-life insurance actuary, budget management, the application of information technologies in the operation and management of a company, social security, social management, the impact of new urbanisation on the future development of the Company, etc.

Zhou Shurui: Attended various trainings and meetings organised by PICC Group to deepen the understanding of the relevant laws and regulations of the PRC and abroad and the regulatory requirements on information disclosure, related party transactions, continuing duties and obligations of directors and corporate governance, etc.

Yu Xiaoping: Attended various trainings and meetings organised by PICC Group to deepen the understanding of the relevant laws and regulations of the PRC and abroad and the regulatory requirements on information disclosure, related party transactions, continuing duties and obligations of directors and corporate governance, etc.

Li Tao: Attended the Seventh Joint Meeting of Board Secretaries of Insurance Companies and the 2013 Annual Meeting of Corporate Governance Commission under the Insurance Association of China organised by the CIRC to learn the latest insurance regulatory policies and corporate governance knowledge.

Tse Sze-Wing, Edmund: Attended trainings provided by the external professional institutions on the continuing disclosure obligations of directors of Hong Kong listed companies, related party transactions, etc., attended trainings provided by another company on the development and changes in the insurance sector and the regional legal systems, laws and regulations.

Wang He: Attended various trainings and meetings organised by PICC Group and various training sessions of the Classroom Shared with the President Office of the Company, which covered areas of the latest development on finance theory and insurance laws, non-life insurance actuary, budget management, the application of information technologies in the operation and management of a company, social security, social management, the impact of new urbanisation on the future development of the Company, the impact of the revised international accounting standards on the property and casualty insurance industry, etc.

Luk Kin Yu, Peter: Attended 6 training sessions provided by another company and 6 training sessions provided by an accounting firm for independent directors, which covered areas of accounting, taxation, law, compliance, information disclosure, directors' duties of listed companies, international accounting standards, solvency management, etc.

DIRECTORS *(continued)*

Directors' Continuous Professional Development *(continued)*

Ding Ningning: Continued to observe and research on movements in the global economy after the global financial crisis and changes in the Central Government's macroeconomic policies after leadership changes, participated in the work of the expert group on the change of government functions and reduction of administrative approvals under the State Council, 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.

Lin Hanchuan: Attended the "2013 Training Seminar for Newly-appointed Directors, Supervisors and Senior Management of Insurance Companies" organised by the CIRC, which covered topics on the performance requirements for newly-appointed senior management, interpretation of the Insurance Law of the People's Republic of China, compliance operation in the insurance sector, current status of the insurance market and its development and reform, the framework of solvency II supervision system, risk management in the operation of insurance fund, communication with the media in a crisis, etc.

CHAIRMAN/PRESIDENT

During the Year, Mr Wu Yan was the Chairman of the Board and Mr Wang Yincheng was the President until he resigned from office on 25 October 2013. 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 operation 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 were set out on page 36 of the Company's 2005 Annual Report. Details of the duties and responsibilities of the President are set out below:

- take charge of the operation and management of the Company and organise the implementation of Board resolutions;
- organise the implementation of the Company's annual business plans and annual investment plans;
- enter into contracts and agreements and issue general administrative documents on behalf of the Company;
- draft plans for the establishment of the Company's internal management structure and basic management system; and in accordance with operational needs, decide on general organisational restructuring plans;
- formulate basic rules and regulations for the Company;
- make proposals to the Board of Directors for the appointment or removal of vice presidents, responsible compliance officers, responsible financial officers, responsible auditing officers and assistants to the president;
- appoint or remove management personnel other than those required to be appointed or removed by the Board of Directors;

CHAIRMAN/PRESIDENT *(continued)*

- formulate policies for the remuneration, welfare benefits, rewards and penalties of the employees of the Company, determine or authorise the persons-in-charge of subordinate affiliates to determine the employment and removal of their employees;

- propose the convening of special Board meetings.

Mr Guo Shengchen was appointed as the President on 21 January 2014.

AUDIT COMMITTEE

Overview

During the Year, the Audit Committee further optimised its composition and supplemented the newly-appointed Independent Non-executive Director as a member. In accordance with the Working Rules of the Audit Committee and the relevant regulatory requirements, 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 opinions 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), Lin Hanchuan (Independent Non-executive Director, was appointed as a member on 25 March 2013), Li Tao (Non-executive Director)

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, considering the appointment of auditors and their remuneration, monitoring and providing guidance on internal and external audits of the Company, etc. Details of the duties and responsibilities were set out on pages 51 and 52 of the Company's 2012 Annual Report.

AUDIT COMMITTEE *(continued)*

Remuneration of Auditors

In the Year, the Company should pay RMB14.73 million to the auditors for audit-related services, including the fees for the audit of the financial statements for 2013 and the review of the interim financial statements for 2013. In the Year, the Company paid approximately RMB0.97 million to the auditors for non-audit services, including approximately RMB0.37 million of remuneration for translation review services relating to the 2013 annual and 2013 interim filing materials to Kanto Local Finance Bureau of Japan, and approximately RMB0.60 million of remuneration for agreed-upon procedure services. 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 ten meetings and considered thirty-seven proposals. The committee members' attendance record of the meetings is as follows:

Name	Liao Li	Luk Kin Yu, Peter	Ding Ningning	Lin Hanchuan	Li Tao
Number of meetings attended/Number of meetings that require attendance	10/10	10/10	10/10	6/7	10/10
Attendance rate	100%	100%	100%	86%	100%

Note: During the Year, Mr Lin Hanchuan attended six 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 2012 and on the interim review work for 2013, 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 analysis and comparison of the business development and potential of new sales channels;

- considered the proposal for the engagement of auditors for the interim review for 2013, and obtained the approvals from the Board and the shareholders' general meeting for the proposal of engagement;

- considered the proposal for the engagement of new auditors, and obtained the approvals from the Board and the shareholders' general meeting for the proposal of engagement.

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

Reviewed the financial reports, etc.:

- reviewed the financial statements and results announcement for 2012, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2012, the Solvency Report for 2012, and the financial statements and results announcement for the interim period of 2013, and discussed with the management on, among other things, the development trend of underwriting performance, the solvency and the reinsurance arrangements of the Company;

- reviewed the Information Disclosure Report for 2012.

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

- considered and approved the Company's Internal Control Assessment Report for 2012, the Compliance Assessment Reports for 2012 and for the interim period of 2013, and provided suggestions that there should be more communication in the internal control and compliance work with the operation and management in the frontline;

- considered and approved the Company's report on improvement based on the Management Letter for 2011, considered the Management Letter for 2012, 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 and the Responsible Auditing Officer and the Finance and Accounting Department of the Company respectively on the work summaries for 2012 and the work plans for 2013;

- considered and approved the Internal Audit Regulations of the Company;

- considered the report on the audit results of administration of related party transactions, considered and approved the Report on Implementation of the Related Party Transaction Management System for 2012, the Report on Related Party Transactions for 2012 and the amendments to the Provisional Measures on the Administration of Related Party Transactions;

- considered and approved twelve proposals in connection with material related party transactions.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE

Overview

During the Year, the Nomination, Remuneration and Review Committee conducted the annual appraisals of the Chairman, Directors, the President and other senior management, assessed the structure and composition of the Board, recommended candidates for director and senior management, made constructive suggestions to the Board on the remuneration issue of the Company, and amended the Working Rules of the Nomination, Remuneration and Review Committee in accordance with the latest provisions of the Corporate Governance Code.

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), Lin Hanchuan (Independent Non-executive Director, was appointed as a member on 25 March 2013)

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 director, formulating remuneration policies and structures, formulating appraisal standards and conducting annual appraisals of directors, the president and other senior management, making recommendations in respect of the remuneration packages for the directors and senior management to the Board, etc. Details of the duties and responsibilities are as follows:

- evaluate the reasonableness of the structure of the Board, its size and composition (including the skills, knowledge, experience and diversity of the Board members, etc.) 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 director, and examine qualifications of candidates for director;
- evaluate the independence of independent directors;
- propose to the Board in respect of the appointment and re-appointment of directors and the 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 for new directors, examine the qualification 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 backgrounds, management and research experience in the financial industry, especially in the insurance sector, their commitment to the Company and diversity of the Board members. 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. To achieve diversity of the Board members, the Board amended the Working Rules of the Nomination, Remuneration and Review Committee in the Year, requiring the Nomination, Remuneration and Review Committee to consider the candidates for director on a merit basis following objective standards, take into account factors such as gender, age, cultural and educational backgrounds and professional experience of the Board members, and select candidates for director in accordance with the business features, specific needs and future development of the Company. 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.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Remuneration Policy of the Company

The remuneration policy of the Company follows the guiding principle of "distribution according to work 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 to results 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 remuneration level; and performance-based means the bonus and financial performance are linked and interactive, and guided by the contribution to financial performance. The Company also implements a welfare plan in accordance with the relevant laws and regulations and the operating results to provide reasonable protection for the employees.

Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held five meetings, at which eight 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	Lin Hanchuan
Number of meetings attended/Number of meetings that require attendance	5/5	5/5	5/5	5/5	3/3
Attendance rate	100%	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 2013, and such recommendations were approved by the Board and at the shareholders' general meeting;
- considered the performance appraisal plan for the senior management for 2012 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 Claims 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;
- proposed Mr Wang Yingcheng's re-designation as a Non-executive Director, which was approved by the Board; in accordance with the above nomination procedures and considerations, nominated Mr Lin Hanchuan as an Independent Non-executive Director, which was approved by the Board and at the shareholders' general meeting; nominated Mr Yun Zhen, Ms Xie Xiaoyu and Mr Zhang Xiaoli as candidates for vice presidents, and nominated Mr Gu Wei and Mr Hua Shan as candidates for assistants to the president, which were approved by the Board;
- revised and refined the Working Rules of the Nomination, Remuneration and Review Committee.

STRATEGIC PLANNING COMMITTEE

Overview

During the Year, the Strategic Planning Committee considered the annual business development plan, major investments, financial budget, operating results, profit distributions and major strategic measures of the Company, etc.

Composition

Chairman: Wu Yan (Executive Director)

Members: Wang Yincheng (re-designated as Non-executive Director from Executive Director from 5 December 2013), 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, considering the business plans, major investments, financing plans, annual financial budgets and final accounts, profit distribution plans and loss recovery plans, plans for the disposal of material assets, plans for the issue of shares and bonds, plans for material modification to the organisational structure and proposals for amendments to the Articles of Association, and formulating and reviewing corporate governance policies and practices of the Company, etc. Details of the duties and responsibilities were set out on pages 58 and 59 of the Company's 2012 Annual Report.

Summary of Work Undertaken

During the Year, the Strategic Planning Committee held nine meetings and considered seventeen 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	9/9	9/9	9/9	9/9	9/9
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 and the appraisal report on the implementation of business development plan for 2012;
- considered and approved the financial budget for the Year;

STRATEGIC PLANNING COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

- considered and approved the profit distribution plans for 2012 and the first half of 2013, and the distribution of interim dividends for 2013;
- considered and approved the proposal for a rights issue of domestic shares and H shares of the Company and the relevant matters in relation to the issue;
- considered and approved the Company's participation in the capital increase of PICC Life;
- reviewed and supervised the policies and practices in respect of the Company's compliance with laws and regulatory provisions; revised and refined the Guidelines on Transactions of the Company's Securities by the Employees, the Articles of Association and the Interim Provisions on Information Disclosure, which 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 disclosure 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 considered the risk assessment report and various investment plans of the Company.

Composition

Chairman: Wu Yan (Executive Director)

Members: Wang Yincheng (re-designated as Non-executive Director from Executive Director from 5 December 2013), Zhou Shurui (Non-executive Director), Yu Xiaoping (Non-executive Director), Wang He (Executive Director)

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

Duties and Responsibilities

The Risk Management and Investment Decision-making Committee is responsible for considering the Company's overall goals, 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 risk and the annual risk assessment reports, monitoring the effectiveness of the operation of the risk management system, considering 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 allocation plans for and investment policies on assets, etc. Details of the duties and responsibilities were set out on page 45 of the Company's 2007 Annual Report.

Summary of Work Undertaken

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

Name	Wu Yan	Wang Yincheng	Zhou Shurui	Yu Xiaoping	Wang He
Number of meetings attended/Number of meetings that require attendance	2/2	2/2	2/2	2/2	2/2
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 2012;
- considered and approved the transfer of the equity interest in No. 88 Development Company;
- considered and approved the strategic allocations of and investment policies on entrusted assets for the Year;
- considered and approved the participation in the capital increase of Aerospace Investment;
- considered and approved the participation in the PICC-Guizhou Highway project debt investment plan.

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 solutions for 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 the inspection of internal control, compliance and risk management after implementation and for imposing penalties against any breach of the requirements thereof.

In 2013, the Company continued to improve its internal control and compliance management by capitalising on the establishment of the risk management information system. **Firstly**, by accelerating the establishment of the operational risk management platform and the risk management information platform, promoting and achieving the integration of process and internal control with powers and responsibilities, integrating the internal control and compliance standards into the process and authorisations system of its operation and management, and developing and building an early warning indicator system for all kinds of key risks, the Company gradually achieved informatisation and intelligenisation of risk management. **Secondly**, by continuously intensifying its efforts on internal control assessment, diversifying the assessment strategy and approach, and extending the scope of assessment, the Company comprehensively examined potential internal control and compliance risks. **Thirdly**, by continuously promoting the rectification of internal control deficiencies in key phases, combining issues identified during internal and external examinations, and comprehensively assessing internal control weaknesses, the Company vigorously promoted the correction of vital deficiencies. **Fourthly**, by organising various awareness campaigns on the internal control and compliance culture, the Company refined the management and control system based on compliance culture promotion, policy interpretation and risk control in key areas.

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 2013, and the Board and the Risk Management and Investment Decision-making Committee considered and discussed the Risk Assessment Report of the Company for 2013. The Board is of the view that, during the Year, the business and matters within the scope of internal control assessment by the Company involved various kinds of control on the corporate and operational levels as well as in the division of information technologies and covered the principal aspects in the Company's management and operation. The internal control had been established and effectively implemented in the business and matters, reaching the objectives of the Company in respect of internal control. No material defects were found.

SUPERVISORY COMMITTEE

Overview

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

Composition

The Supervisory Committee in the Year comprised:

Chairman: Zhou Liqun (until 5 November 2013), Wang Yueshu (from 6 November 2013)

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

Notes:

1. Mr Zhou Liqun resigned as a Supervisor and his position as Chairman of the Supervisory Committee also terminated with effect from 6 November 2013. Mr Wang Yueshu was elected as Chairman of the Supervisory Committee on the same date.

2. The terms of office of Mr Sheng Hetai, Mr Lu Zhengfei, Ms Qu Yonghuan and Mr Shen Ruiguo as Supervisors should have expired on 16 January 2014. In accordance with the provisions of the PRC Company Law, they have currently continued to serve as Supervisors until the newly elected supervisors commence their terms of office.

Changes in the members of the Supervisory Committee from 1 January 2013 to the date of this report are as follows:

At the extraordinary general meeting of the Company held on 6 November 2013, Mr Wang Yueshu was elected as a Supervisor for a term commencing immediately after the conclusion of the extraordinary general meeting and expiring on 5 November 2016.

Mr Zhou Liqun resigned as a Supervisor with effect from 6 November 2013.

Duties and Responsibilities

In accordance with the PRC Company Law and the Articles of Association, the Supervisory Committee is accountable to the shareholders' general meeting, performs duties of supervision over the financial affairs, directors and other senior management of the Company, convenes and presides over shareholders' general meetings when the Board fails to perform its duties to convene and preside over any shareholders' general meeting, etc. Details of the duties and responsibilities were set out on page 63 of the Company's 2012 Annual Report.

SUPERVISORY COMMITTEE *(continued)*

Summary of Work Undertaken

During the Year, the Supervisory Committee carried out its work, performed its supervisory duties and protected the interests of the shareholders, the Company and its employees strictly in accordance with the relevant provisions of the PRC Company Law and the Articles of Association. During the Year, the Supervisory Committee held three meetings, at which nine proposals were considered and approved. The Supervisors' attendance record of the meetings is as follows:

Name	Zhou Liqun	Wang Yueshu	Sheng Hetai	Lu Zhengfei	Qu Yonghuan	Shen Ruiguo
Number of meetings attended/Number of meetings that require attendance	2/2	1/1	2/3	3/3	3/3	3/3
Attendance rate	100%	100%	67%	100%	100%	100%

Note: During the Year, Mr Sheng Hetai attended two meetings in person and entrusted another Supervisor to attend one meeting on his 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.

INVESTORS RELATIONS

The Company focused on the maintenance of sound investors relations and maintained effective communication with investors through various means. The Company timely communicated its operating results and business development trends with investors after the announcements of the 2012 annual results and the 2013 interim results by way of results briefings and roadshows, among others, strengthening communication with investors and facilitating the understanding of the Company by investors. The Company also maintains sound communication with investors through accepting visits by investors, holding telephone conferences, attending major investment forums, by telephone and email, etc. and proactively providing information to investors 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 the Year. Upon the completion of the rights issue, the registered capital of the Company was increased from RMB12,255,980,000 to RMB13,604,137,800, and its total number of shares was increased from 12,255,980,000 shares to 13,604,137,800 shares. In the Year, the CIRC approved the change in the registered capital of the Company.

In the Year, the Company made amendments to the Articles of Association twice. The first amendment was to reflect the latest provisions of applicable laws and regulations, etc. and was approved at the Company's annual general meeting held on 29 June 2013. The second amendment was to reflect changes in the registered capital and equity structure of the Company following the above rights issue. The Company completed the relevant procedures for the amendments to the Articles of Association.

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, 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 "Investors 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 extraordinary general meeting held on 27 December 2013, at which the proposal for the engagement of auditors was considered. The resolution was passed by way of poll.

"MANAGEMENT ACCOUNTING PRACTICE"

In April 2013, at the Fifth Management Accounting Forum jointly organised by the State-owned Assets Supervision and Administration Commission of the State Council, Central University of Finance and Economics and *Xinlicai* magazine sponsored by the Ministry of Finance, the Company was awarded the "Management Accounting Practice" prize.

"BEST PUBLIC IMAGE"

On 26 May 2013, at the Eighth "Chinese Securities Cup" Awards Ceremony of Competitiveness and Credibility Survey of Chinese Listed Companies and the 2013 Forum on the Development of Chinese Capital Market organised by *Chinese Securities Journal* and the website www.sina.com, the Company was awarded the "Best Public Image" prize.

"OUTSTANDING AWARD FOR COMPREHENSIVE STRENGTHS" AND "ANNUAL RISK INTELLIGENCE ACHIEVEMENT AWARD"

On 8 June 2013, Deloitte released the list of winning enterprises of the Third Deloitte China Risk Intelligence Recognition Awards. The Company was awarded the "Outstanding Award for Comprehensive Strengths" and the "Annual Risk Intelligence Achievement Award" for its effective overall risk management.

"2012-2013 BEST CALL CENTER IN CHINA"

On 8 August 2013, at the Eleventh Summit Forum on China Call Center Industry and the Presentation Ceremony of Awards to Best Call Center and Best Manager in China organised by the Customer Relationship Management Committee of China Federation of IT Promotion, the Company was awarded the "Best Call Center in China" prize and it was the third consecutive year that the Company won this prize.

"MOST INFLUENTIAL INSURANCE BRAND OF THE YEAR"

On 26 October 2013, at the Sixth China Insurance Culture and Brand Innovation Forum and the Eighth Awards Presentation Ceremony of China Insurance Innovation Prize organised by *Insurance Culture* magazine, the Company successfully won 17 awards including the "Most Influential Insurance Brand of the Year" and ranked first in all property insurance companies for eight consecutive years in terms of the number of awards.

"2013 FINANCIAL INSTITUTION WITH SUPERIOR COMPETITIVENESS AND SOCIAL RESPONSIBILITY"

On 15 November 2013, the results of the 2013 Fifth Financial Institution with Superior Competitiveness, organised by *China Business Journal* and Chinese Academy of Social Sciences, were announced. The Company was awarded the "2013 Financial Institution with Superior Competitiveness and Social Responsibility" prize.

"TOP 100 COMPREHENSIVE STRENGTHS"

On 18 November 2013, the final winner list of 2013 "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 again, ranking the 39th in the "Top 100 Comprehensive Strengths", 11 places higher than that in 2012.

"GOLD PRIZE OF MANAGEMENT REFORM"

On 28 November 2013, at the Seventh Best Practices Awards Ceremony organised by *Business Review*, *The Claim Management Reform of PICC P&C* was awarded the "Gold Prize of Management Reform".

"2013 BEST NON-LIFE INSURANCE COMPANY IN ASIA"

On 5 December 2013, *21st Century Business Herald* and the Finance Research Center of 21st Century Research Institute published the "2013 Asian Insurance Competitiveness Ranking Report". The Company was awarded the "2013 Best Non-life Insurance Company in Asia" prize.

"2013 ENTERPRISE OF THE YEAR"

On 8 January 2014, at the Moving to the Right Way – Awards Presentation Ceremony of the Eighth Social Responsibility Prize for People's Enterprises organised by the website www.people.com.cn, the Company was awarded the "2013 Enterprise of the Year" prize and was the only insurance company winning this prize.

"2013 OUTSTANDING CHINESE ENTERPRISE IN SOCIAL RESPONSIBILITY"

On 16 January 2014, at the Sixth China Enterprises Social Responsibility Summit jointly organised by the website www.xinhuanet.com and the Chinese Academy of Social Sciences, the Company was awarded the grand prize of "2013 Outstanding Chinese Enterprise in Social Responsibility".

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 (collectively referred to as the "Group") set out on pages 69 to 173, which comprise the consolidated and company statements of financial position as at 31 December 2013 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 auditor's 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 auditor considers 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 2013, 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2014

For the year ended 31 December 2013

	Notes	2013 RMB million	2012 RMB million
TURNOVER	5	223,525	193,487
Net premiums earned	5	182,546	155,304
Net claims incurred	6	(120,902)	(98,722)
Acquisition costs and other underwriting expenses	7	(34,437)	(29,505)
General and administrative expenses		(21,247)	(19,496)
UNDERWRITING PROFIT		5,960	7,581
Investment income	8	9,939	8,387
Net realised and unrealised losses on investments	9	(342)	(913)
Investment related expenses		(208)	(182)
Interest expenses credited to policyholders' deposits		(1)	(5)
Exchange losses, net		(142)	(13)
Sundry income		401	194
Sundry expenses		(185)	(137)
Finance costs	10	(2,060)	(1,629)
Share of profits of associates		77	66
PROFIT BEFORE TAX	11	13,439	13,349
Income tax expense	14	(2,881)	(2,944)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		10,558	10,405
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT (in RMB)	15	0.794	(Restated) 0.809

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

For the year ended 31 December 2013

	Notes	2013 RMB million	2012 RMB million
PROFIT FOR THE YEAR		10,558	10,405
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value (losses)/gains		(1,933)	900
– Reclassification of (losses)/gains to profit or loss on disposals		(787)	247
– Impairment losses		1,344	1,350
Income tax effect	30	344	(624)
Share of other comprehensive (expense)/income of associates		(101)	380
		(1,133)	2,253
Net losses on cash flow hedges		(30)	(23)
Income tax effect	30	7	6
		(23)	(17)
NET OTHER COMPREHENSIVE (EXPENSE)/ INCOME MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		(1,156)	2,236
Items that will not to be reclassified to profit or loss:			
Gains on revaluation of properties and prepaid land premiums upon transfer to investment properties		278	298
Income tax effect	30	(69)	(75)
Share of other comprehensive income of associates		6	–
		215	223
NET OTHER COMPREHENSIVE INCOME WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		215	223
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF TAX		(941)	2,459
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		9,617	12,864

At 31 December 2013

	Notes	31 December 2013 RMB million	31 December 2012 RMB million
ASSETS			
Cash and cash equivalents	17	16,272	12,890
Term deposits	18	63,485	53,130
Derivative financial assets	19	–	28
Debt securities	20	105,682	97,148
Equity securities	21	28,964	35,055
Insurance receivables, net	22	24,870	22,662
Tax recoverable		73	382
Reinsurance assets	23	26,431	22,637
Prepayments and other assets	24	26,332	20,919
Investments in associates	25	3,973	2,584
Investment properties	27	4,591	4,538
Property, plant and equipment	28	14,023	13,981
Prepaid land premiums	29	3,531	3,497
Deferred tax assets	30	1,197	973
TOTAL ASSETS		319,424	290,424
LIABILITIES			
Derivative financial liabilities	19	2	–
Payables to reinsurers	31	17,455	16,667
Accrued insurance protection fund	32	698	575
Other liabilities and accruals	33	43,764	46,793
Insurance contract liabilities	34	178,486	159,529
Policyholders' deposits	35	1,953	1,983
Subordinated debts	36	19,562	19,427
TOTAL LIABILITIES		261,920	244,974
EQUITY			
Issued capital	38	13,604	12,256
Reserves	39	43,895	33,194
Equity attributable to owners of the parent		57,499	45,450
Non-controlling interests		5	–
TOTAL EQUITY		57,504	45,450
TOTAL EQUITY AND LIABILITIES		319,424	290,424

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the parent									Non-controlling interests	Total equity
	Issued capital	Share premium account	Asset revaluation reserve**	Available-for-sale investment revaluation reserve	Cash flow hedging reserve	Surplus reserve***	General risk reserve	Retained profits	Total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Balance at 1 January 2013	12,256	8,584	2,077	(2,202)	22	12,285	2,886	9,542	45,450	–	45,450
Profit for the year	–	–	–	–	–	–	–	10,558	10,558	–	10,558
Other comprehensive income/(expense)	–	–	215	(1,133)	(23)	–	–	–	(941)	–	(941)
Total comprehensive income/(expense)	–	–	215	(1,133)	(23)	–	–	10,558	9,617	–	9,617
Rights issue****	1,348	4,439	–	–	–	–	–	–	5,787	–	5,787
Share issue expense****	–	(33)	–	–	–	–	–	–	(33)	–	(33)
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	–	1,054	1,054	(2,108)	–	–	–
Appropriations to discretionary surplus reserve*****	–	–	–	–	–	9,548	–	(9,548)	–	–	–
Interim 2013 dividend******	–	–	–	–	–	–	–	(3,306)	(3,306)	–	(3,306)
Capital contribution from non-controlling shareholders (note 26)	–	–	–	–	–	–	–	–	–	5	5
Others	–	–	–	–	–	–	–	(16)	(16)	–	(16)
Balance at 31 December 2013	13,604	12,990*	2,292*	(3,335)*	(1)*	22,887*	3,940*	5,122*	57,499	5	57,504

* These reserve accounts comprise the consolidated reserves of RMB43,895 million (31 December 2012: RMB33,194 million) in the consolidated statement of financial position as at 31 December 2013.

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

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

**** On 16 January 2013, the Board of Directors of the Company approved the rights issue proposal. The Company completed the rights issue of 418 million H shares at an issue price of HK$5.38 per H rights share and 930 million domestic shares at an issue price of RMB4.30 per domestic rights share on the basis of 1.1 rights shares for every 10 existing H shares and domestic shares held by members registered on 30 May 2013, respectively. The Company raised total proceeds of RMB5,787 million, of which an amount of RMB1,348 million was recorded in issued capital and RMB4,406 million was recorded in the share premium account after a deduction of the share issue expenses of RMB33 million.

***** On 29 June 2013, the shareholders of the Company at a general meeting approved that 55% of the profit attributable to owners of the parent for 2012, amounting to RMB5,741 million, after the appropriations to the statutory surplus reserve and the general risk reserve, be appropriated to the discretionary surplus reserve.

On 26 August 2013, the Board of Directors of the Company approved that 50% of the profit attributable to owners of the parent for six months ended 30 June 2013, amounting to RMB3,807 million after the appropriations to the statutory surplus reserve and the general risk reserve, be appropriated to the discretionary surplus reserve.

****** On 26 August 2013, the Board of Directors of the Company approved the 2013 interim dividend distribution of RMB0.243 per ordinary share totalling RMB3,306 million.

For the year ended 31 December 2013

	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*
Balance 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	–	–	–	–	–	–	–	10,405	10,405
Other comprehensive income/(expense)	–	–	223	2,253	(17)	–	–	–	2,459
Total comprehensive income/(expense)	–	–	223	2,253	(17)	–	–	10,405	12,864
Appropriations to statutory surplus reserve and general risk reserve	–	–	–	–	–	1,044	1,044	(2,088)	–
Appropriations to discretionary surplus reserve****	–	–	–	–	–	6,422	–	(6,422)	–
Interim 2012 dividend*****	–	–	–	–	–	–	–	(2,574)	(2,574)
Balance 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 reserve 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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 RMB million	2012 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		13,439	13,349
Adjustments for:			
Investment income	8	(9,939)	(8,387)
Net realised and unrealised losses on investments	9	342	913
Interest expenses credited to policyholders' deposits		1	5
Exchange losses, net		142	13
Share of profits of associates		(77)	(66)
Depreciation of property, plant and equipment	11, 28	1,744	1,428
Amortisation of prepaid land premiums	11, 29	130	125
Net gain on disposal of items of property, plant and equipment	11	(21)	(5)
Finance costs	10	2,060	1,629
Investment expenses		208	182
Impairment loss on insurance receivables	11, 22	188	236
Increase in insurance receivables		(2,396)	(805)
Decrease/(increase) in prepayments and other assets		825	(1,718)
Increase/(decrease) in payables to reinsurers		788	(9,079)
Increase in accrued insurance protection fund		123	39
Increase in other liabilities and accruals		2,091	194
Increase in insurance contract liabilities, net		15,163	15,450
Cash generated from operations		24,811	13,503
Income tax paid		(2,514)	(3,606)
Net cash flows from operating activities		22,297	9,897
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		8,245	7,039
Rental income received from investment properties		205	194
Dividend income received from equity securities		979	646
Payment for capital expenditure		(1,972)	(2,253)
Proceeds from disposal of items of property, plant and equipment		144	67
Payment for share subscription and acquisition of an associate		(2,485)	(10)
Payment for purchase of debt and equity securities		(87,692)	(57,622)
Payment for purchase of unlisted debts		(4,910)	(3,800)
Proceeds from disposal of an associate		1,115	–
Proceeds from issuance of a subsidiary's shares		5	–
Proceeds from sale of debt and equity securities		82,513	47,922
Placement of deposits with banks with original maturity of more than three months		(11,155)	(9,937)
Maturity of deposits with banks with original maturity of more than three months		603	1,084
Net cash flows used in investing activities		(14,405)	(16,670)

For the year ended 31 December 2013

	Notes	2013 *RMB million*	2012 *RMB million*
Net cash flows used in investing activities		**(14,405)**	(16,670)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from rights issue		**5,754**	–
(Decrease)/increase in securities sold under agreements to repurchase, net		**(5,009)**	10,081
Decrease in policyholders' deposits		**(30)**	(350)
Interest paid		**(1,919)**	(1,629)
Dividends paid		**(3,306)**	(2,574)
Net cash flows (used in)/from financing activities		**(4,510)**	5,528
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,382**	(1,245)
Cash and cash equivalents at beginning of year		**12,890**	14,135
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	**16,272**	12,890

At 31 December 2013

	Notes	31 December 2013 *RMB million*	31 December 2012 *RMB million*
ASSETS			
Cash and cash equivalents	17	16,217	12,885
Term deposits	18	63,485	53,130
Derivative financial assets	19	–	28
Debt securities	20	105,682	97,148
Equity securities	21	28,964	35,055
Insurance receivables, net	22	24,870	22,662
Tax recoverable		73	382
Reinsurance assets	23	26,431	22,637
Prepayments and other assets	24	26,332	20,919
Investments in associates	25	4,273	2,799
Investments in subsidiaries	26	48	3
Investment properties	27	4,753	4,720
Property, plant and equipment	28	13,975	13,932
Prepaid land premiums	29	3,530	3,497
Deferred tax assets	30	1,169	940
TOTAL ASSETS		319,802	290,737
LIABILITIES			
Derivative financial liabilities	19	2	–
Payables to reinsurers	31	17,455	16,667
Accrued insurance protection fund	32	698	575
Other liabilities and accruals	33	43,764	46,793
Insurance contract liabilities	34	178,486	159,529
Policyholders' deposits	35	1,953	1,983
Subordinated debts	36	19,562	19,427
TOTAL LIABILITIES		261,920	244,974
EQUITY			
Issued capital	38	13,604	12,256
Reserves	39	44,278	33,507
TOTAL EQUITY		57,882	45,763
TOTAL EQUITY AND LIABILITIES		319,802	290,737

1. CORPORATE INFORMATION

PICC Property and Casualty Company Limited (the "Company") is a joint stock company with limited liability 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 Company and its subsidiaries (collectively referred to as the "Group") are engaged in property and casualty insurance business. The details of the operating segments are set out in note 4 to the consolidated 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 STATEMENTS OF COMPLIANCE

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"), the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Companies Ordinance.

2.2 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties, certain financial instruments, which have been measured at fair value and insurance contract liabilities, which have been measured based on actuarial methods. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 Impairment of Assets.

2.2 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group 's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.2 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's shareholders' interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary, which is reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time which became effective for the current year's financial statements.

Amendments to HKFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Transition Guidance
Amendments to HKAS 1 (2011)	Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income
HKAS 19 (2011)	Employee Benefits
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

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

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 amendment requires an entity to disclose information about rights to set-off financial instruments 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 the financial instruments are set off in accordance with HKAS 32. The amendment has had no significant financial impact on the Group.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities. HKFRS 10 replaces the parts of previously existing HKAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and HK(SIC) – Int 12 Consolidation – Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in HKFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The Group has re-assessed its investment in its investees, and concluded that HKFRS 10 has had no significant financial impact on the Group.

HKFRS 11 – Joint Arrangements

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC) – Int 13 Jointly controlled Entities – Non-monetary Contributions by Venturers. HKFRS 11 removes the option to account for jointly controlled entities ("JCEs") using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under HKFRS 11 must be accounted for using the equity method. The application of this new standard has had no significant financial impact on the Group.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard affects the disclosures regarding subsidiaries and associates of the Group which are set out in notes 25 and 26 to these consolidated financial statements.

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

HKFRS 13 – Fair Value Measurement

HKFRS 13 establishes a single source of guidance under HKFRS for all fair value measurements. HKFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under HKFRS when fair value is required or permitted. The application of HKFRS 13 has had no significant financial impact on the measurement of the Group's assets and liabilities.

HKFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including HKFRS 7 Financial Instruments: Disclosures and HKAS 40 Investment Properties. The Group provides these disclosures in notes 27 and 40.

Amendments to HKAS 1 (2011) – Presentation of Financial Statements

The amendments to HKAS 1 introduces a grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has had no significant financial impact on the Group.

The amendments also introduce a new terminology for the statement of comprehensive income and income statement. Under the amendment, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as statement of profit or loss. The Group chose not to rename these statements in accordance with the revised HKAS 1.

An opening statement of financial position (known as the "third balance sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. The amendment has had no significant financial impact on the Group.

HKAS 19 (2011) – Employee Benefits

HKAS 19 includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in OCI and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The revised standard has had no significant financial impact on the Group.

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

HKAS 27 (2011) – Separate Financial Statements
HKAS 28 (2011) – Investments in Associates and Joint Ventures

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July 2012 have had no significant financial impact on the Group.

Annual Improvements 2009-2011 Cycle – Amendments to a number of HKFRSs issued in June 2012

The Annual Improvements 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each amendment. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments have had significant financial impact on the Group.

2.4 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 consolidated financial statements.

HKFRS 9	Financial Instruments [1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures [1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities [2]
IFRS 14	Regulatory Deferral Account [3]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions [4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities [2]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets [2]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting [2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle [5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle [4]
HK (IFRIC) – Int 21	Levies [2]

1 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
2 Effective for annual periods beginning on or after 1 January 2014
3 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

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

Further information about those HKFRSs is as follows:

HKFRS 9 – Financial Instruments

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. 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. 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 other comprehensive income would create or enlarge an accounting mismatch in profit or loss. In December 2013, the HKFRS 9 was further amended to include the new requirements for hedge accounting.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on 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.

Amendments to HKAS 19 – Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify the requirements relating to the contributions made by employees or the third parties attributed to the service period. It allows entity to adopt a practical method when the contribution is independent from the service period. The amendments are not expected to have significant impact on the financial position or performance of the Group upon adoption on 1 July 2014.

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

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

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 simultaneous. The amendments are not expected to have significant impact on the financial position or performance of the Group upon adoption on 1 January 2014.

Amendments to HKAS 36 –Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal. The amendments are not expected to have significant impact on the financial position or performance of the Group upon adoption on 1 January 2014 but may result in more extensive disclosures.

Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness. The amendments are not expected to have significant impact on the financial position or performance of the Group upon adoption on 1 January 2014.

HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The amendments are not expected to have significant impact on the financial position or performance of the Group upon adoption on 1 January 2014.

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

The annual improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. None of these amendments are expected to have any significant financial impact on the Group.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment (or a portion thereof) is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale is accounted for using the equity method. Upon disposal or partial disposal of the Group's interest in an associate in which the Group lost significant influence and discontinued the use of equity method, any retained interest that is within the scope of HKAS 39 is measured at fair value on the date, the difference between the carrying amount of the associate at the date, and the proceeds from disposing of such interest (or partial interest) in the associate and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the Group lost significant influence over the investee.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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).

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, other than construction in progress, 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	9.70% to 32.30%

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

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

An item of property, plant and equipment 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 mainly represents buildings 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

For a transfer from investment properties to owner-occupied properties, 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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land and building *(continued)*

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid land premiums in the consolidated statement of financial position and amortised over the lease term on a straight-line basis, expect for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as 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 assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus 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.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement ***(continued)***

Financial assets at fair value through profit or loss (continued)

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 in investment income in the income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity, other than those the entity designates as at financial assets at fair value through profit or loss, available-for-sale financial assets or those meeting the definition of loans and receivables. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation and the losses arising from impairment are both included and recognised in the income statement.

Available-for-sale financial assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Available-for-sale financial assets (continued)

After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses being recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in net realised and unrealised gains/(losses) on investments, or until the investment is determined to be impaired, at which time the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial assets are reported as interest income and dividend income, respectively, and are recognised in the income statement as 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.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost *(continued)*

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 assets

For available-for-sale financial assets, 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial assets *(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 reclassified 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 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement ***(continued)***

Loans and borrowings (including subordinated debts) (continued)

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 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.

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and goodwill), 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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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 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 or treated as a revaluation increase, as appropriate.

Cash and cash equivalents

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, which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

Product classification and unbundling

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Product classification and unbundling *(continued)*

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contract liabilities *(continued)*

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

The unearned premium reserves represent premiums received for risks that have not yet expired. At inception of the contract, it represents premiums received or receivable minus relevant acquisition costs. Acquisition costs in relation to the sale of new insurance contracts such as commission expenses, underwriting personal expenses, business tax and surcharges, insurance protection expenses and other incremental costs are recorded as expenses in 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 of 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Reinsurance *(continued)*

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

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

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

2.5 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 deductible temporary differences, the carryforward of unused tax credits and any unused tax losses 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.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities, other than described below.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumed is rebutted. The presumption is rebutted when the investment properties are depreciable and is held within a business model whose objective is to consume substantially economic benefits embodied in the investment properties over time, rather than through sale.

Borrowing costs

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

Government grants

Government grants are recognised in profit or loss where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the amount is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Provisions

Except contingent considerations deriving from or contingent liabilities assumed in business combinations, contingent liabilities are recognised as provisions if the following conditions are met:

– An entity has a present obligation as a result of a past event;

– It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

– A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period with the consideration of risks, uncertainties and the present value. Provisions shall be reviewed at the end of the reporting period and adjusted to reflect the current best estimate.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension scheme

Employees of the Group are required to participate in a central pension scheme operated by the local municipal government of the PRC. 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 share-based payment 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 straight-line 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Profit appropriation

In accordance with the PRC Company Law and the Group's respective entities' articles of association, the Group's respective entities are required to make appropriations to the statutory surplus reserve based on their respect year-end profit (after offsetting any prior years' losses) as determined based on relevant accounting principles and financial regulations applicable to entities established in the PRC in their annual statutory financial statements. When the balance of such reserve fund reaches 50% of the capital, any further appropriation is optional. The Group's respective entities may also make appropriations 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 the capital. The balance of the statutory surplus reserve fund after transfers to the capital should not be less than 25% of 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 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 in their respective functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the end of the reporting period. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for (i) exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation; (ii) exchange differences arising from the changes of the fair value of monetary assets classified as available-for-sale financial assets (other than the changes relating to the amortised cost of the monetary assets) which are recognised in other comprehensive and accumulated in equity. 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 consolidated 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 consolidated 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 assets, as appropriate. Certain of these classifications require judgements. The judgements on these classifications depend on the nature and purposes of acquiring these financial assets at their initial recognitions. Subsequent reclassifications may be made if the intention of holding a particular financial asset changed and that reclassification is permitted by HKFRS.

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 considers the magnitude of the decline in fair value relative to cost and the length of the period over which the fair value is lower than cost.

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.

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. 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.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios in the PRC and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is rebutted.

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.

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

Estimation uncertainty *(continued)*

Claims liability arising from insurance contracts *(continued)*

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

Impairment losses on insurance receivables

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

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

Deferred tax assets

Deferred tax assets are recognised for 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 estimated timing and level of future taxable profits as well as the applicable tax rates, together with future tax planning strategies.

Fair value of measurement of financial assets based on unobservable inputs

For financial reporting purposes, fair value measurements of certain available-for-sale financial assets are based on unobservable inputs that are significant to these measurements. Details of these inputs and the corresponding valuation methods are set out in note 40 to these consolidated financial statements.

Fair value of investment properties

The fair value of investment properties is based on regular appraisals by independent professional values. Valuation of investment properties involves various assumptions and techniques. The principal assumptions and valuation methodology of investment properties are set out in note 27 to these consolidated financial statements.

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.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has seven operating and reportable 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 homeowners, special risks, marine hull, agriculture, construction and credit; and

(g) the corporate segment includes the income and expenses from investment activities, share of results of associates, non-operating income and expenses, unallocated income and expenditures of the Group.

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 result, in which insurance business income and expense (for segments (a) to (f)) is a measure of underwriting profit/(loss) and corporate business income and expense (for segment (g)), primarily investment related income and expense, is a measure of profit for the year. Income tax expenses are not further allocated but assigned to corporate business segment.

Insurance business assets and liabilities directly attributable to operating segments of insurance business will be allocated to each segment. Investment assets and liabilities managed on a group basis will be allocated to the corporate business segment together with tax recoverable, deferred tax assets, property, plant and equipment, investment properties, prepaid land premiums, other assets, subordinated debts and other payables, which are not allocated further but assigned to corporate business segment directly.

Geographical information is not presented as all of the Group's customers, operations and assets and liabilities are located in the PRC based on the operation of the relevant entities. No inter-segment transactions occurred in 2013 and 2012.

In 2013 and 2012, 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 2013 and 2012 are as follows:

2013	Insurance						Corporate	Total
	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Others *RMB million*	*RMB million*	*RMB million*
Segment turnover	163,276	12,581	3,664	8,446	9,934	25,624	–	223,525
Net premiums earned	141,810	7,818	2,474	6,189	7,520	16,735	–	182,546
Net claims incurred	(94,486)	(5,734)	(1,006)	(3,343)	(5,441)	(10,892)	–	(120,902)
Acquisition costs and other underwriting expenses	(28,598)	(2,152)	(627)	(1,418)	(1,443)	(199)	–	(34,437)
General and administrative expenses	(15,657)	(849)	(28)	(732)	(328)	(3,653)	–	(21,247)
Underwriting profit/(loss)	3,069	(917)	813	696	308	1,991	–	5,960
Investment income	–	–	–	–	–	–	9,939	9,939
Net realised and unrealised losses on investments	–	–	–	–	–	–	(342)	(342)
Investment related expenses	–	–	–	–	–	–	(208)	(208)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(1)	–	(1)
Exchange losses, net	–	–	–	–	–	–	(142)	(142)
Finance costs	–	–	–	–	–	–	(2,060)	(2,060)
Sundry income and expenses	–	–	–	–	–	–	216	216
Share of profits of associates	–	–	–	–	–	–	77	77
Profit/(loss) before tax	3,069	(917)	813	696	308	1,990	7,480	13,439
Income tax expense	–	–	–	–	–	–	(2,881)	(2,881)
Profit/(loss) attributable to owners of the parent	3,069	(917)	813	696	308	1,990	4,599	10,558

4. OPERATING SEGMENT INFORMATION *(continued)*

2012	Insurance: Motor vehicle *RMB million*	Insurance: Commercial property *RMB million*	Insurance: Cargo *RMB million*	Insurance: Liability *RMB million*	Insurance: Accidental injury and health *RMB million*	Insurance: Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Segment 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 related 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)*

The segment assets, liabilities and other segment information of the Group as at 31 December 2013 and 2012 are as follows:

31 December 2013	Insurance: Motor vehicle *RMB million*	Insurance: Commercial property *RMB million*	Insurance: Cargo *RMB million*	Insurance: Liability *RMB million*	Insurance: Accidental injury and health *RMB million*	Insurance: Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Segment assets	19,988	11,145	1,601	3,483	3,344	15,227	264,636	319,424
Segment liabilities	145,475	16,229	3,142	10,452	7,349	26,757	52,516	261,920
Other segment information:								
Depreciation and amortisation	1,518	114	34	78	92	237	–	2,073
Impairment losses on insurance receivables	13	5	(81)	41	58	152	–	188
Interest income	–	–	–	–	–	–	8,755	8,755
Capital expenditures	–	–	–	–	–	–	1,847	1,847

31 December 2012	Insurance: Motor vehicle *RMB million*	Insurance: Commercial property *RMB million*	Insurance: Cargo *RMB million*	Insurance: Liability *RMB million*	Insurance: Accidental injury and health *RMB million*	Insurance: Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Segment assets	19,608	6,967	1,309	3,142	2,391	14,865	242,142	290,424
Segment 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
Impairment losses on insurance receivables	33	(14)	72	31	8	106	–	236
Interest income	–	–	–	–	–	–	7,547	7,547
Capital expenditures	–	–	–	–	–	–	2,682	2,682

For the year ended 31 December 2013

5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	Group 2013 RMB million	2012 RMB million
Turnover		
Direct premiums written	223,005	193,018
Reinsurance premiums assumed	520	469
	223,525	193,487
Net premiums earned		
Turnover	223,525	193,487
Less: Reinsurance premiums ceded	(31,769)	(29,356)
Net premiums written	191,756	164,131
Less: Change in net unearned premium reserves	(9,210)	(8,827)
Net premiums earned	182,546	155,304

6. NET CLAIMS INCURRED

	Group 2013 RMB million	2012 RMB million
Gross claims paid	133,197	109,169
Less: Paid losses recoverable from reinsurers	(18,248)	(17,070)
Net claims paid	114,949	92,099
Change in net loss and loss adjustment expense reserves	5,953	6,623
Net claims incurred	120,902	98,722

7. ACQUISITION COSTS AND OTHER UNDERWRITING EXPENSES

	Group	
	2013	2012
	RMB million	*RMB million*
Commission expenses	**19,139**	17,025
Less: Reinsurance commission income	**(9,366)**	(9,041)
Underwriting personnel expenses	**10,835**	9,129
Business tax and surcharges	**11,066**	9,820
Insurance protection fund (note 32)	**1,784**	1,544
Others	**979**	1,028
	34,437	29,505

8. INVESTMENT INCOME

	Group	
	2013	2012
	RMB million	*RMB million*
Rental income from investment properties	**205**	194
Financial assets at fair value through profit or loss:		
– Held for trading:		
Interest income	**23**	40
Dividend income	**71**	136
– Designated upon initial recognition:		
Interest income	**18**	7
Available-for-sale financial assets:		
Interest income	**2,586**	2,406
Dividend income	**908**	510
Held-to-maturity investments:		
Interest income	**1,958**	1,606
Loans and receivables:		
Interest income	**4,170**	3,488
	9,939	8,387

9. NET REALISED AND UNREALISED LOSSES ON INVESTMENTS

	Group 2013 *RMB million*	2012 *RMB million*
Available-for-sale financial assets:		
Realised gains/(losses)	802	(247)
Impairment losses	(1,344)	(1,350)
Financial assets at fair value through profit or loss:		
Realised gains	32	228
Unrealised (losses)/gains	(19)	340
Financial assets classified as held for sale:		
Realised gains	37	–
Fair value gains on investment properties (note 27)	150	116
	(342)	(913)

10. FINANCE COSTS

	Group 2013 *RMB million*	2012 *RMB million*
Interest on subordinated debts		
– wholly repayable within five years	154	155
– not wholly repayable within five years	923	914
	1,077	1,069
Interest on securities sold under agreements to repurchase	937	478
Other finance costs	46	82
	2,060	1,629

11. PROFIT BEFORE TAX

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

	Notes	Group 2013 *RMB million*	2012 *RMB million*
Depreciation of property, plant and equipment	28	**1,744**	1,428
Amortisation of prepaid land premiums	29	**130**	125
Employee expenses (including directors' and supervisors' remuneration):			
Wages, salaries and staff welfare		**18,485**	15,765
Pension scheme contributions		**1,718**	1,401
Impairment loss on insurance receivables	22	**188**	236
Minimum lease payments under operating leases in respect of land and buildings		**636**	601
Net gain on disposal of items of property, plant and equipment		**(21)**	(5)
Auditors' remuneration		**15**	16

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:

	2013 *RMB'000*	2012 *RMB'000* (Restated)
Fees	**1,218**	1,053
Other emoluments:		
Salaries and allowances	**3,911**	2,044
Performance related bonuses	**–**	2,743
Social insurance, housing fund and other benefits	**1,725**	1,350
	6,854	7,190

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

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

a) Independent non-executive directors

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

	2013 *RMB'000*	2012 *RMB'000*
Mr. Luk Kin Yu, Peter	224	229
Mr. Ding Ning Ning	224	229
Mr. Liao Li	224	229
Mr. Lin Hanchuan (Appointed in March 2013)	185	–
	857	687

There were no other emoluments payable to independent non-executive directors during the year (2012: Nil).

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

2013	Fees *RMB'000*	Salaries and allowances *RMB'000*	Social insurance, housing fund and other benefits *RMB'000*	Total remuneration *RMB'000*
Chairman of the Board:				
Mr. Wu Yan	–	–	–	–
Executive directors:				
Mr. Guo Shengchen (President) (note 1)	–	842	337	1,179
Mr. Wang He	–	815	309	1,124
Non-executive directors:				
Mr. Wang Yincheng (note 2)	–	603	323	926
Mr. Zhou Shurui (note 4)	–	–	–	–
Mdm. Yu Xiaoping (note 4)	–	–	–	–
Mr. Li Tao (note 4)	–	–	–	–
Mr. Tse Sze-Wing, Edmund	137	–	–	137
Supervisors:				
Mr. Wang Yueshu (Chairman of the Supervisory Committee) (note 3)	–	824	318	1,142
Mr. Zhou Liqun (note 3)	–	–	–	–
Mr. Sheng Hetai	–	–	–	–
Mdm. Qu Yonghuan	–	491	237	728
Mr. Shen Ruiguo	–	336	201	537
Independent supervisor:				
Mr. Lu Zhengfei	224	–	–	224
	361	3,911	1,725	5,997

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

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

Notes:

(1) Mr. Guo Shengchen was appointed by the Board of Directors as the president of the Company on 21 January 2014.

(2) Mr. Wang Yincheng resigned as the vice chairman of the Board of Directors and the president of the Company on 25 October 2013. Mr. Wang Yincheng, originally an executive director of the Company, was re-designated as non-executive director of the Company on 5 December 2013.

(3) Mr. Zhou Liqun resigned as supervisor and his capacity as chairman of the Supervisory Committee was also terminated on 6 November 2013. Mr. Wang Yueshu was appointed as chairman of the Supervisory Committee on 6 November 2013.

(4) These non-executive directors did not receive any fees from the Company.

In respect of the SAR granted to senior executives, 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 a person who is not a Mainland Chinese resident (please refer to note 42).

In accordance with the regulations of the relevant authorities in the PRC, the Company did not pay any compensation to Mr. Wu Yan, the chairman of the Board of Directors. The total compensation package for the Company's key management for the year ended 31 December 2013 has not yet been finalised in accordance with regulations of the PRC relevant authorities.

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

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

2012 (Restated)	Fees *RMB'000*	Salaries and allowances *RMB'000*	Performance related bonuses *RMB'000*	Social insurance, housing fund and other benefits *RMB'000*	Total remuneration *RMB'000*
Chairman of the Board:					
Mr. Wu Yan	–	–	–	–	–
Executive directors:					
Mr. Wang Yincheng (President)	–	701	745	350	1,796
Mr. Guo Shengchen	–	453	679	307	1,439
Mr. Wang He	–	394	590	292	1,276
Non-executive directors:					
Mr. Zhou Shurui	–	–	–	–	–
Mdm. Yu Xiaoping	–	–	–	–	–
Mr. Li Tao	–	–	–	–	–
Mr. Tse Sze-Wing, Edmund	137	–	–	–	137
Supervisors:					
Mr. Zhou Liqun (Chairman of the Supervisory Committee)	–	–	–	–	–
Mr. Sheng Hetai	–	–	–	–	–
Mdm. Qu Yonghuan	–	295	487	222	1,004
Mr. Shen Ruiguo	–	201	242	179	622
Independent supervisor:					
Mr. Lu Zhengfei	229	–	–	–	229
	366	2,044	2,743	1,350	6,503

The compensation amounts for these directors and supervisors for the year ended 31 December 2012 were restated based on the finalised amounts determined during 2013.

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% (2012: 25%) in accordance with the relevant PRC income tax rules and regulations.

	Group	
	2013	2012
	RMB million	*RMB million*
Current		
– Charge for the year	**2,822**	2,517
– Adjustments in prior years	**1**	181
Deferred (note 30)	**58**	246
Total tax charge for the year	**2,881**	2,944

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	
	2013	2012
	RMB million	*RMB million*
Profit before tax	**13,439**	13,349
Tax at the statutory tax rate of 25% (2012: 25%)	**3,360**	3,337
Income not subject to tax	**(610)**	(533)
Expenses not deductible for tax	**130**	138
Adjustments in respect of current tax of previous periods	**1**	2
Tax charge at the Group's effective tax rate	**2,881**	2,944

15. BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

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

	2013	2012 (Restated)
Earnings:		
Profit attributable to owners of the parent (RMB million)	**10,558**	10,405
Shares:		
Weighted average number of ordinary shares in issue (in million shares)	**13,298**	12,869
Basic earnings per share (RMB)	**0.794**	0.809

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

The weighted average number of ordinary shares in issue during the year and the comparative period were adjusted to reflect the effect of the rights issues in 2013.

Diluted earnings per share amounts for the years ended 31 December 2013 and 2012 have not been disclosed as there were no potential ordinary shares outstanding during these years.

16. DIVIDEND

	2013 *RMB million*	2012 *RMB million*
Interim dividends recognised as distribution during the year: RMB0.243 per share (2012: RMB0.21)	**3,306**	2,574

On 26 August 2013, the Board of Directors of the Company approved the 2013 interim dividend distribution of RMB0.243 per ordinary share totalling RMB3,306 million.

Subsequent to the end of the reporting period, on 28 March 2014, final dividend in respect of the year ended 31 December 2013 of RMB0.221 per ordinary share (2012: Nil) has been proposed by the directors of the Company and is subject to the approval of the Company's shareholders at the forthcoming general meeting.

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Demand deposits	12,854	12,000	12,799	11,995
Securities purchased under resale agreements with original maturity of less than three months	2,858	690	2,858	690
Deposits with banks with original maturity of less than three months	560	200	560	200
	16,272	12,890	16,217	12,885
Classification of cash and cash equivalents:				
Loans and receivables	16,272	12,890	16,217	12,885

18. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	Group and Company	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*
More than 3 months to 1 year	1,136	1,501
2 to 3 years	1,781	612
More than 3 years	60,568	51,017
Total	63,485	53,130

19. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Group and Company	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Interest rate swaps	**(2)**	28

Interest rate swaps are stated at their fair values.

The Company is exposed to the variability of cash flows on financial assets which bear interest at a variable rate, and therefore uses interest rate swaps to manage 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 2013:			
3-month Shanghai Interbank Offered Rate 5-day mean or 1-year deposit rate by the People's Bank of China	3.650%-5.200%	18 May 2014-24 February 2018	1,630
31 December 2012:			
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	1,150

The terms of the cash flow hedging and the terms of the hedged items are highly matched. Cash flow hedging relationships are assessed to be effective and a post-tax loss of RMB23 million (2012: a post-tax loss of RMB17 million) was recognised as other comprehensive income. There was no gain or loss transferred from other comprehensive income to profit or loss in 2013 (2012: Nil).

20. DEBT SECURITIES

	Group and Company	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Listed debt securities, at fair value:		
Debt securities issued by governments	4,604	599
Debt securities issued by corporate entities	13,947	7,103
	18,551	7,702
Unlisted debt securities, at fair value:		
Debt securities issued by governments	8,737	14,513
Debt securities issued by banks and other financial institutions	19,041	22,690
Debt securities issued by corporate entities	19,447	17,801
	47,225	55,004
Listed debt securities, at amortised cost:		
Debt securities issued by corporate entities	2,640	1,280
Unlisted debt securities, at amortised cost:		
Debt securities issued by governments	3,025	2,926
Debt securities issued by banks and other financial institutions	27,666	27,295
Debt securities issued by corporate entities	6,575	2,941
	37,266	33,162
	105,682	97,148
Classification of debt securities:		
Fair value through profit or loss – held for trading	1,137	1,376
Available-for-sale	64,639	61,330
Held-to-maturity	39,906	34,442
	105,682	97,148
Listed investments		
Hong Kong	164	–
Elsewhere	20,862	8,982
Unlisted investments	84,656	88,166
	105,682	97,148

21. EQUITY SECURITIES

	Group and Company	
	31 December 2013	31 December 2012
	RMB million	*RMB million*
Listed investments, at fair value:		
Mutual funds	**242**	1,775
Shares	**16,484**	19,936
	16,726	21,711
Unlisted investments, at fair value:		
Mutual funds	**11,036**	12,126
Unlisted investments, at cost:		
Shares	**1,202**	1,218
	28,964	35,055
Classification of equity securities:		
Fair value through profit or loss-held for trading	**1,749**	2,166
Available-for-sale	**27,215**	32,889
	28,964	35,055
Listed investments		
Hong Kong	**417**	531
Elsewhere	**16,309**	21,180
Unlisted investments	**12,238**	13,344
	28,964	35,055

Unlisted equity investments with a carrying amount of RMB1,202 million as at 31 December 2013 (31 December 2012: RMB1,218 million) were carried at cost less impairment, as their fair values cannot be measured reliably.

There was a significant or prolonged decline in the market value of certain equity investments during the year. The Company considers that such a decline indicates that the equity investments have been impaired and an impairment loss of RMB1,344 million (2012: RMB1,350 million), which represented a reclassification from other comprehensive income of RMB1,344 million (2012: RMB1,350 million), has been recognised in the income statement for the year.

22. INSURANCE RECEIVABLES, NET

	Group and Company	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Premiums receivable and agents' balances	6,752	6,156
Receivables from reinsurers	20,431	18,921
	27,183	25,077
Less: Impairment provision on:		
Premiums receivable and agents' balances	(2,123)	(2,222)
Receivables from reinsurers	(190)	(193)
	24,870	22,662

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 2013 *RMB million*	31 December 2012 *RMB million*
On demand	18,981	13,081
Within 1 month	1,284	1,354
1 to 3 months	2,740	5,256
Over 3 months	1,865	2,971
	24,870	22,662

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

	Group and Company	
	2013 *RMB million*	2012 *RMB million*
At 1 January	2,415	2,453
Impairment losses recognised (note 11)	188	236
Amount written off as uncollectible	(290)	(274)
At 31 December	2,313	2,415

Included in the Group's insurance receivables is an amount due from a fellow subsidiary of RMB272 million (31 December 2012: RMB404 million). Please refer to note 47(c) for details.

23. REINSURANCE ASSETS

	Group and Company	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Reinsurers' share of:		
Unearned premium reserves (note 34)	11,138	9,387
Loss and loss adjustment expense reserves (note 34)	15,293	13,250
	26,431	22,637

24. PREPAYMENTS AND OTHER ASSETS

		Group and Company	
	Notes	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Unlisted debts		12,910	8,000
Capital security fund	(i)	2,721	2,880
Interest receivables		3,981	3,464
Prepayments and deposits		387	365
Other receivables	(ii)	698	978
Securities settlement accounts		551	17
Amounts due from follow subsidiaries (note 47(c))		37	49
Amounts due from associates (note 47(c))		–	1
Other assets		5,047	5,165
		26,332	20,919

Notes:

(i) In accordance with the PRC Insurance Law, the Company 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) As at 31 December 2013, included in the balance of other receivables was an amount of RMB171 million (31 December 2012: RMB185 million) due from a securities company in the PRC under liquidation. The amount was fully impaired as at 31 December 2013 and 2012.

25. INVESTMENTS IN ASSOCIATES

	Group		Company	
	31 December 2013	31 December 2012	**31 December 2013**	31 December 2012
	RMB million	*RMB million*	***RMB million***	*RMB million*
Unlisted shares, at cost	**–**	–	**4,273**	2,799
Goodwill on acquisition	**16**	230	**–**	–
Share of net assets	**3,957**	2,354	**–**	–
	3,973	2,584	**4,273**	2,799

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

Particulars of the associates as at 31 December 2013 and 2012 are as follows:

31 December 2013

Name	Place of registration and operations	Nominal value of registered share capital *RMB million*	Proportion of ownership interest and voting right	Measurement method	Principal activities
PICC Life Insurance Company Limited ("PICC Life")	Beijing	25,761	8.615%	Equity method	Provision of life insurance products
China Aerospace Investment Holdings Limited ("Aerospace Investment")	Beijing	7,425	16.835%	Equity method	Provision of industry incubation, capital operation, strategic mergers and acquisitions, investment and financing services

31 December 2012

Name	Place of registration and operations	Nominal value of registered share capital *RMB million*	Proportion of ownership interest and voting right	Measurement method	Principal activities
PICC Life	Beijing	20,133	8.615%	Equity method	Provision of life insurance products
Beijing No.88 West Chang'an Avenue Development Company Limited ("No.88 Development Company")	Beijing	501	30.41%	Equity method	Provision of estate services and property management

25. INVESTMENTS IN ASSOCIATES *(continued)*

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. Upon completion of the increase in share capital 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 22 April 2013, PICC Life completed the registration of new business licence and filing procedures with the Administration of Industry and Commerce and its registered capital was changed to RMB25,761,104,669. The Company continues to account for its interest in PICC Life as an associate as the Company has representation on the Board of Directors of PICC Life.

On 28 April 2013, the Company entered into an agreement, pursuant to which the Company agreed to subscribe for shares at an amount of RMB2,000 million to acquire the share capital of Aerospace Investment, representing an equity interest of 16.835% in Aerospace Investment. The Company accounted for its interest in Aerospace Investment as an associate as the Company has representation on the Board of Directors and the Supervisory Committee of Aerospace Investment.

Since Aerospace Investment became an associate of the Company in October 2013, the audited financial statements for the year ended 31 December 2013 were not available at the date of approving these consolidated financial statements. Given the estimated impact to these consolidated financial statements of the Company were considered insignificant, the Company did not share any profit or loss of this associate for the period from commencement of exercising significant influence to 31 December 2013.

On 9 December 2013, the Company entered into an agreement with PICC Group to transfer the 30.41% equity interest in No.88 Development Company held by the Company to PICC Group for a consideration of approximately RMB1,115 million. On completion of the transfer, the Company no longer has any direct interest in No. 88 Development Company.

All the associates are private companies and there are no quoted market prices available for these shares.

The following table illustrates the summarised financial information of the Group's associates:

	No. 88 Development Company		PICC Life	
	31 December 2013	31 December 2012	**31 December 2013**	31 December 2012
	RMB million	*RMB million*	***RMB million***	*RMB million*
Share of the associates' assets and liabilities				
Total assets	**–**	1,357	**31,609**	28,934
Total liabilities	**–**	(492)	**(29,653)**	(27,445)
Net assets	**–**	865	**1,956**	1,489

25. INVESTMENTS IN ASSOCIATES *(continued)*

	No. 88 Development Company		PICC Life	
	2013	2012	2013	2012
	RMB million	*RMB million*	*RMB million*	*RMB million*
Share of the associates' revenue and profit				
Revenue	–	1	8,056	6,703
Profit after tax	–	25	77	41
Other comprehensive (expense)/ income	–	–	(95)	380
Total comprehensive income/ (expense)	–	25	(18)	421

26. INVESTMENTS IN SUBSIDIARIES

	Company	
	31 December 2013	31 December 2012
	RMB million	*RMB million*
Unlisted shares, at cost	48	3

Particulars of the subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of registered share capital *(RMB million)*	Proportion of ownership interest and voting right %
PICC Hebi Insurance Agency Company Limited*	PRC	0.5	100
PICC Motor Insurance Sales Services Company Limited* ("PICC Motor Insurance Sales Services") (Note 1)	PRC	50.0	90
PICC Hebei Insurance Agency Company Limited*	PRC	1.0	100
PICC Haikou Training Center Company Limited*	PRC	0.1	100

* Registered as limited companies under the PRC Company Law

26. INVESTMENTS IN SUBSIDIARIES *(continued)*

The principal activities of these subsidiaries are mainly the provision of insurance agency services and training services to the Group. None of the subsidiaries had issued any debt securities at the end of the year.

In the opinion of the directors, there is no subsidiary with material non-controlling interests within the Group. Accordingly, no further information on non-wholly owned subsidiary has been presented.

Note 1: In 2012, the Company entered into an agreement, pursuant to which the Company and the other shareholders agreed to subscribe for shares at an amount of approximately RMB45 million and RMB5 million, respectively, to increase the share capital of PICC Qingdao Insurance Agency Company Limited, which was renamed as PICC Motor Insurance Sales Services Company Limited in 2013. Upon the payment of subscription on 17 January 2013, the proportion of shareholding held by the Company remained unchanged, representing 90% of the enlarged issued share capital of PICC Motor Insurance Sales Services. On 25 October 2013, PICC Motor Insurance Sales Services completed the registration of new business licence and filing procedures with the Administration of Industry and Commerce and its registered capital was changed to RMB50 million.

27. INVESTMENT PROPERTIES

	Group	
	2013	2012
	RMB million	*RMB million*
At 1 January	**4,538**	4,443
Transfers from property, plant and equipment and prepaid land premiums (notes 28 and 29)	**173**	157
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums	**278**	298
Increase in fair value of investment properties during the year (note 9)	**150**	116
Transfers to property, plant and equipment and prepaid land premiums (notes 28 and 29)	**(548)**	(476)
At 31 December	**4,591**	4,538
Hierarchy of fair value:		
Level 3	**4,591**	4,538

27. INVESTMENT PROPERTIES *(continued)*

	Company	
	2013	2012
	RMB million	*RMB million*
At 1 January	**4,720**	4,579
Transfers from property, plant and equipment and prepaid land premiums (notes 28 and 29)	**173**	157
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums	**278**	298
Increase in fair value of investment properties during the year	**130**	162
Transfers to property, plant and equipment and prepaid land premiums (notes 28 and 29)	**(548)**	(476)
At 31 December	**4,753**	4,720
Hierarchy of fair value:		
Level 3	**4,753**	4,720

The Group and the Company were still in the process of applying for title certificates for investment properties with a carrying value of RMB103 million as at 31 December 2013 (31 December 2012: RMB84 million).

As at 31 December 2013 and 31 December 2012, none of the Group's and the Company's investment properties were pledged to secure general banking facilities granted to the Group and the Company.

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 combination of the following two approaches:

(i) the direct comparison approach assuming 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 independent valuer usually determines the fair value of the investment properties as a weighted average of valuations produced by these two approaches according to his professional judgement. Therefore, these fair values are categorised as Level 3.

There has been no change in the valuation technique used for the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing these investment properties was the capitalisation rate used, which range from 4% to 8%. A slight increase in the capitalisation rate used would result in significant decrease in fair value measurement of investment properties, and vice versa.

27. INVESTMENT PROPERTIES *(continued)*

There was no transfer in or out of Level 3 during the year.

For investment properties measured at fair value categorised as Level 3, their valuations are performed by the relevant independent valuers at 30 June and 31 December of each year. The finance department reviews the overall reasonableness of these valuations and reports the results of valuations to management.

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 RMB205 million (2012: RMB194 million) was recognised in the income statement for the year.

28. 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 2013	12,460	1,534	5,805	825	20,624
Additions	563	203	534	309	1,609
Transfers	227	–	–	(227)	–
Transfers from investment properties (note 27)	358	–	–	–	358
Transfers to investment properties (note 27)	(188)	–	–	–	(188)
Disposals	(20)	(177)	(534)	(9)	(740)
At 31 December 2013	13,400	1,560	5,805	898	21,663
Accumulated depreciation					
At 1 January 2013	(3,270)	(722)	(2,651)	–	(6,643)
Charge for the year (note 11)	(475)	(247)	(1,022)	–	(1,744)
Transfers to investment properties (note 27)	66	–	–	–	66
Disposals	9	169	503	–	681
At 31 December 2013	(3,670)	(800)	(3,170)	–	(7,640)
Net book amount					
At 31 December 2013	9,730	760	2,635	898	14,023

28. 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 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 27)	340	–	–	–	340
Transfers to investment properties (note 27)	(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 27)	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

28. 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 2013	12,398	1,534	5,805	825	20,562
Additions	563	203	534	309	1,609
Transfers	227	–	–	(227)	–
Transfers from investment properties (note 27)	358	–	–	–	358
Transfers to investment properties (note 27)	(188)	–	–	–	(188)
Disposals	(20)	(177)	(534)	(9)	(740)
At 31 December 2013	13,338	1,560	5,805	898	21,601
Accumulated depreciation					
At 1 January 2013	(3,257)	(722)	(2,651)	–	(6,630)
Charge for the year	(474)	(247)	(1,022)	–	(1,743)
Transfers to investment properties (note 27)	66	–	–	–	66
Disposals	9	169	503	–	681
At 31 December 2013	(3,656)	(800)	(3,170)	–	(7,626)
Net book amount					
At 31 December 2013	9,682	760	2,635	898	13,975

28. 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 27)	340	–	–	–	340
Transfers to investment properties (note 27)	(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 27)	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

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

As at 31 December 2013, certain acquired buildings of the Group and the Company with a net book amount of RMB666 million (31 December 2012: RMB428 million) were in the process of title registration.

29. PREPAID LAND PREMIUMS

	Group	
	2013 *RMB million*	2012 *RMB million*
At 1 January	3,497	3,410
Additions	48	120
Transfers from investment properties (note 27)	190	136
Amortisation recognised during the year (note 11)	(130)	(125)
Transfers to investment properties (note 27)	(51)	(41)
Disposal	(23)	(3)
At 31 December	3,531	3,497

	Company	
	2013 *RMB million*	2012 *RMB million*
At 1 January	3,497	3,410
Additions	48	120
Transfers from investment properties (note 27)	190	136
Amortisation recognised during the year	(131)	(125)
Transfers to investment properties (note 27)	(51)	(41)
Disposal	(23)	(3)
At 31 December	3,530	3,497

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

	Group	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Long term leases	171	129
Medium term leases	3,360	3,368
	3,531	3,497

29. PREPAID LAND PREMIUMS *(continued)*

	Company 31 December 2013 *RMB million*	31 December 2012 *RMB million*
Long term leases	171	129
Medium term leases	3,359	3,368
	3,530	3,497

30. DEFERRED TAX

The movements in deferred tax assets and liabilities 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 2013	938	614	–	–	682	–	240	2,474
Deferred tax (charged)/credited to the income statement during the year (note 14)	(132)	–	–	–	86	–	21	(25)
Deferred tax directly credited to other comprehensive income during the year	–	344	1	–	–	–	–	345
Gross deferred tax assets at 31 December 2013	806	958	1	–	768	–	261	2,794
Deferred tax liabilities								
At 1 January 2013	–	–	(6)	(451)	–	(914)	(130)	(1,501)
Deferred tax (charged)/credited to the income statement during the year (note 14)	–	–	–	–	–	(37)	4	(33)
Deferred tax directly credited/(debited) to other comprehensive income during the year	–	–	6	–	–	(69)	–	(63)
Gross deferred tax liabilities at 31 December 2013	–	–	–	(451)	–	(1,020)	(126)	(1,597)
Net deferred tax assets at 31 December 2013								1,197

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 2013	938	614	–	–	682	–	240	2,474
Deferred tax (charged)/credited to the income statement during the year	(132)	–	–	–	86	–	21	(25)
Deferred tax directly credited to other comprehensive income during the year	–	344	1	–	–	–	–	345
Gross deferred tax assets at 31 December 2013	806	958	1	–	768	–	261	2,794
Deferred tax liabilities								
At 1 January 2013	–	–	(6)	(451)	–	(947)	(130)	(1,534)
Deferred tax (charged)/ credited to the income statement during the year	–	–	–	–	–	(32)	4	(28)
Deferred tax directly credited/ (debited) to other comprehensive income during the year	–	–	6	–	–	(69)	–	(63)
Gross deferred tax liabilities at 31 December 2013	–	–	–	(451)	–	(1,048)	(126)	(1,625)
Net deferred tax assets at 31 December 2013								1,169

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 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 debited to other comprehensive income 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 other comprehensive income 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 debited to other comprehensive income 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 other comprehensive income 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

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

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 2013 *RMB million*	31 December 2012 *RMB million*
Reinsurance payables	17,455	16,667

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 RMB262 million (31 December 2012: RMB321 million). Please refer to note 47(c) for details.

32. ACCRUED INSURANCE PROTECTION FUND

	Group and Company	
	2013 *RMB million*	2012 *RMB million*
At 1 January	575	536
Accrued during the year (note 7)	1,784	1,544
Paid during the year	(1,661)	(1,505)
At 31 December	698	575

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 (2012: 0.8%) in accordance with the relevant PRC insurance laws and regulations. No further provision is required once the accumulated balance has reached 6% (2012: 6%) of the Group's total assets as determined in accordance with PRC accounting standards.

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

33. OTHER LIABILITIES AND ACCRUALS

		Group and Company	
		31 December 2013	31 December 2012
	Note	*RMB million*	*RMB million*
Premiums received in advance		7,250	6,938
Securities sold under agreements to repurchase	(i)	18,015	23,024
Salaries and staff welfare payables		4,802	4,308
Commission payable		3,079	3,031
Accrued capital expenditure		299	404
Amounts due to fellow subsidiaries (note 47(c))		56	54
Amounts due to PICC Group (note 47(c))		60	–
Amounts due to an associate of PICC Group (note 47(c))		9	–
Others		10,194	9,034
		43,764	46,793

Note:

(i) The Company entered into sales agreements with certain counterparties on its financial assets, in which the Company was subject to simultaneous agreements with commitments to repurchase these financial assets at specified future dates and prices. As stipulated in the repurchase agreements, there is no transfer of the legal ownership of these financial assets to the counterparties during the covered period. However, the Company is not allowed to sell or repledge these financial assets during the covered period unless both parties mutually agree with such agreement. Accordingly, the Company has determined that it retains substantially all the risks and rewards of these financial assets and therefore these financial assets have not been derecognised from the financial statements but regarded as "collateral" for the secured lending from the counterparties. Normally, the counterparties could only claim from the collateral when there exists an event of default on the secured lending.

The proceeds obtained under these repurchase agreements are presented as "securities sold under agreements to repurchase" and are generally repurchased within three months. As at 31 December 2013, debt securities with carrying value of RMB20,236million (31 December 2012: RMB23,931 million) were pledged as collateral for securities sold under agreements to repurchase resulted from repurchase transactions entered into by the Company in the Shanghai/Shenzhen Stock Exchange and inter-bank market.

34. INSURANCE CONTRACT LIABILITIES

	Group and Company	
	31 December 2013	31 December 2012
	RMB million	*RMB million*
Unearned premium reserves	86,595	75,634
Loss and loss adjustment expense reserves	91,891	83,895
	178,486	159,529

34. INSURANCE CONTRACT LIABILITIES *(continued)*

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

Group and Company

	2013			2012		
	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	75,634	(9,387)	66,247	69,617	(12,197)	57,420
Increase during the year	179,019	(22,404)	156,615	154,917	(20,319)	134,598
Release during the year	(168,058)	20,653	(147,405)	(148,900)	23,129	(125,771)
At 31 December	86,595	(11,138)	75,457	75,634	(9,387)	66,247
Loss and loss adjustment expense reserves						
At 1 January	83,895	(13,250)	70,645	76,100	(12,078)	64,022
Increase during the year	141,193	(20,291)	120,902	116,964	(18,242)	98,722
Release during the year	(133,197)	18,248	(114,949)	(109,169)	17,070	(92,099)
At 31 December	91,891	(15,293)	76,598	83,895	(13,250)	70,645
Total insurance contract liabilities	178,486	(26,431)	152,055	159,529	(22,637)	136,892

35. POLICYHOLDERS' DEPOSITS

As at 31 December 2013 and 31 December 2012, the policyholders' deposits were non-interest bearing and repayable on demand.

36. SUBORDINATED DEBTS ISSUED BY THE COMPANY

During the period from 19 December 2006 to 21 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 monthly 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

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

(a) Insurance contract liabilities *(continued)*

Terms *(continued)*

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 4.0%-4.3% and 3.5%-3.8% for 2013 and 2012, respectively.

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

The sensitivity of certain variables like legislative change 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 expense reserves are not quantifiable with certainty at the end of the reporting period.

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 gross basis:

	Accident year – gross					
	2009	2010	2011	2012	2013	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	138,282	510,344
One year later	74,494	84,962	97,641	113,351		370,448
Two years later	74,088	84,535	96,665			255,288
Three years later	73,841	83,082				156,923
Four years later	73,819					73,819
Estimated cumulative claims	73,819	83,082	96,665	113,351	138,282	505,199
Cumulative claims paid	(72,031)	(75,719)	(84,664)	(101,122)	(87,341)	(420,877)
Sub-total						84,322
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						7,569
Unpaid claim expenses						91,891

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					
	2009 *RMB million*	2010 *RMB million*	2011 *RMB million*	2012 *RMB million*	2013 *RMB million*	Total *RMB million*
Estimated cumulative claims paid as of:						
End of current year	58,513	77,498	83,793	94,925	120,084	434,813
One year later	59,101	76,778	82,935	94,929		313,743
Two years later	59,546	76,250	82,237			218,033
Three years later	59,238	74,865				134,103
Four years later	58,820					58,820
Estimated cumulative claims	58,820	74,865	82,237	94,929	120,084	430,935
Cumulative claims paid	(57,291)	(68,399)	(72,533)	(85,469)	(77,873)	(361,565)
Sub-total						69,370
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						7,228
Unpaid claim expenses						76,598

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.

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

(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 RMB19,520 million (2012: RMB18,845 million) and thus a credit exposure exists with respect to the businesses ceded, to the extent that any of these reinsurers are unable to meet its obligations assumed under such reinsurance agreements.

38. ISSUED CAPITAL

	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Shares		
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each	**9,384**	8,454
H shares of RMB1.00 each	**4,220**	3,802
	13,604	12,256

The movements in issued share capital were as follows:

	Number of shares in issue *Million*	**Issued share capital** *RMB million*
As at 1 January 2012 and 31 December 2012	12,256	12,256
As at 1 January 2013	**12,256**	**12,256**
New shares issued under rights issue	**1,348**	**1,348**
As at 31 December 2013	**13,604**	**13,604**

38. ISSUED CAPITAL *(continued)*

On 18 June 2013, the Company completed the rights issue of 418 million H shares at an issue price of HK$5.38 per H rights share and 930 million domestic shares at an issue price of RMB4.30 per domestic share on the basis of 1.1 rights shares for every 10 existing H shares and domestic shares held by members registered on 30 May 2013, respectively. The Company raised total proceeds of RMB5,787 million, of which an amount of RMB1,348 million was recorded in issued capital.

For the above rights issue, the registration of new business licence and filing procedures with the Administration of Industry and Commerce was completed on 16 October 2013.

39. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity of the consolidated financial statements.

The movements in reserves of the Company are set out below:

	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 2013	8,584	2,111	(1,845)	22	12,285	2,886	9,464	33,507
Total comprehensive Income/(expense) for the year	–	209	(1,033)	(23)	–	–	10,534	9,687
Appropriations to reserves	–	–	–	–	10,602	1,054	(11,656)	–
Rights issue	4,406	–	–	–	–	–	–	4,406
Interim 2013 dividend	–	–	–	–	–	–	(3,306)	(3,306)
Others	–	–	–	–	–	–	(16)	(16)
At 31 December 2013	12,990	2,320	(2,878)	(1)	22,887	3,940	5,020	44,278

39. RESERVES *(continued)*

	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	8,584	1,888	(3,718)	39	4,819	1,842	10,170	23,624
Total comprehensive Income/(expense) for the year	–	223	1,873	(17)	–	–	10,378	12,457
Appropriations to reserves	–	–	–	–	7,466	1,044	(8,510)	–
Interim 2012 dividend	–	–	–	–	–	–	(2,574)	(2,574)
At 31 December 2012	8,584	2,111	(1,845)	22	12,285	2,886	9,464	33,507

40. FAIR VALUE AND FAIR VALUE HIERARCHY

This note provides information on how the Group determines the fair values of various financial assets and liabilities. Details of fair value measurements of investment properties are disclosed in note 27 to these consolidated financial statements.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask process respectively;

- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis; and

- The fair value of derivative instrument is calculated using quoted prices. Where such prices are not available, discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used for non-option type of derivatives, and option pricing model is used for option type of derivatives.

Financial instruments that are measured at fair value subsequent to initial recognition or fair value has been disclosed, are grouped into three levels based on the degree to which the fair value is observable.

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

Fair value of financial instruments *(continued)*

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

(a) Fair value of financial assets and liabilities not measured at fair value

The carrying amounts of the Group's and the Company's financial instruments not measured at fair value approximate their fair values as at 31 December 2013 and 31 December 2012 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	As at 31 December 2013	
(in RMB million)	**Carrying amounts**	**Fair value**
Financial assets		
Held-to-maturity investments	**39,906**	**36,004**
Loans and receivables – unlisted debts	**12,910**	**12,786**
Financial liabilities		
Subordinated debts	**19,562**	**19,294**

	As at 31 December 2012	
(in RMB million)	Carrying amounts	Fair value
Financial assets		
Held-to-maturity investments	34,442	34,667
Loans and receivables – unlisted debts	8,000	8,338
Financial liabilities		
Subordinated debts	19,427	18,997

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

(a) Fair value of financial assets and liabilities not measured at fair value *(continued)*

	Fair value Hierarchy at 31 December 2013			
(in RMB million)	Level 1	Level 2	Level 3	Total
Financial assets				
Held-to-maturity investments	2,535	33,469	–	36,004
Loans and receivables				
– unlisted debts	–	12,786	–	12,786
Financial liabilities				
Subordinated debts	–	19,294	–	19,294

	Fair value Hierarchy at 31 December 2012			
(in RMB million)	Level 1	Level 2	Level 3	Total
Financial assets				
Held-to-maturity investments	1,200	33,467	–	34,667
Loans and receivables				
– unlisted debts	–	8,338	–	8,338
Financial liabilities				
Subordinated debts	–	18,997	–	18,997

The fair values of the financial assets and financial liabilities classified under Level 2 have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of reporting periods. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, their fair value hierarchy, valuation technique(s) and inputs used).

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

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

Financial assets/ financial liabilities	Fair value as at 31 December 2013	Fair value as at 31 December 2012	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at held for trading:						
– Debt securities traded on stock exchanges	–	10	Level 2	Quoted bid price from last trading day.	N/A	N/A
– Debt securities traded on interbank market	1,137	1,366	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
– Equity securities and funds listed on stock exchanges and unlisted funds (open-ended mutual funds)	1,749	2,166	Level 1	Quoted bid prices in an active market.	N/A	N/A
Available-for-sale investments:						
– Debt securities traded on stock exchanges	18,551	5,717	Level 1	Quoted bid prices in an active market.	N/A	N/A
– Debt securities traded on interbank market	46,088	55,613	Level 2	Discounted cash flow with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
– Equity securities and funds listed on stock exchanges and unlisted funds (open-ended mutual funds)	17,461	23,359	Level 1	Quoted bid prices in an active market.	N/A	N/A
– Equity securities traded on stock exchanges with a lock-up period	8,552	8,312	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	Discount for lack of marketability	The higher the discount, the lower the fair value.
Derivative financial assets						
– Interest rate swaps	–	28	Level 2	Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Derivative financial liabilities						
–Interest rate swaps	(2)	–	Level 2	Discounted cash flow with future cash flows that are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

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

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

As at 31 December 2013	Group and Company Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Financial assets held for trading:				
– Equity securities	1,749	–	–	1,749
– Debt securities	–	1,137	–	1,137
Available-for-sale investments:				
– Equity securities	17,461	–	8,552	26,013
– Debt securities	18,551	46,088	–	64,639
	37,761	47,225	8,552	93,538
Derivative financial liabilities:				
– Interest rate swaps	–	2	–	2

As at 31 December 2012	Group and Company Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Financial assets held for trading:				
– Equity securities	2,166	–	–	2,166
– Debt securities	–	1,376	–	1,376
Derivative financial assets:				
– Interest rate swaps	–	28	–	28
Available-for-sale investments:				
– Equity securities	23,359	–	8,312	31,671
– Debt securities	5,717	55,613	–	61,330
	31,242	57,017	8,312	96,571

In 2013 and 2012, due to change of observable market parameters, certain debt securities were transferred from Level 1 to Level 2 due to lower trading frequency. However, there was no transfer in or out of Level 3 in 2013 and 2012.

The investment in Industrial Bank Co., Ltd. ("IBC") shares classified as available-for-sale investment is subject to a lock-up period of 36 months. To determine the fair value of IBC shares, the Group used quoted price of the shares taking into account of non-marketability discount estimated using Black-Scholes option pricing model. The Group used the historical volatility of share prices as the significant unobservable input in the fair value measurement of the non-marketability discount. An increase or decrease in historical volatility of 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 in respect of IBC was classified as Level 3 fair value hierarchy.

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

(b) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis *(continued)*

The historical volatilities used in measuring the fair value of shares of IBC as at 31 December 2013 are 30.02%. If this input was made higher/lower by 5% while all the other variables were held constant, the carrying amount of the shares as at 31 December 2013 would be lower/higher by approximately RMB73 million.

For financial assets measured at fair value categorised as Level 3, the finance department of the Company is responsible for its valuations as at 30 June and 31 December of each year.

(c) Reconciliation of Level 3 fair value measurements

	Available-for-sale listed shares *RMB million*
1 January 2013	8,312
Total gains:	
– in other comprehensive income (note)	240
31 December 2013	8,552

Note: The gain of RMB240 million relate to available-for-sale investment held as at 31 December 2013.

41. 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 2013			31 December 2012		
	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	**52,026**	**28,867**	**180**	43,260	24,771	175

42. SHARE APPRECIATION RIGHTS

The shareholders of the Company approved the adoption of a scheme of SARs 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.

43. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Financial risks

(1) Credit risk

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

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in debt securities, insurance receivables and reinsurance arrangements with reinsurers. Majority of the Group's financial assets are bond investments which include government bonds, financial bonds, corporate bonds with high credit ratings and term deposits with state-owned commercial banks. Therefore, the Group is exposed to relatively low credit risks for these financial assets.

The Group evaluates its credit risks in investments by both qualitative and quantitative analysis, including studying the relevant industry, enterprise management, financial factors, company prospects, as well as the use of internal credit models. The Group mitigates credit risk by using a variety of methods including impositions of aggregate counterparty exposure limits and increasing the diversification of fixed income investment portfolios.

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 2013, the top three reinsurance companies owed an aggregate amount of RMB13,810 million (31 December 2012: RMB14,043 million) to the Group.

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

(a) Financial risks *(continued)*

(1) Credit risk *(continued)*

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

	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Cash and cash equivalents	16,272	12,890
Term deposits	63,485	53,130
Derivative financial assets	–	28
Debt securities	105,682	97,148
Insurance receivables, net	24,870	22,662
Other financial assets	24,806	18,838
Total credit risk exposure	235,115	204,696

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 financial assets is shown as follows:

	Not past due	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*
31 December 2013							
Cash and cash equivalents	16,272	–	–	–	–	–	16,272
Term deposits	63,485	–	–	–	–	–	63,485
Debt securities	105,682	–	–	–	–	–	105,682
Insurance receivables	19,354	978	2,491	949	4,418	3,411	27,183
Other financial assets	19,514	1,485	251	3,392	5,128	335	24,977
Total	224,307	2,463	2,742	4,341	9,546	3,746	237,599
Less: Impairment provision	–	–	–	–	–	(2,484)	(2,484)
Net	224,307	2,463	2,742	4,341	9,546	1,262	235,115

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

(a) Financial risks *(continued)*

(1) Credit risk *(continued)*

	Not past due	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*
31 December 2012							
Cash and cash equivalents	12,890	–	–	–	–	–	12,890
Term deposits	53,130	–	–	–	–	–	53,130
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	13,460	1,150	217	3,377	4,744	819	19,023
Total	189,915	2,059	5,172	5,387	12,618	4,763	207,296
Less: Impairment provision	–	–	–	–	–	(2,600)	(2,600)
Net	189,915	2,059	5,172	5,387	12,618	2,163	204,696

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters.

The main types of collateral obtained are bills, loans and negotiable securities for reverse repurchase transactions.

Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

(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.

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

(a) Financial risks *(continued)*

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

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

As at 31 December 2013, the Group maintained demand and term deposits with original maturity of no more than three months at 5% of total assets (2012: 4%) to ensure sufficient liquid assets are available to meet its payment obligations. Management closely monitored the increase of the non-current assets.

The table below summarises the remaining contractual maturity profile of the financial assets and liabilities of the Group based on undiscounted contractual cash flows:

	On demand/ Past due *RMB million*	Within 3 months *RMB million*	3 to 12months *RMB million*	1 to 5years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
31 December 2013						
Assets						
Cash and cash equivalents	12,854	4,206	–	–	–	17,060
Term deposits	–	–	4,150	65,593	4,011	73,754
Debt securities						
– Available-for-sale	26,013	492	5,824	39,530	36,825	108,684
– Fair value through profit or loss	1,749	434	320	381	70	2,954
– Held-to-maturity	–	75	1,209	8,368	63,417	73,069
Insurance receivables, net	5,740	15,147	1,486	2,477	20	24,870
Capital security fund	–	–	–	3,230	–	3,230
Other financial assets	2,679	2,929	4,151	10,562	9,379	29,700
Liabilities						
Derivative financial liabilities	–	2	(1)	(4)	–	(3)
Payables to reinsurers	4,968	11,858	427	190	12	17,455
Policyholders' deposits	212	–	–	–	1,741	1,953
Subordinated debts	–	–	582	7,365	18,214	26,161

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

(a) Financial risks *(continued)*

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

	On demand/ Past due *RMB million*	Within 3 months *RMB million*	3 to 12months *RMB million*	1 to 5years *RMB million*	More than 5 years *RMB million*	Total *RMB million*
31 December 2012						
Assets						
Cash and cash equivalents	12,200	852	–	–	–	13,052
Term deposits	–	–	4,618	59,064	70	63,752
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
Insurance receivables, net	9,571	9,097	969	2,998	27	22,662
Capital security fund	–	428	203	2,778	–	3,409
Other financial assets	2,059	2,218	3,494	7,141	7,631	22,543
Liabilities						
Payables to reinsurers	8,811	7,221	359	262	14	16,667
Policyholders' deposits	226	–	–	–	1,757	1,983
Subordinated debts	–	7	1,304	7,227	19,294	27,832

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

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

(a) Financial risks *(continued)*

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

The table below summarises the expected utilisation or settlement of all assets and liabilities:

	31 December 2013			31 December 2012		
	Current* *RMB million*	Non-current *RMB million*	Total *RMB million*	Current* *RMB million*	Non-current *RMB million*	Total *RMB million*
Cash and cash equivalents	16,272	–	16,272	12,890	–	12,890
Term deposits	1,419	62,066	63,485	2,073	51,057	53,130
Derivative financial assets	–	–	–	9	19	28
Debt securities	5,868	99,814	105,682	6,887	90,261	97,148
Equity securities	1,749	27,215	28,964	2,166	32,889	35,055
Insurance receivables, net	22,882	1,988	24,870	19,980	2,682	22,662
Tax recoverable	73	–	73	382	–	382
Reinsurance assets	18,293	8,138	26,431	14,827	7,810	22,637
Prepayments and other assets	8,752	17,580	26,332	9,266	11,653	20,919
Investments in associates	–	3,973	3,973	–	2,584	2,584
Investment properties	–	4,591	4,591	–	4,538	4,538
Property, plant and equipment	–	14,023	14,023	–	13,981	13,981
Prepaid land premiums	–	3,531	3,531	–	3,497	3,497
Deferred tax assets	–	1,197	1,197	–	973	973
Total assets	75,308	244,116	319,424	68,480	221,944	290,424
Derivative financial liabilities	(1)	3	2	–	–	–
Payables to reinsurers	17,254	201	17,455	16,391	276	16,667
Accrued insurance protection fund	698	–	698	575	–	575
Other liabilities and accruals	42,429	1,335	43,764	45,978	815	46,793
Insurance contract liabilities	130,524	47,962	178,486	110,841	48,688	159,529
Policyholders' deposits	212	1,741	1,953	226	1,757	1,983
Subordinated debts	–	19,562	19,562	–	19,427	19,427
Total liabilities	191,116	70,804	261,920	174,011	70,963	244,974

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

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

(a) Financial risks *(continued)*

(3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The Group uses multiple methods to manage market risk, including using sensitive analysis, Value-at-Risk ("VaR"), stress test, scenario analysis and other quantitative models to analyse market risks; mitigating market risk through a diversified investment portfolio; implementing investment risk budget management, setting an acceptable risk tolerance level according to development goals, making investment risk budget and tracking the risk control results dynamically to maintain market risk exposure within an acceptable level.

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 USD.

Moreover, as at 31 December 2013, the Group held deposits of RMB3,230 million (31 December 2012: RMB2,952 million) and debt securities of RMB908 million (31 December 2012: RMB769 million), of which their carrying values were exposed to fluctuations in 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 2013		31 December 2012	
	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%	258	257	203	203
USD	(5%)	(258)	(257)	(203)	(203)

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

(a) Financial risks *(continued)*

(3) Market risk *(continued)*

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate 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 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 (2012: 10 trading days) at a confidence level of 99% (2012: 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 day. The said assumption may not be correct in reality, especially via market which lacks liquidity.

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

(a) Financial risks *(continued)*

(3) Market risk *(continued)*

(iii) Price risk (continued)

	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Interest rate VaR	557	210
Equity price VaR	2,312	3,344

(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 factors:

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.

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.

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

(b) Insurance risk *(continued)*

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

	2013		2012	
	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	99,389	79,704	84,971	70,617
Western China	48,530	43,644	41,654	35,860
Northern China	32,388	29,861	29,694	25,941
Central China	27,895	25,161	23,549	20,247
North-eastern China	15,323	13,386	13,619	11,466
Total	223,525	191,756	193,487	164,131

44. CONTINGENT LIABILITIES

There were certain outstanding litigation matters against the Group as at 31 December 2013. The management of the Company believes such litigation matters will not cause significant losses to the Group.

Owing to the nature of the insurance business, the Group is involved in legal proceedings in the ordinary course of business, including being the plaintiff or the defendant in litigation and arbitration. Such legal proceedings mostly involve claims on the Group's insurance policies, and some losses arising therefrom will be indemnified by reinsurers or other recoveries including salvages and subrogation. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Group believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

45. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties (note 27) under operating lease arrangements, with leases negotiated for terms ranging from two to twenty years (2012: two to twenty).

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

	Group and Company	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Within one year	161	153
In the second to fifth years, inclusive	249	284
After five years	100	113
	510	550

(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 (2012: one to twenty years), and those for motor vehicles are negotiated for terms ranging from one to three years (2012: one to three years).

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

	Group and Company	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Within one year	253	110
In the second to fifth years, inclusive	574	333
After five years	187	136
	1,014	579

46. CAPITAL COMMITMENTS

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

	Group and Company	
	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Contracted, but not provided for:		
Property, plant and equipment	366	871
Authorised, but not contracted for:		
Property, plant and equipment	525	–
	891	871

47. RELATED PARTY TRANSACTIONS

(a) Material transactions with related parties

	Notes	2013 *RMB million*	2012 *RMB million*
Transactions with the holding company:			
Interim dividend distribution	(i)	2,280	1,776
Rights issue	(ii)	3,999	–
Gain from the disposal of an associate	(iii)	37	–
Rental expense	(iv)	74	71
WAN service fees	(v)	8	–
Transactions with fellow subsidiaries:			
Property rental expenses	(vi)	104	105
Property rental income	(vi)	2	2
Management fee	(vii)	136	128
Premiums ceded	(viii)	449	446
Reinsurance commission income	(viii)	160	173
Paid losses recoverable from reinsurers	(viii)	280	232
Reinsurance premiums assumed	(viii)	3	4
Commission expenses-reinsurance	(viii)	1	1
Gross claims paid-reinsurance	(viii)	–	1
Brokerage commission expense	(ix)	96	77
Agency services commission received	(x)	3	2
Agency services commission paid	(x)	9	6

47. RELATED PARTY TRANSACTIONS *(continued)*

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

	Notes	2013 *RMB million*	2012 *RMB million*
Transactions with associates:			
Agency services commission received	(xi)	23	14
Agency services commission paid	(xi)	69	77
Premiums paid	(xii)	159	255
Shares subscribed	(xiii)	485	–
Transactions with an associate of PICC Group:			
Interest income	(xiv)	146	Not applicable
Dividend income	(xiv)	360	Not applicable
Interest expense	(xiv)	46	Not applicable
Premium income	(xiv)	106	Not applicable
Claims paid	(xiv)	74	Not applicable
Commission expense	(xiv)	2	Not applicable

Notes:

(i) On 26 August 2013, the Board of Directors of the Company approved the 2013 interim dividend distribution of RMB0.243 per ordinary share totalling RMB3,306 million. As the PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB2,280 million to the PICC Group.

(ii) On 18 June 2013, the Company completed the rights issue of 930 million domestic shares on the basis of 1.1 domestic rights share for every 10 existing domestic shares, at an issue price of RMB4.30 per domestic share. The PICC Group subscribed for shares with an amount of approximately RMB3,999 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 9 December 2013, the Company entered into a Transfer Agreement with PICC Group to transfer the 30.41% interest in No. 88 Development Company held by the Company to PICC Group for a consideration of approximately RMB1,115 million. The gain from such transfer was approximately RMB37 million.

(iv) The Company has been leasing certain areas of South Information Center as workplaces, meeting rooms and service installation positions and also using the WAN services provided by PICC Group in South Information Center since 2011. The two parties entered into relevant lease agreements of South Information Center in 2011 and 2012 and the Company paid the relevant rents. On 5 December 2013, the Company and PICC Group entered into a Lease Agreement, pursuant to which the Company agreed to lease workplaces of approximately 27,000 square metres in the office building, meeting rooms (subject to the actual rental hours) and approximately 900 server installation positions in server building located in South Information Center. The Company paid rents to PICC Group determined based on the rentals per unit as well as the areas of workplaces rented, rental hours for the meeting rooms and the number of server installation positions rented by the Company. The rental per unit was negotiated by the Company and PICC Group on normal commercial terms. The agreement commenced from 1 January 2013 to 31 December 2013.

47. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: *(continued)*

(v) On 23 December 2013, the Company and PICC Group entered into the WAN Service Agreement. Pursuant to the agreement, the Company uses the WAN services provided by PICC Group in South Information Center and the services include renting out, checkup and maintenance services on the WAN equipment as well as the WAN technical support services fixed by the two parties. The agreement commenced from 1 January 2013 to 31 December 2014 with a term of two years. The Company paid the WAN service fees to PICC Group, by reference to the relevant costs of PICC Group for renting out the equipment and providing services as well as the percentage of brandwidth used by the Company, determined by the Company and PICC Group after negotiation.

(vi) 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 negotiated on normal commercial terms. On 15 December 2011, the Company and PICC Investment only renewed the Property Leasing agreement, effective from 7 July 2011 to 6 July 2014 with a term of three years. PICC Investment is a fellow subsidiary of the Company.

(vii) On 28 December 2007, the Company and PICC Assets Management Company Limited (the "PICC AMC") entered into an asset management agreement. Pursuant to the asset management agreement, PICC AMC provided investment and management services in respect of certain financial assets of the Company. The Company paid management fee to PICC AMC, which was calculated based on the daily net asset value of the entrusted assets and the applicable rates. Other than management fees, performance bonuses were also to be paid to PICC AMC when the investment performance satisfied certain conditions. On 20 June 2013, the Company and PICC AMC entered into a renewed asset management agreement, effective from 1 January 2013 to 31 December 2015 with a term of three years. PICC AMC is a fellow subsidiary of the Company.

(viii) 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. On 25 March 2013, the Company and PICC HK entered into a renewal agreement, effective from 1 January 2013 to 31 December 2013. PICC HK is a fellow subsidiary of the Company.

(ix) On 17 June 2013, the Company and Zhongsheng International Insurance Brokers Company Limited ("ZSIB") entered into an agreement, pursuant to which the Company and ZSIB agreed to cooperate in the insurance brokerage business and other business. The Company would pay brokerage fee to ZSIB in consideration of the brokerage services provided by ZSIB and its subsidiaries on the Company's insurance products. The brokerage fees were calculated by the actual premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and ZSIB on normal commercial terms. The agreement commenced from 17 June 2013 to 16 June 2016, with a term of three years. ZSIB is a fellow subsidiary of the Company.

(x) The Company entered into a mutual insurance agency agreement with PICC Health Insurance Company Limited ("PICC Health") on 30 August 2006, pursuant to which the Company and PICC Health mutually acted as the agent for selling the insurance products and receiving agency premiums on behalf of each other. The Company would pay an agency fee to PICC Health in consideration of the agency services provided by PICC Health on the Company's insurance products. The Company would receive an agency fee from PICC Health in consideration of the agency services provided by the Company on PICC Health's insurance products. The agency fees were calculated by the actual agency premiums received multiplied by the agreed commission rates. The commission rates were negotiated between the Company and PICC Health on normal commercial terms. On 30 August 2013, the Company renewed the agreement with a term of three years effective from 31 August 2013 to 30 August 2016. PICC Health is a fellow subsidiary of the Company.

47. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: *(continued)*

(xi) 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 agent 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 negotiated between the Company and PICC Life on normal commercial terms. On 30 August 2013, the Company renewed the agreement with a term of three years effective from 31 August 2013 to 30 August 2016. PICC Life is a fellow subsidiary and an associate of the Company.

(xii) On 5 December 2013, the Company and PICC Life entered into a Framework Agreement pursuant to which the Company agreed to purchase life insurance products from PICC Life for the employees of the Company. The agreement commenced from 1 January 2013 to 31 December 2015.

(xiii) On 28 January 2013, the Company and PICC Life 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. 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.

(xiv) On 31 December 2012, the Company, PICC Group and PICC Life on aggregate subscribed approximately 1.38 billion shares of IBC through a private placement. After the completion of the subscription, the Company, PICC Group and PICC Life each holds 4.98%, 0.91% and 4.98% voting rights in IBC and PICC Group as a whole became the second largest shareholder of IBC. On 19 April 2013, PICC Life nominated a director into the Board of Directors of IBC. Since then, PICC Group accounted for its equity interest in IBC as an associate using equity method in its consolidated financial statements.

IBC is not a related party as at 31 December 2012 and therefore the relevant amounts are not disclosed.

Under the Listing Rules of The Stock Exchange of Hong Kong Limited, the items (iii), (xiii) mentioned above constitute connected transaction and items (iv), (v), (vi), (vii), (viii), (ix), (x), (xi), (xii) above constitute continuing connected transactions.

(b) Transactions with other government-related entities in the PRC

The Company is a state-owned enterprise which is subject to the indirect control of the State Council of the PRC government. The Group operates in an economic environment predominated by enterprises directly or indirectly controlled, jointly controlled or significantly influenced by the government through its authorities, affiliates or other organisations (collectively the "government-related entities").

Transactions with other government-related entities include insurance policies sold, reinsurance purchased, deposits placed with banks, investments in debts or bonds and commissions pay to banks for insurance policies distributed.

47. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with other government-related entities in the PRC *(continued)*

The directors considers that transactions with government-related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those government-related entities are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government-related entities.

Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group.

(c) Outstanding balances with related parties

	31 December 2013 *RMB million*	31 December 2012 *RMB million*
Cash and cash equivalents:		
An associate of PICC Group	100	Not applicable
Term deposits		
An associate of PICC Group	600	Not applicable
Debt securities:		
An associate of PICC Group	2,138	Not applicable
Receivables from reinsurers:		
Fellow subsidiaries (note 22)	272	404
Due from related parties:		
Fellow subsidiaries (note 24)	37	49
Associates (note 24)	–	1
An associate of PICC Group	50	Not applicable
Payables to reinsurers:		
Fellow subsidiaries (note 31)	262	321
Due to related parties:		
The PICC Group (note 33)	60	–
Fellow subsidiaries (note 33)	56	54
An associate of PICC Group (note 33)	9	Not applicable
Subordinated debts issued to:		
An associate of PICC Group	882	Not applicable

The balances with the PICC Group, fellow subsidiaries, associates and an associate of PICC Group are settled according to respective arrangements between the Company and the related parties.

47. RELATED PARTY TRANSACTIONS *(continued)*

(d) Compensation of key management personnel (including the Chairman of the Board and executive directors)

	2013 *RMB'000*	2012 *RMB'000* (Restated)
Short term employee benefits	2,260	1,548
Other long-term benefits	–	2,014
Post-employment benefits	969	949
Total compensation paid to key management personnel	3,229	4,511

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

48. EVENTS AFTER THE REPORTING PERIOD

(i) On 20 February 2014, the Board of Directors of the Company has approved the issue of a ten years subordinated term debts with an aggregate principal amount of not exceeding RMB11 billion. The terms and conditions of such issue, including the issue date, issue size and interest rates, will be determined by the Board of Directors after taking into account the market conditions and all other relevant factors. The issue of this subordinated term debts is subject to the approval of shareholders' general meeting of the Company, the CIRC and other relevant governing authorities.

(ii) On 28 March 2014, the Board of Directors of the Company proposed an amount of RMB5,799 million to be appropriated to the discretionary surplus reserve. This appropriation is subject to the approval of shareholders' general meeting of the Company.

(iii) On 28 March 2014, the Board of Directors of the Company proposed a final dividend of RMB0.221 per ordinary share and is subject to the approval of shareholders' general meeting of the Company.

49. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 March 2014.

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 above.

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

"Aerospace Investment"	China Aerospace Investment Holdings Limited
"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
"Company"	PICC Property and Casualty Company Limited
"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
"Director(s)"	the director(s) of the Company
"Final Dividend"	the final dividend for the Year as proposed for payment by the Board of Directors
"Guidelines"	the Guidelines on Regulating Corporate Governance Structure of Insurance Companies (Trial)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"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
"Individual H Shareholders"	the individual holders of H shares in the Company who are entitled to receive the Final Dividend
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Macau"	the Macau Special Administrative Region of the People's Republic of China
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"No. 88 Development Company"	Beijing No. 88 West Chang'an Avenue Development Company Limited
"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
"PRC Company Law"	the Company Law of 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)
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Tax Notice"	the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124)
"the Year"	the year ended 31 December 2013
"ZSIB"	Zhongsheng International Insurance Brokers Co., Ltd.
"%"	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 Auditor
Deloitte Touche Tohmatsu

Domestic Auditor
Deloitte Touche Tohmatsu Certified Public Accountants LLP

CONSULTING ACTUARIES

Milliman Asia Limited

LEGAL ADVISORS

as to Hong Kong Laws
Linklaters

as to PRC Laws
King and Wood

To know more about PICC P&C,
please scan the QR code with smartphones