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 2014

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 listed 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 14,828,510,202 shares, of which 69% are held by PICC Group.

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 funds 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. The Company became the insurance partner of the Beijing 2008 Olympic Games, the World Expo 2010 Shanghai China, the Guangzhou 2010 Asian Games and the East Asian Games 2013 successively. Since the first rating of the Company in 2008 by Moody's Investors Service, an international credit rating agency, the Company has been rated the A1 rating, the highest financial strength rating available to non-policy guided financial institutions in mainland China, for seven consecutive years.

- Talent Excellence: The Company adheres to its talent 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 and Technology Excellence: The Company has a comprehensive product research and development system, strong product development capabilities and a full range of on-sale products, covering the whole property and casualty insurance business scope. Many products are innovative and pioneering in the industry. Meanwhile, the Company has a relatively more comprehensive and mature experience in the core capabilities such as insurance underwriting, claim settlement, product development and reinsurance in the property and casualty insurance industry in the PRC. It also has a relatively more mature information technology platform, which provides a strong technical support to the business development of the Company.

- Business Network and Service Excellence: The Company has business offices and service outlets covering both urban and rural areas across the country, including more than 13 thousand business offices and outlets, and 22 thousand insurance stations and 270 thousand insurance outlets to serve agriculture, rural areas and farmers at the township level and the village level respectively, forming a strong sales and service network. Meanwhile, the Company has launched the nationwide customer service hotline 95518, the official direct sales platform www.epicc.com.cn and the telephone sales hotline 4001234567 to provide customers with round-the-clock services including enquiries, insurance purchases and claim settlement anywhere and anytime.

Contents

Summaries of the results and the assets and liabilities of the Company and its subsidiaries for each of the past five financial years are set out as follows:

RESULTS

	Year ended 31 December				
	2010	2011	2012	2013	**2014**
	RMB million	*RMB million*	*RMB million*	*RMB million*	***RMB million***
Turnover	154,307	173,962	193,487	223,525	**253,037**
Underwriting profit	2,780	8,016	7,581	5,960	**7,291**
Investment income	3,968	6,529	8,387	9,939	**12,141**
Net realised and unrealised gains/(losses) on investments	1,127	(2,600)	(913)	(342)	**1,319**
Profit before tax	6,596	10,286	13,349	13,439	**19,441**
Income tax expense	(1,308)	(2,259)	(2,944)	(2,881)	**(4,326)**
Profit attributable to owners of the parent	5,288	8,027	10,405	10,558	**15,115**

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

ASSETS AND LIABILITIES

	At 31 December				
	2010	2011	2012	2013	**2014**
	RMB million	*RMB million*	*RMB million*	*RMB million*	***RMB million***
Total assets	203,557	265,644	290,424	319,424	**366,130**
Total liabilities	176,951	230,484	244,974	261,920	**280,355**
Thereinto: subordinated debts	14,157	19,299	19,427	19,562	**22,449**
Total equity	26,606	35,160	45,450	57,504	**85,775**

Mr Wu Yan
Chairman

Dear Shareholders,

In 2014, faced with a complex external environment, the Company firmly implemented the key principles of "deepening reform and innovation, maintaining a steady growth, and focusing more on value creation" and, by following the guideline of building up an upgraded PICC P&C, constructed the basic level throughout the Year. With strengthened confidence in overcoming difficulties, the Company adapted to market changes, benchmarked with the industry development and formulated strategies corresponding to the specific market conditions. It thereby achieved another record high in terms of operating results, and realised stable growth as well as sound and rapid development. In 2014, the Company's annual premium income surpassed RMB250 billion for the first time, with an average monthly premium income exceeding RMB20 billion; the underwriting profit leaded the industry, and the total investment income exceeded the RMB10 billion mark for the first time. Both the profit before tax and profit attributable to owners of the parent hit a record high.

Business growth maintained stable and market leading position continuously reinforced. In 2014, the Company achieved a premium income of RMB252.419 billion, representing a year-on-year increase of 13.2%, or an annual increment of RMB29.414 billion which continued to rank first in the market; the market share was basically stable at 33.5%. In 2014, while strengthening the performance in the motor vehicle insurance business, the Company reinforced the building up of business development capacity for non-motor insurance, thereby continuously optimised the Company's business structure, with the growth rate of premium income of the five product lines namely commercial property insurance, liability insurance, accidental injury and health insurance, credit and surety insurance and marine hull and cargo insurance surpassed the market, respectively. Further, in the non-motor insurance segments, following commercial property insurance and agriculture insurance, the premium income of accidental injury and health insurance and liability insurance also exceeded RMB10 billion successively. In 2014, seven provincial branches of the Company had each achieved an annual premium income of more than RMB10 billion. In particular, the Jiangsu Provincial Branch of the Company achieved an annual premium income of more than RMB20 billion, becoming the first provincial branch company with an annual premium income of more than RMB20 billion across the property insurance industry in the PRC.

Overall profit hit another record high and value creation capabilities improved continuously. In 2014, the Company and its subsidiaries achieved a profit before tax of RMB19,441 million, representing a year-on-year increase of 44.7%, and a profit attributable to owners of the parent of RMB15,115 million, representing a year-on-year increase of 43.2%, both hit another record high. In 2014, the Company strengthened its business restructuring and cost management and control with the percentage of quality business steadily increased and the underwriting profitability continuously improved, thereby achieved an underwriting profit of RMB7,291 million, representing a year-on-year increase of 22.3%, and a combined ratio of 96.5%, representing a year-on-year decrease of 0.2 percentage points, which continued to outperform the market. In 2014, the total investment income of the Company and its subsidiaries continued to increase rapidly to RMB13,767 million, which exceeded the RMB10 billion mark for the first time. The mode of profit gaining from both underwriting and investment of the Company was effectively consolidated.

Continuous enhancement in comprehensive strengths and improvement in internal development quality. As at the end of 2014, the total assets of the Company and its subsidiaries reached RMB366.130 billion, representing an increase of 14.6% as compared to the beginning of the Year, and the total equity of the Company and its subsidiaries reached RMB85,775 million, representing an increase of 49.2% as compared to the beginning of the Year. In 2014, the net cash flows from operating activities of the Company and its subsidiaries reached RMB31,467 million, representing a year-on-year increase of RMB10,058 million. With relatively rapid growth in premium income, the Company's premiums receivable ratio was controlled within a reasonable range at 2.9%. In 2014, the Company successfully completed the largest amount of rights issue since listing and raised a total proceeds of RMB7,244 million, which substantially increased the Company's capital strength. As at the end of 2014, the Company's solvency margin ratio reached 239%, maintaining the level II Solvency Adequacy. The Company has been rated A1 rating by Moody's Investors Service, the highest financial strength rating available to non-policy guided financial institutions in mainland China, for seven consecutive years, and ranked among the Top 100 Hong Kong-listed Companies selected by, among others, Finet Group Limited, for three consecutive years.

Continuous promotion of vitality at the basic level and improvement in service capabilities. In 2014, the Company deeply commenced activities of building up the basic level throughout the Year by increasing the resources input in infrastructure construction, technical support and team building, focusing on solving urgent issues affecting the development at the basic level, and consolidating the foundation for the development at the basic level, thereby continuously invigorating vitality at the basic level. In 2014, the Company continued to adhere to the customer-oriented philosophy, strengthened customer information management, and steadily promoted the implementation of the customer manager system and innovations in service initiatives. As a result, there was a remarkable increase in the authenticity ratio of customer information, continuous enhancement in the customer retention rate and steady improvement in customer satisfaction.

2015 is a crucial year for the central government to comprehensively deepen the reform, the initial year to fully promote the rule of law as well as the first full year for the implementation of the Opinions of the State Council on Accelerating the Development of Modern Insurance Industry (the "New Ten Rules"). China's economic development has entered into a "new normal", in which the in-depth economic structure adjustment and industrial restructuring and upgrading will bring new development opportunities and market demands for the insurance industry. In addition, policy benefits of the New Ten Rules will continuously be released, and policy-supported insurance related to improvement of national governance system and people's livelihood such as agriculture insurance, health insurance and catastrophe insurance, and emerging insurance such as liability insurance and credit and surety insurance will become new sources of business growth. Furthermore, the deregulation of premium rate for commercial motor vehicle insurance and the implementation of the second generation of Solvency Margin will have a significant and profound impact on the property insurance industry.

In 2015, the Company will adapt itself to the requirements of economic development in the "new normal", seize the opportunities arising from the New Ten Rules, deepen the customer-oriented comprehensive transformation, adhere to the business philosophy of prioritising profitability, stick to market benchmarking, continue to maintain steady growth and strengthen risk prevention, in order to achieve a steady and sustainable development.

2015 is the final year for the Company's Twelfth Five-Year Plan as well as a crucial year for the Company to deepen the comprehensive customer-oriented transformation and accelerate the building up of an upgraded PICC P&C. Facing the great responsibilities and arduous tasks, we have confidence in confronting new challenges, overcoming difficulties and striving to build a world leading property insurance company.

Wu Yan
Chairman

Beijing, the PRC
27 March 2015

DIRECTORS

Wu Yan, aged 54, Chairman of the Board of Directors of the Company, Chairman of the Board of Directors of PICC Group* and a Director of The Geneva Association. Mr Wu is also the Chairman of the Board of Directors of PICC Life Insurance Company Limited, PICC Asset Management Company Limited and PICC Health Insurance Company Limited, a member of the 17th and the 18th National Congress of the Communist Party of China, and a member of the 11th and the 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 was awarded the special government allowance by the State Council in March 2011. 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 59, 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 41 years of operation and management experience in the PRC financial and insurance industries.

Wang Yincheng, aged 54, 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 Institute of China. 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, Chief Financial Officer, 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 33 years of operation and management experience in the PRC insurance industry.

* 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* and the Chairman of the Board of Directors of Beijing No. 88 West Chang'an Avenue Development Company Limited. 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 in engineering in 1982 and graduated from Renmin University of China with a bachelor's degree in economics in 1988. She has 33 years of operation and management experience in the PRC financial sector.

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Li Tao, aged 49, 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 began his career in 1985 and 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 30 years of experience in research and management, etc.

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

Wang He, aged 57, Ph.D, a senior economist, an Executive Director and an Executive Vice President of the Company. Mr Wang is also a Deputy Secretary-General of the Insurance Institute of China and a Vice Chairman of the China Association of Actuaries. 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 27 years of operation and management experience in the PRC insurance industry.

Ding Ningning, aged 67, 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 33 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 the Department of Electrical Engineering of Tsinghua University with a bachelor's degree in 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 48, 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 Director of the Finance@Internet Lab of the National Institute of 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 66, Ph.D, a professor, a doctoral supervisor, enjoying the special government 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 60, a postgraduate, a senior economist, Deputy Secretary of the Party Committee and 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 36 years of operation and management experience in the PRC insurance industry.

Sheng Hetai, aged 44, Ph.D, a senior economist, a Supervisor of the Company since October 2006, currently a Vice President of PICC Group* and the Chairman of the Board of Directors of Zhongsheng International Insurance Brokers Co., Ltd. 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 an Assistant to the President 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 18 years of management experience in the PRC insurance industry.

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

Lu Zhengfei, aged 52, 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, 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, the "New Century Excellent Scholarship Program" of the Ministry of Education of the PRC in 2005, the "Accountant Specialist Training Project" of the Ministry of Finance of the PRC in 2013, and as a Cheung Kong Chair Professor of the Ministry of Education of the PRC in 2014. 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 59, 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 32 years of extensive experience in insurance operation and management both in and outside the PRC.

Shen Ruiguo, aged 58, 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 31 years of operation and management experience in the PRC insurance industry.

OTHER SENIOR MANAGEMENT

Jia Haimao, aged 61, 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 31 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 30 years of operation and management experience in the PRC insurance industry.

Wang Dedi, aged 57, 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 23 years of operation and management experience in the PRC insurance industry.

Jiang Caishi, aged 49, Ph.D, a senior economist, an Executive Vice President of the Company. Mr Jiang is also a Vice Chairman of the PICC Youth Federation, the President of the Shanghai Institute of Marine Insurance and the Chairman on Duty of China Agriculture Insurance and Reinsurance Community. 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 27 years of operation and management experience in the PRC insurance industry.

Lin Zhiyong, aged 52, 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 34 years of operation and management experience in the PRC insurance industry.

Xie Xiaoyu, aged 53, a postgraduate, a Master, a 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 23 years of extensive experience in management.

Zhang Xiaoli, aged 50, 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 is also a Deputy Director of the Corporate Governance Committee of the Insurance Association of China. 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 15 years of management experience in the PRC insurance industry.

Gu Wei, aged 46, a postgraduate, a Master of Economics, a Master of Management, 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 20 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 31 years of operation and management experience in the PRC insurance industry.

Shen Dong, aged 46, a postgraduate, 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 23 years of financial management experience in the PRC insurance industry.

On 21 July 2014, in Beijing, the Company and the State Intellectual Property Office signed a strategic cooperation agreement in relation to intellectual property insurance. Guo Shengchen (front row, third from the right), President of the Company, and Wang Yueshu (signatory on the right side), Chairman of the Supervisory Committee, attended the signing ceremony.

On 26 February 2014, Jia Haimao (middle), Vice President of the Company, attended the "Speech Contest & Appraisal and Award Ceremony on the 5th Anniversary of Tele-marketing" organised by the E-commerce Business Department at the North Operation Center of the E-commerce Business Department.

2014 was the year of basic level construction of the Company. The Company increased resources input at the basic level, with over RMB160 million in purchasing vehicles for the basic level to serve agriculture, rural areas and farmers, and RMB394 million in funding the fitting out and the renovation of the business outlets at the basic level.

On 23 December 2014, the signing ceremony for the General Insurance Program for Food Safety Liability of Tangyin County (a food safety model county recognised by the State) in Henan Province was held in Beijing. This is the first general insurance program for food safety model counties in China. Wang Dedi (fourth from the left), Vice President of the Company, attended the signing ceremony of the Company.

On 24 November 2014, a risk control team led by Jiang Caishi (second from the left), Vice President of the Company, and comprised of members from the Company, relevant reinsurance companies and insurance brokerage companies conducted a comprehensive risk screening on the main construction of the Hong Kong-Zhuhai-Macau Bridge for which the Company is the lead insurer.

On 27 June 2014, the Company was officially connected into the electronic invoicing service platform of Beijing Municipal Office of the State Administration of Taxation and successfully received the first electronically recorded e-invoice in China. Wang He (middle), Vice President of the Company, took part in the news conference.

On 28 February 2014, the Company and China National Light Industrial Products Import & Export Corporation held a signing ceremony for the 2014 cargo insurance agreement between the two companies. Yun Zhen (back row, third from the left), Vice President of the Company, attended the signing ceremony.

In 2014, Jiangsu Provincial Branch of the Company achieved a premium income of RMB23.7 billion and became the first provincial branch in the property insurance sector in China with a premium income exceeding RMB20 billion. Guo Shengchen (right), President of the Company, and Hua Shan (left), Assistant to the President and General Manager of Jiangsu Provincial Branch, attended the celebration ceremony.

On 19 May 2014, the Company entered into a strategic cooperation agreement with the Central Station of Operation and Administration on Rural Cooperative Economy under the Ministry of Agriculture. The two parties agreed to cooperate at headquarters level on promoting the policy-guided agriculture insurance together. Lin Zhiyong (back row, second from the left), Vice President of the Company, attended the signing ceremony.

The Company attaches great importance to communication with investors and continuously increases efforts in promoting the Company. Pictured above is Zhang Xiaoli (third from the right), Vice President and Secretary of the Board of Directors of the Company, met with a team of investors led by Morgan Stanley at the headquarters of the Company on 5 November 2014.

On 3 August 2014, an earthquake hit Ludian County in Yunnan Province. The Company promptly initiated the claim settlement process to deal with the aftermath of the earthquake. On 4 August 2014, Gu Wei (first from the left), Assistant to the President, Chief Claims Assessor and General Manager of the Claims Management Unit of the Company, led a work team and rushed to the disaster area of Ludian County to direct the disaster claim settlement work.

OVERVIEW

In 2014, China's economic development entered into a "new normal", featuring "medium-to-high speed, upgraded structure, new dynamics and multiple challenges". Confronted with complex situations marked by a reduced economic growth rate and increasingly intense market competition, the Company increased its efforts in reform and innovation, strengthened construction at the basic level, enhanced its risk control and consolidated its foundation for development, thus achieving steady growth in business and capital strength and recording another historic high in its operating results.

- **More steady business growth and maintaining market leading position.** In 2014, the turnover of the Company and its subsidiaries reached RMB253,037 million, representing a year-on-year increase of 13.2% and achieved a market share of 33.5% *(Note)* in the property insurance market of the PRC, which continued to remain stable. The premium income of seven provincial branches of the Company for the Year respectively exceeded RMB10 billion, in particular, the premium income of the Jiangsu Provincial Branch for the Year broke through RMB20 billion. Turnover of the motor vehicle insurance segment amounted to RMB185,054 million, representing a year-on-year increase of 13.3%; turnover of the non-motor insurance business amounted to RMB67,983 million, representing a year-on-year increase of 12.8%.

- **Further strengthened profitability and continued improvement of business quality.** In 2014, the combined ratio of the Company and its subsidiaries was 96.5%, representing a decrease of 0.2 percentage points. Underwriting profit was RMB7,291 million, representing a year-on-year increase of 22.3%, while total investment income reached RMB13,767 million, representing a year-on-year increase of 42.3%, forming a positive profitable interaction between underwriting and investment. Profit attributable to owners of the parent was RMB15,115 million, representing a new record in operating results; the return on equity ratio was 21.1%, representing a year-on-year increase of 0.6 percentage points, thus maintaining the industry leading position.

- **Increasing excellence of internal quality and steady enhancement of capital strength.** As at the end of 2014, the total assets of the Company and its subsidiaries reached RMB366,130 million, representing an increase of 14.6% compared to the end of 2013. The total equity was RMB85,775 million, representing an increase of 49.2% compared to the end of 2013. The total amount of investment assets grew steadily, reaching RMB295,128 million. The solvency margin ratio was 239%, representing a remarkable increase of 59 percentage points compared to the end of 2013, continuously maintaining the level II Solvency Adequacy. With the steady enhancement of capital strength, the Company has been rated A1 rating by Moody's, the highest financial strength rating available to non-policy guided financial institutions in mainland China, for seven successive years. The share price of the Company continued to outperform the market, and the Company was included in the "Top 100 Comprehensive Strengths" in Hong Kong-listed companies for three successive years.

- **More outstanding service capabilities and continuously increasing of brand reputation.** In 2014, the insured amount of the Company and its subsidiaries was RMB206.6 trillion in aggregate, equivalent to approximately 3.25 times of the GDP during the same period. The Company and its subsidiaries processed 25,707.4 thousand claims of all types and paid aggregate claims of RMB137,852 million. Customer satisfaction was continuously enhanced as evidenced by a number of honours awarded to the Company, including "2014 Most Trusted Property Insurance Company of the Year", "2014 Property Insurance Company with Superior Competitiveness", "Outstanding Chinese Enterprise in Social Responsibility", "2014 China Most Admired Knowledge Enterprise" and "2014 Top 10 China Best Employers".

Note: Calculated based on the PRC insurance industry data for 2014 published on the website of the CIRC.

Faced with the complex and changing market, the Company confirmed its direction for transformation and upgrading, intensified its efforts on process management, continuously improved its development capabilities and profitability, and remarkably upgraded its service capabilities.

(I) By strengthening market benchmarking and taking advantage of competition situation, development capabilities were continuously enhanced

Persistently guided by the market, the Company took advantage of the market competition situation, seized opportunities for development and enhanced its sales capabilities, thereby effectively consolidating its leading position in the market. The Company intensified its efforts on the integration of tele-marketing and online sales channels and achieved a milestone development in its e-commerce business, securing its position as the largest insurer in the industry in terms of premium income. Its motor vehicle insurance business achieved steady growth with the implementation of internet-based strategic planning and the wider application of the telematics technologies. Its non-motor insurance business also achieved a new breakthrough in its development, recording the highest growth rate in recent years; the premium income of the accidental injury and health insurance and the liability insurance for the Year both exceeded RMB10 billion. The policy-supported business also showed a stable trend with signs of growth, and due to the increasing efforts in urban and rural networks construction, the agriculture insurance business continued to maintain a leading market position; the critical illness insurance business also exhibited strong growth with services covering 27 provinces, 143 cities/areas and approximately 719 counties/districts, with the number of persons insured reaching 238 million; the catastrophe insurance pilot projects led by Shenzhen and Ningbo branches were officially launched.

(II) By upholding cost-leadership strategy and reinforcing structural adjustment and risk control, profitability was continuously improved

The Company insisted on implementing the cost-leadership strategy. By optimising allocation of resources and strengthening the process control for renewal, transferred-in business and new policies, the ability to obtain high quality business was further enhanced; by strengthening comprehensive budget management and tightening cost control, the value creation ability was continuously increased; through comprehensive improvement of claim settlement, improving medical tracking system, personal injury management model and bargaining power of obtaining favourable prices for spare parts and hourly labor costs, losses incurred in the claim settlement were further reduced. The Company speeded up the informationalisation construction of risk management and initially built up an integrated risk management platform supported by IT systems to ensure strengthened internal controls and stable operation.

(III) By enhancing customer information management and upgrading services, service capabilities were significantly elevated

The Company insisted on its customer-oriented philosophy, strengthened its customer information management, innovated its customer services, and enhanced its assessment and evaluation of service performance and construction of standardised services, thus further improving its service quality management system. Through materialisation of "comprehensive, fast, good and economical" claim services, offering of "quick claim in bilateral accidents" services when both parties involved in the accident were motor vehicle insurance customers of the Company, integrating the non-motor insurance claim resources, building up claim settlement expert teams and pushing forward the claim assistance system, the Company significantly improved its customer experience and continuously increased its customer retention ability.

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			
	2014		2013	
	RMB million	*%*	*RMB million*	*%*
Net premiums earned	**211,169**	**100.0**	182,546	100.0
Net claims incurred	**(135,947)**	**(64.4)**	(120,902)	(66.2)
Total expenses	**(67,931)**	**(32.1)**	(55,684)	(30.5)
Underwriting profit	**7,291**	**3.5**	5,960	3.3

TURNOVER

The following table sets forth the turnover of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2014	2013
	RMB million	*RMB million*
Motor vehicle insurance	**185,054**	163,276
Commercial property insurance	**12,929**	12,581
Accidental injury and health insurance	**14,161**	9,934
Liability insurance	**10,041**	8,446
Cargo insurance	**3,556**	3,664
Agriculture insurance	**17,143**	16,566
Other insurance	**10,153**	9,058
Total	**253,037**	223,525

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			
	2014		2013	
	Amount	Percentage	Amount	Percentage
	RMB million	*%*	*RMB million*	*%*
Insurance agents	145,095	57.5	133,962	60.0
Among which:				
Individual insurance agents	77,395	30.7	72,835	32.6
Ancillary insurance agents	52,012	20.6	49,505	22.2
Professional insurance agents	15,688	6.2	11,622	5.2
Direct sales	93,421	37.0	76,843	34.5
Insurance brokers	13,903	5.5	12,200	5.5
Total	252,419	100.0	223,005	100.0

Turnover of the Company and its subsidiaries was RMB253,037 million in 2014, representing an increase of RMB29,512 million (or 13.2%) from RMB223,525 million in 2013. The overall steady business growth was largely driven by the development of the motor vehicle insurance, accidental injury and health insurance and liability insurance business. Amongst these segments:

Turnover of the motor vehicle insurance segment was RMB185,054 million, representing an increase of RMB21,778 million (or 13.3%) from RMB163,276 million in 2013. With the continuous sluggish sales in the domestic motor vehicle market in 2014, the Company proactively explored new motor vehicle insurance market and deepened the exploration of business opportunities in the renewal and transfer of existing policies; with the premium income from renewed and transferred-in business increasing faster than that of the overall motor vehicle insurance business and with the average premium income of motor vehicle insurance business basically remaining stable, the underwriting amount of the Company achieved stable growth.

Turnover of the commercial property insurance segment was RMB12,929 million, representing an increase of RMB348 million (or 2.8%) from RMB12,581 million in 2013, at a growth rate faster than that of the commercial property insurance market over the same period. The Company proactively coped with the sluggish market environment by implementing a policy-based method of management and proactively developing overseas business and achieved a steady growth of the average premiums per policy.

Turnover of the accidental injury and health insurance segment was RMB14,161 million, representing an increase of RMB4,227 million (or 42.6%) from RMB9,934 million in 2013. In 2014, the Company implemented the development strategy of "specialisation for group insurance business and channelisation for individual business" for its accidental injury insurance, adjusted and optimised its business structure on the precondition of overall business development, and achieved steady development in the accidental injury insurance in relation to school students and young children, motor vehicle drivers and passengers and borrowers, which had relatively better profitability. Meanwhile, the Company continued to maintain a rapid growth in the critical illness insurance business and achieved a stable increase in market share of the health insurance business.

Turnover of the liability insurance segment was RMB10,041 million, representing an increase of RMB1,595 million (or 18.9%) from RMB8,446 million in 2013. In 2014, the government continued to deepen the social management functions of the liability insurance system and consecutively promulgated regulations and policies such as the Environmental Protection Law, the Work Safety Law, the Opinions on the Strengthening of the Work relating to Medical Liability Insurance and the Notice on the Commencement of the Work relating to Product Quality and Safety Liability Insurance. By taking advantage of such opportunities, the Company, through deepened business cooperation and strengthened business promotion and training, achieved relatively rapid growth in public liability, employer's liability, work safety, medical and product liability insurances.

Impacted by the global economic trend, the premium rate of cargo insurance business decreased. Turnover of the cargo insurance segment of the Company and its subsidiaries was RMB3,556 million, representing a decrease of RMB108 million (or -2.9%) from RMB3,664 million in 2013.

Coverage of the Company's agriculture insurance business basically extended to the whole country and the agriculture insurance business entered into a stable development stage. Turnover of the agriculture insurance segment was RMB17,143 million in 2014, representing an increase of RMB577 million (or 3.5%) from RMB16,566 million in 2013.

Turnover of the other insurance segment was RMB10,153 million, representing an increase of RMB1,095 million (or 12.1%) from RMB9,058 million in 2013. Benefiting from the national infrastructure construction plans, the Company achieved relatively rapid growth in its construction insurance business in 2014. Meanwhile, the Company made great efforts in developing short-term export credit insurance, loan loss credit insurance and loan surety insurance for financial institutions on the basis of controllable risks, thus achieving relatively rapid growth in the turnover of the credit and surety insurance business.

NET PREMIUMS EARNED

The following table sets forth the net premiums earned of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2014	2013
	RMB million	*RMB million*
Motor vehicle insurance	**164,606**	141,810
Commercial property insurance	**7,921**	7,818
Accidental injury and health insurance	**11,324**	7,520
Liability insurance	**7,302**	6,189
Cargo insurance	**2,523**	2,474
Agriculture insurance	**12,426**	12,313
Other insurance	**5,067**	4,422
Total	**211,169**	182,546

Net premiums earned of the Company and its subsidiaries were RMB211,169 million in 2014, representing an increase of RMB28,623 million (or 15.7%) from RMB182,546 million in 2013.

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			
	2014		2013	
	Net claims incurred *RMB million*	Loss ratio *%*	Net claims incurred *RMB million*	Loss ratio *%*
Motor vehicle insurance	(106,587)	(64.8)	(94,486)	(66.6)
Commercial property insurance	(4,663)	(58.9)	(5,734)	(73.3)
Accidental injury and health insurance	(9,063)	(80.0)	(5,441)	(72.4)
Liability insurance	(4,062)	(55.6)	(3,343)	(54.0)
Cargo insurance	(1,261)	(50.0)	(1,006)	(40.7)
Agriculture insurance	(7,385)	(59.4)	(8,293)	(67.4)
Other insurance	(2,926)	(57.7)	(2,599)	(58.8)
Total	(135,947)	(64.4)	(120,902)	(66.2)

Net claims incurred of the Company and its subsidiaries in 2014 were RMB135,947 million, representing an increase of RMB15,045 million (or 12.4%) from RMB120,902 million in 2013. The loss ratio was 64.4% in 2014, decreased by 1.8 percentage points from 66.2% in 2013. Amongst these segments:

Net claims incurred of the motor vehicle insurance segment were RMB106,587 million, representing an increase of RMB12,101 million (or 12.8%) from RMB94,486 million in 2013. The loss ratio decreased by 1.8 percentage points from 66.6% in 2013 to 64.8% in 2014. In 2014, the Company continuously strengthened its control and management of underwriting, and significantly improved its underwriting quality; in addition, the Company further reinforced its management of personal injury compensation, spare parts, man hours as well as cost management and control of repair shops and 4S shops. As a result of various measures, the loss ratio of motor vehicle insurance segment decreased relatively on a year-on-year basis.

In 2014, due to a decrease to some extent in both frequencies of natural catastrophes and number of major claim cases compared to last year, net claims incurred of the commercial property insurance segment were RMB4,663 million, representing a decrease of RMB1,071 million (or -18.7%) from RMB5,734 million in 2013. The loss ratio decreased by 14.4 percentage points from 73.3% in 2013 to 58.9% in 2014.

Net claims incurred of the accidental injury and health insurance segment were RMB9,063 million, representing an increase of RMB3,622 million (or 66.6%) from RMB5,441 million in 2013. The loss ratio increased by 7.6 percentage points from 72.4% in 2013 to 80.0% in 2014. In 2014, due to the full launch of the Company's critical illness insurance business, the underwriting terms of which provided wider coverage and higher protection, the overall loss ratio of the accidental injury and health insurance segment increased.

In 2014, due to the increase of personal injury compensation standards, the claim amount of personal injury involved liability insurance increased. Net claims incurred of the liability insurance segment were RMB4,062 million, representing an increase of RMB719 million (or 21.5%) from RMB3,343 million in 2013. The loss ratio increased by 1.6 percentage points from 54.0% in 2013 to 55.6% in 2014.

In 2014, the claim frequencies of open cargo insurance, domestic cargo insurance and import cargo insurance increased, with significant increase in the number of cases with a claim amount of over RMB1 million. Net claims incurred of the cargo insurance segment were RMB1,261 million, representing an increase of RMB255 million (or 25.3%) from RMB1,006 million in 2013. The loss ratio increased by 9.3 percentage points from 40.7% in 2013 to 50.0% in 2014.

Net claims incurred of the agriculture insurance segment were RMB7,385 million, representing a decrease of RMB908 million (or -10.9%) from RMB8,293 million in 2013. The loss ratio decreased by 8.0 percentage points from 67.4% in 2013 to 59.4% in 2014. On the one hand, there were no nationwide large-scale natural disasters in 2014 and with the regional coverage of agriculture insurance of the Company extending to all provinces in China, underwriting risks were effectively diversified geographically. On the other hand, the Company continuously optimised its agriculture insurance business structure, strengthened its management and control of underwriting and claims verification, thus improving the underwriting quality.

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			
	2014		2013	
	Total expenses *RMB million*	Expense ratio *%*	Total expenses *RMB million*	Expense ratio *%*
Motor vehicle insurance	**(54,229)**	**(32.9)**	(44,255)	(31.2)
Commercial property insurance	**(3,086)**	**(39.0)**	(3,001)	(38.4)
Accidental injury and health insurance	**(2,210)**	**(19.5)**	(1,771)	(23.6)
Liability insurance	**(2,773)**	**(38.0)**	(2,150)	(34.7)
Cargo insurance	**(1,027)**	**(40.7)**	(655)	(26.5)
Agriculture insurance	**(2,965)**	**(23.9)**	(2,623)	(21.3)
Other insurance	**(1,641)**	**(32.4)**	(1,229)	(27.8)
Total	**(67,931)**	**(32.1)**	(55,684)	(30.5)

Total expenses of the Company and its subsidiaries were RMB67,931 million in 2014, increased by RMB12,247 million from RMB55,684 million in 2013, with the expense ratio increasing by 1.6 percentage points from 30.5% in 2013 to 32.1% in 2014. The Company diligently implemented the requirements under the "eight-point code" of the central government, thoroughly advocated thrift practice among its headquarters and branches, implemented a cost-leadership strategy, refined the cost and expense management and control rules, and fully exerted the advantages of centralised procurement, thereby significantly improving its cost management and control capability, achieving an administrative expense ratio of 3.7%, a decrease of 0.1 percentage point as compared to last year. Meanwhile, the Company continued with the further implementation of its refined marketing strategies, intensified its efforts in the differentiated allocation of sales expenses, vigorously pushed forward the construction of the sales network system and improved its capability to procure quality business, all of which resulted in an underwriting expense ratio of 28.4%, representing a year-on-year increase of 1.7 percentage points, which was at a relatively low level in the market.

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			
	2014		2013	
	Underwriting profit *RMB million*	Underwriting profit ratio *%*	Underwriting profit/(loss) *RMB million*	Underwriting profit/(loss) ratio *%*
Motor vehicle insurance	3,790	2.3	3,069	2.2
Commercial property insurance	172	2.1	(917)	(11.7)
Accidental injury and health insurance	51	0.5	308	4.0
Liability insurance	467	6.4	696	11.3
Cargo insurance	235	9.3	813	32.8
Agriculture insurance	2,076	16.7	1,397	11.3
Other insurance	500	9.9	594	13.4
Total	7,291	3.5	5,960	3.3

The Company and its subsidiaries recorded an underwriting profit of RMB7,291 million in 2014, representing an increase of RMB1,331 million (or 22.3%) from RMB5,960 million in 2013; the underwriting profit ratio was 3.5%, representing an increase of 0.2 percentage points from 3.3% in 2013.

INVESTMENT RESULTS

Composition of Investment Assets

The following table sets forth the composition of investment assets of the Company and its subsidiaries as at the following dates:

	31 December 2014		31 December 2013	
	Balance	Percentage	Balance	Percentage
	RMB million	*%*	*RMB million*	*%*
By category:				
Cash and cash equivalents	24,157	8.2	16,272	6.8
Term deposits	88,236	29.9	64,373	26.9
Debt securities	107,789	36.5	105,682	44.1
Equity securities	40,951	13.9	28,964	12.1
Loans and receivables	21,752	7.4	12,910	5.4
Investment properties	4,684	1.6	4,591	1.9
Investment in associates	4,750	1.6	3,973	1.7
Other investment assets *(Note)*	2,809	0.9	2,725	1.1
Total investment assets	295,128	100.0	239,490	100.0

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

In 2014, the Company achieved steady growth in the underwriting business, which provided stable cash flow support for the investment business. As at the end of the reporting period, the investment assets increased by RMB55,638 million (or 23.2%) on a year-on-year basis. While increasing the overall size of the investment assets, and based on the operational conditions of the money market and the capital market as well as its own risk preferences, the Company timely adjusted its investment product mix, improved the quality of its investment portfolio and achieved a balance between profit gaining and risk taking.

In 2014, the Company increased its allocations in negotiated deposits, high credit rating and high quality debt investment schemes, asset management products and asset-backed securities, and benefited from the boom in the domestic capital market, thus recording a considerable increase in the total investment income.

Investment Income

The following table sets forth the investment income of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2014	2013
	RMB million	*RMB million*
Rental income from investment properties	210	205
Interest income	10,823	8,755
Dividend income	1,108	979
Total of investment income	12,141	9,939

Investment income of the Company and its subsidiaries was RMB12,141 million in 2014, representing an increase of RMB2,202 million (or 22.2%) from RMB9,939 million in 2013. The Company adopted a prudent and sound investment strategy and increased its allocations in negotiated deposits, debt investment schemes, asset management products and asset-backed securities, which offered stable return, and its interest income increased by RMB2,068 million (or 23.6%) on a year-on-year basis. In 2014, with increase in the level of dividend distributions of listed companies, dividend income increased by RMB129 million (or 13.2%) compared to last year.

Net Realised and Unrealised Gains/(Losses) on Investments

The following table sets forth the net realised and unrealised gains/(losses) on investments of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2014	2013
	RMB million	*RMB million*
Realised gains on investments	1,458	871
Unrealised gains/(losses) on investments	299	(19)
Impairment losses	(502)	(1,344)
Fair value gains on investment properties	64	150
Total of net realised and unrealised gains/(losses) on investments	1,319	(342)

In 2014, the Company actively seized the operating opportunities in the market and further optimised the structure of its equity investment portfolios, and the realised gains on investments increased by RMB587 million (or 67.4%) on a year-on-year basis. Meanwhile, as the fair value of bond funds increased resulting from fluctuations in interest rates in the bond market, the unrealised gains on investments for the Year were RMB299 million.

OVERALL RESULTS

The following table sets forth the overall results of the Company and its subsidiaries for the relevant periods or as at the relevant dates:

	Year ended 31 December	
	2014	2013
	RMB million	*RMB million*
Profit before tax	**19,441**	13,439
Income tax expense	**(4,326)**	(2,881)
Profit attributable to owners of the parent	**15,115**	10,558
Total assets *(Note)*	**366,130**	319,424

Note: Based on the data as at 31 December 2014 and 31 December 2013.

PROFIT BEFORE TAX

As a result of the foregoing, profit before tax of the Company and its subsidiaries was RMB19,441 million in 2014, representing an increase of RMB6,002 million (or 44.7%) from RMB13,439 million in 2013.

INCOME TAX EXPENSE

Income tax expense of the Company and its subsidiaries was RMB4,326 million in 2014, representing an increase of RMB1,445 million from RMB2,881 million in 2013.

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 2014, and the profit attributable to owners of the parent increased by RMB4,557 million (or 43.2%) from RMB10,558 million in 2013 to RMB15,115 million in 2014. Basic earnings per share attributable to owners of the parent in 2014 was RMB1.061.

CASH FLOW

The following table sets forth the cash flow of the Company and its subsidiaries for the relevant periods:

	Year ended 31 December	
	2014	2013
	RMB million	*RMB million*
Net cash flows from operating activities	31,467	21,409
Net cash flows used in investing activities	(25,140)	(13,517)
Net cash flows from/(used in) financing activities	1,558	(4,510)
Net increase in cash and cash equivalents	7,885	3,382

In 2014, the net cash flows from operating activities of the Company and its subsidiaries amounted to RMB31,467 million, representing an increase of RMB10,058 million from RMB21,409 million in 2013. In 2014, by emphasising the process management and control of premiums receivable while maintaining business growth, the Company recorded a significant increase in the incremental premiums received and a steady growth in its underwriting profit.

In 2014, the net cash flows used in investing activities of the Company and its subsidiaries were RMB25,140 million, representing an increase of RMB11,623 million from RMB13,517 million in 2013. In particular, the net cash flows used in bank deposits with a maturity of more than three months increased by RMB15,668 million on a year-on-year basis.

In 2014, the net cash flows from financing activities of the Company and its subsidiaries were RMB1,558 million, while in 2013, the net cash flows used in financing activities were RMB4,510 million. In 2014, the net capital raised by the Company through a rights issue and subordinated term debts was RMB7,220 million and RMB3,000 million, respectively; while in 2013, the net capital raised by the Company through a rights issue was RMB5,754 million.

As at 31 December 2014, the cash and cash equivalents of the Company and its subsidiaries amounted to RMB24,157 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 October 2014, June 2011, June 2010 and December 2006, the Company issued fixed-rate subordinated term debts of RMB8 billion, RMB5 billion, RMB6 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 RMB1,849 million in 2014.

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 RMB33,290 million on 31 December 2014. The Company's actual solvency margin on 31 December 2014 as calculated pursuant to the regulations of the CIRC was RMB79,440 million and the solvency margin ratio was 239% *(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 PRC Accounting Standards for Business Enterprises shall apply to non-insurance contract liabilities.

GEARING RATIO

As at 31 December 2014, the gearing ratio *(Note)* of the Company and its subsidiaries was 70.4%, representing a decrease of 5.5 percentage points from 75.9% as at 31 December 2013.

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 2014. After considering professional opinions, the management of the 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 27 March 2015, the Board proposed a final dividend of RMB0.270 per ordinary share. This proposal is subject to the approval at 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 payments 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 in relation to ratings of corporate bond investments issued by the CIRC. 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 in 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 interest 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 2014, the interest rate swap contracts held by the Company had an aggregate notional amount of RMB1,050 million.

DEVELOPMENT OF NEW PRODUCTS

In 2014, the Company focused on the hot spots of the market and the needs of clients and submitted a total of 463 insurance provisions and premium rates to the insurance regulatory authority for approval and filing, which consisted of 68 national provisions and premium rates, 395 regional provisions and premium rates, and 312 main insurance provisions and premium rates and 151 rider provisions and premium rates. As at 31 December 2014, the Company had 6,756 insurance provisions in use and operation, including 4,479 national provisions and 2,277 regional provisions.

EMPLOYEES

As at the end of 2014, the Company had 161,310 employees. Staff remuneration payment by the Company and its subsidiaries in 2014 was RMB21,342 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, implementing 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

China's economic development has entered into a "new normal", witnessing a trend of more steady economic growth with diversified driving forces. Together with optimisation and upgrading of the economic structure, the market vitality will be further released. The deepened transformation of the economic regime will not only have a profound impact on the economy and society of China but also bring new fundamental changes to the insurance industry in its service to the economy and society, thus resulting in new historical development opportunities in the transformation and development of the Company. In 2015, the Company will step up its transformation on all fronts towards a customer-oriented business mode and adapt to the "new normal" with new strategies and positioning to cope with the new challenges. To ensure achievement of the annual operating targets, the Company will take solid measures in the following six key areas:

- Build up the layout of motor vehicle insurance, solidify the refined pricing practice and improve the customer value contribution with a differentiated strategy;
- Build up the layout of commercial non-motor insurance, strengthen the development of potential business and exploration of new business and satisfy the demands of customers through the exploration of business in new areas;
- Build up the layout of policy-supported insurance products, seize and act on the development opportunities promptly and seek development room for the Company while servicing the economy and society;
- Guided by the Company's planning, deepen the market benchmarking and fully bring into play the support of policy leverage;
- Driven by innovation, promote the upgrading of services and management and support the comprehensive transformation towards a customer-oriented business mode;
- Enhance construction at the basic level, continuously improve the work style and reinforce the organisational support capability.

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 businesses in mainland China, which are denominated in RMB and foreign currencies, and the related reinsurance business as well as investment and funds 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 to 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 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 2014 are set out on pages 71 to 190 of this annual report.

On 27 March 2015, the Board proposed the distribution of a final dividend of RMB0.270 per share (inclusive of applicable tax) for the Year. Such proposal for the payment of the Final Dividend is subject to the approval of the Company's shareholders at the annual general meeting to be held on 26 June 2015 (Friday). If approved, the Final Dividend is expected to be paid on 26 August 2015 to the shareholders whose names appear on the register of members of the Company on 9 July 2015 (Thursday).

The Company has not paid any interim dividend during the Year.

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 2015 (Saturday) to 9 July 2015 (Thursday), 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 2015 (Thursday) 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, Wan Chai, Hong Kong, no later than 4:30 p.m. on 3 July 2015 (Friday) 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 26 June 2015 (Friday), the register of members of the Company will be closed from 27 May 2015 (Wednesday) to 26 June 2015 (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 26 June 2015 (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 mentioned above no later than 4:30 p.m. on 26 May 2015 (Tuesday) for registration.

WITHHOLDING AND PAYMENT OF FINAL DIVIDEND INCOME TAX

FINAL DIVIDEND INCOME TAX APPLICABLE TO OVERSEAS SHAREHOLDERS

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

Pursuant to the applicable provisions of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and its implementing rules and the requirements under the Notice on the Issues Concerning Withholding and Payment of the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation (國家稅務總局《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函〔2008〕897號)), the Company will withhold and pay enterprise income tax at the rate of 10% when it distributes the Final Dividend to overseas non-resident enterprise holders of H shares (including any H shares of the Company registered in the name of HKSCC Nominees Limited, but excluding any H shares of the Company registered in the name of HKSCC Nominees Limited which are held by China Securities Depository and Clearing Corporation Limited as nominee shareholder on behalf of investors who invest in the H shares of the Company through Shanghai-Hong Kong Stock Connect).

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 PRC (《中華人民共和國個人所得稅法》) and its implementing rules, the Tax Notice, the Notice of the State Administration of Taxation on Issues Concerning the Administration of Individual Income Tax Collection after the Annulment of Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發〔1993〕045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函〔2011〕348號)) and other relevant laws, regulations and requirements under normative documents, the Company will implement the following arrangements in relation to the withholding and payment of individual income tax on behalf of the overseas 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 the 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.

FINAL DIVIDEND INCOME TAX APPLICABLE TO SHAREHOLDERS IN MAINLAND CHINA INVESTING IN H SHARES OF THE COMPANY THROUGH SHANGHAI-HONG KONG STOCK CONNECT

Withholding and Payment of Individual Income Tax on behalf of Domestic Individual Shareholders Investing through Shanghai-Hong Kong Stock Connect

Pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅〔2014〕81號)), for domestic individual shareholders who invest in H shares of the Company through Shanghai-Hong Kong Stock Connect (such H shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the Final Dividend. For domestic shareholders who are securities investment funds investing in H shares of the Company through Shanghai-Hong Kong Stock Connect (such H shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee shareholder), the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the Final Dividend.

No Withholding and Payment of Enterprise Income Tax on behalf of Domestic Enterprise Shareholders Investing through Shanghai-Hong Kong Stock Connect

Pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅〔2014〕81號)), for domestic enterprise shareholders who invest in H shares of the Company through Shanghai-Hong Kong Stock Connect (such H shares are registered in the name of HKSCC Nominees Limited and held by China Securities Depository and Clearing Corporation Limited as nominee shareholder), the Company will not withhold or pay enterprise income tax on their behalf in the distribution of the Final Dividend, and the domestic enterprise shareholders shall report and pay the relevant taxes payable by themselves. Any dividend received in respect of H shares of the Company which have been continuously held by a domestic enterprise shareholder for 12 months shall be exempted from enterprise income tax.

H shareholders of the Company are recommended to consult their own tax advisors on the relevant tax impact in 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 29 and 28 to the consolidated financial statements, respectively.

SHARE CAPITAL

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

During the Year, the Company conducted a rights issue, consisting of the domestic share rights issue and the H share rights issue, with a total of 844,594,760 domestic shares and 379,777,642 H shares issued. The domestic share rights issue raised gross proceeds of approximately RMB5,000 million and the H share rights issue raised gross proceeds of approximately HK$2,833 million (equivalent to approximately RMB2,244 million), totalling approximately RMB7,244 million. The expenses in connection with the domestic share rights issue and the H share rights issue were approximately RMB2.5 million and HK$27.2 million (equivalent to approximately RMB21.5 million), respectively. The net proceeds, being gross proceeds after deducting the expenses of the rights issue, have been used to strengthen the capital base of the Company.

Note: Conversions of RMB into HK$ are made at the exchange rate of RMB0.79206 to HK$1.00.

PRE-EMPTIVE RIGHTS

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

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 2014, according to PRC Accounting Standards for Business Enterprises, the distributable reserves of the Company and its subsidiaries were RMB8,729 million and the distributable reserves of the Company were RMB8,741 million.

SUBORDINATED DEBT

The Company issued a subordinated term debt in the Year, the details of which are set out in the "Liquidity" subsection of the "Management Discussion and Analysis of Operating Results and Financial Conditions" section of this annual report.

CHARITABLE AND OTHER DONATIONS

Charitable and other donations made by the Company and its subsidiaries in the Year were RMB43 million, of which RMB32 million were 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 from 1 January 2014 to the date of this report are set out in the "Corporate Governance Report" section of this annual report. There has been no change in the members of the Supervisory Committee from 1 January 2014 to the date of this report.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS AND REMUNERATION

The Company did not enter into any service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), with 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 fees 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 subsection headed "Continuing 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 Part XV of the SFO as at 31 December 2014 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 and PICC Health. Mr Zhou Shurui, a former Non-executive Director of the Company (resigned on 20 March 2015), was formerly 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 former Non-executive Director of the Company (resigned on 10 July 2014), 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. During his term of office as a Non-executive Director of the Company, Mr Tse Sze-Wing, Edmund was 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 2014 to the date of this report.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER SFO

To the knowledge of Directors, as at 31 December 2014, 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, or 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	10,228,980,980	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 corporation controlled by the substantial shareholder	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%
Platinum Investment Management Limited *(Note 6)*	Investment manager, trustee (excluding bare trustee)	219,663,799	Long position	5.21%	1.61%
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	235,056,821 243,640	Long position Short position	5.11% 0.01%	1.59% 0.002%

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 shares for every 10 shares, and the rights shares were issued on 25 June 2013 (the "2013 Rights Issue"). The Company conducted the third rights issue in 2014 on the basis of 0.9 rights shares for every 10 shares, and the rights shares were issued on 8 December 2014 (the "2014 Rights Issue"). The 2011 Rights Issue, the 2013 Rights Issue and the 2014 Rights Issue together are referred to as 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 2014, 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 2014.

4. Birmingham Fire Insurance Company of Pennsylvania (now known as "AIG 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, Commerce and Industry Insurance Company and Lexington Insurance Company.

5. To the knowledge of the Company, as at 31 December 2014, AIG held 1,468,022,240 H shares of the Company, representing approximately 31.92% of the total H shares in issue of the Company and approximately 9.9% of the total issued share capital of the Company. Such H shares were held by corporations controlled by AIG, of which Birmingham Fire Insurance Company of Pennsylvania (now known as "AIG Property Casualty Company") held 748,691,343 H shares, Commerce and Industry Insurance Company held 440,406,672 H shares and Lexington Insurance Company held 278,924,225 H shares.

   On 5 February 2015, the Company was notified by AIG that its indirect interest of 440,406,672 H shares in the Company held through Commerce and Industry Insurance Company, which was its controlled corporation, changed to direct interest held by AIG, and Commerce and Industry Insurance Company no longer held any shares in the Company. The transfer of shares did not change the total number of H shares of the Company held by AIG and its percentage of shareholding maintained to be approximately 9.9%. On 2 April 2015, AIG sold out 256,000,000 H shares of the Company, which were directly held by AIG. After the transaction, AIG held 1,212,022,240 H shares of the Company and its percentage of shareholding was approximately 8.2%.

6. After the completion of the 2014 Rights Issue, the number of H shares held by the H shareholder may have changed. However, the Company has not received any disclosure of interests notice by the H shareholder in relation thereto. The information on the number of H shares held by the H shareholder and its percentage of shareholding set out above was based on the disclosure of interests notice available on the website of the Hong Kong Stock Exchange as at 31 December 2014. Among the 219,663,799 H shares held by the H shareholder, 62,871,911 H shares were held in the capacity as an investment manager and 156,791,888 H shares were held in the capacity as a trustee (excluding bare trustee).

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 2014.

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.

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions of the Company in the Year that are subject to the reporting, announcement and annual review 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 93% and 81% of the issued share capital of PICC Investment, PICC HK, ZSIB and PICC AMC, and directly and indirectly holds respectively 80% and approximately 94% 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 leased certain properties from each other. Under the renewed agreement, the cap for the rents paid by the Company to PICC Investment for the period from 1 January 2014 to 6 July 2014 was expected to be RMB54 million and the rents expected to be paid by PICC Investment to the Company for the same period would not exceed the 0.1% threshold under Rule 14A.76 of the Listing Rules and therefore no annual cap was set. The actual rents paid by the Company to PICC Investment for the period from 1 January 2014 to 6 July 2014 were approximately RMB52 million, and the actual rents paid by PICC Investment to the Company for the same period were approximately RMB1 million.

    On 30 December 2014, the Company and PICC Investment renewed the property leasing agreement for a term of three years commencing from 7 July 2014 and expiring on 6 July 2017. Under the renewed agreement, neither the annual rent expected to be paid by the Company to PICC Investment nor the annual rent expected to be paid by PICC Investment to the Company would exceed the 0.1% threshold under Rule 14A.76 of the Listing Rules, both of which fall within the threshold for fully exempted de minimis continuing connected transactions. The actual rents paid by the Company to PICC Investment for the period from 1 January 2014 to 31 December 2014 were approximately RMB108 million, and the actual rents paid by PICC Investment to the Company for the same period were approximately RMB2 million.

(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 for the purpose of risks diversification and stabilisation of operation. 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. Pursuant to the renewed agreement, the Company agreed to cede insurance premiums to PICC HK from time to time, and PICC HK agreed to cede insurance premiums to the Company from time to time. One party to the agreement who acts as reinsurer shall accept the risks of and pay commissions to the other party to the agreement in return for the agreed insurance premiums received from such other party. 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 (including taxes) received by the Company from PICC HK were expected to be RMB760 million and RMB264 million, respectively. As the insurance premiums expected to be ceded to the Company by PICC HK and the commissions expected to be received by PICC HK from the Company for the Year would not exceed the 0.1% threshold under Rule 14A.76 of the Listing Rules, no annual caps were set. The actual insurance premiums ceded to PICC HK by the Company and the commissions (including taxes) received by the Company from PICC HK were approximately RMB556 million and RMB222 million, respectively, for the Year. The actual insurance premiums ceded to the Company by PICC HK and the commissions (including taxes) received by PICC HK from the Company were approximately RMB6 million and RMB1 million, respectively, for the Year.

On 27 March 2015, the Company and PICC HK renewed the framework agreement on reinsurance business cooperation for a term of one year commencing from 1 January 2015 and expiring on 31 December 2015.

(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. The agreement entered into 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 would enter into specific agreements when they carry out specific insurance brokerage business cooperation, and the Company would pay brokerage fees for specific business under cooperation. Under this agreement, the caps for the brokerage fees paid by the Company to ZSIB and its subsidiaries for the Year, the year ended 31 December 2015 and the period from 1 January 2016 to 16 June 2016 were originally estimated to be RMB133 million, RMB152 million and RMB87 million, respectively. As the cooperation business in motor vehicle insurance between the Company and the subsidiaries of ZSIB develops rapidly in some regions, the overall cooperation business has grown faster than expected. Therefore, the Company revised the aforementioned caps for the brokerage fees paid by the Company to ZSIB and its subsidiaries under the agreement upwards on 26 November 2014. After the revision, the caps for the brokerage fees paid by the Company to ZSIB and its subsidiaries for the Year, the year ended 31 December 2015 and the period from 1 January 2016 to 16 June 2016 were expected to be RMB288 million, RMB390 million and RMB210 million, respectively. The actual brokerage fees paid by the Company to ZSIB and its subsidiaries were approximately RMB147 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 entered into the asset management supplemental agreement both for a term of three years commencing from 1 January 2013 and expiring on 31 December 2015. Pursuant to such agreements, the Company would entrust PICC AMC to manage and invest assets of the Company from time to time and would pay management fees 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 fees and performance bonus (if any) paid by the Company to PICC AMC for the Year was expected to be RMB152 million. The actual management fees and performance bonus paid by the Company to PICC AMC were approximately RMB134 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. 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 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 RMB160 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, would not exceed the 0.1% threshold under Rule 14A.76 of the Listing Rules, no annual cap was set. The actual commissions paid by the Company to PICC Life and PICC Health were approximately RMB90 million, and the actual commissions received by the Company from PICC Life and PICC Health were approximately RMB34 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 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. The agreement entered into 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 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 actual premiums and management fees paid by the Company to PICC Life were approximately RMB215 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 would be renewed for another year automatically, with the extended term not being longer than two years. This agreement has already been renewed for two years, 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 would be renewed for another year if the two parties approve in writing. This agreement has been 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 RMB112 million for the Year. The actual rents and service fees paid by the Company under the lease agreement and the WAN service agreement totalled approximately RMB87 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 or better terms; and

3. the transactions were carried out in accordance with the terms of the agreements governing the transactions, the terms were fair and reasonable and in the interests of the shareholders of the Company as a whole.

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 (i), (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.56 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 (i), (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 2014 to 31 December 2014 disclosed in the announcements dated 20 June 2013, 5 December 2013, 28 March 2014 and 26 November 2014 made by the Company in respect of each of the transactions.

The Company complied with the 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 was appointed as the domestic auditor of the Company. Ernst & Young and Ernst & Young Hua Ming LLP retired as auditors of the Company at the conclusion of the aforesaid extraordinary general meeting.

The service terms of Deloitte Touche Tohmatsu, the international auditor of the Company, and Deloitte Touche Tohmatsu Certified Public Accountants LLP, the domestic auditor of the Company, will end upon the conclusion of the forthcoming annual general meeting. A proposal 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 submitted at the forthcoming annual general meeting.

By Order of the Board of Directors
Wu Yan
Chairman

Beijing, the PRC
27 March 2015

Dear Shareholders,

In 2014, adhered firmly to the relevant provisions of the Company Law and the Articles of Association, strictly abided by the principle of good faith and in the spirit of seeking truth from facts, all members of the Supervisory Committee proactively carried out their work and diligently performed their supervisory duties, and therefore played their due roles in the protection of the interests of the shareholders, the Company and its employees and in the promotion of the highly efficient operation of the Company's corporate governance.

Meetings of the Supervisory Committee

During the Year, the Supervisory Committee convened 2 meetings in March and August 2014, respectively, at which the resolutions, including the Auditor's Report and the Audited Financial Statements for 2013, the Profit Distribution Plan for 2013, the Report of the Supervisory Committee for 2013, the Corporate Governance Report for 2013 – the Supervisory Committee section, the 2014 Interim Financial Statements and the 2014 Interim Profit Distribution Plan, were considered and unanimously approved.

Work of the Supervisory Committee

During the Year, the Supervisory Committee attended the Company's 2013 annual general meeting and the extraordinary general meeting in 2014. In particular, the Supervisory Committee submitted the Report of the Supervisory Committee of the Company for 2013 to the annual general meeting, at which it was approved. The Supervisory Committee also, by means of physical attendance or reviewing the proposed resolutions in paper, attended 7 meetings of the Audit Committee and 13 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 the 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.

During the Year, the Supervisors conducted several visits and inspections of the branches of the Company to perform their responsibilities and obtained an understanding of the Company's business operation and development and the implementation of internal control policies and risk management and control at the basic level. The Supervisory Committee also joined the supervisory committees of other companies in various forms of exchange and learning activities to intensively study and discuss corporate governance and operation of a supervisory committee. Through such exchange and learning, the practices of the Supervisory Committee were further improved and enriched.

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 Company and its subsidiaries' reviewed financial statements for the interim period of 2014 and audited annual financial statements for the year of 2014 were prepared strictly in accordance with the relevant accounting standards. 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 or better 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 or the Company.

In 2015, the Supervisory Committee will continue to perform its supervisory duties in accordance with the relevant provisions of the Company Law and the Articles of Association, maintain and protect a highly efficient and healthy corporate governance operation and development for the Company, proactively broaden its horizon of the work scope, strengthen its supervision, constantly improve its performance capabilities, earnestly safeguard the interests of the shareholders, the Company and employees and diligently perform all its duties.

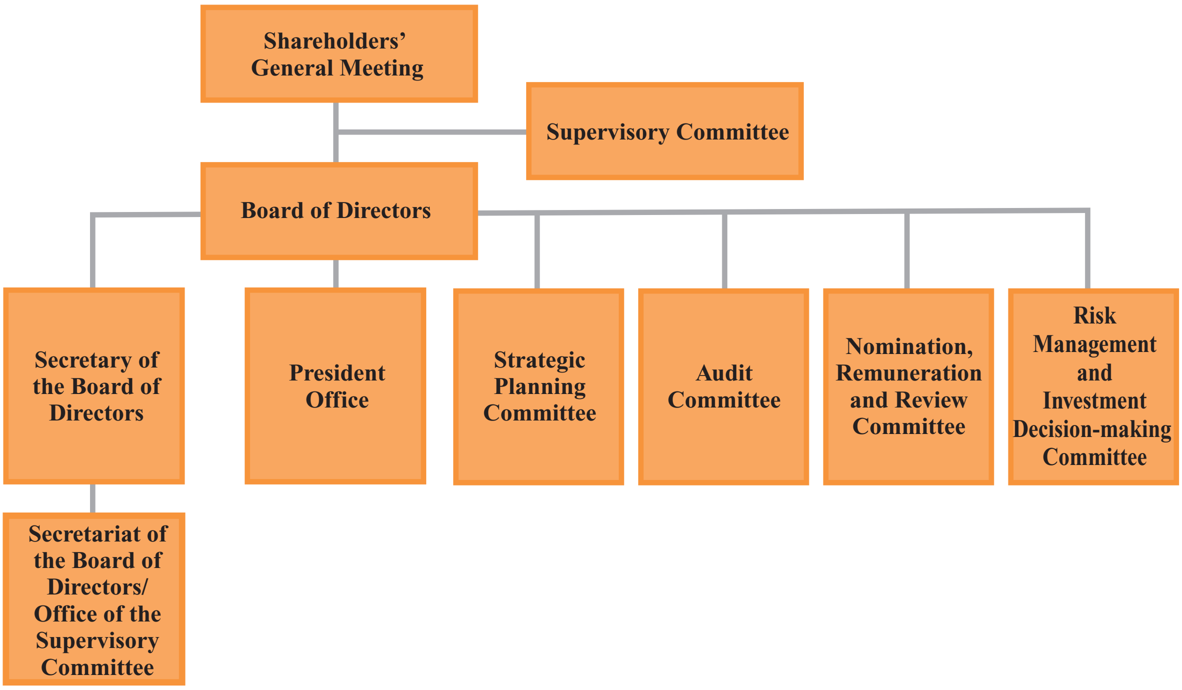
By Order of the Supervisory Committee
Wang Yueshu
Chairman of the Supervisory Committee

Beijing, the PRC
27 March 2015

OVERVIEW

The Company believes that maintaining sound corporate governance is in the interests of the Company, its shareholders and stakeholders. The Company has been continuously enhancing its corporate governance in accordance with the Company Law, the Listing Rules, the Guidelines and other relevant laws and regulations, and the Articles of Association.

In 2014, the Company continuously strengthened its internal control and supervision capabilities, refined its management system for related party transactions, and strengthened its compliance construction 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) 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 the deviation from code provision A.4.2 of the Corporate Governance Code, 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 as 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. However, in accordance with the requirements of the 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 minimum number due to resignation of directors, 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 continued to serve as Directors until the election and appointment of newly elected directors. As a result, the Company failed to comply with the relevant requirement of the code provision A.4.2 of the Corporate Governance Code during the period from 29 April 2011 to the date of this report. During the Year, Mr Tse Sze-Wing, Edmund resigned as a Non-executive Director on 10 July 2014. Mr Luk Kin Yu, Peter resigned as an Independent Non-executive Director on 12 January 2015. Mr Zhou Shurui resigned as a Non-executive Director on 20 March 2015.

According to the requirement under Rule 3.10A of the Listing Rules, the number of independent non-executive directors in the board of a listed issuer shall represent at least one-third of the members of the board of directors. Upon the resignation of Mr Luk Kin Yu, Peter as an Independent Non-executive Director on 12 January 2015, the Board of Directors comprised ten members including three Executive Directors, four Non-executive Directors and three Independent Non-executive Directors, which was not in compliance with the requirement under Rule 3.10A of the Listing Rules. Following the resignation of Mr Zhou Shurui as a Non-executive Director on 20 March 2015, the number of Independent Non-executive Directors represents one-third of the members of the Board and the Company has re-complied with the requirement under Rule 3.10A of the Listing Rules.

BOARD OF DIRECTORS

Overview

During the Year, the Board convened two shareholders' general meetings and submitted eleven proposals to the shareholders' general meetings. Thirteen Board meetings were convened, at which forty-four 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 final dividend for 2013 and the issuance of subordinated term debt; elected the Vice Chairman, appointed the President, Responsible Compliance Officer and Responsible Auditing Officer, re-appointed the auditors, etc.; 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 extraordinary meetings when necessary. Notices and 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. The duties and responsibilities of and the 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 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 *(Note 1)*	Vice Chairman, Executive Director	17 January 2011	From 17 January 2011 to 16 January 2014
Mr Wang Yincheng	Non-executive Director	6 July 2003	From 17 January 2011 to 16 January 2014
Mr Zhou Shurui (Resigned) *(Note 2)*	Non-executive Director	6 July 2003	From 17 January 2011 to 16 January 2014 (Resigned on 20 March 2015)
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 (Resigned) *(Note 2)*	Non-executive Director	15 June 2004	From 17 January 2011 to 16 January 2014 (Resigned on 10 July 2014)
Mr Wang He	Executive Director	17 January 2011	From 17 January 2011 to 16 January 2014
Mr Luk Kin Yu, Peter (Resigned) *(Note 2)*	Independent Non-executive Director	29 April 2005	From 29 April 2008 to 28 April 2011 (Resigned on 12 January 2015)
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. 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 requirements of the Company Law, Mr Luk Kin Yu, Peter, Mr Ding Ningning and all the other Directors continued to serve as Directors until the newly elected directors commence their terms of office. Due to their other work arrangements, Mr Tse Sze-Wing, Edmund resigned as a Non-executive Director on 10 July 2014 and Mr Luk Kin Yu, Peter resigned as an Independent Non-executive Director on 12 January 2015. Due to retirement, Mr Zhou Shurui resigned as a Non-executive Director on 20 March 2015.

BOARD OF DIRECTORS *(continued)*

Composition *(continued)*

Changes in the Board members during the period from 1 January 2014 to the date of this report are as follows:

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

Mr Tse Sze-Wing, Edmund resigned as a Non-executive Director due to his other work arrangements, with effect from 10 July 2014.

Mr Luk Kin Yu, Peter resigned as an Independent Non-executive Director due to his other work arrangements, with effect from 12 January 2015.

Mr Zhou Shurui resigned as a Non-executive Director due to retirement, with effect from 20 March 2015.

Duties and Responsibilities

The Board is responsible for providing leadership for, 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 and 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 issuance 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, etc.; electing members of the committees under the Board; and approving the Company's investment in other enterprises or the provision of guarantees to persons other than the shareholders or actual controllers of the Company. 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. However, the statutory functions and powers of the Board, in principle, shall not be delegated to the Chairman of the Board, any individual Director or any other individual or organisation. If delegation of certain decisions is required, such authorisation must be made by way of a resolution of the Board in accordance with law. Delegation 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 two shareholders' general meetings and submitted eleven proposals to the shareholders' general meetings. Thirteen Board meetings were convened, at which forty-four proposals were considered and approved. The attendance record of the Directors at the meetings is as follows:

Name	Board Meeting Number of meetings attended/Number of meetings that require attendance	Board Meeting Attendance rate	Shareholders' General Meeting Number of meetings attended/Number of meetings held	Shareholders' General Meeting Attendance rate
Wu Yan	13/13	100%	0/2	0%
Guo Shengchen	13/13	100%	2/2	100%
Wang Yincheng	12/13	92%	0/2	0%
Zhou Shurui	11/13	85%	0/2	0%
Yu Xiaoping	12/13	92%	0/2	0%
Li Tao	13/13	100%	1/2	50%
Tse Sze-Wing, Edmund	6/6	100%	0/2	0%
Wang He	13/13	100%	1/2	50%
Luk Kin Yu, Peter	13/13	100%	0/2	0%
Ding Ningning	13/13	100%	2/2	100%
Liao Li	12/13	92%	0/2	0%
Lin Hanchuan	13/13	100%	2/2	100%

Notes:

1. During the Year, Mr Wang Yincheng, Ms Yu Xiaoping and Mr Liao Li attended twelve Board meetings in person and attended one Board meeting by proxy by appointing other Directors to attend the Board meeting on their behalf; and Mr Zhou Shurui attended eleven Board meetings in person and attended two Board meetings by proxy by appointing other Directors to attend the Board meetings on his behalf.

2. Mr Tse Sze-Wing, Edmund resigned as a Non-executive Director on 10 July 2014.

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

- convened two shareholders' general meetings and submitted eleven proposals to the shareholders' general meetings, including the Report of the Board of Directors for 2013, the Auditor's Report and the audited financial statements for 2013, the profit distribution plan for 2013, the issuance of subordinated term debt and the re-appointment of the auditors, etc., all of which were approved at the shareholders' general meetings;

- elected Mr Guo Shengchen as the Vice Chairman;

- considered and approved the appointment of Mr Guo Shengchen as the President and the appointment of Mr Zhang Xiaoli as the Responsible Compliance Officer and the Responsible Auditing Officer;

BOARD OF DIRECTORS *(continued)*

Summary of Work Undertaken *(continued)*

- 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 annual performance appraisals of the senior management, including the Chairman, the Directors and the President, etc.;

- considered and approved the Company's Internal Control Assessment Report for 2013, Risk Assessment Report for 2013 and Compliance Assessment Report for 2013, considered the report on improvement based on the Management Recommendation Letter for the previous year, reviewed and continuously enhanced the effectiveness of the Company's internal control;

- considered and approved the Solvency Report for 2013, the Information Disclosure Report for 2013, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2013, the Report on Related Party Transactions and Implementation of the Related Party Transactions Management System for 2013 and the Evaluation Report on Implementation of the Development Plan for 2013 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 2014 interim results;

- considered and approved the Company's participation in several debt investment plans and equity investment plans.

DIRECTORS

Responsibilities for the Financial Statements

The 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. The Directors are not aware of any event or condition which may cause 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 (the "Securities Transactions Guidelines") that are applicable to Directors, Supervisors and all employees. The terms of the Securities Transactions 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 the Securities Transactions Guidelines during the Year.

DIRECTORS *(continued)*

Independence of Independent Non-executive Directors

The Company has received the annual confirmation letters from all the Independent Non-executive Directors in relation to their independence. As 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 to have a better understanding of 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, etc. It also includes meetings and communication with the Company's senior management personnel and surveys in certain branches of the Company. 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 regularly received documents, materials and information on the business and operating status of the Company, relevant laws and regulations, and regulatory and governance matters. In addition, the Company encouraged all Directors to attend related trainings, the costs of which were borne by the Company.

During the Year, all Directors earnestly participated in continuous professional development. All Directors received trainings or conducted research in areas of corporate governance, corporate finance, information disclosure, related party transactions, directors' continuous responsibilities and obligations, 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.

Wu Yan: attended various trainings and meetings organised by PICC Group and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

Guo Shengchen: attended various trainings and meetings organised by PICC Group and various training sessions of the Shared Classroom of the President Office of the Company on topics of corporate governance, information disclosure, reform of commercial motor vehicle insurance, framework and progress of solvency II regulatory system of the PRC, macro-economic trend in the PRC, interpretation on the Opinions of the State Council on Accelerating the Development of Modern Insurance Industry, etc.

Wang Yincheng: attended various trainings and meetings organised by PICC Group and various trainings sessions of the Shared Classroom of the President Office of the Company on topics of the latest development of finance theories and insurance laws, actuary of non-life insurance, budget management, application of information technology in company operation and management, social security, social management, impacts of modern urbanisation on future development of the Company, etc.

Zhou Shurui: attended various trainings and meetings organised by PICC Group and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

DIRECTORS *(continued)*

Directors' Continuous Professional Development *(continued)*

Yu Xiaoping: attended various trainings and meetings organised by PICC Group, gained a deeper understanding of domestic and foreign applicable laws and regulations, regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc., and attended the 7th Session of the Seminar on Modern Finance System Construction hosted by the Organisation Department of the CPC Central Committee and organised by the People's Bank of China.

Li Tao: attended various trainings and meetings organised by PICC Group and gained a deeper understanding of domestic and foreign applicable laws and regulations, and regulatory requirements in respect of information disclosure, related party transactions, directors' continuous responsibilities and obligations, corporate governance, etc.

Wang He: attended various trainings and meetings organised by PICC Group and various training sessions of the Shared Classroom of the President Office of the Company on topics of corporate governance, information disclosure, reform of commercial motor vehicle insurance, framework and progress of solvency II regulatory system of the PRC, macro-economic trend in the PRC, interpretation on the Opinions of the State Council on Accelerating the Development of Modern Insurance Industry, etc.

Luk Kin Yu, Peter: attended the quarterly trainings held by a bank for independent directors and the quarterly trainings held by an accounting firm for independent directors on topics of accounting, taxation, laws, compliance, information disclosure, duties and responsibilities of directors of listed companies, etc., mainly relating to issues in mainland China and Hong Kong and laws and regulations of the United States of America and Europe.

Ding Ningning: paid continuous attention to and conducted research on the trend of the global economy after the global financial crisis and changes in macro-economic policies of the central government after the change of the government leadership session, participated in the work of the specialist panel of the State Council on the issues of transformation of government functions and reduction of administrative review and approval, and was invited to give lessons in EMBA programs held by business schools of universities and trainings held by various government authorities.

Liao Li: paid continuous attention to and conducted research on corporate finance and corporate governance, hosted and participated in several academic seminars relating to corporate finance and corporate governance, and gave lessons relating to corporate finance and corporate governance to master students.

Lin Hanchuan: paid continuous attention to and conducted research on the issues of enterprise transformation and upgrading, hosted and participated in several national significant and key projects relating to enterprise transformation and upgrading, and gave lessons relating to enterprise transformation to PhD students of business schools of universities and EMBA programs.

CHAIRMAN/PRESIDENT

During the Year, Mr Wu Yan was the Chairman of the Board. Mr Wang Yincheng resigned as the Vice Chairman and the President on 25 October 2013, and as approved by the Board, was re-designated as a Non-executive Director from an Executive Director with effect from 5 December 2013. Mr Guo Shengchen was elected as the Vice Chairman and was appointed as the President on 21 January 2014.

CHAIRMAN/PRESIDENT *(continued)*

The Chairman is responsible for leading the Board and ensuring that the Board operates effectively and discharges its responsibilities properly. The President is responsible for taking charge of the operation and management of the Company, organising and implementing the resolutions of the Board, the annual operational plans and investment plans, formulating proposals for organisational structure for internal management and the basic management system, and making proposals to the Board for the appointment or removal of the other senior management, etc. 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 were set out on pages 52 and 53 of the Company's 2013 Annual Report.

AUDIT COMMITTEE

Overview

During the Year, the Audit Committee continued to fulfill earnestly its duties of supervising and directing internal and external audits, reviewing financial reports, supervising financial reporting procedures, strengthening internal control and management, etc., and put forward a number of opinions and suggestions to the Board and the management on financial affairs, internal control and business operation and management, thereby playing a positive role in further improving the management of the Company and 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), Li Tao (Non-executive Director)

Note: Mr Luk Kin Yu, Peter resigned as an Independent Non-executive Director on 12 January 2015 and ceased to act as a member of the Audit Committee simultaneously.

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.

Remuneration of Auditors

In the Year, the Company should pay RMB13.95 million to the auditors for audit-related services, including the fees for the audit of the financial statements for 2014 and the review of the interim financial statements for 2014. In the year, the Company should pay approximately RMB0.35 million to the auditors for non-audit services, including remuneration of approximately RMB0.20 million for translation review services relating to the 2014 annual and 2014 interim filing materials to Kanto Local Finance Bureau of Japan, and RMB0.15 million for professional services and capital verification services provided in the 2014 Rights Issue. 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.

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken

During the Year, the Audit Committee held seven meetings and considered twenty-six proposals. The attendance record of committee members at 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	7/7	7/7	7/7	7/7	6/7
Attendance rate	100%	100%	100%	100%	86%

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

The main tasks accomplished by the Audit Committee in the Year included:

The engagement of and communication with the auditors:

- considered the auditors' reports on the work plans for and results of the audit for 2013 and on the interim review work for 2014, discussed with the auditors about premiums receivable, provisions for reserves and other major matters, and advised the auditors to make comparison and analysis between the Company's operation and that of its peers in the industry;

- considered the proposal for the engagement of auditors for 2014, and obtained approvals from the Board and the shareholders' general meeting for the proposal of engagement.

Reviewed the financial reports, etc.:

- reviewed the financial statements and results announcement for 2013, the Financial Report on Compulsory Third Party Liability Motor Vehicle Insurance for 2013, the Solvency Report for 2013, and the financial statements and results announcement for the interim period of 2014, discussed with the management on, among other things, issues relating to upgrading and improvement in the reinsurance system of the Company, and advised the management to pay more attention to the business development of the Company's new sales channels;

- reviewed the Information Disclosure Report for 2013.

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

- considered and approved the Company's Internal Control Assessment Report for 2013, the Compliance Assessment Reports for 2013 and for the interim period of 2014, and suggested that the management should pay timely attention to the new requirements for compliance work arising from changes in regulatory policies;

AUDIT COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

- considered and approved the report on improvement based on the Management Recommendation Letter for 2012, considered the Management Recommendation Letter for 2013, 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 financial accounting work, considered the report of the Auditing Department and the Responsible Auditing Officer and the report of the Finance and Accounting Department of the Company on their work summaries for 2013 and the work plans for 2014, respectively;
- considered the report on the audit results of administration of related party transactions, considered and approved the Report on Related Party Transactions and Implementation of the Related Party Transaction Management System for 2013;
- considered and approved five proposals for related party transactions.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE

Overview

During the Year, the Nomination, Remuneration and Review Committee conducted annual appraisals of the Chairman, the Directors, the President and other senior management, assessed the structure and composition of the Board, nominated candidates for the Responsible Compliance Officer and Responsible Auditing Officer, and made constructive suggestions to the Board on issues of remuneration of the Company.

Composition

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

Chairman: Ding Ningning (Independent Non-executive Director)

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

Note: Mr Luk Kin Yu, Peter resigned as an Independent Non-executive Director on 12 January 2015 and ceased to act as a member of the Nomination, Remuneration and Review Committee simultaneously.

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 were set out on pages 56 and 57 of the Company's 2013 Annual Report.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Nomination of Directors

The Nomination, Remuneration and Review Committee shall first discuss the nomination of candidates for new directors, examine the qualifications of these candidates, and then recommend such candidates to the Board. The Board shall determine whether such candidates should be proposed for approval at the shareholders' general meeting. The major criteria considered by the Nomination, Remuneration and Review Committee and the Board include the candidates' educational backgrounds, management and research experience in the financial industry, especially in the insurance sector, their commitment to the Company and achieving the 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 Nomination, Remuneration and Review Committee will consider a candidate 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 directors in accordance with the business characteristics, specific requirements and future development of the Company. While performing its responsibilities, the committee may seek advice from independent professional advisers at the Company's expenses, when necessary.

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. 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 actual circumstances of the Company.

Remuneration Policy of the Company

The remuneration policy of the Company follows the guiding principle of "distribution according to work accomplished, performance-linked, gross controlled, and market-oriented" and implements a job sequence-based, market-oriented and performance-based remuneration incentive system. Based on job sequence, the remuneration will be paid based on the value of the job as well as performance contribution to ensure a fair and reasonable distribution. Through market-orientation, emphasis is placed on determining remuneration according to the market labour price to ensure the external competitiveness of the remuneration package; and by basing on performance, the determination of bonuses is linked and inter-related to business performance, stressing the contribution to business. The Company also implements a welfare plan in accordance with relevant laws and regulations and operating results to provide reasonable protection for the employees.

NOMINATION, REMUNERATION AND REVIEW COMMITTEE *(continued)*

Summary of Work Undertaken

During the Year, the Nomination, Remuneration and Review Committee held three meetings, at which six proposals were considered. One of the meetings was held to discuss remuneration-related matters. The attendance record of committee members at 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	3/3	3/3	3/3	3/3	3/3
Attendance rate	100%	100%	100%	100%	100%

The main tasks accomplished by the Nomination, Remuneration and Review Committee in the Year 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 2014, and such recommendations were approved by the Board and at the shareholders' general meeting;

- considered the performance appraisal plan for the senior management for 2013 and made recommendations to the Board in respect thereof; carried out annual performance appraisals of the Chairman, the Directors, the President and the Vice Presidents, the Secretary of the Board, the Chief Accountant, the Chief Claims Assessor and the 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;

- evaluated the structure, size and composition of the Board;

- nominated Mr Zhang Xiaoli as a candidate for the Responsible Compliance Officer and the Responsible Auditing Officer, which was approved by the Board.

STRATEGIC PLANNING COMMITTEE

Overview

During the Year, the Strategic Planning Committee considered the annual business development plan, major investment plans, financing plans, financial budget, operating results and profit distributions, etc.

Composition

During the Year, the Strategic Planning Committee comprised:

Chairman: Wu Yan (Executive Director)

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

Note: Mr Tse Sze-Wing, Edmund resigned as a Non-executive Director on 10 July 2014 and ceased to act as a member of the Strategic Planning Committee simultaneously.

Duties and Responsibilities

The Strategic Planning Committee is responsible for formulating medium and long-term development strategies, considering 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 issuance of shares and bonds, plans for material modification to the organisational structure of the Company 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 eight meetings and considered twelve proposals. The attendance record of committee members at 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	8/8	8/8	8/8	5/5	8/8
Attendance rate	100%	100%	100%	100%	100%

Note: Mr Tse Sze-Wing, Edmund resigned as a Non-executive Director on 10 July 2014.

STRATEGIC PLANNING COMMITTEE *(continued)*

Summary of Work Undertaken *(continued)*

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

- considered and approved the proposal to the shareholders' general meeting to authorise the Board to issue subordinated term debt;
- considered and approved the business development plan and fixed assets investment plan for the Year and the Evaluation Report on Implementation of the Development Plan for 2013;
- considered and approved the financial budget for the Year;
- considered and approved the profit distribution plans for 2013 and the first half of 2014;
- 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;
- 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

During the Year, the Risk Management and Investment Decision-making Committee comprised:

Chairman: Wu Yan (Executive Director)

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

Note: Mr Zhou Shurui resigned as a Non-executive Director on 20 March 2015 and ceased to act as a member of the Risk Management and Investment Decision-making Committee simultaneously.

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 working 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 four meetings and considered five proposals. The attendance record of committee members at 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	4/4	4/4	4/4	4/4	4/4
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 2013;
- considered and approved the participation in the debt investment plan for the PICC-Guangdong Highway Project;
- considered and approved the subscription for the equity investment plan for Guangdong (PICC) Industrial Investment Fund Project for the Rejuvenation and Development of East, West and North Guangdong;
- considered and approved the subscription for the equity investment plan for the PICC Asset – Sinopec Mixed Ownership Reform Project.

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 a steady, sound and effective internal control system. 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, and considering and assessing material issues in relation to operation risks of the Company. The functional departments of the Company bear primary responsibilities for the internal control system. The Compliance Department/Risk Management 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 2014, the Company continued to improve the mechanism and procedures as well as approaches and measures of internal control. **Firstly, in relation to mechanism and procedures**, the Company established an operational risk management platform, integrated its internal control and compliance system, operational procedural system and authorisation management system, and promoted the linkages among regulatory policies, system design, procedure streamlining, internal assessment, operation authorisation and other key areas. The Company conducted a comprehensive review of applicable rules and regulations, updated and abolished their certain contents to ensure the soundness and effectiveness of the rules and norms as well as operating procedures. **Secondly, in relation to control warnings**, various functional departments including front-end, middle-end and back-end departments, relying on the data information platform, strengthened control warnings and risk alerts in key areas, and timely disclosed potential risks that might exist in the course of operation and management of the Company from different angles such as data quality, risk indicators and operation results. The Company completed the development of the risk management information platform, further integrated the key risk warning system, and was devoted to establishing a close-end management mechanism of risk identification, warning, improvement and assessment. The Company enhanced the timely reporting and emergency management system on significant and sudden events, and strengthened vertical information communication among organisations at different levels and horizontal information sharing among departments at the same level. **Thirdly, in relation to supervision and inspection**, the Company enhanced the supervision and inspection duties of product lines, sales channels and other business departments, and took active measures of risk inspection and issue rectification in key areas and key steps focused by regulatory authorities. The Company promoted internal control assessment and defect rectification in depth, improved assessment methods and techniques and realised full-process online management of internal assessment. The Company continued to strengthen audit supervision, combined on-site audit and off-site audit, continuously expanded the coverage of supervision and inspection and be more specific. **Fourthly, in relation to accountability and penalties**, the Company formulated detailed implementation rules concerning punishing responsible persons violating laws and regulations and accountability for cases, further improved accountability regulations, and continued to increase the extent of penalties imposed on persons directly or indirectly responsible for major violation. **Fifthly, in terms of promotion and training**, the Company publicised compliance bottom line and regulatory prohibitions, persisted in including contents of internal control and compliance and risk management in the qualification examinations and professional examinations of organisations at various levels, continuously promoted the compliance culture by deepening the propaganda activities of the compliance month and by sending short messages relating to compliance issues, and strengthened explanations on regulatory policies.

INTERNAL CONTROL *(continued)*

With a view to reviewing and continuously enhancing the effectiveness of the Company's and its subsidiaries' internal control systems, the Board and the Audit Committee considered and discussed the Internal Control Assessment Report and the Compliance Assessment Report of the Company for 2014, and the Board and the Risk Management and Investment Decision-making Committee considered and discussed the Risk Assessment Report of the Company for 2014.

SUPERVISORY COMMITTEE

Overview

During the Year, the Supervisory Committee discharged its supervisory duties according to the laws, carried out the supervision over meetings, gave opinions and suggestions about the strengthening of operation and management as well as risk control to the management; through branch inspections and visits, gained an understanding of the Company's operation, development and internal control; and improved the performance of the Supervisory Committee through exchange and learning.

Composition

During the Year, the Supervisory Committee comprised:

Chairman: Wang Yueshu

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

Note: 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 Company Law, Mr Sheng Hetai, Mr Lu Zhengfei, Ms Qu Yonghuan and Mr Shen Ruiguo currently continue to serve as Supervisors until the newly elected supervisors commence their terms of office.

Duties and Responsibilities

In accordance with the Company Law and the Articles of Association, the Supervisory Committee is accountable to the shareholders' general meeting. It 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 Company Law and the Articles of Association. During the Year, the Supervisory Committee held two meetings, at which six proposals were considered and approved. The Supervisors' attendance record of the meetings is as follows:

Name	Wang Yueshu	Sheng Hetai	Lu Zhengfei	Qu Yonghuan	Shen Ruiguo
Number of meetings attended/Number of meetings that require attendance	2/2	1/2	2/2	1/2	2/2
Attendance rate	100%	50%	100%	50%	100%

Note: During the Year, Mr Sheng Hetai attended one meeting in person and entrusted Mr Wang Yueshu to attend one meeting on his behalf; and Ms Qu Yonghuan attended one meeting in person and entrusted Mr Shen Ruiguo to attend one meeting on her 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 2013 annual results and the 2014 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 increased from RMB13,604,137,800 to RMB14,828,510,202, and its total number of shares increased from 13,604,137,800 shares to 14,828,510,202 shares. The change in the registered capital of the Company was approved by the CIRC during the Year.

In February 2015, the Company completed the relevant procedures for the amendments to the Articles of Association. The amendments to the Articles of Association were to reflect changes in the registered capital and equity structure of the Company following the above rights issue.

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 was the annual general meeting held at Wanchunyuan Villa, No. 28 Qinghua Road (W), Haidian District, Beijing, the PRC on 27 June 2014, at which the Report of the Board of Directors, Report of the Supervisory Committee, auditor's report and audited financial statements and profit distribution plan for 2013, the proposals for the directors' and supervisors' fees for 2014, re-engagement of auditors and general mandate granted to the Board to issue additional shares were considered. All of the resolutions were passed at the annual general meeting by way of poll.

"2013-2014 BEST CALL CENTER IN CHINA"

On 16 April 2014, at the Twelfth Summit Forum of China Call Center Industry and the Presentation Ceremony of Awards to Best Call Center and Best Manager in China, the 95518 Customer Service Center of the Company was awarded the "Best Call Center in China" prize. It was the seventh time that the Company won this prize.

"OUTSTANDING CONTRIBUTION AWARD"

On 20 September 2014, at the Launch Ceremony of the "Three Transformations" Program and the Twentieth Anniversary of China Quality Promotion Program organised by China Association for Quality Promotion, the Company was awarded the "Outstanding Contribution Award" for its outstanding performance and contribution in the China quality promotion activities in the past years.

19 AWARDS INCLUDING "MOST INFLUENTIAL INSURANCE BRAND OF THE YEAR"

On 23 October 2014, the "Ninth China Insurance Innovation Prize" was announced at the Seventh China Insurance Culture and Brand Innovation Forum and the Ninth China Insurance Innovation Prize Awards Presentation Ceremony, and the Company won 19 awards including the "Most Influential Insurance Brand of the Year", keeping its number one position among all property insurance companies in terms of the number of awards.

"CHINA BEST INNOVATOR PROCESSES"

In November 2014, in the election award for the "Best Innovator China 2014" jointly organised by *Bloomberg Businessweek/China*, the global management consulting firm A.T. Kearney and China Europe International Business School (CEIBS), the Company won the "China Best Innovator Processes" grand award, being the only award-winning financial institution in 2014.

"2014 TOP 10 CHINA BEST EMPLOYERS"

In December 2014, the "China Best Employer Award" jointly organised by website Zhaopin.com and the Corporate Social Responsibility and Employer Brand Communication Research Center of Peking University was announced, and the Company was awarded one of the "2014 Top 10 China Best Employers". It was the first time the Company was awarded one of the top 10 after being nominated for "China Best Employer Award" for four consecutive years since 2011.

"2014 INSURANCE COMPANY OF THE YEAR (CHINESE PROPERTY INSURANCE COMPANY)"

On 13 December 2014, the "CBN Financial Value Ranking" election organised by China *Business News* was announced and the Company was awarded the "2014 Insurance Company of the Year (Chinese Property Insurance Company)".

"2014 CHINA BEST AUTO INSURANCE BRAND"

On 17 December 2014, at the 2014 (Fifth) China Auto Finance Annual Conference and the 2014 "China Auto Golden Engine Awards" Presentation Ceremony organised by *Moneyweek* and co-organised by dozens of other media including website www.auto.163.com, the Company was awarded the "2014 China Best Auto Insurance Brand" prize. It was the second time that the Company won this prize.

"2014 PROPERTY INSURANCE COMPANY WITH SUPERIOR COMPETITIVENESS"

On 18 December 2014, at the Twelfth Chinese Enterprises with Superior Competitiveness Annual Conference and the 2014 (Sixth) Financial Institutions Competitiveness Awards Presentation Ceremony organised by *China Business Journal* under the Chinese Academy of Social Sciences, the Company was awarded the "2014 Property Insurance Company with Superior Competitiveness".

"2014 AWARD FOR OUTSTANDING CONTRIBUTION TO THE INSURANCE CULTURAL DEVELOPMENT ACTIVITIES IN CHINA"

On 19 December 2014, at the insurance industry cultural development result promotion meeting organised by the Insurance Association of China, the Company was granted the "2014 Award for Outstanding Contribution to the Insurance Cultural Development Activities in China".

"2014 BEST MOTOR VEHICLE INSURANCE BRAND"

On 25 December 2014, at the Summit Forum of "Leading China: Innovation Development in Financial Sector" jointly organised by website www.JRJ.com and the PBC School of Finance of Tsinghua University, the Company was awarded the "Best Motor Vehicle Insurance Brand". It was the second time that the Company was awarded this prize.

"2014 CHINA MOST ADMIRED KNOWLEDGE ENTERPRISE AWARD"

On 13 January 2015, in the election for the "2014 China Most Admired Knowledge Enterprises" (China MAKE) Study organised by the Knowledge Management and Innovation Research Centre of The Hong Kong Polytechnic University, the Company was awarded the "2014 China Most Admired Knowledge Enterprise", being the only insurance enterprise winning the prize since the launch of the award.

"TOP 100 COMPREHENSIVE STRENGTHS"

On 13 January 2015, the final winner list of 2014 "Top 100 Hong Kong-listed Companies" jointly organised by Hong Kong Finet Group Limited and website www.QQ.com was officially announced. The Company was successfully ranked in the main list again for the third consecutive year, ranking the 44th in the "Top 100 Comprehensive Strengths".

"OUTSTANDING CHINESE ENTERPRISE IN SOCIAL RESPONSIBILITY"

On 15 January 2015, at the Seventh China Enterprises Social Responsibility Summit jointly organised by website www.xinhuanet.com and the Chinese Academy of Social Sciences, the Company was awarded the grand prize of "Outstanding Chinese Enterprise in Social Responsibility" for the second consecutive year.

"2014 MOST TRUSTED PROPERTY INSURANCE COMPANY OF THE YEAR"

On 17 January 2015, the election results of Twelfth China Finance and Economics Billboard jointly organised by website www.hexun.com and China Securities Market Research and Design Center was announced. The Company was awarded the "2014 Most Trusted Property Insurance Company of the Year".

"2014 BEST PROPERTY INSURANCE COMPANY"

On 21 January 2015, in the election for the Eighth Session of the "Golden Cicada Award" organised by *China Times*, the Company was awarded the "2014 Best Property Insurance Company".

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 71 to 190, which comprise the consolidated and company statements of financial position as at 31 December 2014 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 2014, 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
27 March 2015

For the year ended 31 December 2014

	Notes	2014 RMB million	2013 RMB million
TURNOVER	5	253,037	223,525
Net premiums earned	5	211,169	182,546
Net claims incurred	6	(135,947)	(120,902)
Policy acquisition costs	7	(41,803)	(34,437)
Other underwriting expenses		(18,297)	(14,368)
Administrative expenses		(7,831)	(6,879)
UNDERWRITING PROFIT		7,291	5,960
Investment income	8	12,141	9,939
Net realised and unrealised gains/(losses) on investments	9	1,319	(342)
Investment related expenses		(243)	(208)
Interest expenses credited to policyholders' deposits		–	(1)
Exchange gains/(losses), net		9	(142)
Sundry income		425	401
Sundry expenses		(177)	(185)
Finance costs	10	(1,631)	(2,060)
Share of profits of associates		307	77
PROFIT BEFORE TAX	11	19,441	13,439
Income tax expense	14	(4,326)	(2,881)
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		15,115	10,558
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT (in RMB)	15	1.061	(Restated) 0.763

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

For the year ended 31 December 2014

	Notes	2014 RMB million	2013 RMB million
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT		15,115	10,558
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
– Fair value gains/(losses)		11,824	(1,933)
– Reclassification of gains to profit or loss on disposals		(1,422)	(787)
– Impairment losses		502	1,344
Income tax effect	31	(2,726)	344
Share of other comprehensive income/(expense) of associates		508	(101)
		8,686	(1,133)
Net gains/(losses) on cash flow hedges		15	(30)
Income tax effect	31	(4)	7
Share of other comprehensive income of associates		1	–
		12	(23)
NET OTHER COMPREHENSIVE INCOME/(EXPENSE) MAY BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		8,698	(1,156)
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		338	278
Income tax effect	31	(84)	(69)
Share of other comprehensive (expense)/income of associates		(9)	6
		245	215
NET OTHER COMPREHENSIVE INCOME WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS		245	215
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX		8,943	(941)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		24,058	9,617

At 31 December 2014

	Notes	31 December 2014 RMB million	31 December 2013 RMB million
ASSETS			
Cash and cash equivalents	17	24,157	16,272
Term deposits	18	88,236	64,373
Derivative financial assets	19	13	–
Debt securities	20	107,789	105,682
Equity securities	21	40,951	28,964
Insurance receivables, net	22	17,400	24,870
Tax recoverable		–	73
Reinsurance assets	23	25,681	26,431
Loans and receivables	24	21,752	12,910
Prepayments and other assets	25	13,500	12,534
Investments in associates	26	4,750	3,973
Investment properties	28	4,684	4,591
Property, plant and equipment	29	13,786	14,023
Prepaid land premiums	30	3,431	3,531
Deferred tax assets	31	–	1,197
TOTAL ASSETS		366,130	319,424
LIABILITIES			
Derivative financial liabilities	19	–	2
Payables to reinsurers	33	10,403	17,455
Accrued insurance protection fund	34	755	698
Securities sold under agreements to repurchase	35	14,241	18,015
Tax payables		818	–
Other liabilities and accruals	36	31,235	25,749
Insurance contract liabilities	37	198,137	178,486
Policyholders' deposits	38	1,786	1,953
Subordinated debts	39	22,449	19,562
Deferred tax liabilities	31	531	–
TOTAL LIABILITIES		280,355	261,920
EQUITY			
Issued capital	41	14,828	13,604
Reserves	42	70,942	43,895
Equity attributable to owners of the parent		85,770	57,499
Non-controlling interests		5	5
TOTAL EQUITY		85,775	57,504
TOTAL EQUITY AND LIABILITIES		366,130	319,424

For the year ended 31 December 2014

	Attributable to owners of the parent										Non-controlling interests	Total equity
	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*	Profit reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*	*RMB million*	*RMB million*
Balance at 1 January 2014	13,604	12,990	2,292	(3,335)	(1)	22,887	3,940	–	5,122	57,499	5	57,504
Profit for the year	–	–	–	–	–	–	–	–	15,115	15,115	–	15,115
Other comprehensive income	–	–	245	8,686	12	–	–	–	–	8,943	–	8,943
Total comprehensive income	–	–	245	8,686	12	–	–	–	15,115	24,058	–	24,058
Rights issue****	1,224	6,020	–	–	–	–	–	–	–	7,244	–	7,244
Share issue expense****	–	(24)	–	–	–	–	–	–	–	(24)	–	(24)
Appropriations to statutory surplus reserve and general risk reserve*****	–	–	–	–	–	1,457	1,457	–	(2,914)	–	–	–
Appropriations to discretionary surplus reserve*****	–	–	–	–	–	4,330	–	–	(4,330)	–	–	–
Appropriations to profit reserve for agriculture insurance*****	–	–	–	–	–	–	–	721	(721)	–	–	–
2013 final dividend******	–	–	–	–	–	–	–	–	(3,007)	(3,007)	–	(3,007)
Balance at 31 December 2014	14,828	18,986*	2,537*	5,351*	11*	28,674*	5,397*	721*	9,265*	85,770	5	85,775

* These reserve accounts comprise the consolidated reserves of RMB70,942 million (31 December 2013: RMB43,895 million) in the consolidated statement of financial position as at 31 December 2014.

** 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 27 June 2014, the shareholders of the Company at a general meeting approved the rights issue proposal. The Company completed the rights issue of 380 million H shares at an issue price of HK$7.46 per H rights share and 845 million domestic shares at an issue price of RMB5.92 per domestic rights share on the basis of 0.9 rights shares for every 10 existing H shares and domestic shares held by members registered on 17 November 2014, respectively. The Company raised total proceeds of RMB7,244 million, of which an amount of RMB1,224 million was recorded in issued capital and RMB5,996 million was recorded in the share premium account after a deduction of the share issue expenses of RMB24 million.

***** On 27 June 2014, the shareholders of the Company at a general meeting approved that 55% of the profit attributable to owners of the parent for 2013, amounting to RMB5,800 million, after the appropriation to the statutory surplus reserve and the general risk reserve, be appropriated to the discretionary surplus reserve. The Company appropriated RMB1,993 million to the discretionary surplus reserve during the current year as the Company already appropriated RMB3,807 million to the discretionary surplus reserve during the year ended 31 December 2013 based on a resolution approved by the Board of Directors of the Company on 26 August 2013.

On 22 August 2014, the Board of Directors of the Company approved appropriations of RMB779 million, RMB779 million and RMB2,337 million to the statutory surplus reserve, the general risk reserve and the discretionary surplus reserve, respectively, based on 10%, 10% and 30% of the profit attributable to owners of the parent of the Company for the six months ended 30 June 2014, respectively.

****** On 27 June 2014, the shareholders of the Company at a general meeting approved a final dividend of RMB0.221 per ordinary share totalling RMB3,007 million for the year ended 31 December 2013.

For the year ended 31 December 2014

	Attributable to owners of the parent									Non-controlling interests	Total equity
	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*	*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)	–	–	–
2013 interim dividend******	–	–	–	–	–	–	–	(3,306)	(3,306)	–	(3,306)
Capital contribution from non-controlling shareholders (note 27)	–	–	–	–	–	–	–	–	–	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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 RMB million	2013 RMB million
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		19,441	13,439
Adjustments for:			
Investment income	8	(12,141)	(9,939)
Net realised and unrealised (gains)/losses on investments	9	(1,319)	342
Interest expenses credited to policyholders' deposits		–	1
Exchange (gains)/losses, net		(9)	142
Share of profits of associates		(307)	(77)
Depreciation of property, plant and equipment	11, 29	2,219	1,744
Amortisation of prepaid land premiums	11, 30	133	130
Net gain on disposal of items of property, plant and equipment	11	(34)	(21)
Finance costs	10	1,631	2,060
Investment expenses		243	208
Impairment loss on insurance receivables	11, 22	517	188
Decrease/(increase) in insurance receivables		6,953	(2,396)
Increase in prepayments and other assets		(20)	(63)
(Decrease)/increase in payables to reinsurers		(7,052)	788
Increase in accrued insurance protection fund		57	123
Increase in other liabilities and accruals		5,275	2,091
Increase in insurance contract liabilities, net		20,401	15,163
Cash generated from operations		35,988	23,923
Income tax paid		(4,521)	(2,514)
Net cash flows from operating activities		31,467	21,409
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		9,566	8,245
Rental income received from investment properties		210	205
Dividend income received from equity securities		1,107	979
Payment for capital expenditure		(1,849)	(1,972)
Proceeds from disposal of items of property, plant and equipment		110	144
Payment for share subscription and acquisition of an associate		–	(2,485)
Payment for purchase of debt and equity securities		(90,690)	(87,692)
Payment for purchase of unlisted debts		(8,842)	(4,910)
Dividend income received from associates		31	–
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		89,075	82,513
Placement of deposits with banks with original maturity of more than three months		(25,935)	(10,267)
Maturity of deposits with banks with original maturity of more than three months		2,077	603
Net cash flows used in investing activities		(25,140)	(13,517)

For the year ended 31 December 2014

	Notes	2014 RMB million	2013 RMB million
Net cash flows used in investing activities		(25,140)	(13,517)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of subordinated debts	39	8,000	–
Proceeds from rights issue		7,220	5,754
Payment for redemption of subordinated debts	39	(5,000)	–
Decrease in securities sold under agreements to repurchase, net		(3,774)	(5,009)
Decrease in policyholders' deposits		(167)	(30)
Interest paid		(1,714)	(1,919)
Dividends paid		(3,007)	(3,306)
Net cash flows from/(used in) financing activities		1,558	(4,510)
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,885	3,382
Cash and cash equivalents at beginning of year		16,272	12,890
CASH AND CASH EQUIVALENTS AT END OF YEAR	17	24,157	16,272

At 31 December 2014

	Notes	31 December 2014 RMB million	31 December 2013 RMB million
ASSETS			
Cash and cash equivalents	17	24,053	16,217
Term deposits	18	88,236	64,373
Derivative financial assets	19	13	–
Debt securities	20	107,789	105,682
Equity securities	21	40,951	28,964
Insurance receivables, net	22	17,400	24,870
Tax recoverable		–	73
Reinsurance assets	23	25,681	26,431
Loans and receivables	24	21,752	12,910
Prepayments and other assets	25	13,500	12,534
Investments in associates	26	4,273	4,273
Investments in subsidiaries	27	96	48
Investment properties	28	4,835	4,753
Property, plant and equipment	29	13,740	13,975
Prepaid land premiums	30	3,430	3,530
Deferred tax assets	31	–	1,169
TOTAL ASSETS		365,749	319,802
LIABILITIES			
Derivative financial liabilities	19	–	2
Payables to reinsurers	33	10,403	17,455
Accrued insurance protection fund	34	755	698
Securities sold under agreements to repurchase	35	14,241	18,015
Tax payable		818	–
Other liabilities and accruals	36	31,235	25,749
Insurance contract liabilities	37	198,137	178,486
Policyholders' deposits	38	1,786	1,953
Subordinated debts	39	22,449	19,562
Deferred tax liabilities	31	556	–
TOTAL LIABILITIES		280,380	261,920
EQUITY			
Issued capital	41	14,828	13,604
Reserves	42	70,541	44,278
TOTAL EQUITY		85,369	57,882
TOTAL EQUITY AND LIABILITIES		365,749	319,802

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. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the 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 and insurance contract liabilities. 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.

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 APPLICATIONS OF NEW AND REVISED HKFRSs

The Group has applied for the first time in the current year the following amendments to HKFRSs and a new interpretation.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC) – Int 21	Levies

2.3 APPLICATIONS OF NEW AND REVISED HKFRSs *(continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 – Investment Entities

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

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 applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by HKFRS 13 Fair Value Measurements.

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 designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

2.3 APPLICATIONS OF NEW AND REVISED HKFRSs *(continued)*

HK (IFRIC) – Int 21 – Levies

HK (IFRIC) – Int 21 Levies addresses the issue as to when to recognise a liability to pay a levy imposed by a government. 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 adoption of the above amendments to HKFRSs and the new interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE HKFRSS

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

2.4 ISSUED BUT NOT YET EFFECTIVE HKFRSS *(continued)*

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

HKFRS 9 – Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2.4 ISSUED BUT NOT YET EFFECTIVE HKFRSS *(continued)*

HKFRS 9 – Financial Instruments *(continued)*

- 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.

Application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 – Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Group anticipates that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until a detailed review has been completed.

2.4 ISSUED BUT NOT YET EFFECTIVE HKFRSS *(continued)*

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to HKAS 19 – Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- At cost,
- In accordance with HKFRS 9 Financial Instruments (or HKAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted HKFRS 9), or
- Using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First-time Adoption of International Financial Reporting Standards.

2.4 ISSUED BUT NOT YET EFFECTIVE HKFRSS *(continued)*

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.
- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.
- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.
- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments to HKFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. They also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity has to be consolidated; other subsidiaries of an investment entity are measured at fair value.

The amendments to HKAS 28 allow the non-investment entity investor that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

The amendments to HKFRS 12 require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 9 to present the disclosures in respect of investment entities required by HKFRS 12.

2.4 ISSUED BUT NOT YET EFFECTIVE HKFRSS *(continued)*

Annual Improvements to HKFRS 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle

The Annual Improvements 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle sets out amendments to a number of HKFRSs.

None of the above new and revised HKFRSs are expected to have a material impact on the financial position or performance of the Group but may require additional disclosures except IFRS 9 and IFRS 15. The directors are in the process of making an assessment of the impact of IFRS 9 and IFRS 15.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

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.

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).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment, 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are always measured at fair value through profit or loss 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.

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 method. The effective interest rate amortisation is included in investment income in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

If financial assets carried at amortised cost are impaired, the carrying amount of the financial assets is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) and the reduction is recognised as an impairment loss in the income statement. The present value of estimated future cash flows shall be calculated with the financial asset's original effective interest rate and the related collateral value shall also be taken into account. For financial assets with floating interest rate, the present value of estimated future cash flows shall be calculated with the effective interest rate stipulated by the contract.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment, and recognises the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

After the Group recognises an impairment loss of financial assets carried at amortised cost, if there is objective evidence that the financial assets' value restores and the restoration can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed and recognised in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment was reversed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

– the rights to receive cash flows from the asset have expired; or

– the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, or other financial liabilities at amortised cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Subsequent measurement

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

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 always measured at fair value through profit or loss 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 liabilities at amortised cost (including interest-bearing borrowings)

Financial liabilities including securities sold under agreements to repurchase, miscellaneous payables and accruals, policyholders' deposits and subordinated debts are initially stated at fair value less directly attributable transaction costs and 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. The related interest expense is recognised in the income statement. Amounts due to reinsurers are accounted for as if they were other financial liabilities.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement ***(continued)***

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments and hedge accounting *(continued)*

Initial recognition and subsequent measurement *(continued)*

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.

Fair Value Measurement

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.

2.5 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.

Insurance contracts

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. Insurance contracts are classified as direct insurance contracts and reinsurance contracts. The significance of insurance risk as assessed by the Group is based on the additional amount that the Group needs to compensate policyholders upon the occurrence of the insurance events.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles these two components, if the insurance component and the deposit component are distinct and separately measurable.

The unbundled insurance component is accounted for according to HKFRS 4 and the unbundled deposit component is accounted for as financial liabilities. If the insurance component and the deposit component are not distinct and separately measurable, the entire contract is accounted for as an insurance contract.

Once a contract has been classified as an insurance contract, no reclassification can subsequently be made.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Significant insurance risk testing

For insurance contracts issued by the Group, tests are performed to determine if the contracts contain significant insurance risk, and contracts of a similar nature are grouped together for this purpose. When performing the significant insurance risk testing, the Group makes judgements in sequence as to whether the contract transfers insurance risk, whether the contract has commercial substance, and whether the transferred insurance risk is 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

When measuring insurance contract liabilities, the Group uses a group of insurance contracts whose insurance risks are of a similar nature as a measurement unit. The Group's insurance contracts are classified into certain measurement units by type of insurance.

The Group's insurance contract liabilities comprise 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 against an equal and opposite amount of premium being recognised as revenue. 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 liability is discounted to present value using a risk-free rate, plus an appropriate premium to fully reflect the characteristics of the cash flow being discounted, when the impact of time value of money is significant. When any deficiency arises from performing the liability adequacy tests as described below, unearned premium reserves have to be adjusted to reflect the deficiency.

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the unearned premium reserves. If current estimates of the present value of the expected future claims and loss adjustment expenses in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty associated with the future net cash flows, exceed the unearned premium reserves, then the unearned premium reserves are deemed to be deficient. The resulting deficiency is recognised immediately through profit or loss. The risk margin for the tests described above is determined using the cost of capital approach and the confidence interval approach and based on the most recent experience of the Group as well as by reference to the industry benchmark.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contract liabilities *(continued)*

Loss and loss adjustment expense reserves include incurred and reported reserves, incurred but not reported ("IBNR") reserves and loss adjustment expense reserves.

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 margin. Delays can be experienced in notification and settlement of certain types of claims, and therefore the ultimate cost of these claims 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 margin is determined using the cost of capital approach and the confidence interval approach and based on the most recent experience of the Group as well as by reference to the industry benchmark. The liability is discounted to present value using a risk-free rate, plus an appropriate premium to fully reflect the characteristics of the cash flow being discounted, when the impact of time value of money is significant. Adjustments to the liabilities at the end of each reporting period are recorded in profit or loss.

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 part of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the insurance contract liabilities or settled claims associated with the reinsured policies and are in accordance 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 margin to the gross balance of loss and loss adjustment expense reserves.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Reinsurance *(continued)*

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.

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. Receivables and payables arising from reinsurance contracts are measured at amortised costs and not offset for presentation purposes.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 right to receive dividend 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.

According to the relevant regulations of the PRC, the Company is required to make appropriations to profit reserve when the agriculture insurance achieves annual or accumulated excessive underwriting profits determined in accordance with PRC GAAP. This profit 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

Judgements *(continued)*

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.

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.

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

Judgements *(continued)*

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.

Significant influence when less than 20 per cent of voting power is held

One or more of the following indicators are present:

- Representation on the board of directors or equivalent governing body of the investee;
- Participation in policy-making processes, including participation in decisions about dividends or other distributions;
- Material transactions between the investor and the investee;
- Interchange of managerial personnel; or
- Provision of essential technical information.

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:

Valuation of insurance contract liabilities

At the end of the reporting period, when measuring the insurance contract liabilities, the Group needs to make reasonable estimates in payments which the Group is required to make in fulfilling the obligations under the insurance contracts, based on information currently available at the end of the reporting period.

The main assumptions made in measuring these liabilities are as follows:

- For insurance contracts under which the future insurance benefits are not affected by investment income of the underlying asset portfolio, the discount rates are determined based on the 750-day moving average of yield curve of China's treasury bonds published by China Government Securities Depository Trust & Clearing Co., Ltd, with consideration of tax effect and illiquidity premiums. In consideration of the different duration of each line of business, the Group used premiums of 103 -112 basis points as at 31 December 2014 (31 December 2013: 100 -107 basis points). The discount rates of the different duration used as at 31 December 2014 were 4.1%-4.5% (31 December 2013: 4.0%-4.3%).

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

Estimation uncertainty *(continued)*

Valuation of insurance contract liabilities *(continued)*

- The Group determines the risk margin assumptions for unearned premium reserves based on the currently available information at the end of the reporting period, details are described below:

Type	2014	2013
Agricultural insurance	33.8%	39.5%
Motor vehicle insurance	3%	3%
Others insurance	6%	3%

- The Group determines the risk margin assumptions for loss and loss adjustment expense reserves based on the currently available information at the end of the reporting period, details are described below:

Type	2014	2013
Agricultural insurance	33.3%	39%
Motor vehicle insurance	2.5%	2.5%
Others insurance	5.5%	2.5%

As a result of the above changes in assumptions, the net amount of insurance contract liabilities were increased by RMB342 million as at 31 December 2014 and the profit before tax for 2014 was reduced by RMB342 million.

The major assumptions needed in measuring loss and loss adjustment expense reserves include the claim development factors and expected loss ratios, which can be used to forecast trends of future claims so as to estimate the ultimate claim expenses. The claim development factors and the expected loss ratios for various measurement units are based on past claims development experience and loss ratios, taking into consideration changes in company policies such as the underwriting policy, expenses and claims handling processes, and changing trends in external environment such as economic conditions, regulations and legislation.

Management is of the opinion that as at the end of the reporting period, loss and loss adjustment expense reserves are sufficient to cover all incurred events to date but cannot guarantee there is no underprovision or overprovision of the reserve, which is an estimate of the ultimate losses.

The term and assumptions of insurance contract liabilities and development of claims are set out in note 40.

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

Estimation uncertainty *(continued)*

Impairment losses on insurance receivables

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

In addition to specific allowances against individually significant insurance receivables, the Group also makes a collective impairment against a group of insurance receivables with similar credit risk characteristics. The extent of impairment is dependent on the estimation of the amount and the timing of future cash flows. The impairment losses on insurance receivables are disclosed in note 22.

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. The movements in deferred tax assets and liabilities are set out in note 31.

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 43.

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 28.

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. The carrying values of reinsurance assets are disclosed in note 23.

4. OPERATING SEGMENT INFORMATION

The Group's operating segments are presented in a manner consistent with the internal management reporting provided to the president's office for deciding how to allocate resources and for assessing performance.

For management purposes, the Group is organised into business units based on their products and services and has eight 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 agriculture segment provides insurance products covering agriculture business;

(g) the others segment mainly represents insurance products related to homeowners, special risks, marine hull, construction and credit; and

(h) 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 performance assessment. Segment performance is evaluated based on reportable segment result, in which insurance business income and expense (for segments (a) to (g)) is a measure of underwriting profit/(loss) and corporate business income and expense (for segment (h)), primarily investment related income and expense, is a measure of profit for the year excluding underwriting profit/(loss). Income tax expense is 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, tax payables, deferred tax liabilities and other payables, which are not allocated further.

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 2014 and 2013.

In 2014 and 2013, 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 2014 and 2013 are as follows:

2014	Insurance							Corporate	Total
	Motor vehicle	Commercial property	Cargo	Liability	Accidental injury and health	Agriculture	Others		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Segment turnover	185,054	12,929	3,556	10,041	14,161	17,143	10,153	–	253,037
Net premiums earned	164,606	7,921	2,523	7,302	11,324	12,426	5,067	–	211,169
Net claims incurred	(106,587)	(4,663)	(1,261)	(4,062)	(9,063)	(7,385)	(2,926)	–	(135,947)
Policy acquisition costs	(36,212)	(1,714)	(585)	(1,886)	(1,053)	112	(465)	–	(41,803)
Other underwriting expenses	(12,580)	(1,061)	(312)	(626)	(727)	(2,250)	(741)	–	(18,297)
Administrative expenses	(5,437)	(311)	(130)	(261)	(430)	(827)	(435)	–	(7,831)
Underwriting profit	3,790	172	235	467	51	2,076	500	–	7,291
Investment income	–	–	–	–	–	–	–	12,141	12,141
Net realised and unrealised gains on investments	–	–	–	–	–	–	–	1,319	1,319
Investment related expenses	–	–	–	–	–	–	–	(243)	(243)
Exchange gains, net	–	–	–	–	–	–	–	9	9
Finance costs	–	–	–	–	–	–	–	(1,631)	(1,631)
Sundry income and expenses, net	–	–	–	–	–	–	–	248	248
Share of profits of associates	–	–	–	–	–	–	–	307	307
Profit before tax	3,790	172	235	467	51	2,076	500	12,150	19,441
Income tax expense	–	–	–	–	–	–	–	(4,326)	(4,326)
Profit attributable to owners of the parent	3,790	172	235	467	51	2,076	500	7,824	15,115

4. OPERATING SEGMENT INFORMATION *(continued)*

2013	Insurance							Corporate	Total
	Motor vehicle *RMB million*	Commercial property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental injury and health *RMB million*	Agriculture *RMB million*	Others *RMB million*	*RMB million*	*RMB million*
Segment turnover	163,276	12,581	3,664	8,446	9,934	16,566	9,058	–	223,525
Net premiums earned	141,810	7,818	2,474	6,189	7,520	12,313	4,422	–	182,546
Net claims incurred	(94,486)	(5,734)	(1,006)	(3,343)	(5,441)	(8,293)	(2,599)	–	(120,902)
Policy acquisition costs	(28,598)	(2,152)	(627)	(1,418)	(1,443)	(454)	255	–	(34,437)
Other underwriting expenses	(10,585)	(526)	11	(470)	29	(1,677)	(1,150)	–	(14,368)
Administrative expenses	(5,072)	(323)	(39)	(262)	(357)	(492)	(334)	–	(6,879)
Underwriting profit/(loss)	3,069	(917)	813	696	308	1,397	594	–	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, net	–	–	–	–	–	–	–	216	216
Share of profits of associates	–	–	–	–	–	–	–	77	77
Profit/(loss) before tax	3,069	(917)	813	696	308	1,397	593	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	1,397	593	4,599	10,558

4. OPERATING SEGMENT INFORMATION *(continued)*

The segment assets, liabilities and other segment information of the Group as at 31 December 2014 and 2013 are as follows:

31 December 2014	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: Agriculture *RMB million*	Insurance: Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Segment assets	12,258	8,719	1,341	3,931	3,929	4,798	11,202	319,952	366,130
Segment liabilities	157,665	14,452	3,037	11,756	9,548	10,128	16,918	56,851	280,355
Other segment information:									
Depreciation and amortisation	1,851	126	35	100	142	172	99	–	2,525
Impairment losses on insurance receivables	23	(14)	9	16	22	292	169	–	517
Interest income	–	–	–	–	–	–	–	10,823	10,823
Capital expenditures	–	–	–	–	–	–	–	1,860	1,860

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: Agriculture *RMB million*	Insurance: Others *RMB million*	Corporate *RMB million*	Total *RMB million*
Segment assets	19,988	11,145	1,601	3,483	3,344	4,813	10,414	264,636	319,424
Segment liabilities	145,475	16,229	3,142	10,452	7,349	10,106	16,651	52,516	261,920
Other segment information:									
Depreciation and amortisation	1,518	114	34	78	92	154	83	–	2,073
Impairment losses on insurance receivables	13	5	(81)	41	58	51	101	–	188
Interest income	–	–	–	–	–	–	–	8,755	8,755
Capital expenditures	–	–	–	–	–	–	–	1,847	1,847

5. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	Group 2014 RMB million	2013 RMB million
Turnover		
Direct premiums written	252,419	223,005
Reinsurance premiums assumed	618	520
	253,037	223,525
Net premiums earned		
Turnover	253,037	223,525
Less: Reinsurance premiums ceded	(31,279)	(31,769)
Net premiums written	221,758	191,756
Gross change in unearned premium reserves	(9,043)	(10,961)
Less: Reinsurer's share of change in unearned premium reserves	(1,546)	1,751
Net change in unearned premium reserves	(10,589)	(9,210)
Net premiums earned	211,169	182,546

6. NET CLAIMS INCURRED

	Group 2014 RMB million	2013 RMB million
Gross claims paid	144,685	133,197
Less: Paid losses recoverable from reinsurers	(18,550)	(18,248)
Net claims paid	126,135	114,949
Gross change in loss and loss adjustment expense reserves	10,608	7,996
Less: Reinsurer's share of change in loss and loss adjustment expense reserves	(796)	(2,043)
Net change in loss and loss adjustment expense reserves	9,812	5,953
Net claims incurred	135,947	120,902

7. POLICY ACQUISITION COSTS

	Group 2014 RMB million	2013 RMB million
Commission expenses	23,368	19,139
Less: Reinsurance commission income	(9,950)	(9,366)
Underwriting personnel expenses	12,837	10,835
Business tax and surcharges	12,468	11,066
Insurance protection fund (note 34)	2,021	1,784
Others	1,059	979
	41,803	34,437

8. INVESTMENT INCOME

	Group 2014 RMB million	2013 RMB million
Rental income from investment properties	210	205
Financial assets at fair value through profit or loss:		
– Held for trading		
Interest income	62	23
Dividend income	150	71
– Designated upon initial recognition		
Interest income	8	18
Available-for-sale financial assets:		
Interest income	3,002	2,586
Dividend income	958	908
Held-to-maturity investments:		
Interest income	2,049	1,958
Loans and receivables:		
Interest income	5,702	4,170
	12,141	9,939
Investment income from listed investments:		
Interest income	1,035	675
Dividend income	575	546
	1,610	1,221
Investment income from unlisted investments:		
Interest income	9,788	8,080
Dividend income	533	433
	10,321	8,513
Total	11,931	9,734

For the year ended 31 December 2014

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

	Group 2014 RMB million	2013 RMB million
Available-for-sale financial assets:		
– Realised gains	1,422	802
– Impairment losses	(502)	(1,344)
Financial assets at fair value through profit or loss – held for trading:		
– Realised gains	36	32
– Unrealised gains/(losses)	299	(19)
Financial assets classified as held for sale:		
– Realised gains	–	37
Fair value gains on investment properties (note 28)	64	150
	1,319	(342)

10. FINANCE COSTS

	Group 2014 RMB million	2013 RMB million
Interest on subordinated debts		
– wholly repayable within five years	128	154
– not wholly repayable within five years	759	923
	887	1,077
Interest on securities sold under agreements to repurchase	691	937
Other finance costs	53	46
	1,631	2,060

11. PROFIT BEFORE TAX

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

		Group	
		2014	2013
	Notes	***RMB million***	*RMB million*
Depreciation of property, plant and equipment	29	**2,219**	1,744
Amortisation of prepaid land premiums	30	**133**	130
Employee expenses (including directors' and supervisors' remuneration):			
Wages, salaries and staff welfare		**22,342**	18,485
Pension scheme contributions		**2,002**	1,718
Impairment losses on insurance receivables	22	**517**	188
Minimum lease payments under operating leases in respect of land and buildings		**701**	636
Net gain on disposal of items of property, plant and equipment		**(34)**	(21)
Auditors' remuneration		**14**	15

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION

Directors', supervisors' and senior management's remuneration for the years 2014 and 2013, are disclosed as follows:

	2014	2013
	RMB'000	*RMB'000* (Restated)
Fees	**1,178**	1,218
Other emoluments:		
– Salaries and allowances	**10,839**	9,327
– Performance related bonuses	**–**	6,109
– Social insurance, housing fund and other benefits	**3,168**	4,026
	15,185	20,680

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', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

a) Independent non-executive directors

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

	2014 *RMB'000*	2013 *RMB'000*
Mr. Luk Kin Yu, Peter (note)	223	224
Mr. Ding Ning Ning	223	224
Mr. Liao Li	223	224
Mr. Lin Hanchuan	223	185
	892	857

There were no other emoluments payable to independent non-executive directors during the year (2013: Nil).

Note: Mr. Luk Kin Yu, Peter resigned on 12 January 2015.

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

2014	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)	–	936	236	1,172
Mr. Wang He	–	815	222	1,037
Non-executive directors:				
Mr. Wang Yincheng (note 1)	–	–	–	–
Mr. Zhou Shurui (notes 1 & 2)	–	–	–	–
Mdm. Yu Xiaoping (note 1)	–	–	–	–
Mr. Li Tao (note 1)	–	–	–	–
Mr. Tse Sze-Wing, Edmund (note 2)	63	–	–	63
Supervisors:				
Mr. Wang Yueshu (Chairman of the Supervisory Committee)	–	842	236	1,078
Mr. Sheng Hetai	–	–	–	–
Mdm. Qu Yonghuan	–	594	186	780
Mr. Shen Ruiguo	–	439	168	607
Independent supervisor:				
Mr. Lu Zhengfei	223	–	–	223
	286	3,626	1,048	4,960

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

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

Notes:

(1) These non-executive directors did not receive any remuneration from the Company.

(2) Mr. Tse Sze-Wing, Edmund resigned on 10 July 2014. Mr. Zhou Shurui resigned on 20 March 2015.

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 45).

In accordance with the policies 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 2014 is currently subject to review and approval according to the policies of the relevant authorities in the PRC. The amount of the compensation not provided for is not expected to have significant impact to the Group's 2014 consolidated financial statements.

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

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

2013 (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. Guo Shengchen (President)	–	842	505	337	1,684
Mr. Wang He	–	815	489	309	1,613
Non-executive directors:					
Mr. Wang Yincheng	–	603	522	323	1,448
Mr. Zhou Shurui	–	–	–	–	–
Mdm. Yu Xiaoping	–	–	–	–	–
Mr. Li Tao	–	–	–	–	–
Mr. Tse Sze-Wing, Edmund	137	–	–	–	137
Supervisors:					
Mr. Wang Yueshu (Chairman of the Supervisory Committee)	–	824	495	318	1,637
Mr. Zhou Liqun	–	–	–	–	–
Mr. Sheng Hetai	–	–	–	–	–
Mdm. Qu Yonghuan	–	491	333	237	1,061
Mr. Shen Ruiguo	–	336	291	201	828
Independent supervisor:					
Mr. Lu Zhengfei	224	–	–	–	224
	361	3,911	2,635	1,725	8,632

The compensation amounts for these directors and supervisors for the year ended 31 December 2013 were restated based on the finalised amounts determined during 2014.

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION *(continued)*

c) Senior Management

	2014 *RMB'000*	2013 *RMB'000*
Other emoluments:		
– Salaries and allowances	7,213	5,416
– Performance related bonuses	–	3,474
– Social insurance, housing fund and other benefits	2,120	2,301
	9,333	11,191

The number of senior management whose remuneration fell within the following bands is as follows:

	2014	2013
RMB0 to RMB1,000,000	9	3
RMB1,000,001 to RMB2,000,000	1	7
	10	10

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals in the Company include three directors/supervisors for the year ended 31 December 2014 and 2013. Details of the highest other emoluments paid individuals are set out below:

	2014 *RMB'000*	2013 *RMB'000* (Restated)
Other emoluments:		
– Salaries and allowances	1,564	1,564
– Performance related bonuses	–	939
– Social insurance, housing fund and other benefits	444	617
	2,008	3,120

The above two highest paid individuals whose remuneration fell within the following bands is as follows:

	2014	2013
HKD1,000,001 to HKD1,500,000	2	–
HKD1,500,001 to HKD2,000,000	–	1
HKD2,000,001 to HKD2,500,000	–	1
	2	2

The compensation amounts for these highest paid non-directors/supervisors for the year ended 31 December 2013 were restated based on the finalised amounts determined during 2014.

14. INCOME TAX EXPENSE

The provision for PRC income tax is calculated based on the statutory rate of 25% (2013: 25%) in accordance with the relevant PRC income tax rules and regulations.

	Group	
	2014	2013
	RMB million	*RMB million*
Current		
– Charge for the year	**5,412**	2,822
– Adjustments in prior years	**–**	1
Deferred (note 31)	**(1,086)**	58
Total tax charge for the year	**4,326**	2,881

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	
	2014	2013
	RMB million	*RMB million*
Profit before tax	**19,441**	13,439
Tax at the statutory tax rate of 25% (2013: 25%)	**4,860**	3,360
Income not subject to tax	**(646)**	(610)
Expenses not deductible for tax	**112**	130
Adjustments in respect of current tax of previous periods	**–**	1
Tax charge at the Group's effective tax rate	**4,326**	2,881

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

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

	2014	2013 (Restated)
Earnings:		
Profit attributable to owners of the parent (RMB million)	15,115	10,558
Shares:		
Weighted average number of ordinary shares in issue (in million shares)	14,249	13,830
Basic earnings per share (RMB)	1.061	0.763

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 2014.

Diluted earnings per share amounts for the years ended 31 December 2014 and 2013 have not been disclosed as there were no potential ordinary shares outstanding during these years.

16. DIVIDEND

	2014 *RMB million*	2013 *RMB million*
Dividends recognised as distribution during the year:		
2013 interim dividend – RMB0.243 per ordinary share	–	3,306
2013 final dividend – RMB0.221 per ordinary share	3,007	–

No interim dividend was proposed by the Board of Directors during the year. 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 27 March 2015, final dividend in respect of the year ended 31 December 2014 of RMB0.270 per ordinary share (2013: RMB0.221 per ordinary share) has been proposed by the Board of 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 2014 *RMB million*	31 December 2013 *RMB million*	**31 December 2014** *RMB million*	31 December 2013 *RMB million*
Demand deposits	**19,281**	12,854	**19,177**	12,799
Securities purchased under resale agreements with original maturity of less than three months	**4,806**	2,858	**4,806**	2,858
Deposits with banks with original maturity of less than three months	**70**	560	**70**	560
	24,157	16,272	**24,053**	16,217
Classification of cash and cash equivalents:				
Loans and receivables	**24,157**	16,272	**24,053**	16,217

For securities purchased under resale agreements, counterparties are required to pledge certain bonds as collaterals. The securities purchased are not recognised on the consolidated statement of financial position. The carrying amounts disclosed above reasonably approximate to the fair values of those collaterals at the year end.

18. TERM DEPOSITS

The original maturities of the term deposits are as follows:

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
More than 3 months to 1 year	**1,139**	1,136
2 to 3 years	**1,631**	2,181
More than 3 years	**85,466**	61,056
Total	**88,236**	64,373

These term deposits of the Group bear fixed or variable interests and range from 3.25% to 7.50% and 4.50% to 5.20% per annum as at 31 December 2014, respectively (31 December 2013: range from 3.10% to 7.50% and 4.75% to 5.20% per annum).

19. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Interest rate swaps	13	(2)

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 2014:			
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%	7 January 2016-24 February 2018	1,050
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

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 gain of RMB11 million (2013: a post-tax loss of RMB23 million) was recognised as other comprehensive income. There was no gain or loss transferred from other comprehensive income to profit or loss in 2014 (2013: Nil).

20. DEBT SECURITIES

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Listed debt securities, at fair value:		
– Government bonds	3,281	4,604
– Corporate bonds	15,307	13,947
	18,588	18,551
Unlisted debt securities, at fair value:		
– Government bonds	4,845	8,737
– Financial bonds	15,833	19,041
– Corporate bonds	28,217	19,447
	48,895	47,225
Listed debt securities, at amortised cost:		
– Corporate bonds	2,640	2,640
Unlisted debt securities, at amortised cost:		
– Government bonds	3,025	3,025
– Financial bonds	27,467	27,666
– Corporate bonds	7,174	6,575
	37,666	37,266
	107,789	105,682
Classification of debt securities:		
Fair value through profit or loss – held for trading	944	1,137
Available-for-sale	66,539	64,639
Held-to-maturity	40,306	39,906
	107,789	105,682
Listed investments		
Hong Kong	–	164
Elsewhere	21,228	20,862
Unlisted investments	86,561	84,656
	107,789	105,682

21. EQUITY SECURITIES

	Group and Company	
	31 December 2014 RMB million	31 December 2013 RMB million
Listed investments, at fair value:		
Mutual funds	1,773	242
Shares	20,360	16,484
	22,133	16,726
Unlisted investments, at fair value:		
Mutual funds	16,856	11,036
Shares	514	–
Perpetual bonds	246	–
	17,616	11,036
Unlisted investments, at cost:		
Shares	1,202	1,202
	40,951	28,964

21. EQUITY SECURITIES *(continued)*

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Classification of equity securities:		
Fair value through profit or loss – held for trading		
– issued by banks and other financial institutions	4,458	1,749
– issued by corporate entities	15	–
	4,473	1,749
Available-for-sale, at fair value:		
– issued by banks and other financial institutions	30,022	19,890
– issued by corporate entities	5,164	5,965
– issued by public sector entities	87	150
– issued by others	3	8
	35,276	26,013
Available-for-sale, at cost:		
– issued by banks and other financial institutions	1,202	1,202
	40,951	28,964
Listed investments		
Hong Kong	798	417
Elsewhere	21,335	16,309
Unlisted investments	18,818	12,238
	40,951	28,964

Unlisted investments with a carrying amount of RMB1,202 million as at 31 December 2014 (31 December 2013: RMB1,202 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 RMB502 million (2013: RMB1,344 million), which represented a reclassification from other comprehensive income of RMB502 million (2013: RMB1,344 million), has been recognised in the income statement for the year.

22. INSURANCE RECEIVABLES, NET

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Premiums receivable and agents' balances	7,490	6,752
Receivables from reinsurers	12,600	20,431
	20,090	27,183
Less: Impairment provision on		
– Premiums receivable and agents' balances	(2,450)	(2,123)
– Receivables from reinsurers	(240)	(190)
	17,400	24,870

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 2014 *RMB million*	31 December 2013 *RMB million*
Not yet due	13,599	18,981
Within 1 month	691	1,284
1 to 3 months	1,397	2,740
Over 3 months	1,713	1,865
	17,400	24,870

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

	Group and Company	
	2014 *RMB million*	2013 *RMB million*
At 1 January	2,313	2,415
Impairment losses recognised (note 11)	517	188
Amount written off as uncollectible	(140)	(290)
At 31 December	2,690	2,313

Included in the Group's insurance receivables is an amount due from a fellow subsidiary of RMB135 million (31 December 2013: RMB272 million). Please refer to note 50(c) for details.

23. REINSURANCE ASSETS

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Reinsurers' share of:		
Unearned premium reserves (note 37)	9,592	11,138
Loss and loss adjustment expense reserves (note 37)	16,089	15,293
	25,681	26,431

24. LOANS AND RECEIVABLES

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Long-term debt investment schemes	18,742	11,850
Asset management product	1,350	–
Subordinated debts held	800	960
Asset-backed securities	760	–
Trust plan	100	100
	21,752	12,910

Long-term debt investment schemes offer either fixed or variable interests. The interest rates of these schemes are 4.75%-7.20% (31 December 2013: 4.75%-6.31%) per annum as at 31 December 2014.

All long-term debt investment schemes are either guaranteed by third parties or with pledge. The Group did not guarantee or provide any financing support for the long-term debt investment schemes, and considers that the carrying value of these long-term debt investment schemes represents our maximum risk exposure.

The original terms of subordinated debts are 10 years with a redemption right exercisable by the issuer at the end of fifth year after its issue. The interest rates of these debts are 4.65%-5.60% (31 December 2013: 4.20%-7.29%) per annum as at 31 December 2014.

25. PREPAYMENTS AND OTHER ASSETS

	Note	Group and Company 31 December 2014 RMB million	Group and Company 31 December 2013 RMB million
Capital security fund	(i)	2,721	2,721
Interest receivables		5,237	3,981
Prepayments and deposits		420	387
Other receivables		727	698
Securities settlement accounts		161	551
Amounts due from PICC Group (note 50(c))		60	–
Amounts due from fellow subsidiaries (note 50(c))		40	37
Other assets		4,134	4,159
		13,500	12,534

Note:

(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.

As the change of registered capital was approved by the CIRC on 29 December 2014, the Company increased its capital security fund and deposited it into bank in early January 2015.

26. INVESTMENTS IN ASSOCIATES

	Group		Company	
	31 December 2014 RMB million	31 December 2013 RMB million	31 December 2014 RMB million	31 December 2013 RMB million
Cost of investment in associates, unlisted	4,273	4,273	4,273	4,273
Share of post-acquisition profit and other comprehensive income, net of dividend received	477	(300)	–	–
	4,750	3,973	4,273	4,273

The Group's receivable and payable balances with the associates are disclosed in note 50(c) to the consolidated financial statements.

26. INVESTMENTS IN ASSOCIATES *(continued)*

Particulars of the associates as at 31 December 2014 and 2013 are as follows:

Name	Place of registration and operations	Nominal value of registered share capital	Proportion of ownership interest and voting right as at 31 December		Measurement method	Principal activities
		RMB million	2014	2013		
PICC Life	Beijing	25,761	8.615%	8.615%	Equity method	Provision of life insurance products
Aerospace Investment	Beijing	7,425	16.835%	16.835%	Equity method	Investment holding

The Company accounted for the interests in PICC Life and Aerospace Investment as associates as the Group has significant influence over PICC Life and Aerospace Investment by virtue of the contractual rights to appoint a director to the board of directors of PICC Life and Aerospace Investment. The Group can also appoint a supervisor to the supervisory committee of Aerospace Investment.

Since the audited financial statements of Aerospace Investment for the year ended 31 December 2014 were not available at the date of approving these consolidated financial statements, the Group has recognised its share of Aerospace Investment's result for the period from 1 October 2013 to 30 September 2014 based on the unaudited management accounts.

Although Aerospace Investment became an associate of the Company in October 2013, the Group did not share any profit or loss of this associate for the period from commencement of exercising significant influence to 31 December 2013 as Aerospace Investment's audited financial statements for the year ended 31 December 2013 were not available at the date of approving the 2013 consolidated financial statements.

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

Summarised consolidated financial information in respect of each of the Group's associates is set out below. The summarised consolidated financial information below represents amounts shown in the associate's consolidated financial statements prepared in accordance with the relevant accounting policies and financial regulations applicable to entities established in the PRC, and adjusted for any material differences from HKFRS.

26. INVESTMENTS IN ASSOCIATES *(continued)*

PICC Life

	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Total assets	354,187	366,913
Total liabilities	323,743	344,194
Attributable to		
Equity holders of PICC Life	30,427	22,719
Non-controlling interests	17	–
Total equity	30,444	22,719

	2014 *RMB million*	2013 *RMB million*
Revenue	99,167	93,511
Profit attributable to		
Equity holders of PICC Life	2,037	826
Non-controlling interests	(8)	–
Profit for the year	2,029	826
Other comprehensive income/(expense) attributable to		
Equity holders of PICC Life	5,837	(1,345)
Other comprehensive income/(expense) for the year	5,837	(1,345)
Total comprehensive income/(expense) attributable to		
Equity holders of PICC Life	7,874	(519)
Non-controlling interests	(8)	–
Total comprehensive income/(expense) for the year	7,866	(519)
Dividends received from the associate during the year	14	–

26. INVESTMENTS IN ASSOCIATES *(continued)*

PICC Life *(continued)*

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in PICC Life recognised in the consolidated financial statements:

	31 December 2014 ***RMB million***	31 December 2013 *RMB million*
Net assets of PICC Life attributable to equity holders of PICC Life	**30,427**	22,719
Proportion of the Group's shareholders' interest in PICC Life	**8.615%**	8.615%
The Group's shareholders' interest in net assets of PICC Life	**2,621**	1,957
Goodwill	**16**	16
Carrying amount of the Group's interest in PICC Life	**2,637**	1,973

Aerospace Investment

	30 September 2014 ***RMB million***
Total assets	**11,345**
Total liabilities	**459**
Attributable to	
Equity holders of Aerospace Investment	**10,810**
Non-controlling interests	**76**
Total equity	**10,886**

26. INVESTMENTS IN ASSOCIATES *(continued)*

Aerospace Investment *(continued)*

	Period from 1 October 2013 to 30 September 2014 *RMB million*
Revenue	100
Profit attributable to	
Equity holders of Aerospace Investment	783
Non-controlling interests	19
Profit for the period	802
Other comprehensive expense attributable to	
Equity holders of Aerospace Investment	(13)
Other comprehensive expense for the period	(13)
Total comprehensive income attributable to	
Equity holders of Aerospace Investment	770
Non-controlling interests	19
Total comprehensive income for the period	789
Dividends received from the associate during the period	17

Reconciliation of the above summarised consolidated financial information to the carrying amount of the interest in Aerospace Investment recognised in the consolidated financial statements:

	30 September 2014 *RMB million*	30 September 2013 *RMB million*
Net assets of Aerospace Investment attributable to equity holders of Aerospace Investment	10,810	10,285
Proportion of the Group's shareholders' interest in Aerospace Investment	16.835%	16.835%
The Group's shareholders' interest in net assets of Aerospace Investment	1,820	1,731
Effect of fair value adjustments at acquisition	269	269
Others	24	–
Carrying amount of the Group's interest in Aerospace Investment	2,113	2,000

27. INVESTMENTS IN SUBSIDIARIES

	Company	
	31 December 2014 RMB million	31 December 2013 RMB million
Unlisted shares, at cost	96	48

As at 31 December 2014, the Company has the following subsidiaries:

Name of subsidiary	Place of incorporation/ establishment	Equity interest and voting right held by the Group As at 31 December 2014	2013	Share capital/ registered/ paid-up capital RMB million	Principal activities
PICC Community Sales Service company limited ("PICC Community Sales Services")*(Note 1)	PRC	100%	–	50	provision of insurance agency services
PICC Motor Insurance Sales Services Company Limited*	PRC	90%	90%	50	provision of insurance agency services
PICC Haikou Training Center Company Limited*	PRC	100%	100%	0.1	provision of training services
PICC Hebi Insurance Agency Company Limited* (Note 2)	PRC	–	100%	0.5	provision of insurance agency services
PICC Hebei Insurance Agency Company Limited* (Note 2)	PRC	–	100%	1	provision of insurance agency services

* Registered as limited companies under the PRC Company Law

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 2014, PICC Community Sales Service was established in the PRC and is a wholly-owned subsidiary of the Company.

Note 2: As at 31 December 2014, the Company has completed the winding-up of these two subsidiaries and the process of removing their registrations from the Administration of Industry and Commerce.

28. INVESTMENT PROPERTIES

	Group	
	2014	2013
	RMB million	*RMB million*
At 1 January	**4,591**	4,538
Transfers from property, plant and equipment and prepaid land premiums (notes 29 and 30)	**233**	173
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums	**338**	278
Increase in fair value of investment properties during the year (note 9)	**64**	150
Transfers to property, plant and equipment and prepaid land premiums (notes 29 and 30)	**(542)**	(548)
At 31 December	**4,684**	4,591
Hierarchy of fair value:		
Level 3	**4,684**	4,591

	Company	
	2014	2013
	RMB million	*RMB million*
At 1 January	**4,753**	4,720
Transfers from property, plant and equipment and prepaid land premiums (notes 29 and 30)	**233**	173
Fair value gain on revaluation of investment properties transferred from property, plant and equipment and prepaid land premiums	**338**	278
Increase in fair value of investment properties during the year	**53**	130
Transfers to property, plant and equipment and prepaid land premiums (notes 29 and 30)	**(542)**	(548)
At 31 December	**4,835**	4,753
Hierarchy of fair value:		
Level 3	**4,835**	4,753

28. INVESTMENT PROPERTIES *(continued)*

The Group was still in the process of applying for title certificates for investment properties with a carrying value of RMB80 million as at 31 December 2014 (31 December 2013: RMB103 million).

As at 31 December 2014 and 31 December 2013, none of the Group's investment properties were pledged to secure general banking facilities granted to the Group.

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% (2013: 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.

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, as well as on the dates of transfers. 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 RMB210 million (2013: RMB205 million) was recognised in the income statement for the year.

29. 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 2014	13,400	1,560	5,805	898	21,663
Additions	281	309	632	507	1,729
Transfers	197	–	22	(219)	–
Transfers from investment properties (note 28)	411	–	–	–	411
Transfers to investment properties (note 28)	(204)	–	–	–	(204)
Disposals	(34)	(162)	(258)	(5)	(459)
At 31 December 2014	14,051	1,707	6,201	1,181	23,140
Accumulated depreciation					
At 1 January 2014	(3,670)	(800)	(3,170)	–	(7,640)
Charge for the year (note 11)	(481)	(284)	(1,454)	–	(2,219)
Transfers to investment properties (note 28)	90	–	–	–	90
Disposals	12	155	248	–	415
At 31 December 2014	(4,049)	(929)	(4,376)	–	(9,354)
Net book amount					
At 31 December 2014	10,002	778	1,825	1,181	13,786

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 28)	358	–	–	–	358
Transfers to investment properties (note 28)	(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 28)	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

29. 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 2014	13,338	1,560	5,805	898	21,601
Additions	281	309	632	507	1,729
Transfers	197	–	22	(219)	–
Transfers from investment properties (note 28)	411	–	–	–	411
Transfers to investment properties (note 28)	(204)	–	–	–	(204)
Disposals	(34)	(162)	(258)	(5)	(459)
At 31 December 2014	13,989	1,707	6,201	1,181	23,078
Accumulated depreciation					
At 1 January 2014	(3,656)	(800)	(3,170)	–	(7,626)
Charge for the year	(479)	(284)	(1,454)	–	(2,217)
Transfers to investment properties (note 28)	90	–	–	–	90
Disposals	12	155	248	–	415
At 31 December 2014	(4,033)	(929)	(4,376)	–	(9,338)
Net book amount					
At 31 December 2014	9,956	778	1,825	1,181	13,740

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 28)	358	–	–	–	358
Transfers to investment properties (note 28)	(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 28)	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

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

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

As at 31 December 2014, certain acquired buildings of the Group with a net book amount of RMB514 million (31 December 2013: RMB666 million) were in the process of title registration.

30. PREPAID LAND PREMIUMS

	Group	
	2014	2013
	RMB million	*RMB million*
At 1 January	**3,531**	3,497
Additions	**48**	48
Transfers from investment properties (note 28)	**131**	190
Amortisation recognised during the year (note 11)	**(133)**	(130)
Transfers to investment properties (note 28)	**(119)**	(51)
Disposal	**(27)**	(23)
At 31 December	**3,431**	3,531

	Company	
	2014	2013
	RMB million	*RMB million*
At 1 January	**3,530**	3,497
Additions	**48**	48
Transfers from investment properties (note 28)	**131**	190
Amortisation recognised during the year	**(133)**	(131)
Transfers to investment properties (note 28)	**(119)**	(51)
Disposal	**(27)**	(23)
At 31 December	**3,430**	3,530

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

	Group	
	31 December 2014	31 December 2013
	RMB million	*RMB million*
Long term leases	**85**	171
Medium term leases	**3,346**	3,360
	3,431	3,531

30. PREPAID LAND PREMIUMS *(continued)*

	Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Long term leases	**85**	171
Medium term leases	**3,345**	3,359
	3,430	3,530

31. 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 2014	806	958	1	–	768	–	261	2,794
Deferred tax charged/(credited) to the income statement during the year (note 14)	(68)	–	–	576	520	–	149	1,177
Deferred tax directly debited to other comprehensive income during the year	–	(958)	(1)	–	–	–	–	(959)
Gross deferred tax assets at 31 December 2014	738	–	–	576	1,288	–	410	3,012
Deferred tax liabilities								
At 1 January 2014	–	–	–	(451)	–	(1,020)	(126)	(1,597)
Deferred tax charged to the income statement during the year (note 14)	–	–	–	–	–	(16)	(75)	(91)
Deferred tax directly credited to other comprehensive income during the year	–	(1,768)	(3)	–	–	(84)	–	(1,855)
Gross deferred tax liabilities at 31 December 2014	–	(1,768)	(3)	(451)	–	(1,120)	(201)	(3,543)
Net deferred tax liabilities at 31 December 2014								(531)

31. 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 2014	806	958	1	–	768	–	261	2,794
Deferred tax charged/(credited) to the income statement during the year	(68)	–	–	576	520	–	149	1,177
Deferred tax directly debited to other comprehensive income during the year	–	(958)	(1)	–	–	–	–	(959)
Gross deferred tax assets at 31 December 2014	738	–	–	576	1,288	–	410	3,012
Deferred tax liabilities								
At 1 January 2014	–	–	–	(451)	–	(1,048)	(126)	(1,625)
Deferred tax charged to the income statement during the year	–	–	–	–	–	(13)	(75)	(88)
Deferred tax directly credited to other comprehensive income during the year	–	(1,768)	(3)	–	–	(84)	–	(1,855)
Gross deferred tax liabilities at 31 December 2014	–	(1,768)	(3)	(451)	–	(1,145)	(201)	(3,568)
Net deferred tax liabilities at 31 December 2014								(556)

31. 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 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

31. 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

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.

32. DEPOSITS WITH RESTRICTED RIGHTS

As at 31 December 2014, term deposits containing an amount of RMB955 million (31 December 2013: RMB888 million) were subject to restricted rights. These deposits are managed in specific bank accounts according to requirements of certain local government and can only be used for catastrophic purpose.

33. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Reinsurance payables	**10,403**	17,455

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 RMB150 million (31 December 2013: RMB262 million). Please refer to note 50(c) for details.

34. ACCRUED INSURANCE PROTECTION FUND

	Group and Company	
	2014 *RMB million*	2013 *RMB million*
At 1 January	**698**	575
Accrued during the year (note 7)	**2,021**	1,784
Paid during the year	**(1,964)**	(1,661)
At 31 December	**755**	698

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 (2013: 0.8%) in accordance with the relevant PRC insurance laws and regulations. No further provision is required once the accumulated balance has reached 6% (2013: 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.

35. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Transactions by market places:		
Stock exchange	**10,386**	11,699
Inter-bank market	**3,855**	6,316
Total	**14,241**	18,015

As at 31 December 2014, bonds with carrying amount and fair value of RMB3,913 million and RMB4,005 million (31 December 2013: RMB6,689 million and RMB6,367 million), respectively, were pledged as collateral for financial assets sold under agreements to repurchase resulted from repurchase transactions entered into by the Group in the inter-bank market. The collateral is restricted from trading during the period of the repurchase transaction.

For debt repurchase transactions through stock exchange, the Group is required to deposit certain exchange traded bonds into a collateral pool and the fair value converted at a standard rate pursuant to the stock exchange's regulation which should be no less than the balance of related repurchase transaction. As at 31 December 2014, the carrying amount and fair value of securities deposited in the collateral pool was RMB15,859 million and RMB15,875 million (31 December 2013: RMB13,547 million and RMB13,451 million), respectively. The collateral is restricted from trading during the period of the repurchase transaction. The Group can withdraw the exchange-traded bonds from the collateral pool provided that the value of the exchange-traded bonds within the collateral pool is no less than the balance of related repurchase transactions.

36. OTHER LIABILITIES AND ACCRUALS

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Premiums received in advance	8,236	7,250
Salaries and staff welfare payables	7,095	4,802
Commission payable	3,623	3,079
Claims payable	2,676	2,532
Accrued capital expenditure	321	299
Amounts due to fellow subsidiaries (note 50(c))	55	56
Amounts due to PICC Group (note 50(c))	–	60
Others	9,229	7,671
	31,235	25,749

Premiums received in advance represent amounts collected from policies not yet effective as at the 31 December 2014 and 31 December 2013, and will be recognised as premium income with corresponding unearned premium reserves when the relevant policies become effective.

37. INSURANCE CONTRACT LIABILITIES

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Unearned premium reserves	95,638	86,595
Loss and loss adjustment expense reserves	102,499	91,891
	198,137	178,486

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

	2014			2013		
Group and Company	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	86,595	(11,138)	75,457	75,634	(9,387)	66,247
Increase during the year	201,535	(21,540)	179,995	179,019	(22,404)	156,615
Release during the year	(192,492)	23,086	(169,406)	(168,058)	20,653	(147,405)
At 31 December	95,638	(9,592)	86,046	86,595	(11,138)	75,457
Loss and loss adjustment expense reserves						
At 1 January	91,891	(15,293)	76,598	83,895	(13,250)	70,645
Increase during the year	155,293	(19,346)	135,947	141,193	(20,291)	120,902
Release during the year	(144,685)	18,550	(126,135)	(133,197)	18,248	(114,949)
At 31 December	102,499	(16,089)	86,410	91,891	(15,293)	76,598
Total insurance contract liabilities	198,137	(25,681)	172,456	178,486	(26,431)	152,055

38. POLICYHOLDERS' DEPOSITS

As at 31 December 2014 and 31 December 2013, the policyholders' deposits were non-interest bearing and repayable on demand.

39. SUBORDINATED DEBTS

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Carrying amount repayable:		
More than one year, but not exceeding two years	3,062	–
More than two years, but not exceeding five years	–	3,091
More than five years	19,387	16,471
Total	22,449	19,562

Terms of these subordinated debts are ten years. With proper notice to the counterparties, the Group has an option to redeem the subordinated debts at par values at the end of the fifth year from the date of issue. The interest rates of the Group's subordinated debts are 4.60%-5.75% in the first five years and 6.30%-7.75% in the second five years.

On 28 September 2014, the Company has exercised the redemption rights of subordinated debts of RMB5,000 million issued on 28 September 2009 and fully redeemed the subordinated debts. On 23 October 2014, the Company issued subordinated debts of RMB8,000 million.

40. 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

40. 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 4.1%-4.5% and 4.0%-4.3% for 2014 and 2013, 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.

40. 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					
	2010	2011	2012	2013	2014	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Estimated cumulative claims paid as of:						
End of current year	86,255	98,733	113,488	138,282	150,767	587,525
One year later	84,962	97,641	113,351	138,263		434,217
Two years later	84,535	96,665	113,468			294,668
Three years later	83,082	95,619				178,701
Four years later	82,155					82,155
Estimated cumulative claims	82,155	95,619	113,468	138,263	150,767	580,272
Cumulative claims paid	(76,296)	(86,579)	(108,525)	(124,349)	(92,291)	(488,040)
Sub-total						92,232
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						10,267
Unpaid claim expenses						102,499

40. 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					
	2010 *RMB million*	2011 *RMB million*	2012 *RMB million*	2013 *RMB million*	2014 *RMB million*	Total *RMB million*
Estimated cumulative claims paid as of:						
End of current year	77,498	83,793	94,925	120,084	131,379	507,679
One year later	76,778	82,935	94,929	119,921		374,563
Two years later	76,250	82,237	94,882			253,369
Three years later	74,865	81,343				156,208
Four years later	74,127					74,127
Estimated cumulative claims	74,127	81,343	94,882	119,921	131,379	501,652
Cumulative claims paid	(68,821)	(73,852)	(91,067)	(110,407)	(80,511)	(424,658)
Sub-total						76,994
Prior year adjustments, unallocated loss adjustment expenses, discount and risk margin						9,416
Unpaid claim expenses						86,410

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.

40. 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 RMB18,342 million (2013: RMB19,520 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.

41. ISSUED CAPITAL

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Issued and fully paid:		
Domestic shares of RMB1.00 each	**10,229**	9,384
H shares of RMB1.00 each	**4,599**	4,220
	14,828	13,604

The movements in issued share capital were as follows:

	Number of shares in issue *Million*	**Issued share capital** *RMB million*
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
New shares issued under rights issue	1,224	1,224
As at 31 December 2014	14,828	14,828

41. ISSUED CAPITAL *(continued)*

On 4 December 2014, the Company completed the rights issue of 380 million H shares at an issue price of HK$7.46 per H rights share and 845 million domestic shares at an issue price of RMB5.92 per domestic share on the basis of 0.9 rights shares for every 10 existing H shares and domestic shares held by members registered on 17 November 2014, respectively. The Company raised total proceeds of RMB7,244 million, of which an amount of RMB1,224 million was recorded in issued capital.

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 rights issue completed in December 2014, the registration of new business licence and filing procedures with the Administration of Industry and Commerce was completed on 28 February 2015.

42. 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*	Profit reserve *RMB million*	Retained profits *RMB million*	Total *RMB million*
At 1 January 2014	12,990	2,320	(2,878)	(1)	22,887	3,940	–	5,020	44,278
Total comprehensive income for the year	–	254	8,178	11	–	–	–	14,831	23,274
Appropriations to reserves	–	–	–	–	5,787	1,457	721	(7,965)	–
Rights issue	5,996	–	–	–	–	–	–	–	5,996
2013 final dividend	–	–	–	–	–	–	–	(3,007)	(3,007)
At 31 December 2014	18,986	2,574	5,300	10	28,674	5,397	721	8,879	70,541

42. 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 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
2013 interim 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

43. 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 28 to these consolidated financial statements.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

Fair value of financial instruments

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

The carrying amounts of the Group's financial assets and liabilities not measured at fair value approximate their fair values as at 31 December 2014 and 31 December 2013 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

31 December 2014	Carrying amounts *RMB million*	Fair value *RMB million*
Financial assets		
Held-to-maturity investments	40,306	40,992
Loans and receivables	21,752	23,198
Financial liabilities		
Subordinated debts	22,449	24,438

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

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

Fair value of financial instruments *(continued)*

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

31 December 2014	Level 1	Fair value Hierarchy Level 2	Level 3	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*
Financial assets				
Held-to-maturity investments	2,607	38,385	–	40,992
Loans and receivables	–	23,198	–	23,198
Financial liabilities				
Subordinated debts	–	24,438	–	24,438

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

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.

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

Fair value of financial instruments *(continued)*

(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).

Financial assets/financial liabilities	Fair value as at 31 December		Fair value hierarchy	Valuation technique(s) and key input(s)
	2014 *RMB million*	2013 *RMB million*		
Trading debt securities	944	1,137	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.
Trading equity securities	4,473	1,749	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	8,571	18,551	Level 1	Quoted bid prices in an active market.
Available-for-sale debt securities	57,968	46,088	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.
Available-for-sale equity securities	20,665	17,461	Level 1	Quoted bid prices in an active market.
Available-for-sale equity securities	760	–	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.
Available-for-sale equity securities	13,851	8,552	Level 3	The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.
Derivative financial assets				
– Interest rate swaps	13	–	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 the Group.
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 the Group.

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

Fair value of financial instruments *(continued)*

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

31 December 2014	Group and Company Level 1 *RMB million*	Level 2 *RMB million*	Level 3 *RMB million*	Total *RMB million*
Derivative financial assets:				
– Interest rate swaps	–	13	–	13
Financial assets held for trading:				
– Equity securities	4,473	–	–	4,473
– Debt securities	–	944	–	944
Available-for-sale investments:				
– Equity securities	20,665	760	13,851	35,276
– Debt securities	8,571	57,968	–	66,539
	33,709	59,685	13,851	107,245

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

In 2014, the Group transferred certain debt securities with a carrying amount of RMB8,583 million from Level 1 to Level 2 as the Group could not obtain quoted prices in active markets. No transfer from L2 to L1 in both 2014 and 2013. No transfers in or out of Level 3 in 2014 and 2013.

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

Fair value of financial instruments *(continued)*

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

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 Company used quoted price of the shares taking into account of non-marketability discount estimated using Black-Scholes option pricing model. The Company 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.

The historical volatilities used in measuring the fair value of shares of IBC as at 31 December 2014 are 34.61% (31 December 2013: 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 2014 would be lower/higher by approximately RMB104 million (31 December 2013: RMB73 million).

(c) Reconciliation of Level 3 fair value measurements

	Available-for-sale listed shares	
	2014	2013
	RMB million	*RMB million*
At 1 January	**8,552**	8,312
Total gains:		
– in other comprehensive income (note)	**5,299**	240
At 31 December	**13,851**	8,552

Note: The gain of RMB5,299 million relates to available-for-sale investment held as at 31 December 2014 (2013: RMB240 million).

44. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to ensure that the Company 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 Company 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 2014			31 December 2013		
	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	79,440	33,290	239	52,026	28,867	180

According to "Solvency Regulations of Insurance Companies", the solvency margin ratio is computed by dividing the regulatory capital held by the minimum regulatory capital. The CIRC closely monitors those insurance companies with solvency margin ratio less than 100% and may, depending on the individual circumstances, undertake certain regulatory measures, including but not limited to restricting the payment of dividends. Insurance companies with solvency margin ratio between 100% and 150% would be required to submit and implement plans preventing capital from being inadequate. And insurance companies with solvency margin ratio above 100% but significant solvency risk noticed would be required to take necessary rectification action.

45. 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.

45. SHARE APPRECIATION RIGHTS *(continued)*

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.

46. 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.

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

(a) Financial risks *(continued)*

(1) Credit risk *(continued)*

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 2014, the top three reinsurance companies owed an aggregate amount of RMB5,675 million (31 December 2013: RMB13,810 million) to the Group.

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

	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Cash and cash equivalents	**24,157**	16,272
Term deposits	**88,236**	64,373
Derivative financial assets	**13**	–
Debt securities	**107,789**	105,682
Insurance receivables, net	**17,400**	24,870
Loans and receivables	**21,752**	12,910
Other financial assets	**12,122**	10,765
Total credit risk exposure	**271,469**	234,872

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.

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

(a) Financial risks *(continued)*

(1) Credit risk *(continued)*

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

31 December 2014	Not past due	Past due but not impaired: Less than 30 days	Past due but not impaired: 31 to 90 days	Past due but not impaired: More than 90 days	Past due but not impaired: Sub-total	Past due and impaired	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	24,157	–	–	–	–	–	24,157
Term deposits	88,236	–	–	–	–	–	88,236
Derivative financial assets	13	–	–	–	–	–	13
Debt securities	107,789	–	–	–	–	–	107,789
Insurance receivables	13,831	380	1,140	863	2,383	3,876	20,090
Loans and receivables	21,752	–	–	–	–	–	21,752
Other financial assets	9,310	457	373	1,982	2,812	157	12,279
Total	265,088	837	1,513	2,845	5,195	4,033	274,316
Less: Impairment provision	–	–	–	–	–	(2,847)	(2,847)
Net	265,088	837	1,513	2,845	5,195	1,186	271,469

31 December 2013	Not past due	Past due but not impaired: Less than 30 days	Past due but not impaired: 31 to 90 days	Past due but not impaired: More than 90 days	Past due but not impaired: Sub-total	Past due and impaired	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	16,272	–	–	–	–	–	16,272
Term deposits	64,373	–	–	–	–	–	64,373
Debt securities	105,682	–	–	–	–	–	105,682
Insurance receivables	19,354	978	2,491	949	4,418	3,411	27,183
Loans and receivables	12,910	–	–	–	–	–	12,910
Other financial assets	8,193	1,485	251	836	2,572	171	10,936
Total	226,784	2,463	2,742	1,785	6,990	3,582	237,356
Less: Impairment provision	–	–	–	–	–	(2,484)	(2,484)
Net	226,784	2,463	2,742	1,785	6,990	1,098	234,872

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

(a) Financial risks *(continued)*

(1) Credit risk *(continued)*

Credit quality

The Group's debt securities investment mainly includes government bonds, financial bonds and corporate bonds, and most of the debt securities are guaranteed by either the Chinese government or Chinese government controlled financial institutions. As at 31 December 2014, 99.67% (31 December 2013: 99.89%) of the corporate bonds held by the Group had credit rating of AA/A-2 or above. The bond's credit rating is assigned by a qualified appraisal institution in the PRC at the time of its issuance and updated at each reporting date.

As at 31 December 2014, 99.81% (as at 31 December 2013: 99.34%) of the Group's bank deposits are with the four largest state-owned commercial banks, other national commercial banks and China Securities Depository and Clearing Corporation Limited ("CSDCC") in the PRC. The Group believes these commercial banks, and CSDCC have a high credit quality. The Group's long-term debt investment schemes, asset management products and asset-backed securities, included in loans and receivables, are supported by third party guarantee or with pledge. As a result, the Group concludes credit risk associated with term deposits, capital security fund, interest receivables, and cash and cash equivalents will not cause a material impact on the Group's consolidated financial statements as at 31 December 2014 and 2013.

The credit risk associated with securities purchased under agreements to resell will not cause a material impact on the Group's consolidated financial statements taking into consideration of their collateral held and maturity term of no more than one year as at 31 December 2014 and 2013.

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.

Securities purchased under resale agreements are pledged by counterparts' debt securities of which the Group could take the ownership should the owner of the collateral defaults. The long-term debt investment schemes are all guaranteed by third parties.

The credit risk associated with securities purchased under resale agreements will not have a material impact on the consolidated statement of financial position taking into consideration of their collateral held and maturity that is within one year as of 31 December 2014.

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

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

(a) Financial risks *(continued)*

(2) Liquidity or funding risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing to repay a contractual obligation; or an insurance liability falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk the Group confronts is the daily calls on its available cash resources in respect of claims arising from insurance contracts and maturities of policyholders' deposits.

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

As at 31 December 2014, the Group maintained demand and term deposits with original maturity of no more than three months at 5% of total assets (2013: 5%) to ensure sufficient liquid assets are available to meet its payment obligations. Management closely monitored the increase of the non-current assets.

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

(a) Financial risks *(continued)*

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

The table below summarises the remaining contractual maturity profile of the financial assets and financial liabilities, the expected timing of insurance contract liabilities and reinsurance assets of the Group based on undiscounted contractual cash flows:

31 December 2014	On demand/ past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 5 years *RMB million*	More than 5 years *RMB million*	No Mature date *RMB million*	Total *RMB million*
Assets							
Cash and cash equivalents	19,282	4,883	–	–	–	–	24,165
Term deposits	–	290	1,540	87,672	10,663	–	100,165
Derivative financial assets	–	1	7	5	–	–	13
Debt securities							
– Available-for-sale	–	751	10,957	38,556	31,192	–	81,456
– Fair value through profit or loss	–	174	5	405	520	–	1,104
– Held-to-maturity	–	76	1,222	8,420	61,975	–	71,693
Equity securities	–	–	–	–	–	40,951	40,951
Insurance receivables, net	3,801	9,809	2,693	1,028	69	–	17,400
Reinsurance assets	–	5,767	12,172	4,939	3,066	–	25,944
Loans and receivables	–	177	1,718	12,726	15,976	–	30,597
Other financial assets	2,598	2,474	3,144	3,945	12	–	12,173
Liabilities							
Securities sold under agreement to repurchase	–	14,254	–	–	–	–	14,254
Payables to reinsurers	2,025	7,551	552	254	21	–	10,403
Insurance contract liabilities	–	35,747	121,727	12,827	28,638	–	198,939
Policyholders' deposits	1,786	–	–	–	–	–	1,786
Subordinated debts	–	–	795	7,982	23,234	–	32,011
Other financial liabilities	1,037	15,501	5,500	1,663	53	–	23,754

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

(a) Financial risks *(continued)*

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

31 December 2013	On demand/ past due *RMB million*	Within 3 months *RMB million*	3 to 12 months *RMB million*	1 to 5 years *RMB million*	More than 5 years *RMB million*	No Mature date *RMB million*	Total *RMB million*
Assets							
Cash and cash equivalents	12,854	3,424	–	–	–	–	16,278
Term deposits	–	782	4,150	66,173	4,011	–	75,116
Debt securities							
– Available-for-sale	–	492	5,824	39,530	36,825	–	82,671
– Fair value through profit or loss	–	434	320	381	70	–	1,205
– Held-to-maturity	–	75	1,209	8,368	63,417	–	73,069
Equity securities	–	–	–	–	–	28,964	28,964
Insurance receivables, net	5,740	13,970	2,457	2,683	20	–	24,870
Reinsurance assets	–	5,984	12,436	7,409	833	–	26,662
Loans and receivables	–	132	1,775	5,832	9,460	–	17,199
Other financial assets	2,487	2,342	2,376	4,067	2	–	11,274
Liabilities							
Derivative financial liabilities	–	2	(1)	(4)	–	–	(3)
Securities sold under agreements to repurchase	–	18,028	–	–	–	–	18,028
Payables to reinsurers	4,968	11,858	427	190	12	–	17,455
Insurance contract liabilities	–	42,062	88,870	39,660	8,596	–	179,188
Policyholders' deposits	1,953	–	–	–	–	–	1,953
Subordinated debts	–	–	582	7,365	18,214	–	26,161
Other financial liabilities	1,055	13,478	3,664	935	65	–	19,197

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

46. 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 2014			31 December 2013		
	Current*	Non-current	Total	Current*	Non-current	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cash and cash equivalents	24,157	–	24,157	16,272	–	16,272
Term deposits	1,814	86,422	88,236	1,419	62,954	64,373
Derivative financial assets	–	13	13	–	–	–
Debt securities	11,198	96,591	107,789	5,868	99,814	105,682
Equity securities	4,473	36,478	40,951	1,749	27,215	28,964
Insurance receivables, net	16,834	566	17,400	22,882	1,988	24,870
Tax recoverable	–	–	–	73	–	73
Reinsurance assets	17,772	7,909	25,681	18,293	8,138	26,431
Loans and receivables	600	21,152	21,752	1,240	11,670	12,910
Prepayments and other assets	12,515	985	13,500	8,758	3,776	12,534
Investments in associates	–	4,750	4,750	–	3,973	3,973
Investment properties	–	4,684	4,684	–	4,591	4,591
Property, plant and equipment	–	13,786	13,786	–	14,023	14,023
Prepaid land premiums	–	3,431	3,431	–	3,531	3,531
Deferred tax assets	–	–	–	–	1,197	1,197
Total assets	89,363	276,767	366,130	76,554	242,870	319,424
Derivative financial liabilities	–	–	–	(1)	3	2
Payables to reinsurers	10,129	274	10,403	17,254	201	17,455
Accrued insurance protection fund	755	–	755	698	–	698
Securities sold under agreements to repurchase	14,241	–	14,241	18,015	–	18,015
Tax payables	818	–	818	–	–	–
Other liabilities and accruals	29,314	1,921	31,235	24,414	1,335	25,749
Insurance contract liabilities	156,951	41,186	198,137	130,524	47,962	178,486
Policyholders' deposits	1,786	–	1,786	1,953	–	1,953
Subordinated debts	–	22,449	22,449	–	19,562	19,562
Deferred tax liabilities	–	531	531	–	–	–
Total liabilities	213,994	66,361	280,355	192,857	69,063	261,920

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

46. 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

Currency risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. 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.

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

(a) Financial risks *(continued)*

(3) Market risk *(continued)*

(i) Currency risk (continued)

The table below summarises the Group's assets and liabilities by major currency, expressed in the RMB equivalent:

31 December 2014	RMB *in million*	USD *in million*	HKD *in million*	Others *in million*	Total *in million*
Cash and cash equivalents	20,368	1,367	2,395	27	24,157
Term deposits	86,832	1,404	–	–	88,236
Derivative financial assets	13	–	–	–	13
Debt securities	106,998	143	648	–	107,789
Equity securities	40,615	186	150	–	40,951
Insurance receivables, net	13,683	3,641	23	53	17,400
Reinsurance assets	24,597	1,051	11	22	25,681
Loans and receivables	21,752	–	–	–	21,752
Other financial assets	11,977	139	1	6	12,123
Total assets	326,835	7,931	3,228	108	338,102
Payables to reinsurers	8,738	1,643	9	13	10,403
Securities sold under agreements to repurchase	14,241	–	–	–	14,241
Insurance contract liabilities	196,349	1,704	26	58	198,137
Policyholders' deposits	1,786	–	–	–	1,786
Subordinated debts	22,449	–	–	–	22,449
Other financial liabilities	21,209	810	1,676	58	23,753
Total liabilities	264,772	4,157	1,711	129	270,769

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

(a) Financial risks *(continued)*

(3) Market risk *(continued)*

(i) Currency risk (continued)

31 December 2013	RMB *in million*	USD *in million*	HKD *in million*	Others *in million*	Total *in million*
Cash and cash equivalents	12,807	2,787	655	23	16,272
Term deposits	64,373	–	–	–	64,373
Debt securities	104,503	908	271	–	105,682
Equity securities	28,818	–	146	–	28,964
Insurance receivables, net	19,202	5,618	15	35	24,870
Reinsurance assets	25,536	880	9	6	26,431
Loans and receivables	12,910	–	–	–	12,910
Other financial assets	10,521	235	4	5	10,765
Total assets	278,670	10,428	1,100	69	290,267
Derivative financial liabilities	2	–	–	–	2
Payables to reinsurers	13,826	3,621	5	3	17,455
Securities sold under agreements to repurchase	18,015	–	–	–	18,015
Insurance contract liabilities	176,817	1,606	23	40	178,486
Policyholders' deposits	1,953	–	–	–	1,953
Subordinated debts	19,562	–	–	–	19,562
Other financial liabilities	18,423	754	6	13	19,196
Total liabilities	248,598	5,981	34	56	254,669

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

(a) Financial risks *(continued)*

(3) Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

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 2014		31 December 2013	
	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%	172	189	214	222
USD	(5%)	(172)	(189)	(214)	(222)

(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.

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

(a) Financial risks *(continued)*

(3) Market risk *(continued)*

(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 (2013: 10 trading days) at a confidence level of 99% (2013: 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.

	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Interest rate VaR	**781**	557
Equity price VaR	**1,310**	2,312

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

(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.

46. 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:

	2014		2013	
	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	114,011	98,867	99,389	79,704
Western China	55,334	49,016	48,530	43,644
Northern China	33,937	30,822	32,388	29,861
Central China	32,304	28,545	27,895	25,161
North-eastern China	16,833	14,508	15,323	13,386
Total	252,419	221,758	223,525	191,756

47. CONTINGENT LIABILITIES

There were certain outstanding litigation matters against the Group as at 31 December 2014. 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.

48. OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases its investment properties (note 28) under operating lease arrangements, with leases negotiated for terms ranging from two to twenty years (2013: two to twenty years).

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

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Within one year	**176**	161
In the second to fifth years, inclusive	**204**	249
After five years	**98**	100
	478	510

(b) As lessee

The Group leases office premises and motor vehicles under various operating lease agreements.

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

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Within one year	**153**	253
In the second to fifth years, inclusive	**644**	574
After five years	**220**	187
	1,017	1,014

49. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 48 above, the Group had the following capital commitments at the end of the year:

	Group and Company	
	31 December 2014 *RMB million*	31 December 2013 *RMB million*
Contracted, but not provided for:		
Property, plant and equipment	617	366
Investment	2,790	–
Authorised, but not contracted for:		
Property, plant and equipment	1,264	525
	4,671	891

50. RELATED PARTY TRANSACTIONS

(a) Material transactions with related parties

	Notes	2014 *RMB million*	2013 *RMB million*
Transactions with the holding company:			
2013 Final dividend distribution	(i)	2,074	–
2013 Interim dividend distribution	(i)	–	2,280
Rights issue	(ii)	5,000	3,999
Gain from the disposal of an associate	(iii)	–	37
Rental expense	(iv)	74	74
WAN service fees	(v)	13	8
Transactions with fellow subsidiaries:			
Property rental expenses	(vi)	108	104
Property rental income	(vi)	2	2
Management fee	(vii)	134	136
Premiums ceded	(viii)	556	449
Reinsurance commission income	(viii)	222	160
Paid losses recoverable from reinsurers	(viii)	281	280
Reinsurance premiums assumed	(viii)	6	3
Commission expenses – reinsurance	(viii)	1	1
Gross claims paid – reinsurance	(viii)	1	–
Brokerage commission expense	(ix)	147	96
Agency services commission received	(x)	4	3
Agency services commission paid	(x)	5	9
Underwriting expenses of subordinated debts	(xi)	23	–

50. RELATED PARTY TRANSACTIONS *(continued)*

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

	Notes	2014 RMB million	2013 RMB million
Transactions with associates:			
Agency services commission received	(xii)	30	23
Agency services commission paid	(xii)	85	69
Premiums paid	(xiii)	215	159
Shares subscribed	(xiv)	–	485
Transactions with an associate of PICC Group:			
Interest income	(xv)	137	146
Dividend income	(xv)	436	360
Interest expense	(xv)	32	46
Premium income	(xv)	232	106
Claims paid	(xv)	205	74
Commission expense	(xv)	5	2

Notes:

(i) On 27 June 2014, the shareholders of the Company at a general meeting approved a final dividend of RMB0.221 per ordinary share totalling RMB3,007 million for the year ended 31 December 2013. As the PICC Group held 68.98% of the share capital of the Company, the Company distributed dividend with an amount of approximately RMB2,074 million to the PICC Group.

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 2 December 2014, the Company completed the rights issue of 845 million domestic shares on the basis of 0.9 domestic rights share for every 10 existing domestic shares, at an issue price of RMB5.92 per domestic share. The PICC Group subscribed for shares with an amount of approximately RMB5,000 million. Upon completion of the share capital increase of the Company, the proportion of shareholding held 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.

50. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: *(continued)*

(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. During the current year, the Company and PICC Group agreed to renew the contract for two years, which will expire on 31 December 2015.

(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 for 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. In December 2014, the Company and PICC Investment renewed the Property Leasing agreement for a term of three years effective from 7 July 2014 to 6 July 2017. 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 for a term of three years effective from 1 January 2013 to 31 December 2015. 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 28 March 2014, the Company and PICC HK entered into a renewal agreement, effective from 1 January 2014 to 31 December 2014. PICC HK is a fellow subsidiary of the Company.

50. RELATED PARTY TRANSACTIONS *(continued)*

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

Notes: *(continued)*

(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 for 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 for a term of three years effective from 31 August 2013 to 30 August 2016. PICC Health is a fellow subsidiary of the Company.

(xi) As at 16 December 2014, the Company entered into an underwriting agreement for issuance of subordinated debt with PICC Capital Investment Management Company Limited ("PICC Capital"). Pursuant to the underwriting agreement, PICC Capital, as the lead underwriter, provided underwriting services to the Company and received underwriting fees calculated based on the amount of subordinated debt issued multiplied by the agreed underwriting expense rate. The underwriting expense rate was negotiated between the Company and PICC Capital on normal commercial terms. PICC Capital is a fellow subsidiary of The Company.

(xii) 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 for 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.

(xiii) 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 for a term of three years.

(xiv) 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. On 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.

(xv) 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.

50. RELATED PARTY TRANSACTIONS *(continued)*

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

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

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.

50. RELATED PARTY TRANSACTIONS *(continued)*

(c) Outstanding balances with related parties

	31 December 2014 ***RMB million***	31 December 2013 *RMB million*
Cash and cash equivalents:		
An associate of PICC Group	**5,363**	100
Term deposits:		
An associate of PICC Group	**500**	600
Debt securities:		
An associate of PICC Group	**2,070**	2,138
Equity securities:		
An associate of PICC Group	**14,354**	8,552
Receivables from reinsurers:		
Fellow subsidiaries (note 22)	**135**	272
Loans and receivables:		
An associate of PICC Group	**98**	–
Due from related parties:		
The PICC Group (note 25)	**60**	–
Fellow subsidiaries (note 25)	**40**	37
An associate of PICC Group	**76**	50
Payables to reinsurers:		
Fellow subsidiaries (note 33)	**150**	262
Due to related parties:		
The PICC Group (note 36)	**–**	60
Fellow subsidiaries (note 36)	**55**	56
An associate of PICC Group	**5**	9
Subordinated debts issued to:		
An associate of PICC Group	**449**	882

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.

50. RELATED PARTY TRANSACTIONS *(continued)*

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

	2014 *RMB'000*	2013 *RMB'000* (Restated)
Short term employee benefits	1,751	1,657
Other long-term benefits	–	994
Post-employment benefits	458	646
Total compensation paid to key management personnel	2,209	3,297

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

51. EVENTS AFTER THE REPORTING PERIOD

On 27 March 2015, the Board of Directors of the Company proposed a final dividend of RMB0.270 per ordinary share and is subject to the approval of shareholders' general meeting of the Company.

52. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2015.

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
"Company Law"	the Company Law of the People's Republic of China
"Corporate Governance Code"	the corporate governance code section contained in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"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
"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 2014
"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

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LEGAL REPRESENTATIVE

Wu Yan

SECRETARY OF THE BOARD OF DIRECTORS

Zhang Xiaoli

COMPANY SECRETARY

Man Kam Ching

INFORMATION INQUIRY DEPARTMENT

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AUDITORS

International Auditor
Deloitte Touche Tohmatsu

Domestic Auditor
Deloitte Touche Tohmatsu Certified Public Accountants LLP

LEGAL ADVISORS

as to Hong Kong Laws
Linklaters

as to PRC Laws
King & Wood Mallesons