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

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

(Stock Code: 2328)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The Board of Directors (the "Board") of PICC Property and Casualty Company Limited (the "Company") announces the audited results of the Company and its subsidiaries for the year ended 31 December 2008, together with comparative figures for last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	**2008** **RMB million**	2007 RMB million
TURNOVER	*4*	**101,878**	88,668
Net premiums earned	*4*	**81,122**	68,728
Net claims incurred	*5*	**(60,604)**	(46,944)
Amortisation of deferred acquisition costs, net		**(11,764)**	(11,151)
Insurance protection expenses		**(774)**	(749)
General and administrative expenses		**(10,474)**	(11,311)
UNDERWRITING LOSS		**(2,494)**	(1,427)
Net investment income	*6*	**3,716**	3,229
Net realised and unrealised gains on investments	*7*	**319**	4,442
Investment expenses		**(260)**	(288)
Interest expenses credited to policyholders' deposits		**(215)**	(248)
Exchange losses, net		**(815)**	(801)
Sundry income		**357**	12
Sundry expenses		**(295)**	(135)
Finance costs		**(227)**	(315)
Share of profit and loss of associates		**(533)**	(13)
PROFIT/(LOSS) BEFORE TAX	*8*	**(447)**	4,456
Tax	*9*	**497**	(1,465)
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**50**	2,991
BASIC EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (in RMB)	*10*	**0.004**	0.268
DIVIDEND PER SHARE (in RMB)	*11*	**–**	0.091

CONSOLIDATED BALANCE SHEET

	Notes	**2008** **RMB million**	2007 RMB million
ASSETS			
Cash and cash equivalents		**29,056**	30,789
Derivative financial assets		**6**	–
Debt securities		**41,291**	28,465
Equity securities		**6,438**	16,978
Insurance receivables, net	*12*	**20,736**	13,898
Reinsurance assets		**20,782**	11,136
Deferred acquisition costs		**8,160**	7,490
Other financial assets and prepayments		**9,352**	8,365
Interests in associates		**521**	1,025
Property, plant and equipment		**12,136**	11,721
Investment properties		**605**	532
Prepaid land premiums		**3,769**	3,866
TOTAL ASSETS		**152,852**	134,265
LIABILITIES			
Derivative financial liabilities		**–**	35
Payables to reinsurers	*13*	**18,258**	9,813
Accrued insurance protection fund		**252**	296
Tax payable		**926**	1,314
Other liabilities and accruals		**11,956**	8,109
Deferred tax liabilities		**138**	2,777
Deferred acquisition costs-reinsurers' share		**3,544**	1,775
Insurance contract liabilities		**85,586**	73,115
Policyholders' deposits		**7,383**	7,953
Subordinated debts		**3,000**	3,000
TOTAL LIABILITIES		**131,043**	108,187
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		**11,142**	11,142
Reserves		**10,667**	14,936
TOTAL EQUITY		**21,809**	26,078
TOTAL EQUITY AND LIABILITIES		**152,852**	134,265

Notes:

1. BASIS OF PREPARATION

These 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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain debt securities, equity securities, derivatives and structured deposits, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. For the year ended 31 December 2008, the net loss attributable to minority interests amounted to RMB28,840 (2007: RMB35,046). As at 31 December 2008, the net assets attributable to minority interests amounted to RMB41,342 (2007: RMB70,182).

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available-for-sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future of until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held for trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. This interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

3. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary reporting basis, by business segment. No further geographical segment information is presented as all of the Group's customers and operations are located in the PRC.

Summary details of the business segments are 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; and
(f) the "other" segment mainly represents insurance products related to marine hull, homeowners, agriculture, aviation and energy.

Information on the Group's reportable business segments is as follows:

2008 Income statement	Motor Vehicle *RMB million*	Commercial Property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental Injury and Health *RMB million*	Other *RMB million*	Corporate *RMB million*	Total *RMB million*
Turnover	69,258	9,397	3,248	4,264	3,729	11,982	–	101,878
Net premiums earned	60,553	5,859	2,455	2,958	2,431	6,866	–	81,122
Net claims incurred	(44,839)	(5,404)	(1,267)	(2,259)	(1,990)	(4,845)	–	(60,604)
Amortisation of deferred acquisition costs, net	(9,710)	(849)	(330)	(425)	(269)	(181)	–	(11,764)
Insurance protection expenses	(570)	(55)	(24)	(27)	(25)	(73)	–	(774)
Profit/(loss) before general and administrative expenses	5,434	(449)	834	247	147	1,767	–	7,980
General and administrative expenses	–	–	–	–	–	–	(10,474)	(10,474)
Net investment income	–	–	–	–	–	210	3,506	3,716
Net realised and unrealised gains/(losses) on investments	–	–	–	–	–	(60)	379	319
Investment expenses	–	–	–	–	–	(7)	(253)	(260)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(215)	–	(215)
Exchange losses, net	–	–	–	–	–	–	(815)	(815)
Finance costs	–	–	–	–	–	–	(227)	(227)
Sundry income and expenses	–	–	–	–	–	–	62	62
Share of profit and loss of associates	–	–	–	–	–	–	(533)	(533)
Profit/(loss) before tax	5,434	(449)	834	247	147	1,695	(8,355)	(447)
Tax	–	–	–	–	–	–	497	497
Profit/(loss) attributable to equity holders of the parent	5,434	(449)	834	247	147	1,695	(7,858)	50

2007 Income statement	Motor Vehicle *RMB million*	Commercial Property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental Injury and Health *RMB million*	Other *RMB million*	Corporate *RMB million*	Total *RMB million*
Turnover	61,988	8,941	2,990	3,640	3,115	7,994	–	88,668
Net premiums earned	53,273	5,689	2,271	2,534	2,084	2,877	–	68,728
Net claims incurred	(36,283)	(4,347)	(1,016)	(1,603)	(1,315)	(2,380)	–	(46,944)
Amortisation of deferred acquisition costs, net	(8,954)	(836)	(334)	(387)	(290)	(350)	–	(11,151)
Insurance protection expenses	(576)	(59)	(23)	(27)	(20)	(44)	–	(749)
Profit before general and administrative expenses	7,460	447	898	517	459	103	–	9,884
General and administrative expenses	–	–	–	–	–	–	(11,311)	(11,311)
Net investment income	–	–	–	–	–	265	2,964	3,229
Net realised and unrealised gains on investments	–	–	–	–	–	165	4,277	4,442
Investment expenses	–	–	–	–	–	(9)	(279)	(288)
Interest expenses credited to policyholders' deposits	–	–	–	–	–	(248)	–	(248)
Exchange losses, net	–	–	–	–	–	–	(801)	(801)
Finance costs	–	–	–	–	–	–	(315)	(315)
Sundry income and expenses	–	–	–	–	–	–	(123)	(123)
Share of profit and loss of associates	–	–	–	–	–	–	(13)	(13)
Profit/(loss) before tax	7,460	447	898	517	459	276	(5,601)	4,456
Tax	–	–	–	–	–	–	(1,465)	(1,465)
Profit/(loss) attributable to equity holders of the parent	7,460	447	898	517	459	276	(7,066)	2,991

The segment assets and liabilities for the years ended 31 December 2008 and 2007 are shown as follows:

2008 Balance sheet	**Motor Vehicle** ***RMB million***	**Commercial Property** ***RMB million***	**Cargo** ***RMB million***	**Liability** ***RMB million***	**Accidental Injury and Health** ***RMB million***	**Other** ***RMB million***	**Corporate** ***RMB million***	**Total** ***RMB million***
Total assets	**21,574**	**8,915**	**976**	**2,381**	**1,824**	**10,693**	**106,489**	**152,852**
Total liabilities	**70,465**	**10,572**	**2,156**	**5,373**	**5,682**	**22,397**	**14,398**	**131,043**

2007 Balance sheet	Motor Vehicle *RMB million*	Commercial Property *RMB million*	Cargo *RMB million*	Liability *RMB million*	Accidental Injury and Health *RMB million*	Other *RMB million*	Corporate *RMB million*	Total *RMB million*
Total assets	14,164	5,990	1,029	1,606	1,697	8,037	101,742	134,265
Total liabilities	55,753	8,846	2,019	4,078	4,929	20,129	12,433	108,187

Capital expenditure, depreciation and impairment charges, which are not attributable to particular insurance products, are not allocated.

4. TURNOVER AND NET PREMIUMS EARNED

Turnover represents direct premiums written and reinsurance premiums assumed.

	Group	
	2008 ***RMB million***	2007 *RMB million*
Turnover		
Direct premiums written	**101,655**	88,594
Reinsurance premiums assumed	**223**	74
	101,878	88,668
Net premiums earned		
Turnover	**101,878**	88,668
Less: Reinsurance premiums ceded	**(24,505)**	(13,779)
Net premiums written	**77,373**	74,889
Less: Change in net unearned premium reserves	**3,749**	(6,161)
Net premiums earned	**81,122**	68,728

5. NET CLAIMS INCURRED

	Group	
	2008 ***RMB million***	2007 *RMB million*
Gross claims paid	**65,790**	48,695
Less: Paid losses recoverable from reinsurers	**(11,760)**	(7,592)
Net claims paid	**54,030**	41,103
Change in net loss and loss adjustment expense reserves	**6,574**	5,841
Net claims incurred	**60,604**	46,944

6. NET INVESTMENT INCOME

	Group	
	2008	2007
	RMB million	*RMB million*
Rental income from investment properties	**80**	54
Financial assets at fair value through profit or loss		
– Held for trading purpose:		
Interest income	**99**	92
Dividend income	**935**	953
Financial assets at fair value through profit or loss		
– Designated upon initial recognition:		
Interest income	**23**	7
Available-for-sale financial assets:		
Interest income	**1,227**	875
Dividend income	**161**	199
Loans and receivables:		
Interest income	**1,191**	1,049
	3,716	3,229

7. NET REALISED AND UNREALISED GAINS ON INVESTMENTS

	Group	
	2008	2007
	RMB million	*RMB million*
Available-for-sale financial assets:		
Realised gains	**2,928**	1,118
Impairment loss	**(872)**	–
Financial assets at fair value through profit or loss		
– Held for trading:		
Realised gains	**398**	2,541
Unrealised gains/(losses)	**(2,189)**	849
Financial assets at fair value through profit or loss		
– Designated upon initial recognition:		
Unrealised gains	**29**	50
Loans and receivables:		
Impairment loss	**25**	(116)
	319	4,442

8. PROFIT/(LOSS) BEFORE TAX

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

	2008	2007
	RMB million	*RMB million*
Auditors' remuneration, including interim review	**18**	18
Depreciation of property, plant and equipment	**866**	876
Depreciation of investment properties	**23**	20
Amortisation of prepaid land premiums	**104**	113
Employee expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**5,885**	5,502
Charge/(credit) of cash-settled appreciation rights expense	**(445)**	752
Pension scheme contributions	**600**	583
Impairment loss on insurance receivables	**477**	627
Minimum lease payments under operating leases in respect of land and buildings	**370**	397
Net loss on disposal of items of property, plant and equipment	**13**	2

9. TAX

The provision for PRC income tax is calculated based on the statutory rate of 25% (2007: 33%) in accordance with the relevant PRC income tax rules and regulations.

	2008	2007
	RMB million	*RMB million*
Group:		
Current		
– Charge for the year	**1,036**	1,572
– Overprovision in prior years	**(349)**	–
Deferred	**(1,184)**	(107)
Total tax charge for the year	**(497)**	1,465

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the statutory tax rate for the PRC, in which the Group is domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate, i.e. the statutory tax rate, to the effective tax rate, are as follows:

	2008		2007	
Group	***RMB million***	***%***	*RMB million*	*%*
Profit/(loss) before tax	**(447)**		4,456	
Tax at the statutory tax rate of 25% (2007: 33%)	**(112)**	**25.0**	1,470	33.0
Income not subject to tax	**(381)**	**85.2**	(174)	(3.9)
Effect of change in tax rate	**–**	**–**	(454)	(10.2)
Expenses not deductible for tax	**345**	**(77.2)**	623	14.0
Adjustments in respect of current tax of previous periods	**(349)**	**78.1**	–	–
Tax charge/(credit) at the Group's effective rate	**(497)**	**111.1**	1,465	32.9

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and has become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Accordingly, the Group adopted 25% as the statutory tax rates when determining its corporate tax since 1 January 2008.

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

The calculation of basic earnings per share is based on the profit for the year attributable to the ordinary equity holders of the parent of RMB50 million (2007: RMB2,991 million) and 11,142 million (2007: 11,142 million) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed as no diluting events existed during these years.

11. DIVIDEND PER SHARE

The Board of Directors did not propose any interim and final dividend for the year (2007: interim dividend of RMB1,014 million).

12. INSURANCE RECEIVABLES, NET

	Group and Company	
	2008	2007
	RMB million	*RMB million*
Premiums receivable and agents' balances	**8,309**	7,229
Receivables from reinsurers	**13,926**	7,691
	22,235	14,920
Less: Impairment provision on:		
Premiums receivable and agents' balances	**(1,494)**	(1,017)
Receivables from reinsurers	**(5)**	(5)
	20,736	13,898

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

	Group and Company	
	2008	2007
	RMB million	*RMB million*
At 1 January	**1,022**	395
Charge for the year	**477**	634
Impairment losses reversed	**–**	(7)
At 31 December	**1,499**	1,022

The carrying amounts disclosed above reasonably approximate to their fair values at each year end.

The Group only issues insurance policies on credit to corporate customers or to individuals who purchase 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.

An aged analysis of gross insurance receivables is shown as follows:

	On demand	Past due but not impaired				Past due and impaired	Total
		Less than 30 days	31 to 90 days	More than 90 days	Sub-total		
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
At 31 December, 2008							
Gross insurance receivables	**12,818**	**960**	**2,192**	**2,283**	**5,435**	**3,982**	**22,235**
At 31 December, 2007							
Gross insurance receivables	6,368	1,202	1,736	1,910	4,848	3,704	14,920

13. PAYABLES TO REINSURERS

Payables to reinsurers are analysed as follows:

	Group and Company	
	2008	2007
	RMB million	*RMB million*
Reinsurance payables	**18,258**	9,813

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

The carrying amounts disclosed above reasonably approximate to their fair values at each year end.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

OVERVIEW

The Company is a leading non-life insurance company in the PRC providing a broad range of property and casualty insurance products together with accidental injury insurance and short-term health insurance products for customers. In 2008, with the catastrophic snow storms in southern China and the 5.12 severe earthquake in Wenchuan taking place in succession, and the spread of global financial crisis resulting in a drastic downturn in capital markets, the Company encountered unprecedented difficulties and challenges. During this extraordinary year, people across the Company spared no effort to struggle against the difficulties in a pragmatic manner, enabling the Company's business to realise a comparatively rapid growth while maintaining stable financial conditions. In 2008, the Company achieved a turnover of RMB101,878 million, representing an increase of 14.9% over 2007, and a net profit of RMB50 million, representing a year-on-year decline of 98.3%. The total assets reached RMB152,852 million, representing a year-on-year growth of 13.8% and the shareholders' equity totalled RMB21,809 million. The Company's non-life insurance market share in the PRC was 41.6%, a basically stable level compared to last year.

I Increased marketing efforts and premiums income surpassed RMB100 billion

In 2008, the rapid growth in the Company's motor vehicle insurance segment provided a driving force for the overall business growth of the Company. Premiums income from commercial motor vehicle insurance soared by 18.7% on a year-on-year basis. The compulsory third party motor insurance business developed steadily as a result of the Company's proactive response to policy adjustment and decline in premium rates. Through promoting interaction and cooperation with the government at all levels, the agriculture insurance business developed rapidly with premiums income increased by RMB3,327 million or 125.7% on a year-on-year basis, a major contribution to the overall business growth. While ensuring a steady growth in major insurance products and leveraging on advantageous insurance products to expand the Company's market influence, the Company continued to strengthen its underwriting for large-scale projects. The Company acted as the sole or chief underwriter for a number of milestone insurance projects such as the gas field in northeast Sichuan, the Sichuan-Shanghai DC power transmission line of the State Grid Corporation, the Harbin-Dalian railway, the Chinasat-9 satellite, and the Fuqing Nuclear Power Plant. The Company's annual premiums income surpassed RMB100 billion, achieving a historical milestone, and the Company's insurance coverage and penetration underwent an apparent expansion.

II Strengthened claim settlement services and its management and control to reduce loss from catastrophes

Shortly after the catastrophic snow storms in southern China and the 5.12 severe earthquake in Wenchuan in 2008, the Company promptly initiated its emergency plans, opened up an express claim settlement channel and made meticulous arrangements to provide fast, refined and priority claim settlement services. At the same time, the Company controlled its settlement costs at a reasonable level by, among others, strengthening its management and control of claim settlement in circumstances of catastrophes, arranging for the "ensuring profitability of motor vehicle insurance" programme and actively promoting the long-distance loss adjustment system for motor vehicle insurance.

III Reinforced cost control to deal with adverse circumstances of catastrophes

In order to deal with the adverse circumstances of catastrophes, the Company launched a campaign of "broadening sources of income and reducing expenditure" which was intended to cut budgets and minimise administrative expenses by reinforcing cost control at all levels and promote the efficient utilisation of assets. The Company's expense ratio was lowered by 5.4 percentage points compared to that in 2007, and the reinforced cost control measures abated the adverse effects of catastrophes.

IV Deepened risk prevention and maintained the Company's sound operations

The Company actively and fully observed the requirements of China Insurance Regulatory Commission ("CIRC") regarding the regulation of the property and casualty insurance market, and promoted self-discipline in the industry and the building of a healthy and orderly competitive environment. The Company earnestly promoted the practice of issuing motor vehicle insurance policies only after payment of premiums and continued to reinforce the management and control of premiums receivable. Efforts were made to reinforce centralised management and control of capital and promote efficient capital utilisation in order to effectively reduce relevant risks. To ensure that the Company maintains adequate solvency, the Company's solvency indicators were monitored on a regular basis in accordance with the requirements of CIRC in relation to solvency pressure tests. In 2008, Moody's Investors Service granted the Company an A1 credit rating, the highest credit rating available to a PRC enterprise, showing the Company's strength and credit standing in the property and casualty insurance market.

V Enhanced corporate influence and brand image of the Company

In 2008, the Company provided strong insurance support for the Beijing Olympic Games, focus of the world, as the official insurance partner of the Games. The Company had been closely working with the Beijing Organizing Committee for the Olympic Games in developing the Olympic VIK insurance products and in providing special claim settlement services, thereby ensuring that the Beijing Olympic Games and Paralympic Games were held smoothly. The Company's social influence was thereby enhanced. The Company managed to significantly boost its social influence and brand recognition by providing special claim settlement services relating to the snow storms and earthquake. In 2008, the Company was named the "Most Competitive Non-life Insurance Company in Asia" in 2008 Asian Insurance Competency Ranking organised by 21st Century Business Herald, and was selected as the "Best Insurance Company of the Year" and the "Property and Casualty Insurance Company with the Best Services" by SINA and SOHU websites, respectively.

The following table sets forth the net premiums earned, underwriting loss, profit attributable to equity holders of the parent and total assets of the Company and its subsidiaries for the relevant periods.

	Year ended 31 December	
	2008	2007
	RMB million	*RMB million*
Net premiums earned	**81,122**	68,728
Underwriting loss	**(2,494)**	(1,427)
Profit attributable to equity holders of the parent	**50**	2,991
Total assets	**152,852**	134,265

RESULTS OF OPERATIONS

In 2008, the turnover of the Company and its subsidiaries increased significantly, underwriting loss increased and investment gains decreased. The following table sets forth selected financial ratios shown as percentages of net premiums earned of the Company and its subsidiaries for the relevant periods.

	Year ended 31 December	
	2008	2007
	%	%
Net premiums earned	**100.0**	100.0
Net claims incurred	**(74.7)**	(68.3)
Amortisation of deferred acquisition costs, net	**(14.5)**	(16.2)
Insurance protection expenses	**(1.0)**	(1.1)
General and administrative expenses	**(12.9)**	(16.5)
Underwriting loss	**(3.1)**	(2.1)
Net investment income	**4.6**	4.7
Net realised and unrealised gains on investments	**0.4**	6.5
Finance costs	**(0.3)**	(0.5)
Interest expenses credited to policyholders' deposits	**(0.3)**	(0.4)
Profit/(Loss) before tax	**(0.6)**	6.5
Tax	**0.6**	(2.1)
Profit attributable to equity holders of the parent	**0.1**	4.4
Loss ratio	**74.7**	68.3
Expense ratio	**28.4**	33.8
Combined ratio	**103.1**	102.1

The following table sets forth the net premiums earned, net claims incurred and net amortisation of deferred acquisition costs by segment, analysed as a percentage of the respective aggregate amount, of the Company and its subsidiaries for the relevant periods.

	Year ended 31 December	
	2008	2007
	%	%
Net premiums earned		
Motor vehicle insurance	**74.6**	77.5
Commercial property insurance	**7.2**	8.3
Cargo insurance	**3.0**	3.3
Liability insurance	**3.6**	3.7
Accidental injury and health insurance	**3.0**	3.0
Other insurance	**8.6**	4.2
Total	**100**	100
Net claims incurred		
Motor vehicle insurance	**74.0**	77.3
Commercial property insurance	**8.9**	9.3
Cargo insurance	**2.1**	2.2
Liability insurance	**3.7**	3.4
Accidental injury and health insurance	**3.3**	2.8
Other insurance	**8.0**	5.0
Total	**100**	100
Amortisation of deferred acquisition costs, net		
Motor vehicle insurance	**82.5**	80.3
Commercial property insurance	**7.2**	7.5
Cargo insurance	**2.8**	3.0
Liability insurance	**3.6**	3.5
Accidental injury and health insurance	**2.3**	2.6
Other insurance	**1.6**	3.1
Total	**100**	100

TURNOVER

Turnover of the Company and its subsidiaries was RMB101,878 million in 2008, representing an increase of RMB13,210 million or 14.9% from RMB88,668 million in 2007. The increase was primarily due to the relatively rapid growth of the motor vehicle insurance segment, which achieved an increase in turnover of RMB7,270 million or 11.7% from RMB61,988 million in 2007 to RMB69,258 million in 2008. The turnover of the accidental injury and health insurance, liability insurance, cargo insurance and other insurance segments also experienced growth at different extent. The agriculture insurance business under the other insurance segment grew rapidly which in turn promoted the rapid growth of the Company's overall premiums income.

NET PREMIUMS EARNED

Net premiums earned of the Company and its subsidiaries was RMB81,122 million in 2008, representing an increase of RMB12,394 million or 18.0% from RMB68,728 million in 2007. This increase was primarily due to the rapid growth in the premiums income both in 2007 and 2008. As a result of the rapid growth in premiums income, the net premiums earned from the motor vehicle insurance segment and the agriculture insurance business under the other insurance segment increased by RMB7,280 million and RMB3,170 million, respectively, over 2007.

NET INVESTMENT INCOME

Net investment income of the Company and its subsidiaries was RMB3,716 million in 2008, representing an increase of RMB487 million from RMB3,229 million in 2007. This increase was primarily due to the increase of RMB361 million in the interest income from debt securities investments.

NET REALISED AND UNREALISED GAINS ON INVESTMENTS

Net realised and unrealised gains on investments of the Company and its subsidiaries was RMB319 million in 2008, representing a decline of RMB4,123 million from RMB4,442 million in 2007. This decline was primarily due to the persistent A-share market decline in the PRC which led to an impairment loss of RMB872 million on available-for-sale financial assets and the decrease of RMB3,059 million in unrealised gains on investments in financial assets at fair value through profit or loss in 2008.

NET CLAIMS INCURRED

Net claims incurred of the Company and its subsidiaries was RMB60,604 million in 2008, representing an increase of RMB13,660 million or 29.1% from RMB46,944 million in 2007. Loss ratio of the Company and its subsidiaries rose to 74.7% in 2008 from 68.3% in 2007. The increase in net claims incurred was primarily due to an increase of RMB12,927 million in the net payment of claims which was in turn attributable from, on the one hand, the expansion of the Company's business, and on the other hand, the sharp rise in claims incurred resulting from the catastrophic snow storms in southern China and the severe 5.12 earthquake in Wenchuan in 2008. The net loss and loss adjustment expense reserves as of 31 December 2008 increased by RMB6,574 million over that of 31 December 2007.

AMORTISATION OF DEFERRED ACQUISITION COSTS, NET

Net amortisation of deferred acquisition costs of the Company and its subsidiaries was RMB11,764 million in 2008, representing an increase of 5.5% from RMB11,151 million in 2007. This increase was slower than the business growth primarily by reason of the slow increase in the direct insurance policies' acquisition costs in 2008.

INSURANCE PROTECTION EXPENSES

According to the relevant PRC insurance laws and regulations, the Company and its subsidiaries are required to accrue an insurance protection fund based on 1% of their retained premiums. Insurance protection expenses of the Company and its subsidiaries was RMB774 million in 2008, representing an increase of 3.3% from RMB749 million in 2007. The increase was due to the increase in retained premiums.

INTEREST EXPENSES CREDITED TO POLICYHOLDERS' DEPOSITS

Interest expenses of the Company and its subsidiaries credited to policyholders' deposits decreased from RMB248 million in 2007 to RMB215 million in 2008. This was primarily due to the fact that the income payable to policyholders in respect of the Golden Bull investment-type homeowners insurance products (third generation) and the Golden Baby investment-type accidental injury insurance products of the Company was calculated using floating interest rates. In 2008, with the lowered deposit rates, the interest expenses incurred by the Company reduced.

FINANCE COSTS

Finance costs of the Company and its subsidiaries was RMB227 million in 2008, representing a decrease of RMB88 million from RMB315 million in 2007. This decrease was primarily due to the reduction in the interest on securities sold under agreements to repurchase compared to 2007.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the Company and its subsidiaries were RMB10,474 million in 2008, representing a decrease of RMB837 million from RMB11,311 million in 2007. This decrease was primarily due to the Company's efforts to broaden sources of income and reduce expenditure and minimise administrative expenses, as well as the cut in the remuneration of the management, travelling expenses and conference expenses.

PROFIT/(LOSS) BEFORE TAX

As a result of the foregoing, loss before tax of the Company and its subsidiaries was RMB447 million in 2008, representing a decrease of RMB4,903 million from the profit of RMB4,456 million in 2007.

TAX

Income tax expenses of the Company and its subsidiaries was credited with RMB497 million in 2008, representing a decrease of RMB1,962 million from RMB1,465 million in 2007. The major reason for such decrease was the drastic decline in the profit before tax in 2008, and the Company's relatively high income earned from the interests on treasury bonds and the dividends paid by investment funds were tax-free.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

As a result of the foregoing, net profit of the Company and its subsidiaries decreased by RMB2,941 million from RMB2,991 million in 2007 to RMB50 million in 2008. Basic earnings per share attributable to ordinary equity holders of the parent in 2008 was RMB0.004.

COMBINED RATIO

The combined ratio of the Company and its subsidiaries increased from 102.1% in 2007 to 103.1% in 2008. Affected by the catastrophic snow storms in southern China and the serious 5.12 earthquake in Wenchuan in 2008, the loss ratio of the Company and its subsidiaries rose from 68.3% in 2007 to 74.7% in 2008, partly offsetting the favourable effect of the reduced expense ratio on the combined ratio.

RESULTS OF SEGMENT OPERATIONS

Motor Vehicle Insurance

	Year ended 31 December	
	2008	2007
	RMB million	*RMB million*
Turnover	**69,258**	61,988
Net premiums earned	**60,553**	53,273
Net claims incurred	**(44,839)**	(36,283)
Amortisation of deferred acquisition costs, net	**(9,710)**	(8,954)
Insurance protection expenses	**(570)**	(576)
Segment profit before general and administrative expenses	**5,434**	7,460
Loss ratio	**74.0%**	68.1%
Expense ratio	**17.0%**	17.9%
Combined ratio	**91.0%**	86.0%

Turnover of the motor vehicle insurance segment of the Company and its subsidiaries was RMB69,258 million in 2008, representing an increase of RMB7,270 million (or 11.7%) from RMB61,988 million in 2007. This increase was primarily due to the growth in the commercial motor vehicle insurance business.

Net premiums earned from the motor vehicle insurance segment of the Company and its subsidiaries was RMB60,553 million in 2008, representing an increase of RMB7,280 million (or 13.7%) from RMB53,273 million in 2007, basically compatible with the growth in turnover.

Net claims incurred of the motor vehicle insurance segment of the Company and its subsidiaries was RMB44,839 million in 2008, representing an increase of RMB8,556 million (or 23.6%) from RMB36,283 million in 2007. Loss ratio increased from 68.1% in 2007 to 74.0% in 2008. Major natural disasters had led to the rise in the loss ratio of the motor vehicle insurance segment, while the raising of the liability limit of compulsory third party motor insurance also attributed to the increase in the loss ratio.

Net amortisation of deferred acquisition costs of the motor vehicle insurance segment of the Company and its subsidiaries was RMB9,710 million in 2008, representing an increase of 8.4% from RMB8,954 million in 2007. This increase was primarily due to the growth in the income from motor vehicle insurance business and the corresponding increase in underwriting-related costs such as commission expenses, underwriting expenses, and government levies and surcharges. The increase in commission expenses recovered partly offset the foregoing effect.

Insurance protection expenses charged to the motor vehicle insurance segment of the Company and its subsidiaries was RMB570 million in 2008, representing a decrease of 1.0% from RMB576 million in 2007, due to a slight reduction in the segment's retained premiums.

The expense ratio of the motor vehicle insurance segment of the Company and its subsidiaries reduced from 17.9% in 2007 to 17.0% in 2008, primarily due to the slow growth in net amortisation of deferred acquisition costs.

As a result of the foregoing, profit before general and administrative expenses of the motor vehicle insurance segment of the Company and its subsidiaries was RMB5,434 million in 2008, representing a decrease of 27.2% compared to RMB7,460 million in 2007.

Commercial Property Insurance

	Year ended 31 December	
	2008	2007
	RMB million	*RMB million*
Turnover	**9,397**	8,941
Net premiums earned	**5,859**	5,689
Net claims incurred	**(5,404)**	(4,347)
Amortisation of deferred acquisition costs, net	**(849)**	(836)
Insurance protection expenses	**(55)**	(59)
Segment profit/(loss) before general and administrative expenses	**(449)**	447
Loss ratio	**92.2%**	76.4%
Expense ratio	**15.4%**	15.7%
Combined ratio	**107.6%**	92.1%

Turnover of the commercial property insurance segment of the Company and its subsidiaries was RMB9,397 million in 2008, representing an increase of RMB456 million (or 5.1%) from RMB8,941 million in 2007.

Net premiums earned from the commercial property insurance segment of the Company and its subsidiaries was RMB5,859 million in 2008, representing an increase of RMB170 million (or 3.0%) from RMB5,689 million in 2007, basically compatible with the growth in turnover.

Net claims incurred of the commercial property insurance segment of the Company and its subsidiaries was RMB5,404 million in 2008, representing an increase of RMB1,057 million from RMB4,347 million in 2007. The claim expenses and the claim expenses recovered increased by RMB3,584 million and RMB2,969 million, respectively, and the change in net loss and loss adjustment expense reserves increased by RMB442 million. The increase in net claims incurred was primarily due to the effect of natural disasters such as the catastrophic snow storms.

Net amortisation of deferred acquisition costs of the commercial property insurance segment of the Company and its subsidiaries was RMB849 million in 2008, a slight increase from RMB836 million in 2007.

Insurance protection expenses charged to the commercial property insurance segment of the Company and its subsidiaries decreased from RMB59 million in 2007 to RMB55 million in 2008, due to a reduction in retained premiums.

The expense ratio of the commercial property insurance segment of the Company and its subsidiaries decreased from 15.7% in 2007 to 15.4% in 2008, primarily due to the increase in net amortisation of deferred acquisition costs being slower than the increase in net premiums earned.

As a result of the foregoing, due to the effect of, among others, major natural disasters, loss before general and administrative expenses of the commercial property insurance segment of the Company and its subsidiaries was RMB449 million in 2008, representing a decrease of 200.4% from the profit of RMB447 million in 2007.

Cargo Insurance

	Year ended 31 December	
	2008	2007
	RMB million	*RMB million*
Turnover	**3,248**	2,990
Net premiums earned	**2,455**	2,271
Net claims incurred	**(1,267)**	(1,016)
Amortisation of deferred acquisition costs, net	**(330)**	(334)
Insurance protection expenses	**(24)**	(23)
Segment profit before general and administrative expenses	**834**	898
Loss ratio	**51.6%**	44.7%
Expense ratio	**14.4%**	15.7%
Combined ratio	**66.0%**	60.4%

Turnover of the cargo insurance segment of the Company and its subsidiaries was RMB3,248 million in 2008, representing an increase of RMB258 million (or 8.6%) from RMB2,990 million in 2007.

Net premiums earned from the cargo insurance segment of the Company and its subsidiaries was RMB2,455 million in 2008, representing an increase of RMB184 million (or 8.1%) from RMB2,271 million in 2007, primarily due to the increased income from insurance business.

Net claims incurred of the cargo insurance segment of the Company and its subsidiaries was RMB1,267 million in 2008, representing an increase of 24.7% from RMB1,016 million in 2007, primarily due to competition leading to a decline in premium rates. The loss ratio of the cargo insurance segment increased from 44.7% in 2007 to 51.6% in 2008.

Net amortisation of deferred acquisition costs of the cargo insurance segment of the Company and its subsidiaries was RMB330 million in 2008, a slight decrease from RMB334 million in 2007.

Insurance protection expenses charged to the cargo insurance segment of the Company and its subsidiaries was RMB24 million in 2008, basically levelled with that in 2007, primarily due to the slight changes in the retained premiums of the cargo insurance segment in 2008 as compared to that in 2007.

The expense ratio of the cargo insurance segment of the Company and its subsidiaries decreased from 15.7% in 2007 to 14.4% in 2008, primarily due to a year-on-year decrease in net amortisation of deferred acquisition costs and a year-on-year increase in net premiums earned.

As a result of the foregoing, profit before general and administrative expenses of the cargo insurance segment of the Company and its subsidiaries was RMB834 million in 2008, representing a decrease of 7.1% compared to RMB898 million in 2007.

Liability Insurance

	Year ended 31 December	
	2008	2007
	RMB million	*RMB million*
Turnover	**4,264**	3,640
Net premiums earned	**2,958**	2,534
Net claims incurred	**(2,259)**	(1,603)
Amortisation of deferred acquisition costs, net	**(425)**	(387)
Insurance protection expenses	**(27)**	(27)
Segment profit before general and administrative expenses	**247**	517
Loss ratio	**76.4%**	63.3%
Expense ratio	**15.3%**	16.3%
Combined ratio	**91.7%**	79.6%

Turnover of the liability insurance segment of the Company and its subsidiaries was RMB4,264 million in 2008, representing an increase of RMB624 million (or 17.1%) from RMB3,640 million in 2007.

Net premiums earned from the liability insurance segment of the Company and its subsidiaries was RMB2,958 million in 2008, representing an increase of RMB424 million (or 16.7%) from RMB2,534 million in 2007, primarily due to the increase in premiums income.

Net claims incurred of the liability insurance segment of the Company and its subsidiaries was RMB2,259 million in 2008, representing an increase of RMB656 million (or 40.9%) from RMB1,603 million in 2007, primarily because the claim expenses and the change in net loss and loss adjustment expense reserves increased by RMB433 million and RMB306 million, respectively, resulting from the high claim ratio for liability insurance and the rapid increase in liability limit. The loss ratio of the liability insurance segment increased from 63.3% in 2007 to 76.4% in 2008.

Net amortisation of deferred acquisition costs of the liability insurance segment of the Company and its subsidiaries was RMB425 million in 2008, representing an increase of RMB38 million from RMB387 million in 2007.

Insurance protection expenses charged to the liability insurance segment of the Company and its subsidiaries was RMB27 million in 2008, same as that in 2007.

The expense ratio of the liability insurance segment of the Company and its subsidiaries reduced from 16.3% in 2007 to 15.3% in 2008, as a result of the increase in net amortisation of deferred acquisition costs being slower than the increase in net premiums earned.

As a result of the foregoing, profit before general and administrative expenses of the liability insurance segment of the Company and its subsidiaries was RMB247 million in 2008, representing a decrease of 52.2% from RMB517 million in 2007.

Accidental Injury and Health Insurance

	Year ended 31 December	
	2008	2007
	RMB million	*RMB million*
Turnover	**3,729**	3,115
Net premiums earned	**2,431**	2,084
Net claims incurred	**(1,990)**	(1,315)
Amortisation of deferred acquisition costs, net	**(269)**	(290)
Insurance protection expenses	**(25)**	(20)
Segment profit before general and administrative expenses	**147**	459
Loss ratio	**81.9%**	63.1%
Expense ratio	**12.1%**	14.9%
Combined ratio	**94.0%**	78.0%

Turnover of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB3,729 million in 2008, representing an increase of RMB614 million (or 19.7%) from RMB3,115 million in 2007.

Net premiums earned from the accidental injury and health insurance segment of the Company and its subsidiaries was RMB2,431 million in 2008, representing an increase of RMB347 million (or 16.7%) from RMB2,084 million in 2007, primarily due to the increase in turnover.

Net claims incurred of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB1,990 million in 2008, representing an increase of RMB675 million (or 51.3%) from RMB1,315 million in 2007. The claim expenses and the change in net loss and loss adjustment expense reserves increased by RMB569 million and RMB303 million, respectively. The decline in the premium rates and the high claim ratio for certain supplemental medical insurance products were the main reasons for the rise in claim expenses. The loss ratio of the accidental injury and health insurance segment increased from 63.1% in 2007 to 81.9% in 2008.

Net amortisation of deferred acquisition costs of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB269 million in 2008, representing a decrease of RMB21 million from RMB290 million in 2007.

Insurance protection expenses charged to the accidental injury and health insurance segment of the Company and its subsidiaries was RMB25 million in 2008, representing a slight increase from RMB20 million in 2007, primarily due to the slight increase in the retained premiums of the accidental injury and health insurance segment in 2008.

The expense ratio of the accidental injury and health insurance segment of the Company and its subsidiaries was 12.1% in 2008, a decrease of 2.8 percentage points from 14.9% in 2007, primarily due to a year-on-year decrease in net amortisation of deferred acquisition costs and a year-on-year increase in net premiums earned.

As a result of the foregoing, profit before general and administrative expenses of the accidental injury and health insurance segment of the Company and its subsidiaries was RMB147 million in 2008, representing a decrease of 68.0% from RMB459 million in 2007.

DEVELOPMENT OF NEW PRODUCTS

In 2008, the Company submitted a total of 620 insurance provisions, consisting of 238 national provisions and 382 regional provisions, or 296 main-insurance provisions and 324 rider provisions, to the insurance regulatory authority for approval and filing. The insurance provisions and products developed by the Company in 2008 covered 15 insurance categories, thereby further diversifying and perfecting the Company's product lines.

CASH FLOW

	Year ended 31 December	
	2008	2007
	RMB million	*RMB million*
Net cash inflow from operating activities	**4,276**	11,259
Net cash outflow from investing activities	**(8,616)**	(4,833)
Net cash inflow/(outflow) from financing activities	**711**	(2,718)
Net increase/(decrease) in cash and cash equivalents	**(3,629)**	3,708

Net cash inflow generated from the operating activities of the Company and its subsidiaries was RMB4,276 million in 2008, representing a decrease of RMB6,983 million from 2007. This was primarily due to the fact that claim expenses paid in cash increased by RMB16,756 million, and commission expenses and government levies and surcharges paid in cash increased by RMB2,535 million, while cash received from premiums, which increased by RMB16,585 million over 2007, was unable to fully offset the effect of the said increase in cash payments in 2008.

Net cash outflow from the investing activities of the Company and its subsidiaries was RMB8,616 million in 2008, representing an increase of RMB3,783 million over 2007. This was primarily due to the fact that the net payment involved in debt securities and equity securities dealings totalled RMB7,880 million in 2008, a year-on-year increase of RMB2,121 million, and the deposits with banks or other financial institutions with a maturity of three months or longer and the net amount collected upon the maturity of these types of deposits decreased by RMB3,071 million when compared to 2007. The amount of investments in infrastructure construction reduced by RMB870 million compared to that in 2007, thereby partly offsetting the foregoing effect.

Net cash inflow from the financing activities of the Company and its subsidiaries was RMB711 million in 2008, representing an increase of RMB3,429 million over 2007. This was primarily due to an increase in cash inflow of RMB1,923 million generated from the sale of repurchased securities in 2008. In addition, there was no interim dividend paid in mid-2008 as opposed to the interim dividend of RMB1,014 million paid in mid-2007. The combination of the above two factors gave rise to an increase of RMB2,937 million in net cash inflow over 2007.

Net decrease in cash and cash equivalents (mainly in RMB) of the Company and its subsidiaries was RMB3,629 million in 2008.

LIQUIDITY

The cash flow of the Company and its subsidiaries is primarily derived from cash generated from operating activities, and, in particular, cash from insurance premiums received. Additional liquidity sources include interest and dividend income, proceeds from matured investments, disposal of assets and financing activities. The liquidity requirements of the Company and its subsidiaries consist principally of the payment of claims and other obligations under outstanding insurance policies, capital expenditures, operating expenses, tax payments, dividend payments and investment needs.

The Company issued the fixed-rate subordinated term debts of RMB3,000 million with a term of 10 years to institutional investors in the PRC in December 2006 for the primary purpose of increasing the Company's solvency margin.

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

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

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

CAPITAL EXPENDITURE

The capital expenditure of the Company and its subsidiaries has primarily been for property construction, acquisition of motor vehicles for business needs and development of information system. Capital expenditure of the Company and its subsidiaries was RMB1,267 million in 2008.

SOLVENCY MARGIN REQUIREMENT

The Company is subject to a number of laws and regulations regarding financial operations, including maintaining a stipulated solvency margin and providing for certain funds and reserves. In accordance with the insurance laws and regulations in the PRC, the Company was required to maintain a minimum solvency margin of RMB11,546 million on 31 December 2008. The Company's actual solvency margin calculated pursuant to the regulations of CIRC was RMB16,762 million and the solvency margin adequacy ratio was 145% *(Note)*.

Note: The calculation was based on the PRC Accounting Standards for Business Enterprises.

GEARING RATIO

As of 31 December 2008, the gearing ratio *(Note)* of the Company and its subsidiaries was 83.8%, representing an increase of 5.5 percentage points from 78.3% as of 31 December 2007.

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 LIABILITIES

Owing to the nature of the insurance business, the Company and its subsidiaries are involved in legal proceedings related to its ordinary course of business, as plaintiff or defendant. Such legal proceedings mostly involve claims on the insurance policies of the Company and its subsidiaries. While the outcomes of such contingencies or legal 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 position or operating results of the Company and its subsidiaries.

CREDIT RISK

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

The Company and its subsidiaries are committed to credit sales only to corporate customers or individual customers purchasing insurance via insurance intermediaries. The ability of collecting premiums on a timely manner remains one of the key performance indictors 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 accounts receivable.

Except when dealing with national reinsurers, the Company and its subsidiaries purchase reinsurance primarily from reinsurance companies with A.M. Best ratings of A- or above. The management of the Company and its subsidiaries review the creditworthiness of the reinsurance companies in order to update the reinsurance strategies of, and determine reasonable impairment provision for reinsurance assets of, the Company and its subsidiaries, on a regular basis.

The Company and its subsidiaries diligently manage credit risk in debt securities by analysing the creditworthiness of companies prior to making investments and by strictly conforming to the regulations laid down by CIRC which permits investments in corporate bonds with rating higher than AA only.

The Company and its subsidiaries manage and lower credit risk affecting their bank deposits mainly by depositing most of their deposits with state-owned or state-controlled commercial banks.

EXCHANGE RATE RISK

The Company and its subsidiaries conduct their business primarily in Renminbi, which is also their functional and financial reporting currency. A portion of their business (including a portion of commercial property insurance, international cargo insurance and aviation insurance) is conducted in foreign currencies, primarily US dollars. The Company and its subsidiaries are also exposed to exchange rate risks with respect to their holdings in certain assets such as bank deposits, debt securities and certain insurance liabilities which are denominated in foreign currencies, primarily US dollars.

INTEREST RATE RISK

Interest rate risk means the risks of changes in the value or future cash flows of financial instruments as a result of changes in market interest rates. In view of the relatively short terms of insurance debts, the Company and its subsidiaries primarily invest in financial assets with a term ranging from one to seven years. The Company and its subsidiaries intend to procure the term of their investment portfolios to remain shorter than the market level for similar financial assets. The Company and its subsidiaries also hold a high percentage of interest rate-sensitive financial assets so as to reduce interest rate risks.

INTEREST RATE SWAPS

The Company's financial assets which bear interests at different rates would generate uncertain cash flow. As such, interest rate swap contracts are used by the Company to hedge against such interest rate risk whereby fixed interests are received from, and floating interests are paid to, the counterparties. As of 31 December 2008, the interest rate swap contracts held by the Company had a total notional amount of RMB850 million.

EMPLOYEES

As of 31 December 2008, the Company had 59,669 employees. Staff remuneration payment by the Company and its subsidiaries in 2008 was RMB6,485 million, which included basic salaries, performance-related bonus, and various insurance and benefits contributed in accordance with the relevant PRC regulations. The Company and its subsidiaries enhanced the performance and work efficiency of employees by providing various career development paths, strengthening personnel training and implementation of performance appraisal. The Company is of the view that the Company and its subsidiaries maintain a good relationship with their employees.

EVENTS AFTER THE BALANCE SHEET DATE

(a) On 12 March 2009, the Board approved a 10-year subordinated term debts with an aggregate principal amount of not exceeding RMB8,000 million to be issued by the Company. The proceeds of the subordinated term debts will be used for raising the solvency margin of the Company. The issue of the subordinated term debts is subject to (i) the approval by shareholders at the Company's shareholders' meeting; and (ii) the approval by CIRC and other relevant governing authorities.

(b) On 13 March 2009, the Company entered into an equity transfer agreement with The People's Insurance Company (Group) of China ("PICC Group"), pursuant to which the Company agreed to transfer its 20% equity interests in PICC Assets Management Company Limited ("PICC AMC") to PICC Group at a consideration of RMB171 million. Subsequent to the completion of the equity transfer, the Company will no longer hold any equity interest in PICC AMC.

(c) PICC Life Insurance Company Limited ("PICC Life"), an associate of the Company, intends to increase its share capital in 2009. The proceeds raised from the share capital increase will be used for its business development and satisfying regulatory requirements. The Company currently holds 28% of the registered capital of PICC Life and has decided not to participate in the aforesaid capital increase. Upon completion of the aforesaid capital increase, the Company's equity interests in PICC Life will be diluted to approximately 14%.

LOOKING FORWARD

The impact of global financial crisis continues to deepen and the negative impact on the real economy has further aggravated. As a result, the economic growth of the PRC is adversely affected, causing downward pressure on the overall economy and employment, increasing difficulties for enterprises' operation and potential risk exposure in the financial and insurance businesses. The Company will face challenges in such areas as promotion of business development and enhancement in operating profits. Nevertheless, we still have full confidence in our future development. **On external front**, the fundamental factors favouring the economic growth of the PRC remain unchanged and the Chinese economy is at its strategic and opportune stage with rapid progress in industrialisation and urbanisation. The intensive stimulus plans for the economic and social development successively taken by the central government to sustain economic growth and safeguard people's livelihood and the various industrial boosting policies will ensure a favourable environment for the development of insurance business. **In terms of industrial development**, the insurance industry in the PRC is still in its early development stage and the insurance coverage and penetration rate in the PRC is quite lower than the international average standards, thus having more room for further growth and development. There is driving force for the insurance market in the PRC to sustain a long-term rapid growth. **In respect of market competition**, with the strengthened regulation over the insurance market, the competitive environment of the insurance industry will improve further, which is beneficial to the development of the Company. **In terms of the Company itself**, the competitive edge in its products, services, network, employees and brand reputation is further enhanced after the recent years of development, and the comprehensive strength, inherent qualities and development foundation are further consolidated. In addition, with the continuous enhancement in the comprehensive strength of PICC Group and its new breakthroughs in internal restructuring and external expansion, the development of the Company will therefore receive greater support and safeguard.

Brilliant history conveys profound value, preeminent glory promises bright future. Growing up with People's Republic of China, PICC will celebrate its 60^{th} anniversary this year. We will succeed in the glorious tradition, deepen the reform, forge ahead and welcome a magnificent tomorrow. We will bring the maximum value to our shareholders and make greatest contributions to the social and economic development.

FINAL DIVIDEND

The Board did not propose any final dividend for 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during 2008.

CORPORATE GOVERNANCE

The Company complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in 2008.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2008.

By Order of the Board
Wu Yan
Chairman

Beijing, the PRC, 15 April 2009

On the date of this announcement, the Chairman of the Board is Mr. Wu Yan (executive director), the Vice Chairman is Mr. Wang Yincheng (executive director), Md. Liu Zhenghuan is an executive director, the non-executive directors are Mr. Tse Sze-Wing, Edmund, Mr. Zhou Shurui and Mr. Li Tao, the independent non-executive directors are Mr. Cheng Wai Chee, Christopher, Mr. Lu Zhengfei, Mr. Luk Kin Yu, Peter and Mr. Ding Ningning.