2011
Annual Report

(Stock Code: 02601)

中国太平洋保险
China Pacific Insurance

中國太平洋保險(集團)股份有限公司
China Pacific Insurance (Group) Co.,Ltd.
(A joint stock company incorporated in the People's Republic of China with limited liability)

Operational Overview

Unit: in RMB million

For 12 months ended 31 December/ as at 31 December	2011	2010	YoY changes (%)
Gross written premiums			
Life insurance	93,203	87,873	6.1
Property and casualty insurance	61,687	51,622	19.5
Market share			
Life insurance (%)note 1	9.7	/	/
Life insurance (%)note 2	8.7	8.8	(0.1pt)
Property and casualty insurance (%)	12.9	12.8	0.1pt
Net profit attributable to equity holder of the parent	8,313	8,557	(2.9)
Life insurance	3,175	4,611	(31.1)
Property and casualty insurance	3,767	3,511	7.3
Embedded value of the Group	113,564	110,089	3.2
Value of one year's sales of life insurance	6,714	6,100	10.1
Combined ratio of property and casualty insurance (%)	93.1	93.7	(0.6pt)
Number of group customers (in thousand)note 3	69,995	47,518	47.3
Average number of insurance policies per customer (in number)	1.41	1.45	(2.8)
Pension business			
Assets entrusted	27,258	26,038	4.7
Assets under investment management	18,104	14,022	29.1

Notes:

1. *Based on the original gross written premiums of life insurance companies in 2011 published by CIRC.*
2. *Based on the total written premiums of life insurance companies published by CIRC.*
3. *Number of customers refers to the number of insurers and policyholders who hold at least one insurance policy as at the end of the year which remains valid and has an insurance coverage period of not less than 365 days. In the event that the insurer and policyholder is the same person, the person shall be deemed as one customer.*

Key Accounting Data and Financial Indicators

unit: in RMB million

Key Accounting Data	2011	2010	Variance (%)	2009	2008	2007
Total income	155,517	141,327	10.0	104,189	76,267	72,512
Profit before tax	10,399	10,670	(2.5)	9,506	1,317	14,975
Net profitnote	8,313	8,557	(2.9)	7,356	2,569	10,392
Net cash inflow from operating activities	55,527	61,618	(9.9)	38,474	25,056	21,670

	31 December 2011	31 December 2010	Variance (%)	31 December 2009	31 December 2008	31 December 2007
Total assets	570,612	475,711	19.9	397,187	317,897	307,209
Equitynote	76,796	80,297	(4.4)	74,651	48,638	61,485

Notes: Attributable to equity holders of the parent

Key Accounting Indicators	2011	2010	Variance (%)	2009	2008	2007
Basic earnings per share (RMB per share)note	0.97	1.00	(2.9)	0.95	0.33	1.69
Diluted earnings per share (RMB per share)note	0.97	1.00	(2.9)	0.95	0.33	1.69
Weighted average return on equity (%)note	10.6	10.9	Decreased by 0.3pt	14.0	4.7	46.6
Fully diluted return on equity (%)note	10.8	10.7	Increased by 0.1pt	9.9	5.3	16.9
Net cash inflow per share from operating activities (RMB per share)	6.46	7.16	(9.9)	4.54	3.25	2.81

	31 December 2011	31 December 2010	Variance (%)	31 December 2009	31 December 2008	31 December 2007
Net assets per share (RMB per share)note	8.93	9.34	(4.4)	8.80	6.32	7.99

Notes: Attributable to equity holders of the parent

Contents

Cautionary Statements:

In addition to the facts stated herein, this report includes forward-looking statements and analysis, which may materially differ from the actual results of the Company in the future. The Company does not guarantee its future performance. You are advised to exercise caution.

Section I Important Information and Definitions

Important Information

1. The Annual Report 2011 of the Company was considered and approved at the 8th session of the 6th Board of Directors on 23 March 2012, which 15 Directors were required to attend and 14 of them attended in person and XIAO Wei appointed XU Shanda to attend the meeting and vote on his behalf.
2. Ernst & Young audited the 2011 financial report of the Company and issued the standard unqualified audit report.

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below:

"The Company", "the Group", "CPIC" or "CPIC Group"	China Pacific Insurance (Group) Co., Ltd.
"CPIC Life"	China Pacific Life Insurance Co., Ltd., a subsidiary of CPIC Group
"CPIC Property"	China Pacific Property Insurance Co., Ltd., a subsidiary of CPIC Group
"CPIC Asset Management"	Pacific Asset Management Co., Ltd., a subsidiary of CPIC Group
"CPIC Investment (H.K.)"	CPIC Investment Management (H.K.) Company Limited, a holding subsidiary of CPIC Group
"CPIC HK"	China Pacific Insurance Co., (H.K.) Limited, a wholly-owned subsidiary of CPIC Group
"Changjiang Pension"	Changjiang Pension Insurance Co., Ltd., a holding subsidiary of CPIC Group
"CPIC Online"	Pacific Insurance Online Services Technology Co., Ltd.
"CIRC"	China Insurance Regulatory Commission
"CSRC"	China Securities Regulatory Commission
"NSSF"	National Council for Social Security Fund of the PRC
"SSE"	Shanghai Stock Exchange
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"RMB"	Renminbi
"Company Law"	The Company Law of the PRC
"Insurance Law"	The Insurance Law of the PRC
"Securities Law"	The Securities Law of the PRC
"PRC GAAP"	China Accounting Standards for Business Enterprises issued by Ministry of Finance of the People's Republic of China, and the application guide, interpretation and other related regulations issued afterwards
"Articles of Association"	The articles of association of China Pacific Insurance (Group) Co., Ltd.
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Model Code for Securities Transactions"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Code on Corporate Governance Practice"	Code on Corporate Governance Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

Section II Corporate Information

Corporate Information

Legal Name in Chinese: 中國太平洋保險(集團)股份有限公司("中國太保")

Legal Name in English:
CHINA PACIFIC INSURANCE (GROUP) CO., LTD. ("CPIC")

Legal Representative: GAO Guofu

Board Secretary and Joint Company Secretary: CHEN Wei
Securities Representative: YANG Jihong
Contact for Shareholder Inquiries: Investor Relations Dept. of the Company
Tel: +86-21-58767282
Fax: +86-21-68870791
Email: ir@cpic.com.cn
Address:
South Tower, Bank of Communications Financial Building,
190 Central Yincheng Road, Pudong New District, Shanghai, PRC

Joint Company Secretary: MA Sau Kuen Gloria
Tel: +852-35898822
Fax: +852-35898522
Email: gloria.ma@kcs.com
Address:
8/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong

Registered Office:
South Tower, Bank of Communications Financial Building,
190 Central Yincheng Road, Pudong New District, Shanghai, PRC
Office Address:
South Tower, Bank of Communications Financial Building,
190 Central Yincheng Road, Pudong New District, Shanghai, PRC
Postal Code: 200120
Place of Business in Hong Kong:
Suite 4301, 43/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Website: http://www.cpic.com.cn
Email: ir@cpic.com.cn

Selected Newspapers for Disclosure (A Share):
China Securities, Shanghai Securities and Securities Times
Announcements for A Share Published at: http://www.sse.com.cn
Announcements for H Share Published at: http://www.hkexnews.hk
Annual Report Available at: Investor Relations Dept. of the Company

Stock Exchange for A Share Listing:
The Shanghai Stock Exchange
Stock Name for A Share: 中國太保
Stock Code for A Share: 601601
Stock Exchange for H Share Listing:
The Stock Exchange of Hong Kong Limited
Stock Name for H Share: CPIC
Stock Code for H Share: 02601
H Share Registrar:
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

Date of Initial Registration: 13 May 1991
Place of Initial Registration: The State Administration for Industry & Commerce of the PRC
Registration No. of Business Licence: 100000000011107
Tax Registration No.:
Guo Shui Hu Zi 310043132211707
Di Shui Hu Zi 310043132211707
Organisation Code: 13221170-7

Domestic Accountant: Ernst & Young Hua Ming
Office of Domestic Accountant:
Level 16, Ernst & Young Tower, Oriental Plaza,
No. 1 East Chang An Avenue, Dongcheng District, Beijing, PRC

International Accountant: Ernst & Young
Office of International Accountant:
22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong

Section III Highlights of Accounting and Operation Data

Highlights of Accounting and Operation Data

I. Key Financial Data for the Current Reporting Period

unit: in RMB million

Items	Amount
Profit before tax	10,399
Net profit attributable to the equity holders of the parent	8,313
Net cash inflow from operating activities	55,527

II. Key Accounting Data and Financial Indicators

unit: in RMB million

Key Accounting Data	2011	2010	Variance (%)	2009	2008	2007
Total income	155,517	141,327	10.0	104,189	76,267	72,512
Profit before tax	10,399	10,670	(2.5)	9,506	1,317	14,975
Net profit[note]	8,313	8,557	(2.9)	7,356	2,569	10,392
Net cash inflow from operating activities	55,527	61,618	(9.9)	38,474	25,056	21,670

	31 December 2011	31 December 2010	Variance (%)	31 December 2009	31 December 2008	31 December 2007
Total assets	570,612	475,711	19.9	397,187	317,897	307,209
Equity[note]	76,796	80,297	(4.4)	74,651	48,638	61,485

Notes: Attributable to equity holders of the parent

Key Accounting Indicators	2011	2010	Variance (%)	2009	2008	2007
Basic earnings per share (RMB per share)[note]	0.97	1.00	(2.9)	0.95	0.33	1.69
Diluted earnings per share (RMB per share)[note]	0.97	1.00	(2.9)	0.95	0.33	1.69
Weighted average return on equity (%)[note]	10.6	10.9	Decreased by 0.3pt	14.0	4.7	46.6
Fully diluted return on equity (%)[note]	10.8	10.7	Increased by 0.1pt	9.9	5.3	16.9
Net cash inflow per share from operating activities (RMB per share)	6.46	7.16	(9.9)	4.54	3.25	2.81

	31 December 2011	31 December 2010	Variance (%)	31 December 2009	31 December 2008	31 December 2007
Net assets per share (RMB per share)[note]	8.93	9.34	(4.4)	8.80	6.32	7.99

Notes: Attributable to equity holders of the parent

III. Other Key Financial and Regulatory Indicators

Unit: in RMB million

Indicators	31 December 2011/ 2011	31 December 2010/ 2010
The Group		
Investment assets[note 1]	522,530	435,751
Investment yield (%)[note 2]	3.7	5.3
Life insurance[note 5]		
Net premiums earned	90,493	84,665
Growth rate of net premiums earned (%)	6.9	43.4
Net policyholders' benefits and claims	82,024	80,351
Property and casualty insurance[note 5]		
Net premiums earned	46,486	34,894
Growth rate of net premiums earned (%)	33.2	40.1
Claims incurred	27,235	20,043
Unearned premium reserves	26,536	21,933
Claim reserves	20,501	15,211
Combined ratio (%)[note 3]	93.1	93.7
Comprehensive loss ratio (%)[note 4]	58.6	57.4

Notes:

1. *Investment assets include cash and short-term time deposits.*
2. *Investment yield = (investment income + interest income from cash and short-term time deposits + rental income from investment properties + gain from disposal of a jointly-controlled entity + share of profit / (loss) of a jointly-controlled entity – interest expenses from securities sold under agreements to repurchase)/ ((investment assets at the beginning of the year + investment assets at the end of the year – securities sold under agreements to repurchase at the beginning of the year – securities sold under agreements to repurchase at the end of the year) / 2), excluding foreign exchange gain or loss. Average investment assets as the denominator is based on the principle of Modified Dietz taking into account the effects of proceeds from the subordinate debts issued by CPIC Life by the end of 2011.*
3. *Combined ratio = (claim incurred + operating and administrative expenses relating to insurance businesses) / net premiums earned.*
4. *Comprehensive loss ratio = claim incurred/net premiums earned.*
5. *The life insurance and property and casualty insurance businesses stated above refer to those businesses of CPIC Life and CPIC Property respectively.*

IV. The discrepancy between the financial result prepared under PRC Accounting Standards ("PRC GAAP") and Hong Kong Financial Reporting Standards ("HKFRS")

There is no difference on the equity of the Group as at 31 December 2011 and 31 December 2010 and the net profit of the Group for the years then ended as stated in accordance with PRC GAAP and HKFRS.

Section IV Chairman's Statement

Chairman's Statement

Gao Guofu, our Chairman, being interviewed by reporters from "Fortune" magazine

In 2011, the Group realized gross written premiums of RMB154.958 billion, representing a YOY increase of 11.0% and a market share of 10.8%[note]. The value of one year's sales of life insurance amounted to RMB6.714 billion, representing a YOY increase of 10.1%. Profits in property and casualty insurance amounted to RMB3.224 billion, representing a YOY increase of 46.5%. Net profit attributable to equity holders of the parent company of the Group amounted to RMB8.313 billion. Earnings per share was RMB0.97.

Even though the Group experienced global financial crisis and the prolonged influence since its listing, it has further improved its competitiveness by creating value for customers and focusing on its major business. All lines of business of the Group achieved significant growth, laying a solid foundation for future healthy growth.

1. The Group maintained a healthy growth by providing customer demand-oriented products and services

Business maintained a steady and healthy growth. In 2011, the Group realized gross written premiums of RMB154.958 billion, representing a YOY increase of 11.0%. Income from life insurance business was RMB93.203 billion, representing a YOY increase of 6.1% and income from property and casualty insurance was RMB61.687 billion, representing a YOY increase of 19.5%. During the period from 2008 to 2011, the gross written premiums of the Group saw steady growth at a CAGR of 26.9%.

Business value continued to increase. At the end of 2011, the embedded value of the Group amounted to RMB113.564 billion, representing a YOY increase of 3.2%. The value of in-force business and the value of one year's sales of life insurance amounted to RMB41.611 billion and RMB6.714 billion, representing a YOY increase of 19.6% and 10.1% respectively. The combined ratio of property and casualty insurance was 93.1%, representing a YOY decrease of 0.6 pt, better than the industry average.

Note: Based on the original gross written premiums of insurance companies in 2011 published by CIRC.

The profit margin of the Group remained stable. In 2011, the Group realized net profit attributable to equity holders of the parent company of RMB8.313 billion. Weighted average return on equity was 10.6%, which has been above 10% for three consecutive years. In 2011, CPIC Life and CPIC Property realized net profits of RMB3.175 billion and RMB3.767 billion respectively. The profits of CPIC Property hit a record high of RMB3.224 billion, representing a YOY increase of 46.5%.

The Group maintained a sufficient solvency margin. At the end of 2011, the solvency margin ratios of the Group, CPIC Life and CPIC Property were 284%, 187% and 233% respectively, a relatively high level. After the listing of the A shares, the Group injected capital into CPIC Life and CPIC Property of RMB25.610 billion and RMB14.975 billion respectively and arranged for CPIC Life to issue subordinated bonds of RMB8.0 billion at the end of 2011. Proceeds from the listing were used to strengthen our capital base of all insurance business segments to prepare for changes in operation environment and to support future development.

2. CPIC Life proactively tackled market challenges by adopting strategies focusing on the development of sales channels and regular premium businesses which proved successful

The sales platform was steadily enhanced. Gross written premiums through existing sales channels in 2011 amounted to RMB42.818 billion, representing a YOY increase of 21.3% and an average CAGR of 20.8% for the last three years. Premiums from new insurance policies exceeded ten billion for the first time and amounted to RMB10.826 billion, representing an increase of 21.0% over the previous year and an average CAGR of 25.0% for the last three years. The average agent productivity was RMB3,199, representing a YOY increase of 11.7% and an average CAGR of 11.7% for the last three years.

CPIC Life further improved its business quality. In 2011, premiums from new regular premium policies of life insurance amounted to RMB16.234 billion and accounted for 34.6% of premiums from new regular premium policies, representing a YOY increase of 3.5 pt and 12.2 pt as compared with 2008. 10-year and above insurance businesses accounted for 45.9% of new regular premium policies, representing a YOY increase of 13.2 pt. Premiums from new regular premium policies of existing sales channels amounted to RMB10.065 billion, representing a YOY increase of 21.9%. The profit margin of new business in 2011 was 13.6%, representing a YOY increase of 3.1 pt and business quality was continually enhanced. The persistency ratio of insurance policies has been increasing since 2008. The 13-month and 25-month persistency ratio of individual life insurance customers in 2011 were as high as 92.7% and 89.8% respectively.

Our innovative business transformation was successful. In 2011, we adopted a new sales model for bancassurance business to develop regular premium businesses as the core business. As a result, the proportion of sales of products of a maturity of 5-years and above to new regular premium policies increased by 5.4 pt as compared with last year. There was also pro-active innovation of sales channels as we launched "Shen Xing Tai Bao" (神行太保), a mobile sales system based on 3G network and mobile devices, to enhance customer experience and underwriting efficiency. In relation to operational security, we have started to research and develop a secure GPS system for customer service to further upgrade our customer service model.

3. CPIC Property improved its sustainable development capability by strengthening its professional management

The Group further expanded its business scale and improved product quality. In 2011, gross written premiums from property and casualty insurance businesses amounted to RMB61.687 billion, representing a YOY increase of 19.5%, and its market share increased to 12.9%. The growth in gross written premiums from insurance business remained strong since 2008 with a CAGR of more than 30%. The productivity of the Group also improved through optimization of the business structure and product quality. The combined ratio of the Group has shown a continuous drop since 2008 and was 97.5%, 93.7% and 93.1% for 2009, 2010 and 2011 respectively.

We promoted sales through our existing sales channels. CPIC Property continued to implement its development strategy of multi-channel professionalization which helped to consolidate our leading market position in car dealership and bancassurance business while speeding up the development of new sales channels including telemarketing and cross-selling. The proportion of sales from telemarketing and cross-selling as a percentage of total sales increased by 7.5 pt as compared with last year. We have established a professional direct sales team for non-auto insurance business and implemented organizational reforms in relation to sales to major customers. We have also established a channel network system in line with industry development trends. At the same time, we strengthened the management of policy renewals. In 2011, the renewal rate of commercial vehicle insurance increased by 5.5 pt as compared with last year. The insurance renewal rate of corporate customers of medium- and large-sized increased by 7.4 pt as compared with last year.

CPIC Property enhanced customer experience. We have developed a publicly transparent, efficient and standardized claim handling system and launched a "3G Claim Management System", the first of its kind in the industry, to provide online assessment service to quicken claim handling. CPIC Property improved its underwriting and claims information management system to provide an automated service whereby customers can check the details of all types of their policies and monitor the progress of claims. CPIC Property introduced a star-grading on-site assessment management service, the first of its kind in the industry, and has established 12 star-grade customer service offices. CPIC Property has also established a customer service system to centralize the management of customer complaints. Major indicators of our service quality, in particular the number of complaints received per RMB100 million premium generated, outperformed our peers. According to the customer satisfaction survey conducted by the China Association for Quality, a third party entity, the customer satisfaction of CPIC Property has improved continually for eight consecutive years.

4. CPIC Asset Management enhanced its investment capabilities and strengthened its risk management to maintain the stability and sustainability of investment return

CPIC Asset Management improved its asset and liability management system. In 2011, based on the unique characteristics of account liabilities, CPIC Asset Management formulated medium- and long-term strategic asset allocation plans to fulfill the requirements in relation to liabilities of various products while taking into account the realization of opportunities in the capital markets. CPIC Asset Management gradually established a comprehensive risk management system for its investment business to effectively prevent structural, procedural and systematic risks.

The net investment yield increased steadily. In 2011, CPIC Asset Management increased investment in fixed income products when interest rate was in the upward cycle. At the end of 2011, fixed income investment accounted for 85.6% of total investment, representing an increase of 2.9 pt or RMB87.109 billion as compared with the end of the previous year. Allocation was mainly to agreed deposits, subordinated bonds of banks and debentures with higher yields. CPIC Asset Management promptly adjusted its asset structure by increasing the investment in equity with stable cash distributions when the equity market plunged in 2011. In 2011, net investment yield was 4.7%, representing an increase of 0.4 pt as compared with the previous year. The increase in net investment yield strengthened the investment income structure and enhanced our ability to withstand fluctuations in the capital markets.

CPIC Asset Management accelerated the development of its alternative investment businesses. In 2011, CPIC Asset Management launched five debt investment schemes with a total amount of RMB15.6 billion and consolidated its leading position in the insurance industry in respect of debt investment scheme business. The "CPIC — Debt Investment Scheme of Shanghai Public Rental Housing" with a total investment of RMB4.0 billion was the first property finance products in the insurance industry while CPIC Asset Management also coordinated several asset management companies within the insurance industry to jointly launch the "Beijing Property Debt Investment Scheme", which with a total investment of RMB21.0 billion, has been the largest debt investment product to date. At the end of 2011, alternative investment businesses accounted for 7.3% of total investment assets, representing an increase of 5.0 pt as compared with the end of 2008.

5. Changjiang Pension's business scale grew steadily as a result of the consolidation of its competitive advantages and active business expansion

In respect of business expansion, Changjiang Pension further explored the potential of existing customers and developed new corporate annuities and pension business in 2011 to consolidate its leading regional position. Changjiang Pension actively expanded its nation-wide sales and service network, strengthened sales channels cooperation and made significant headway in the development of business with large-sized enterprises. In 2011, accumulated annuity payment received from corporate annuities of Changjiang Pension amounted to RMB3.623 billion, representing a YOY increase of 10.8%. At the end of 2011, entrusted assets amounted to RMB27.258 billion, representing an increase of 4.7% as compared with the end of the previous year. Total investment assets under management were RMB18.104 billion, representing an increase of 29.1% as compared with the end of the previous year.

6. The Company established an excellent customer demand-oriented operating system

In 2011, the Company completed the establishment of a large-scale comprehensive operating system and the operationally highly efficient, cost-economical and resource sharing operational platform effectively enhanced the core competitiveness of the Company. At the same time, the Company introduced an excellent customer demand-oriented operating system. CPIC Life has completed the top-level design for its business transformation, determined a business cost analysis model and adopted a business service levels index system. Furthermore, CPIC Property determined the developmental direction for the business model structure shared by business points nationwide, and established a preliminary blueprint and process model for the framework for the middle and back office operational systems. In the future, CPIC Group will continue to work on its customer demand-oriented strategic transformation and apply new technologies to establish an excellent operating system with the core goal of standardization and intensification.

Looking forward to 2012, given the unsteady and uncertain global economic recovery, the risks of economic recession are increasing and economic development in China may be in the face of more complex international and domestic conditions. However, it is expected that China will continue the development of significant strategic opportunities and the fundamentals for the continued relatively fast growth of the insurance industry will remain unchanged. For 2012, the insurance regulatory authorities have adopted a conceptual approach of "more attention to service, stricter regulation, risk prevention and encouraging development" in order to safeguard consumer interests and develop the industry in a reasoned and orderly manner.

In 2012, CPIC will seize the opportunities to expand in a prudent manner. It will implement customer demand-oriented strategic transformation. It will persevere with its operating strategies of "sustainable growth, excellent service, risk prevention and accelerated transformation" to further leverage its overall competitive edge as a comprehensive insurance group and facilitate the continued growth of corporate value. CPIC Life will focus on the sales channels and regular premium business and expand its geographical coverage. It will seek to maintain the stable contribution from the sales channels and grasp opportunities to develop individual tax-deferred insurance business. CPIC Property will focus on service innovation, emphasize process optimization and strictly prevent risks with the aim of maintaining stable underwriting profitability while steadily increasing market share and consolidating its competitive edge. CPIC Asset Management will embrace the fundamental principles of insurance assets-liabilities management, stick to prudent investment strategies, enhance the ability of asset allocation and investment management capabilities and endeavor to achieve stable investment income despite the complicated and volatile market environment.

Awards of the Company

2011 marks the 20th anniversary of CPIC's establishment. CPIC ranked for the first time among the "Fortune Global 500". CPIC also received various awards as a result of its overall strength, service quality, innovation capability and excellent brand reputation.

- CPIC ranked 467th in the "Fortune Global 500" list;
- CPIC continued to rank among the "FT Global 500" and the "Forbes Global Top 500 Listed Companies";
- CPIC ranked 10th in the Best Chinese Brands List published by Interbrand;
- CPIC was once again awarded the "Excellent Enterprise Award" in the "First Financial Corporate Social Responsibility Rankings";
- In the "3.15" Forum, both CPIC Life and CPIC Property were honored as "Excellent Companies in Service Quality" by the China Association for Quality Promotion. CPIC Life and CPIC Property ranked first in the overt and covert investigation of insurance counter service conducted by the China Association for Quality Promotion for ten consecutive years. CPIC Property also obtained the "Outstanding Contribution Award in Insurance Counter Service";
- CPIC Life was awarded "Best Value Growth of the Year" in the 2011 Insurance Companies of the Year in China organized by the China Insurance Marketing Journal;

- 12 CPIC Life insurance products were nominated for "the 6th Chinese Insurance Culture and Innovative Award Series", of which, the "Hongxin" (鴻鑫) Series Products and "Insurance with Bonus (Wealth)" (紅利發兩全保險) were both named as the "Best-selling Insurance Products of the Year" and the "Golden life Insurance Scheme" (金享人生保障計劃) was named as the "Most Innovative Product of the Year". The "Insurance with Bonus (Achievement)" (紅利達兩全保險) was named as the "Product with the Highest Market Potential of the Year";

- In 2011, CPIC Property was honored as "Insurance Company (PRC Property and Casualty Insurance Companies) of the Year" in the 5th CBN Financial Value Rankings;

- 3G Claim Management System of CPIC Property was awarded "2011 Best Service Award of the Year in Insurance Industry" by Money Weekly. CPIC Property was the only property and casualty insurance company to receive the award.

Section V Management Discussion and Analysis

Management Discussion and Analysis

The Company provides a comprehensive range of life insurance and property and casualty insurance products through its subsidiaries, namely CPIC Life and CPIC Property, and manages and deploys insurance funds through its subsidiary, CPIC Asset Management. At the same time, the Company engages in pension business through its subsidiary, Changjiang Pension and engages in property and casualty insurance business and asset management business in Hong Kong through CPIC HK and CPIC Investment (H.K.), respectively.

The following analysis of life insurance, property and casualty insurance business and asset management business only refers to the businesses of CPIC Life, CPIC Property and CPIC Asset Management respectively, as the businesses of Changjiang Pension, CPIC HK and CPIC Investment (H.K.) only accounted for a relatively small portion of the results of the Company.

I. Key operational indicators

Unit: in RMB million

For 12 months ended 31 December/as at 31 December	2011	2010	YoY changes (%)
Gross written premiums			
Life insurance	93,203	87,873	6.1
Property and casualty insurance	61,687	51,622	19.5
Market share			
Life insurance (%) Note 1	9.7	/	/
Life insurance (%) Note 2	8.7	8.8	(0.1pt)
Property and casualty insurance (%)	12.9	12.8	0.1pt
Net profit attributable to equity holder of the parent	8,313	8,557	(2.9)
Life insurance	3,175	4,611	(31.1)
Property and casualty insurance	3,767	3,511	7.3
Embedded value of the Group	113,564	110,089	3.2
Value of one year's sales of life insurance	6,714	6,100	10.1
Combined ratio of property and casualty insurance (%)	93.1	93.7	(0.6pt)
Number of group customers (in thousand) Note 3	69,995	47,518	47.3
Average number of insurance policies per customer (in number)	1.41	1.45	(2.8)
Pension business			
Assets entrusted	27,258	26,038	4.7
Assets under investment management	18,104	14,022	29.1

Notes:

1. *Based on the original gross written premiums of life insurance companies in 2011 published by CIRC.*
2. *Based on the total written premiums of life insurance companies published by CIRC.*
3. *Number of customers refers to the number of insurers and policyholders who hold at least one insurance policy as at the end of the year which remains valid and has an insurance coverage period of not less than 365 days. In the event that the insurer and policyholder is the same person, the person shall be deemed as one customer.*

CPIC Life launched a value appreciation service for children education, "Harboring Knowledge in the World (學行天下)".

II. Life insurance business

(I) Business analysis

Affected by various factors, such as the changes in macroeconomic environment and new regulations in respect of bancassurance, the growth of the life insurance market significantly slowed down. Compared to a growth of 28.9% in 2010, in 2011, the total written premiums of life insurance industry in China recorded a YOY increase of 5.1% while the increment of 2010 was 28.9%. The Group exerted its efforts in carrying out a customer demand-oriented strategic transformation and focused on the sales channel and regular premium businesses and achieved remarkable improvement. The business structure of the Company was optimized and the quality of business was improved gradually. In 2011, the gross written premiums of the Company amounted to RMB93.203 billion, representing an increase of 6.1% over the same period of the previous year. Premiums from new policies amounted to RMB46.936 billion. The standard premiums from new policies amounted to RMB18.767 billion[note], representing an increase of 6.0% over the same period of the previous year, which was 6.4 pt higher than the increment of the industry.

Note: Data from insurance industry statistics disclosed by CIRC.

1. **Analysis by channels**

Unit: in RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Sales channel			
Gross written premiums	42,818	35,286	21.3
New policies	10,826	8,947	21.0
Regular premium	10,065	8,258	21.9
Single premium	761	689	10.4
Renewed policies	31,992	26,339	21.5
Bancassurance			
Gross written premiums	44,450	48,201	(7.8)
New policies	30,512	41,100	(25.8)
Regular premium	5,847	8,469	(31.0)
Single premium	24,665	32,631	(24.4)
Renewed policies	13,938	7,101	96.3
Direct sales			
Gross written premiums	5,427	4,147	30.9
New policies	5,285	4,008	31.9
Regular premium	14	11	27.3
Single premium	5,271	3,997	31.9
Renewed policies	142	139	2.2
New channels			
Gross written premiums	508	239	112.6
New policies	313	131	138.9
Regular premium	308	131	135.1
Single premium	5	—	/
Renewed policies	195	108	80.6
Total	**93,203**	**87,873**	**6.1**

For 12 months ended 31 December/as at 31 December	2011	2010	YoY changes (%)
Insurance sale agents (in thousand)	292	280	4.3
Average monthly first-year gross written premiums per agent (RMB)	3,199	2,863	11.7
Average number of new life insurance policies per agent per month (in number)	1.10	1.10	—

(1) Sales channel

In 2011, the Company recorded premiums from new polices through the sales channel of RMB10.826 billion, representing an increase of 21.0% over the same period of the previous year. Of such premiums, premiums from regular premium policies with a term of 10 years and above amounted to RMB7.070 billion, representing an increase of 32.1% over the same period of the previous year. The premiums from renewed policies amounted to RMB31.992 billion, representing an increase of 21.5% over the same period of the previous year.

The Company put a great emphasis on the healthy growth of manpower of the sales channel. As at the end of 2011, the number of sales agents increased by 4.3% over the end of the previous year. With respect to the recruitment of sales agents, the Company selected its sales agents through strict interview procedures to ensure their quality. As for basic management, the Company enhanced the quality of existing agents and the growth of outstanding teams through reinforcing strengthening the attendance management, improving the quality of guidance and training, and tightening the evaluation mechanism.

The productivity of the sales channel maintained its steady growth in 2011 and recorded an increase of 11.7% over the same period of the previous year. As for product strategy, the Company provided customers of different age groups with tailor-made insurance products and portfolios based on their insurance needs at different stages of their lives. The Company also launched specialized products for different customer groups in a timely manner. As for customer strategy, the Company continued to attract new customers and improved its operational capacity by promoting launching additional insurance plans for existing customers. With respect to resource allocation, the Group further increased productivity by strengthening overall improved its management and resources efficiency. It also capitalized on the motivational effects of the evaluation mechanism to boost productivity. With respect to the sales support, the Group put efforts in the innovation of new sales tools, such as the pilot scheme of "Shen Xing Tai Bao" (神行太保), a mobile sales channel based on 3G network and mobile devices, to enhance customer experience and efficiency.

(2) Bancassurance

Due to the rising interest rates of the market, the tightening credit, new regulations on bancassurance and the competitions from wealth management products, the bancassurance business saw a decline in 2011 and underwent transformation. In 2011, the gross written premium from banassurance was RMB44.450 billion, representing a decrease of 7.8% over the same period of the previous year, of which, the premiums from new policies amounted to RMB30.512 billion, representing a decrease of 25.8% over the same period of the previous year. In the face of new challenges, the Company carried out business transformation with a focus on regular premium business. It consolidated the strategic cooperation with major partners under a new bancassurance cooperation model. The Company also developed specialized bancassurance products and new regular premium products in order to fulfill various needs of customers. In 2011, regular premiums from new policies amounted to RMB5.847 billion, of which premiums from regular premiums with a term of five years or above amounted to RMB3.570 billion, representing an increase of 5.4 pt over last year. The Company achieved a breakthrough in business transformation as the premiums from new high value regular premium business amounted to RMB330 million. The quality of bancassurance products remained satisfactory and income from the renewed policies amounted to RMB13.938 billion, representing an increase of 96.3% over the same period of the previous year. As at the end of 2011, the Company had entered into executed contracts with 79,905 bank and postal savings branches, companies of the bancassurance network for the Company's sales of life insurance products.

(3) Direct sales

In 2011, the direct sales of the Company catered for different needs of customers based on various customer segmentation. The Company also developed accident insurance, annuity insurance, health insurance and individual life insurance business. By strengthening its professional development system the Company enhanced the operation level of its sales network. In addition, the Company extended its customer base coverage to include corporate customers to facilitate its business growth. The Company also adopted a new professional operational model for the sale of its high value individual products. In 2011, gross written premiums from direct sales amounted to RMB5.427 billion, representing an increase of 30.9% over the same period of the previous year.

(4) New channels

The Company accelerated the development of new channels, including telemarketing and internet-marketing. By focusing on the development of high value regular premium business and attracting new customers, the Company further increased the proportionate value of such channels. In 2011, gross written premiums from new channels amounted to RMB508 million, representing an increase of 112.6% as compared to the same period of the previous year. Premiums from new policies amounted to RMB313 million, of which regular premiums accounted for 98.4% of the total premiums. Premiums from renewed policies amounted to RMB195 million, representing an increase of 80.6% over the same period of the previous year.

2. Analysis by insurance category

Unit: in RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Gross written premiums	**93,203**	**87,873**	**6.1**
Traditional	15,636	15,248	2.5
Participating	72,873	68,434	6.5
Universal	81	85	(4.7)
Short-term accident and health	4,613	4,106	12.3
Gross written premiums	**93,203**	**87,873**	**6.1**
Individual business	89,904	85,677	4.9
Group business	3,299	2,196	50.2

In 2011, sales of universal insurance policies and investment-linked insurance policies were damp as a result of the volatile capital market. Traditional insurance policies which bear fixed interest were less attractive to customers as interest rates continued to increase. Participating insurance policies were the main sources of premiums for the life insurance business.

The Company continued to develop risk prevention and long-term savings insurance business. In 2011, premiums from traditional insurance policies amounted to RMB15.636 billion, representing an increase of 2.5% as compared to the same period of the previous year. Premiums from participating insurance policies amounted to RMB72.873 billion, representing an increase of 6.5% as compared to the same period of the previous year. The short-term accident and health insurance policies recorded premiums of RMB4.613 billion, representing an increase of 12.3% over the same period of the previous year. From the perspective of customer types, premiums from individual business accounted for 96.5% of total premiums.

3. Persistency ratio of customers

For 12 months ended 31 December	2011	2010	YoY changes
Individual life insurance customer 13-month persistency ratio (%) (Note 1)	92.7	92.0	0.7pt
Individual life insurance customer 25-month persistency ratio (%) (Note 2)	89.8	84.0	5.8pt

Notes:

1. *13-month persistency ratio: Premiums under in-force life insurance policies 13 months after their issuance as a percentage of premiums under life insurance policies becoming in-force during the same period of issuance.*
2. *25-month persistency ratio: Premiums under in-force life insurance policies 25 months after their issuance as a percentage of premiums under life insurance policies becoming in-force during the same period of issuance.*

In 2011, as the Company continued to improve its business quality and enhanced customer service and policy renewal premium the management levels, the individual life insurance customer 13-month persistency ratio and 25-month persistency ratio continued to increase steadily.

4. Gross written premiums from top ten geographical areas

In 2011, the Company's gross written premiums from life insurance business were mainly derived from more economically developed or more densely populated provinces or cities. In the future, the Company will continue to optimize resources allocation and investment portfolios in line with the urban development to consolidate its competitive advantages in county areas for better achievements. The Company will also seek to achieve a breakthrough to increase the proportion of urban area businesses.

Unit: RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Gross written premiums	**93,203**	**87,873**	**6.1**
Jiangsu	9,048	8,432	7.3
Henan	8,798	7,875	11.7
Shandong	7,712	7,251	6.4
Guangdong	7,080	6,842	3.5
Zhejiang	5,686	4,439	28.1
Hebei	5,523	5,342	3.4
Sicuan	5,168	5,388	(4.1)
Beijing	4,355	4,802	(9.3)
Hubei	4,318	4,270	1.1
Shanghai	3,967	3,646	8.8
Sub-total	61,655	58,287	5.8
Other areas	31,548	29,586	6.6

(II) Financial Analysis

Unit: RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Net premiums earned	90,493	84,665	6.9
Investment income Note	13,489	17,064	(21.0)
Other operating income	768	618	24.3
Total income	**104,750**	**102,347**	**2.3**
Net policyholders' benefits and claims	(82,024)	(80,351)	2.1
Finance costs	(784)	(343)	128.6
Interest credited to investment contracts	(2,257)	(1,722)	31.1
Other operating and administrative expenses	(16,310)	(14,607)	11.7
Total benefits, claims and expenses	**(101,375)**	**(97,023)**	**4.5**
Profit before tax	3,375	5,324	(36.6)
Income tax	(200)	(713)	(71.9)
Net profit	**3,175**	**4,611**	**(31.1)**

Note: Investment income includes investment income and shares of losses of a jointly-controlled entity/an associate in the financial statements.

Investment income. Investment income amounted to RMB13.489 billion in 2011, representing a decrease of 21.0% over the same period of the previous year. The decrease was mainly attributable to the significant decline in the stock market during the year, the decrease in trading gains from stocks and funds, losses on fair value changes and provision for the impairment loss of financial assets.

Net policyholders' benefits and claims. Net policyholders' benefits and claims amounted to RMB82.024 billion in 2011, representing an increase of 2.1% over the same period in the previous year, of which life insurance death and other benefits paid increased by 26.4% as compared with the same period of the previous year. The increase was mainly due to the increase in surrendered policies. Policyholder dividends recorded an increase of 12.0% compared to the same period of the previous year, mainly attributable to the growth in participating businesses and an increase in policyholder dividends.

Opening ceremony of the customer club and driving tour club of CPIC Property

Unit: RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Net policyholders' benefits and claims	82,024	80,351	2.1
Life insurance death and other benefits paid	21,508	17,018	26.4
Claims incurred	646	693	(6.8)
Changes in long-term insurance contract liabilities	56,063	59,241	(5.4)
Policyholder dividends	3,807	3,399	12.0

Other operating and administrative expenses. Other operating and administrative expenses amounted to RMB16.310 billion in 2011, representing an increase of 11.7% over the same period of the previous year. The increase was mainly attributable to the increase in investment in business transformation process and the increase in labor costs resulting from inflation.

As a result of the above reasons, the life insurance business of the Company recorded a net profit of RMB3.175 billion for 2011.

III. Property and Casualty Insurance Business

(1) Business Analysis

In 2011, the Company successfully captured favorable opportunities brought by the development of the property and casualty insurance market and transformed its mode of development. It continued to carry out streamlined management and to enhance operation efficiency. The gross written premiums from the property and casualty insurance business amounted to RMB61.687 billion and the combined ratio was 93.1%. The Company ranked top among its industry peers in terms of combined ratio and recorded an increase in its market share.

1. Analysis by insurance category

Unit: RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Gross written premiums from insurance business	61,687	51,622	19.5
Automobile insurance	47,409	39,636	19.6
Traffic insurance	11,389	9,252	23.1
Commercial automobile insurance	36,020	30,384	18.5
Non-automobile insurance	14,278	11,986	19.1
Commercial property insurance	4,902	4,149	18.1
Liability insurance	1,967	1,339	46.9
Accident insurance	1,508	1,338	12.7
Cargo insurance	1,524	1,216	25.3
Others	4,377	3,944	11.0

(1) Automobile insurance

The Company continued to streamline the management of the auto insurance business. While consolidating the advantage of its traditional channels, the Company also improved the auto insurance renewal management and established new channels. The Company created new technologies for handling claimes, such as the "3G Claim Management System", to improve customer experience with its unique competitive edges so as to realize faster growth of its auto insurance business. Gross written premiums from automobile insurance amounted to RMB47.409 billion in 2011, representing an increase of 19.6% over the same period of the previous year.

(2) Non-automobile insurance

The Company focused on strengthening the sales capability of non-automobile insurance by fully integrating technical resources of specialized business lines, such as undertaking, claims handling and risk management, so as to transform the development model of traditional insurance. The Company capitalized on the specialized and intensive operation of shipping insurance and optimized the establishment of sales management system of major customers. In 2011, the Company recorded gross written premiums from non-automobile insurance of RMB14.278 billion, representing an increase of 19.1% over the same period of the previous year.

Details of top five products

Unit: RMB million

For 12 months ended 31 December 2011						
Rank	Name of commercial insurance	Premiums	Amounts Insured	Claims paid	Reserves	Underwriting profit
1	Automobile insurance	47,409	5,639,163	22,349	32,992	2,672
2	Commercial property insurance	4,878	7,817,900	1,939	3,708	173
3	Liability insurance	1,961	4,381,845	768	1,614	39
4	Accident insurance	1,507	23,506,723	525	1,170	161
5	Cargo insurance	1,503	3,266,302	665	851	21

Note: Premiums do not include inward premiums.

2. Analysis by channels

Unit: RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Gross written premiums	61,687	51,622	19.5
Direct sales	12,856	13,737	(6.4)
Insurance agents	36,770	31,696	16.0
Insurance brokers	4,695	3,937	19.3
New channels	7,366	2,252	227.1

Note: New channels include cross-selling, telemarketing and Internet sales.

In 2011, the Company strengthened the specialized operation of channels and integrated channel resources. It strived to establish new channels and optimize traditional channels. As for new channels, the Company further accelerated the development progress of telemarketing and cross-selling by taking various initiatives, such as staff recruitment, management optimization, launch of new telemarketing hotline 10108888 and enhancement of integrated marketing. Premiums from telemarketing amounted to RMB5.373 billion, representing an increase of 397.0% as compared with the same period of the previous year. The Company also enhanced the cross-selling management system and strengthened its professional team. Premiums from cross-selling amounted to RMB1.993 billion, representing an increase of 70.2% as compared with the same period of the previous year. The premiums from telemarketing and cross-selling accounted for 11.9% of the gross written premiums from the property and casualty insurance business, representing an increase of 7.5 pt over the same period of the previous year. As for traditional channels, the Company continued to enhance its intensive and specialized channel management. With clearer target customer positioning, the Company was able to cater for its development needs and adjust its channel distribution system in line with market trends.

As at the end of 2011, the Company's direct sales team had a total of 13,599 sales representatives. In addition, the Company had entered into contracts with 30,597 insurance agents, 14,572 agencies and 1,416 brokerage companies to sell the Company's property and casualty insurance products.

3. Gross written premiums from top ten geographical areas

In 2011, the Company's gross written premiums from property and casualty insurance business were mainly derived from coastal areas in eastern China and more economically developed areas in inland provinces. The Company will rely on its nationwide distribution network to implement differentiated regional development strategies that take into account relevant factors including market potential and operational efficiency.

Unit: RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Gross written premiums	61,687	51,622	19.5
Guangdong	8,928	7,535	18.5
Jiangsu	6,953	5,828	19.3
Zhejiang	5,462	4,329	26.2
Shanghai	4,800	4,107	16.9
Shandong	4,579	4,146	10.4
Beijing	3,516	3,232	8.8
Hebei	1,963	1,633	20.2
Fujian	1,900	1,478	28.6
Liaoning	1,881	1,568	20.0
Sicuan	1,827	1,570	16.4
Sub-total	41,809	35,426	18.0
Other areas	19,878	16,196	22.7

(2) Financial analysis

Unit: RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Net premiums earned	46,486	34,894	33.2
Investment income note	1,820	2,415	(24.6)
Other operating income	205	158	29.7
Total income	**48,511**	**37,467**	**29.5**
Claims incurred	(27,235)	(20,043)	35.9
Finance costs	(58)	(24)	141.7
Other operating and administrative expenses	(16,150)	(12,775)	26.4
Total benefits, claims and expenses	**(43,443)**	**(32,842)**	**32.3**
Profit before tax	5,068	4,625	9.6
Income tax	(1,301)	(1,114)	16.8
Net profit	**3,767**	**3,511**	**7.3**

Note: Investment income includes investment income and shares of losses of a jointly-controlled entity/an associate in the financial statements.

Management Discussion and Analysis

Investment income. Investment income amounted to RMB1.820 billion in 2011, representing a decrease of 24.6% over that of the previous year, mainly attributable to the significant decline in the stock market during the year, the decline in spread gains of stocks and funds, losses on fair value changes and provisions for impairment loss of financial assets.

Claims incurred. Claims incurred amounted to RMB27.235 billion in 2011, representing an increase of 35.9% over that of the last year.

Other operating and administrative expenses. Other operating and administrative expenses amounted to RMB16.150 billion in 2011, representing an increase of 26.4% over that of the last year, mainly attributable to the investment in the establishment of new business channels and the increase in labor cost resulting from inflation.

As a result of the above reasons, property and casualty insurance business recorded a net profit of RMB3.767 billion for 2011.

IV. Asset Management Business

The Company's asset management business adhered to the principle of strengthening asset-liability management and insisted in prudent investment strategies. The Company strives to achieve long-term net value growth of investment assets by enhancing its asset allocation and investment management capabilities to pursue stability and sustainability of investment income.

Affected by various factors, such as the volatile global economic environment, the slowdown of domestic economic growth and tightening monetary policies, the market interest rates increased generally during 2011 while equity experienced a larger decline. In 2011, the Company took full advantage of the increase in market yield attributable to the upward adjustment cycle of interest rates and increased investment of fixed income assets to enhance the recurring income of all assets. It also reduced the proportion of equity investments and optimized the equity investment structure. The Company accelerated the establishment of debt investment plans for alternative investments to further expand new investment areas for insurance funds.

(1) Investment portfolio

Unit: RMB million

	31 December 2011	31 December 2010	YoY changes (%)
Investment assets (Total)	522,530	435,751	19.9
By investment category			
Fixed income investments	447,418	360,309	24.2
— Debt securities	276,688	232,533	19.0
— Term deposits	137,373	106,772	28.7
— Debt investment plans	25,563	15,925	60.5
— Other fixed income investments[note 1]	7,794	5,079	53.5
Equity investment	53,573	55,516	(3.5)
— Investment Funds	20,547	24,857	(17.3)
— Equity securities	26,862	24,979	7.5
— Other equity investments[note 2]	6,164	5,680	8.5
Investment properties	6,573	2,366	177.8
Cash and cash equivalents	14,966	17,560	(14.8)
By investment purpose			
Financial assets at fair value through profit or loss	2,907	3,604	(19.3)
Available-for-sale financial assets	117,592	119,759	(1.8)
Held-to-maturity financial assets	202,536	157,360	28.7
Investment in a jointly-controlled entity	—	440	(100.0)
Loan and other investments[note 3]	199,495	154,588	29.0

Notes:

1. *Other fixed income investments include restricted statutory deposits, policy loans and wealth management products.*
2. *Other equity investments include unlisted equities.*
3. *Loan and other investments include term deposits, cash and short-term time deposits, securities purchased under agreements to resell, policy loans, restricted statutory deposits, and investments classified as loans and receivables, and investment properties, etc.*

As at the end of 2011, the Company's total investment assets were RMB522.530 billion, representing an increase of 19.9% over that at the end of the previous year. The Company's fixed income investments accounted for 85.6% of our total investment assets, representing an increase of 2.9 pt over that at the end of the previous year. An additional RMB87.109 billion was invested in fixed income assets, with allocation focused towards negotiated deposits, subordinated bonds issued by of banks and debt investment plans with higher yields. The Company's equity investments accounted for 10.3% of the total investment assets, representing a decrease of 2.4 pt over that at the end of the previous year. In addition to controlling the investment risks and reducing overall position of its equity investments, the Company expanded the scale of equity investments with expected stable cash dividend distribution.

The Company actively took advantage of policy changes and market opportunities to explore new investment areas such as infrastructure, real estates and unlisted equities. It maintained its leading position by putting more efforts in issuing of debt investment plans. In 2011, the Company launched five infrastructure and real estate debt investment plans, including Jiangsu Taizhou Road Bridge over Yangtze River, Jiangsu Guoxin Yangzhou Power Plant, Longyuan Power Wind Farm, Shanghai Public Rental Housing and real estate projects in Beijing. The total amount of these investments amounted to RMB15,600 million. Of which, RMB9,610 million was subscribed by the Company. The Company completed the acquisition of the Centre in Shanghai and participated in the private placement of equity by Shanghai Rural Commercial Bank.

The Company's investment assets were mainly allocated to three categories in 2011, namely available-for-sale financial assets, held-to-maturity investments as well as loans and other investments. The amount of held-to-maturity investments increased by 28.7% compared to that of the previous year, primarily due to the increase in bond investment. The decrease in long-term equity investment was primarily due to the disposal of jointly-controlled entities. Loans and other investments increased by 29.0% over the previous year, mainly attributable to the increase in negotiated deposits.

(2) Investment income

In 2011, the Company recorded total investment income of RMB17.252 billion, representing a decrease of 17.5% over that of the previous year. Total investment yield was 3.7%, representing a decrease of 1.6pt over that of the previous year.

Net investment income amounted to RMB21.380 billion, representing an increase of 26.1% over that of the previous year. This was mainly due to the increase in interest rates and total investment in fixed income assets. Net investment yield was 4.7%, representing an increase of 0.4 pt over that of the previous year.

Unit: RMB million

For 12 months ended 31 December	2011	2010	YoY changes (%)
Interest income from fixed income investments	18,902	14,229	32.8
Dividend income from equity securities	2,217	2,723	(18.6)
Rental income from investment properties	261	—	/
Net investment income	21,380	16,952	26.1
Realized (losses)/gains	(1,619)	4,049	(140.0)
Unrealized (losses)/gains	(383)	193	(298.4)
Charge of impairment losses on financial assets	(2,805)	(615)	356.1
Net gain on disposal of a jointly-controlled entity	479	—	/
Other income [note]	200	323	(38.1)
Total investment income	17,252	20,902	(17.5)
Net investment yield (%)	4.7	4.3	0.4pt
Total investment yield (%)	3.7	5.3	(1.6pt)

Note: Other income includes interest income from cash and short-term time deposits, securities purchased under agreements to resell and share of profits/(losses) of a jointly-controlled entity.

V. Others

CPIC Asset Management. The Company manages and utilizes its insurance funds through CPIC Asset Management, its 99.67% held subsidiary. As at 31 December 2011, the total assets of CPIC Asset Management amounted to RMB735 and the net assets amounted to RMB543 million while the net profit amounted to RMB41 million for 2011.

Changjiang Pension. The Company holds 51.00% of the interests in Changjiang Pension. As at 31 December 2011, the total assets of Changjiang Pension amounted to RMB790 million and the net assets amounted to RMB738 million while the total entrusted assets under management reached RMB27.258 billion and the net loss amounted to RMB64 million for 2011.

CPIC HK. The Company conducts overseas operations primarily through its wholly owned subsidiary CPIC HK. As at 31 December 2011, the total assets of CPIC HK amounted to RMB646 million, the net assets amounted to RMB322 million and the gross written premiums amounted to RMB332 million while the net profit amounted to RMB45 million for 2011.

CPIC Investment (H.K.). The Company conducts overseas asset management operations primarily through CPIC Investment (H.K.), its 99.83% owned subsidiaries. As at 31 December 2011, the total assets of CPIC Investment (H.K.) amounted to RMB44 million and the net assets amounted to RMB41 million while the net profit amounted to RMB4 million for 2011.

VI. Analysis of specific items

(1) Key consolidated results

Unit: RMB million

	31 December 2011/ Year 2011	31 December 2010/ Year 2010	Changes (%)	Major Reason
Total assets	570,612	475,711	19.9	Business Expansion
Total liabilities	492,557	394,160	25.0	Business Expansion
Total equity	78,055	81,551	(4.3)	Decrease in revenue of investment business and fair value adjustment of financial assets available for sale
Net profit attributable to equity holders of the parent	8,313	8,557	(2.9)	Decrease in revenue of investment business

(2) Liquidity analysis

1. Cash flow

Unit: RMB million

For 12 months ended 31 December	2011	2010	Changes (%)
Net cash inflow from operating activities	55,527	61,618	(9.9)
Net cash outflow from investing activities	(84,112)	(70,600)	19.1
Net cash inflow/(outflow) from financing activities	26,114	(3,383)	(871.9)

2. Gearing ratio

Unit: RMB million

	31 December 2011	31 December 2010	YoY changes
Gearing ratio (%)	86.5	83.1	3.4pt

Note: Gearing ratio = (total liabilities + minority interests)/total assets.

3. Liquidity analysis

The Company centralized the management of liquidity of the Group and its subsidiaries at the group level. The cash inflow of the Group, as a controlling company, was mainly derived from dividends from its subsidiaries and investment gains from its own investing activities.

The liquidity of the Company was mainly from premiums, net gain on investments, sales or maturity of investment assets and cash from financing activities. The demand for liquidity primarily arose from surrenders, withdrawals or other forms of early termination of insurance policies, insurance claims or benefit payouts, dividends to shareholders and cash required for payment of various ordinary expenses.

Since the Company generally collects premiums before the payment of insurance claims or benefits, the cash inflow from operating activities of the Company generally record a net inflow. In addition, according to its strategic asset allocation, the Company maintains a certain proportion of investment assets with high liquidity to satisfy the demand of liquidity. The Company also obtains additional liquidity from the disposal of securities repurchased and other financing activities.

The Company believes that the liquidity is sufficient to meet the working capital requirement of the Company in foreseeable future.

(3) Solvency

The Company calculated and disclosed the actual solvency margin, the minimum solvency margin and the solvency margin ratio in accordance with the relevant requirements as issued by CIRC. According to the requirements of CIRC, the solvency margin ratio of domestic insurance companies in the PRC shall reach the required level.

Unit: RMB million

	31 December 2011	31 December 2010	Reason of Change
CPIC Group			
Actual solvency margin	73,556	76,673	Profit for the period, profit distribution to the shareholders, change of the fair value of investment assets and issue of life insurance subordinated bonds
Minimum solvency margin	25,884	21,486	Business development of property and life insurance
Solvency margin ratio (%)	284	357	
Life insurance			
Actual solvency margin	34,213	36,687	Profit for the period, profit distribution to the shareholders, change of the fair value of investment assets and issue of subordinated bonds
Minimum solvency margin	18,267	15,222	Growth of insurance business
Solvency margin ratio (%)	187	241	
Property and casualty insurance			
Actual solvency margin	17,644	10,266	Profit for the period, contributions from shareholders, profit distribution to the shareholders and change of the fair value of investment assets
Minimum solvency margin	7,568	6,132	Growth of insurance business
Solvency margin ratio (%)	233	167	

VII. Prospects

(1) Market outlook

According to the statistics released by CIRC, the gross written premiums in China for 2011 amounted to RMB1.43 trillion, representing an increase of 10.4%as compared to the previous year. Total insurance assets exceeded RMB6 trillion. China's insurance market was one of the fastest growing insurance markets in the world.

Generally, the development of China will remain an important phase of strategic opportunities in a major strategic stage in the coming years and the insurance industry will be in its peak development stage. Fundamentally, the flourishing development of China's economy and society will continue and the rapid development of the insurance industry will remain.

In short term, the international and domestic economic situation will be more complicated and uncertain in 2012. The downward pressure of domestic economic growth will be intensified. The overall growth of the insurance industry will be slowing down with property insurance returning to its normal growth and life insurance business entering into an adjustment phase of development. As a result, it will be more difficult to sustain the growth and the demand for risk resistance will increase. However, due to the urbanization, the aging of the population and increasing proportion of people with middle-income, there will be room and potential for business growth. The implementation of the pilot scheme of personal deferred-tax pension insurance may be one of the new major drivers for the growth in life insurance business.

As for regulatory policies, CIRC will adhere to its regulating principles of "emphasizing services, enforcing stringent regulations, preventing risks and promoting development". With a view to serving the economy and society, it will focus on enhancing the quality and standard of insurance services, improving the image of insurance industry, creating a favourable environment for development so as to efficiently promote a health and sustainable development of the industry. Three major regulating tasks for 2012 will be: firstly, solving difficulties in claims handling of auto insurance and the misleading sales in respect of life insurance; secondly, establishing a comprehensive entry and exit mechanism for insurance market; and thirdly, promoting the development of agricultural insurance, catastrophe insurance and personal deferred-tax pension insurance. The Company considers that these regulatory measures will be beneficial to protecting customers' interest and will have positive impact for the transformation of industry development and standardization of market.

(2) Operation plans

During 2011, the value of the Company continued to enhance with increasing comprehensive strength and brand image, while operating results maintained stability. However, the Company faced challenges brought by changes in macro-environment and the growth of income from its insurance business was lower than market expectation.

Amid various challenges and changes, the Company will capture opportunities to make progress while maintaining prudence and strive for achievements in 2012. The Company primarily adopts a customer demand-oriented strategic transformation and insists in the operation strategy of "sustaining growth, optimizing services, preventing risks and stepping up transformation". With its proven strategies, the Company has developed a customer-oriented business model which emphasizes on multi contact points and comprehensive coverage so as to promote a sustainable growth of the Company by further capitalizing on the competitive edge of an integrated insurance group. In 2012, the income from the insurance business of the Company is expected to continue to grow steadily.

- Adhere to its operating strategies that conforms to economic cycle to maintain a stable and rapid business growth

- Innovate and optimize its sales and claims handling procedures to enhance customer experience and service quality

- Continue the optimization of its internal risk control system to mitigate systematic risks
- Accelerate the implementation of strategic transformation initiatives to strive for new achievements in its strategic transformation
- Effectively optimize resources allocation so as to enhance its profitability

Section VI Changes in the Share Capital and Shareholders' Profile

Changes in the Share Capital and Shareholders' Profile

I. Changes in the Share Capital

(I) Table of the share capital

The table below shows our share capital as of 31 December 2011:

Unit: share

	Before change		Increase or decrease (+ or -)					After change	
	Amount	Percentage (%)	New shares issued	Bonus shares	Transfer from reserve	Others	Sub-total	Amount	Percentage (%)
1. Shares with selling restrictions									
(1) State-owned shares	—	—	—	—	—	—	—	—	—
(2) State-owned enterprises shares	—	—	—	—	—	—	—	—	—
(3) Other domestic shares	78,412,727	0.91	—	—	—	—	—	78,412,727	0.91
held by:									
legal entities	78,412,727	0.91	—	—	—	—	—	78,412,727	0.91
natural persons	—	—	—	—	—	—	—	—	—
(4) Foreign shares	—	—	—	—	—	—	—	—	—
held by:									
legal persons	—	—	—	—	—	—	—	—	—
natural persons	—	—	—	—	—	—	—	—	—
Total	78,412,727	0.91	—	—	—	—	—	78,412,727	0.91
2. Shares without selling restrictions									
(1) Ordinary shares denominated in RMB	6,208,287,273	72.19	—	—	—	—	—	6,208,287,273	72.19
(2) Domestically listed foreign shares	—	—	—	—	—	—	—	—	—
(3) Overseas listed foreign shares (H share)	2,313,300,000	26.90	—	—	—	—	—	2,313,300,000	26.90
(4) Others	—	—	—	—	—	—	—	—	—
Total	8,521,587,273	99.09	—	—	—	—	—	8,521,587,273	99.09
3. Total number of shares	8,600,000,000	100.00	—	—	—	—	—	8,600,000,000	100.00

(II) Table of the number of shares with selling restrictions

The table below shows the changes in the number of shares with selling restrictions as of 31 December 2011:

Unit: share

No.	Name of shareholders	Number of shares with selling restrictions at the beginning of the year	Increase or decrease of the number of shares with selling restrictions for the year (+ or -)	Number of shares with selling restrictions at the end of the year	Reason for selling restrictions	Expiry date of selling restrictions
1	Account No. 1 of the NSSF	78,412,727	—	78,412,727	See note	See note
Total		78,412,727	—	78,412,727		

Note: Pursuant to the Implementation Measure for the Transfer of Part of the State-owned Shares to the National Social Security Fund in the domestic securities market (《境內證券市場轉持部分國有股充實全國社會保障基金實施辦法》) (Cai Qi No. [2009] 94), some state-owned shares in the Company were transferred into NSSF in late December 2009. In addition to the selling restrictions which the former holders of such state-owned shares are subject to statutorily and voluntarily, NSSF shall be subject to a further three-year lock-up period.

(III) Issue and listing of securities

1. Issue of securities in the prior three years

Unit: share

Type	Date of issue	Issue prices	Number of shares issued	Date of listing	Number of shares permitted to be listed	Date of termination of dealings
H Share	23 December 2009	HK$28.00	861,300,000	23 December 2009	2,184,600,000	—
	14 January 2010	HK$28.00	128,700,000	27 January 2010	128,700,000	

In December 2009, the Company issued 861,300,000 H shares at the offer price of HK$28.00 per H share. In January 2010, the Company issued 128,700,000 H shares upon the exercise of the H share over-allotment option.

2. Shares held by employees

As at 31 December 2011, no shares issued by the Company have been placed to its employees.

II. Shareholders

(I) Number of shareholders and their shareholdings

Unit: share

A total number of	181,167 shareholders (including 173,427 A shareholders and 7,740 H shareholders) at the end of the reporting period

Shares held by top ten shareholders

Names of the shareholders	Percentage of the shareholding (%)	Total number of shares held	Increase or decrease of shareholding during the reporting period (+,-)	Number of shares held with selling restrictions	Number of shares subject to pledge or lock-up period	Types of shares
HKSCC Nominees Limited	21.69	1,865,122,999	+663,889,099	—	—	H Share
Fortune Investment Co., Ltd.	14.93	1,284,277,846	—	—	—	A Share
Shenergy Group Co., Ltd.	14.36	1,235,291,781	+10,209,843	—	—	A Share
Shanghai State-Owned Assets Operation Co., Ltd.	4.93	424,099,214	—	—	—	A Share
Shanghai Haiyan Investment Management Company Limited	4.90	421,703,174	—	—	—	A Share
Parallel Investors Holdings Limited	3.84	329,824,102	-498,240,000	—	—	H Share
Shanghai Jiushi Corporation	2.91	250,013,460	-936,000	—	—	A Share
Yunnan Hongta Group Co., Ltd.	2.03	174,339,390	—	—	—	A Share
Carlyle Holdings Mauritius Limited	1.32	113,323,498	-166,080,000	—	—	H Share
Account No. 1 of the NSSF	1.13	96,914,255	—	78,412,727	—	A Share

Shares held by top ten shareholders without selling restrictions

Names of shareholders	Number of shares held without selling restrictions	Types of shares
HKSCC Nominees Limited	1,865,122,999	H Share
Fortune Investment Co., Ltd.	1,284,277,846	A Share
Shenergy Group Co., Ltd.	1,235,291,781	A Share
Shanghai State-Owned Assets Operation Co., Ltd.	424,099,214	A Share
Shanghai Haiyan Investment Management Company Limited	421,703,174	A Share
Parallel Investors Holdings Limited	329,824,102	H Share
Shanghai Jiushi Corporation	250,013,460	A Share
Yunnan Hongta Group Co., Ltd.	174,339,390	A Share
Carlyle Holdings Mauritius Limited	113,323,498	H Share
Baosteel Group Corporation	68,818,407	A Share

Description of connected relations or concerted action among the aforesaid shareholders	Fortune Investment Co., Ltd. and Baosteel Group Corporation are connected, as the former is a wholly-owned subsidiary of the latter. Parallel Investors Holdings Limited and Carlyle Holdings Mauritius Limited are connected as both of them are companies of Carlyle Group.

Note: The shares held by HKSCC Nominees Limited are held on behalf of a number of its clients. As Hong Kong Stock Exchange does not require such shareholders to disclose whether the shares held by them are subject to pledge or lock-up period, HKSCC Nominees Limited is unable to calculate, or make available such data as, the number of such shares subject to pledge or lock-up period.

(II) Particulars of substantial shareholders

The ownership structure of the Company is diversified and there is no controlling shareholder or de facto controllers.

As at 31 December 2011, our substantial shareholders were:

1. Fortune Investment Co., Ltd.

Fortune Investment Co., Ltd. was established on 21 November 1994 and has a registered capital of RMB6,869,000,000, with Mr. DAI Zhihao as its legal representative. Its main businesses include investment and investment management in the metallurgy industry and relevant industries, investment consulting, business consulting service (excluding brokerage) and property title brokerage. Fortune Investment Co., Ltd. is a wholly owned subsidiary of Baosteel Group Corporation.

2. Shenergy Group Co., Ltd.

Shenergy Group Co., Ltd. was established on 18 November 1996 with a registered capital of RMB6,000,000,000. Its legal representative is YANG Xianghai. Its main businesses include the generation, production and supply of power and gas, investment, construction and management of energy infrastructure, and investment and asset management (in energy and related service industries and equity in financial companies).

3. Shanghai State-Owned Assets Operation Co., Ltd.

Shanghai State-Owned Assets Operation Co., Ltd. was established on 24 September 1999 with a registered capital of RMB5,000,000,000. Its legal representative is SHOU Weiguang. Its main businesses include entrepreneurial investments, capital operations, acquisition, enhancement and transfer of assets, enterprise and asset custody, bond restructuring, property title brokerage, real estate agency, financial consultancy, investment consultancy, and consulting services related to its scope of businesses, as well as the provision of guarantee related to its asset management and capital operation businesses.

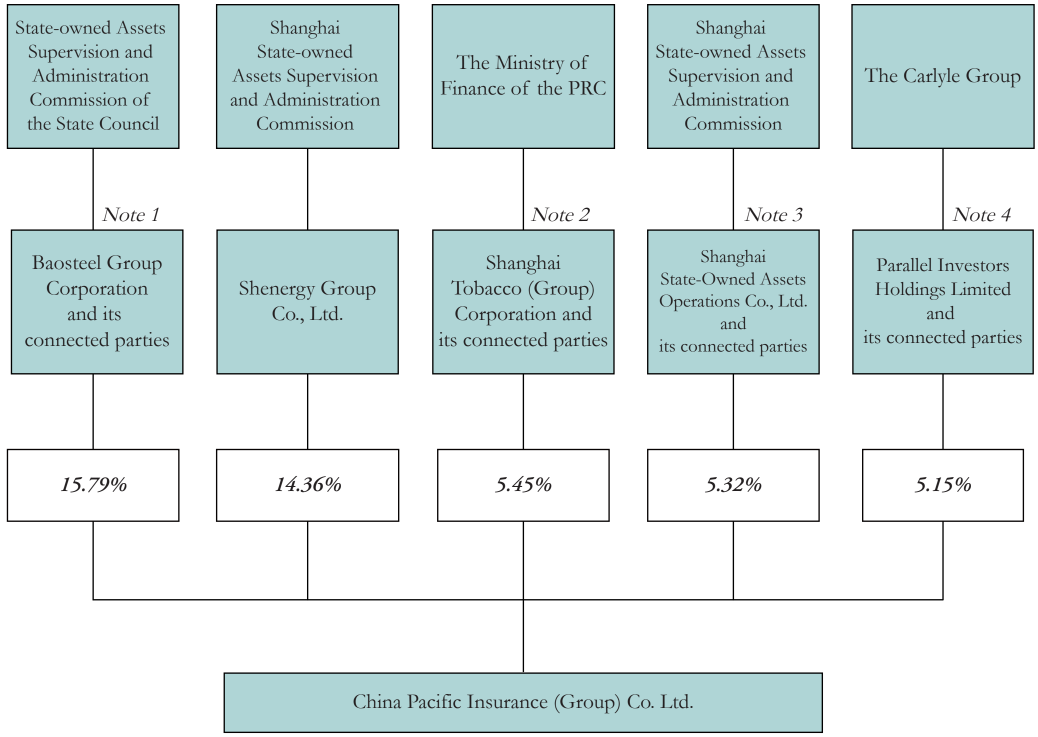
4. Shanghai Haiyan Investment Management Company Limited

Shanghai Haiyan Investment Management Company Limited was established on 15 October 2009 with a registered capital of RMB1,300,000,000. Its legal representative is Jiang Ligong. Its main businesses include entrepreneurial investments, investment management, project management, asset management, enterprise management advisory and domestic trading.

5. Parallel Investors Holdings Limited

Parallel Investors Holdings Limited is an investment holding company incorporated in the Republic of Mauritius and an investment entity controlled by Carlyle-managed funds.

The following chart sets forth the connection of the Company and the ultimate controllers of our substantial shareholders as of 31 December 2011:



Notes:

1. *Fortune Investment Co., Ltd. and Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. are entities under the control of Baosteel Group Corporation which, together with its connected parties, holds in aggregate 1,357,888,334 A Shares in our Company, representing 15.79% of the entire share capital of the Company.*
2. *Shanghai Haiyan Investment Management Company Limited and Shanghai Tobacco Package Printing Co., Ltd., one of its connected parties, hold in aggregate 468,828,104 A Shares in our Company, representing 5.45% of the entire share capital of the Company.*
3. *Shanghai State-Owned Assets Operation Co., Ltd. and Shanghai Guoxin Investment and Development Co., Ltd., a company under the control of the former, hold in aggregate 457,123,365 A Shares in our Company, representing 5.32% of the entire share capital of the Company.*
4. *Parallel Investors Holdings Limited and Carlyle Holdings Mauritius Limited are both investment entities controlled by the funds under the management of Carlyle Group and hold in aggregate 443,147,600 H shares in our Company, representing 5.15% of the entire share capital of the Company. In January 2012, Parallel Investors Holdings Limited sold 18,000,000 H shares of the Company, following which Parallel Investors Holdings Limited and Carlyle Holdings Mauritius Limited together held 425,147,600 H shares of the Company, representing 4.94% of the Company's total share capital.*

Section VII Directors, Supervisors, Senior Management and Employees

Directors, Supervisors, Senior Management and Employees

I. Directors, supervisors, senior management and employees

Unit: RMB thousand

Name	Position	Gender	Dateof birth	Term of office	Total remuneration before tax	Whether also compensated by a shareholder company or other connected parties
GAO Guofu	Chairman and Executive Director	Male	June 1956	Since July 2010	2,201	No
HUO Lianhong	Executive Director and President	Male	April 1957	Since July 2010	2,057	No
YANG Xianghai	Vice-Chairman and Non-Executive Director	Male	February 1952	Since July 2010	See note 4	Yes
WANG Chengran	Non-Executive Director	Male	April 1959	Since July 2010	250	Yes
FENG Junyuan, Janine	Non-Executive Director	Female	March 1969	Since July 2010	See note 4	Yes
WU Jumin	Non-Executive Director	Male	April 1956	Since July 2010	250	Yes
YANG Xiangdong	Non-Executive Director	Male	January 1965	Since July 2010	See note 4	Yes
ZHOU Ciming	Non-Executive Director	Male	October 1951	Since July 2010	See note 4	Yes
ZHENG Anguo	Non-Executive Director	Male	November 1964	Since July 2010	250	Yes
XU Fei	Non-Executive Director	Female	December 1967	Since July 2010	250	Yes
XU Shanda	Independent Non-Executive Director	Male	September 1947	Since July 2010	See note 4	No
CHANG Tso Tung Stephen	Independent Non-Executive Director	Male	November 1948	Since July 2010	279 note 2	No
LI Ruoshan	Independent Non-Executive Director	Male	February 1949	Since July 2010	279 note 2	No
XIAO Wei	Independent Non-Executive Director	Male	December 1960	Since July 2010	250	No
YUEN Tin Fan	Independent Non-Executive Director	Male	October 1952	Since July 2010	279 note 2	No
ZHOU Zhuping	Chairman of the Board of Supervisors, Shareholder Representative Supervisor	Male	March 1963	Since July 2010	250	Yes
ZHANG Jianwei	Shareholder Representative Supervisor	Male	September 1954	Since July 2010	250	Yes
LIN Lichun	Shareholder Representative Supervisor	Female	August 1970	Since July 2010	250	Yes
SONG Junxiang	Employee Representative Supervisor	Male	October 1955	Since July 2010	4,604	No
HE Jihai	Employee Representative Supervisor	Male	October 1954	Since July 2010	978	No
XU Jinghui	Executive Vice-President	Male	March 1957	Since September 2010	3,143	No
GU Yue	Vice-President	Male	June 1965	Since September 2010	6,586	No
SUN Peijian	Vice-President	Male	September 1963	Since September 2010	5,461	No
CHI Xiaolei	Chief Actuary	Female	July 1969	Since November 2007	3,306	No

Name	Position	Gender	Dateof birth	Term of office	Total remuneration before tax	Whether also compensated by a shareholder company or other connected parties
HUANG Xueying	Chief Information Technology Officer	Female	November 1967	Since February 2008	3,654	No
CHEN Wei	Chief Internal Auditor, Board Secretary and Joint Company Secretary	Male	April 1967	Since September 2010	1,884	No
Total	—	—	—	—	**37,961**	—

Notes:

1. *The above table listed the directors, supervisors and senior management as at 31 December 2011.*
2. *According to the resolution on the Remuneration Management System of Directors and Supervisors which was passed by the general meeting in 2010, the allowances for the chairmen of the specific committees of the Board of Directors were RMB 300,000 (before tax) per year. Mr. CHANG Tso Tung Stephen, Mr. LI Ruoshan and Mr. YUEN Tin Fan received the allowances for holding respective positions since June 2011.*
3. *According to the policies of the relevant authorities of China, the final amounts of remunerations of the Chairman and the President are currently subject to review and approval. The remaining portion of the remuneration will be disclosed when confirmed.*
4. *Mr. YANG Xianghai, Ms. FENG Junyuan, Janine, Mr. YANG Xiangdong, Mr. ZHOU Ciming and Mr. XU Shanda did not take any allowances.*
5. *Each director and supervisor of the Company is appointed for a term of 3 years and is eligible for re-election and re-appointment. Each independent non-executive director is not allowed to serve a consecutive term of more than 6 years.*
6. *RMB1.626 million of Mr. SONG Junxiang's annual total pre-tax remuneration for 2011 is cash realized from the long-term incentive scheme in 2003 and 2004.*
7. *RMB3.657 million of Mr. GU Yue's annual total pre-tax remuneration for 2011 is cash realized from the long-term incentive scheme in 2002, 2003 and 2004.*
8. *RMB2.453 million of Mr. SUN Peijian's annual pre-tax remuneration for 2011 is cash realized from the long-term incentive scheme in 2002, 2003 and 2004.*
9. *Mr. CHEN Wei served as the Chief Internal Auditor of the Company since September 2011.*
10. *Mr. CHEN Jihua no longer serves as the Company's Vice President and the Financial Officer since 27 August 2011.*

II. Biographies of directors, supervisors and senior management

(I) Directors

Mr. GAO Guofu currently serves as the Chairman and an executive director of the Company. Mr. GAO previously served as the General Manager of Shanghai Waigaoqiao Free Trade Zone Development (Holding) Co., the Deputy Director of the Administration Committee of Shanghai Waigaoqiao Free Trade Zone, the Acting President of Shanghai Wanguo Securities Company, the Deputy General Manager and the General Manager of Shanghai Jiushi Corporation, and the General Manager of Shanghai Urban Construction Investment and Development Corporation. Mr. GAO has postgraduate qualifications and a doctorate degree, and has received the title of senior economist.

Mr. HUO Lianhong currently serves as an executive director and the President of the Company, and is also a director of CPIC Property, a director of CPIC Life and a director of CPIC Asset Management. Mr. HUO previously served as the Chairman of CPIC Property, the Chairman of CPIC Asset Management, the Deputy General Manager and the General Manager of the Hainan Branch and the Beijing Branch of China Pacific Insurance Company. Prior to that, Mr. HUO was a deputy office supervisor of the Chongqing Branch and the Head and the Deputy Manager of the Insurance Department of the Hainan Branch of Bank of Communications. Mr. HUO is a university graduate and with a bachelor's degree, and has received the title of senior economist.

Mr. YANG Xianghai currently serves as the Chairman of Shenergy (Group) Co., Ltd. and the Vice-Chairman and a non-executive director of the Company. Mr. YANG was the Deputy Director and the Director of the Economic Regulation Office and the General Office of Shanghai Planning Commission. He also served as an assistant to the Chief Commissioner and the Deputy Chief Commissioner of Shanghai Planning Commission, the Director of Shanghai Securities Administration Office, the General Manager of the SSE, the Vice-Chairman and the General Manager of Shenergy (Group) Co., Ltd., the Chairman of Shenergy Company Limited (a company listed on the SSE), and the Chairman of Shanghai Gas (Group) Co., Ltd.. Mr. YANG holds a master's degree in economics, and has received the title of senior economist.

Mr. WANG Chengran currently serves as Assistant to the General Manager of Baosteel Group Corporation, a non-executive director of the Company, a director of CPIC Life and a director of CPIC Property. Mr. WANG was the Director of the Asset Operation Office of the Planning and Finance Department and the Head of the Asset Operation Department of Shanghai Baosteel Group Corporation. He also served as the Business Director and the Head of the Asset Operation Department of Baosteel Group Corporation, the Chairman of Fortune Investment Co., Ltd and the Head of the Audit Department of Baosteel Group Corporation. Currently, Mr. WANG also serves as a director of

Huatai Property Insurance Co., Ltd., Xinhua Asset Management Co., Ltd., New China Life Insurance Co., Ltd.(a company listed on SSE and the Hong Kong Stock Exchange) and China State Shipbuilding Co., Ltd. (a company listed on the SSE). Mr. WANG is a university graduate and with a bachelor's degree, and has received the title of economist.

Ms. FENG Junyuan, Janine currently serves as the Managing Director of the Carlyle Group, a non-executive director of the Company, a director of CPIC Life and a director of CPIC Property. Prior to joining Carlyle, Ms. FENG worked at Credit Suisse First Boston's New York office for almost five years, engaging in investment banking business. She has a master's degree in business administration.

Mr. WU Jumin currently serves as the Deputy General Manager of Shanghai Tobacco (Group) Corporation and a non-executive director of the Company. Mr. WU previously served as the Deputy Head of the Organization Section, the Head of the Education Section and the Principal of the School, the Head of the Cadre Section, and the Deputy Officer and Officer of the Personnel Educational Department of Shanghai Tobacco Factory. He was also the Deputy General Manager of Shanghai Gao Yang International Tobacco Co., Ltd. and the Deputy Factory Director and Factory Director of Shanghai Tobacco Factory. Mr. WU is a postgraduate and has received the title of senior economist.

Mr. YANG Xiangdong currently serves as the Managing Director of the Carlyle Group, the Co-head of Carlyle Asia Partners and a non-executive director of the Company. Prior to joining Carlyle, Mr. YANG worked for Goldman Sachs Group Inc. for 9 years, serving as the Managing Director and the Co-head of Principal Investment Asia of Goldman Sachs. Mr. YANG also served as the Vice-Chairman of CPIC Life and a director of CPIC Asset Management. Currently, Mr. YANG also serves as an independent non-executive director of SmarTone Telecommunications Holdings Limited, a company listed on the Hong Kong Stock Exchange. Mr. YANG has a master's degree in business administration.

Mr. ZHOU Ciming currently serves as the Board Secretary and the Deputy Chief Economist of Shenergy (Group) Co., Ltd., a non-executive director of the Company, a director of CPIC Life and a director of CPIC Property. Mr. ZHOU was the Vice-Chairman and the Chairman of the Board of Supervisors of CPIC Life, and the Vice-Chairman of CPIC Property. He was the Director of the Teaching and Research Office, an Associate Dean, an assistant professor and a mentor of master's students at the Shanghai University of Finance and Economics. He was a visiting professor at the University of Washington and Stanford University in the USA. In addition, Mr. ZHOU was the Vice-Chairman of Shanghai Jiulian Securities Brokerage Co., Ltd. Mr. ZHOU is a postgraduate with a master's degree, and has received the title of senior economist.

Mr. ZHENG Anguo currently serves as the General Manager of Fortune Investment Co., Ltd., the Chairman of Fortune Trust Co., Ltd., the Chairman of Fortune SGAM Fund Management Co., Ltd., a non-executive director of the Company and a member of the Shanghai Committee of the National Committee of CPPCC. Mr. ZHENG was the Manager of the Issuance Department and the Investment Department of the Shenzhen Branch of Nanfang Securities Co., Ltd. He was also the Assistant to the General Manager of the Investment Banking Department, the Deputy General Manager of the Shanghai Branch, and the Deputy Head of the Research Office of Nanfang Securities Co., Ltd. Mr. ZHENG served as the Vice President and President of Fortune Trust Co., Ltd. Mr. ZHENG is a postgraduate with a doctorate degree, and has received the title of senior economist.

Ms. XU Fei currently serves as the Vice-president of Shanghai State-owned Assets Operation Co., Ltd., the Chairman of Shanghai Guoxin Investment Development Co., Ltd., the Chairman of Shanghai Young Sun Investment Co., Ltd., and a non-executive director of the Company. Ms. XU worked in the Shanghai Branch of PICC Property and Casualty Company Limited, serving as the Deputy Office Head, Deputy General Manager and General Manager of the Market Development Department and Legal Department, as well as assistant to the General Manager and Deputy General Manager. Currently, Ms. XU also serves as an independent director of Shanghai Electric Power Co., Ltd. (a company listed on the SSE) and an independent director of Golden Sun Securities Co., Ltd. Ms. XU is a postgraduate with a doctorate degree. She is a holder of PRC Lawyer Certificate and a qualified corporate legal consultant.

Mr. XU Shanda is currently the Chairman of the Chinese Certified Tax Agents Association, a member of the Chinese Economists 50 Forum, a member of its academic committee, an independent non-executive director of the Company and a member of the National Committee of CPPCC. Mr. XU was a deputy director-general of the State Administration of Taxation from December 1999 to December 2006. Prior to that, Mr. XU also held various governmental positions, including the Deputy Director of the Policy Research Division of the State Administration of Taxation under the Ministry of Finance, the Director of the Research Office of the Taxation Science Research Institute under the State Administration of Taxation, the Deputy Director-general of the Department of Tax Reform, the Deputy Director-general of the Department of Policy and Legislation, the Director-general of the Department of Local Taxation and the Director-general of the Department of Auditing under the State Administration of Taxation. Currently, Mr. XU also serves as an independent director of the Industrial and Commercial Bank of China Ltd., a company listed on the SSE and the Hong Kong Stock Exchange. Mr. XU has a master's degree.

Mr. CHANG Tso Tung Stephen currently serves as an independent non-executive director of the Company. Prior to his retirement from Ernst & Young in January 2004, Mr. CHANG held various positions with Ernst & Young, including the Deputy Chairman of Ernst & Young Hong Kong and China, managing partner of Professional Services, and the Chairman of Ernst & Young Audit and Advisory Services. Mr. CHANG served as an independent non-executive director of GST Holdings Limited and Nam Hing Holdings Limited, both of which are companies listed on the Hong Kong Stock Exchange, as well as an independent director of China World Trade Center Company Ltd., a company listed on the SSE. Mr. CHANG holds a bachelor's degree in science. He is a fellow member of the Institute of Chartered Accountants in England and Wales.

Mr. LI Ruoshan currently works at the Accounting Department of the School of Management of Fudan University and is a professor and a mentor of doctoral students. Mr. LI is currently an independent non-executive director of the Company, a member of the Experts Committee for Listed Companies of the SSE, a member of the Shanghai Committee of Judicial Accounting Appraisal and the Vice Chairman of the Shanghai Accounting Academy. Mr. LI served as an independent director of Shanghai Jinfeng Investment Co., Ltd., Fuyao Glass Group Industries Co. Ltd., Sinochem International Corporation and Shanghai Pudong Road & Bridge Construction Co., Ltd., all of which are companies listed on the SSE. Besides, Mr. LI is currently an independent director of Zhejiang Guangbo Group Co., Ltd. and Zhejiang Wanfeng Auto Wheel Co., Ltd., both of which are companies listed on the Shenzhen Stock Exchange, and an independent director of Industrial Bank Co., Ltd., a company listed on the SSE. Mr. LI is a postgraduate with a doctorate degree.

Mr. XIAO Wei is currently Head, a managing partner and a lawyer of the Beijing Office of Junhe Law Firm, and an independent non-executive director of the Company. Mr. XIAO was previously a lawyer at Beijing No. 7 Law Firm and China Legal Affairs Centre. He was a member of the Issuance Review Committee and the Review Committee for Major Reorganizations by Listed Companies of CSRC. He was also an independent director of Shenzhen Guangju Energy Co., Ltd., a company listed on the Shenzhen Stock Exchange. He is now also an independent director of Lombarda China Fund Management Co., Ltd., Wuhan Iron & Steel Co. Ltd. (a company listed on SSE) and Changyu Pioneer Wine Co. Ltd. (a company listed on the Shenzhen Stock Exchange). Mr. XIAO is a postgraduate with a master's degree.

Mr. YUEN Tin Fan is currently the Vice-Chairman of Pacific Century Regional Developments Limited and an independent non-executive director of the Company. He is also an independent non-executive director of China Foods Limited (a company listed on the Hong Kong Stock Exchange) and a member of Shanghai Committee of the National Committee of CPPCC. Mr. YUEN was previously the Chairman of Pacific Century Insurance Holdings Limited, the Vice-Chairman of Pacific Century Group and PCCW Limited, and the Chief Executive Officer of the Hong Kong Stock Exchange. Mr. YUEN holds a bachelor's degree in economics.

(II) Supervisors

Mr. ZHOU Zhuping currently serves as the Deputy General Manager of Baosteel Group Corporation, the Chairman of Baosteel Group Finance Co., Ltd. and the Chairman of the Board of Supervisors of the Company. Mr. ZHOU was the Deputy Director of the Planning and Finance Department (asset operation department) of Shanghai Baosteel Group Corporation, the Secretary of the Board of Baoshan Iron & Steel Co., Ltd., the Deputy Chief Financial Officer of Baosteel International Trade Corporation, the Deputy General Manager of Baoshan Iron & Steel Trading Company Limited, the Director of the Finance Department of Baosteel Group Corporation, the Director of Operation of Baosteel Group Corporation, the General Manager of Baosteel Group Enterprise Development Corporation, the President of Baosteel Development Co. Ltd. and the Chairman of Fortune Investment Co., Ltd. Mr. ZHOU is a postgraduate and has received the title of senior accountant.

Mr. ZHANG Jianwei is currently the Deputy General Manager of Shanghai Jiushi Corporation and a supervisor of the Company and CPIC Life. Mr. ZHANG was previously the Deputy Factory Director of Shanghai Xinhu Glass Factory and the Deputy General Manager of Shanghai Optic Communications Equipment Co., Ltd. He also worked for Shanghai Jiushi Corporation, serving as the Deputy Manager and Manager of the Operation Department, the General Manager of the Operation Management Department, the Manager of the Development Planning Department and the Asset Operation Department, and Assistant to the General Manager. Mr. ZHANG was also a director of the Company and a supervisor of CPIC Property. Besides, Mr. ZHANG is currently a director of Haitong Securities Company Limited (a company listed on the SSE), Shanghai Highly (Group) Co., Ltd. and Shenergy Company Limited (a company listed on the SSE). Mr. ZHANG has a master's degree in business administration, and has received the title of senior economist.

Ms. LIN Lichun is currently the Head of Shanghai Office of Yunnan Hongta Group Co., Ltd., a director and the General Manager of Shanghai Hongta Hotel Co., Ltd., a supervisor of the Company and a supervisor of CPIC Property. Ms. LIN served as the Chief Financial Officer and the Deputy General Manager of Shanghai Hongta Hotel Co., Ltd. and a supervisor of CPIC Life. Ms. LIN is a university graduate with a master's degree. She is a Certified Public Accountant in China.

Mr. SONG Junxiang currently serves as an Employee Representative Supervisor of the Company. Mr. SONG was the Chairman of the Trade Union of the Company. Prior to joining the Company, Mr. SONG worked in the Organization Department of the Committee of the Communist Party of China for the Shanghai Municipality.

Mr. HE Jihai currently serves as a principal officer of the Legal and Compliance Department and an Employee Representative Supervisor of the Company. Mr. HE previously served as a senior officer of the Legal Affairs Department, the Deputy General Manager and the General Manager of the Legal and Compliance Department of the Company. Prior to joining the Company, Mr. HE worked for the Shanghai municipal government. Mr. HE has a master's degree, and has received the title of senior economist. He is a holder of PRC Lawyer Certificate and a Certified Public Accountant in China.

(III) Senior management

Mr. GAO Guofu: He is currently the Chairman of the Company since 2006. Please refer to the section headed "(I) Directors" above for the details of his biography.

Mr. HUO Lianhong: He is currently the President of the Company since 2000. Please refer to the section headed "(I) Directors" above for the details of his biography.

Mr. XU Jinghui: He is currently an Executive Vice President of the Company, the Chairman and the General Manager of CPIC Life, a Director of CPIC Asset Management and Changjiang Pension. He is also an Independent Director of Shanghai Jiao Yun Co., Ltd., a company listed on the SSE. Mr. Xu served as the General Manager of the Second Domestic Business Department, the General Manager of the Company's Dalian Branch, special assistant to the President of CPIC, and the General Manager of the E-Commerce Department of CPIC. He also served as the Deputy General Manager of CPIC Life and the General Manager of its Shanghai Branch, the Vice President of the Company and a Director of CPIC Property. Mr. Xu holds a master's degree in Business Administration and is a senior economist.

Mr. GU Yue: He is currently the Vice President and the Financial Officer of the Company. He is also a director of CPIC Property, CPIC Life, CPIC Asset Management and CPIC HK. Mr. Gu served as the General Manager of the Company's Suzhou Branch and Nanjing Branch, the Chairman of the Board of Supervisors of CPIC Life, the Board Secretary, and the General Manager of the Human Resources Department of the Company. Mr. Gu also served as the Chief Auditor and the Auditing Officer of the Company and the Chairman of the Board of Supervisors of CPIC Asset Management. Prior to joining the Company, Mr. Gu worked for the Shanghai Statistics Bureau. Mr. Gu holds an EMBA degree and is an economist.

Mr. SUN Peijian: He is currently the Vice President, the Chief Compliance Officer and compliance officer of the Company. He is also a Director of CPIC Life, CPIC Property, CPIC Asset Management and CPIC (HK). Mr. Sun served as the General Manager of the Reinsurance Department of the Company and the Assistant to the President of the Company. Prior to joining the Company, Mr. Sun worked for the insurance business department of the Bank of Communications' Shanghai Branch. Mr. Sun holds a master's degree and an EMBA degree and is an economist.

Ms. CHI Xiaolei: She is currently the Chief Actuary of the Company. Ms. Chi served as a Deputy Chief Actuary of the Company, a director of CPIC Life and CPIC Property. Prior to joining the Company, Ms. Chi served as the Managing Director and a Senior Actuarial Consultant of Milliman (Shanghai) Co., Ltd., an actuarial consultant of Towers Perrin in its Hong Kong Office, the Deputy Manager of London Life Insurance Company (Canada) and the senior underwriter of the foreign division of PICC's Shanghai branch. Ms. Chi holds a master's degree and is a full member of the Society of Actuaries, Canadian Institute of Actuaries, Hong Kong Society of Actuaries and Chinese Society of Actuaries.

Ms. HUANG Xueying: She is currently the Chief Information Technology Officer of the Company. Prior to joining the Company, she was the Vice President, the Greater China region, of Accenture Limited, in which she was responsible for consulting service practice for the insurance industry in the Greater China region. She also worked at KPMG Consulting Inc. (which was subsequently renamed to BearingPoint, Inc.) for a long period of time during which she was responsible for development and implementation of core business system for insurance companies, and team building, business expansion and project management of insurance industry. Ms. Huang holds a master's degree and is a master in Business Administration.

Mr. CHEN Wei: He is currently the Chief Internal Auditor, the Auditing Officer and the Board Secretary of the Company. Mr. Chen served as the chief representative of the Company's London Representative Office, the Director and General Manager of CPIC HK and the Board Secretary of CPIC Life. Mr. Chen holds a master's degree and is an Associate of the Chartered Insurance Institute (ACII). He is also an engineer and an economist.

III. Positions of directors, supervisors and senior management in corporate shareholders and other entities

(I) Positions in corporate shareholders

Name	Name of corporate shareholders	Position held	Term
YANG Xianghai	Shenergy Group Co., Ltd	Chairman	Since 2008
WANG Chengran	Baosteel Group Corporation	Assistant to General Manager	Since 2009
FENG Junyuan, Janine	The Carlyle Group	Managing Director	Since 1998
YANG Xiangdong	The Carlyle Group	Managing Director	Since 2001
ZHOU Ciming	Shenergy Group Co., Ltd	Deputy Chief Economist	Since 1998
ZHENG Anguo	Fortune Investment Co., Ltd.	General Manager	Since 2009
XU Fei	Shanghai State-owned Assets Operation Co., Ltd	Vice President	Since 2005
	Shanghai Guoxin Investment Development Co., Ltd.	Chairman	Since 2009
ZHOU Zhuping	Baosteel Group Corporation	Deputy General Manager	Since 2009
ZHANG Jianwei	Shanghai Jiushi Corporation	Deputy General Manager	Since 2002
LIN Lichun	Yunnan Hongta Group Co., Ltd.	Head of Shanghai Office	Since 2007

(II) Positions in other entities

Name	Name of other entities	Position held	Term
WANG Chengran	Huatai Property Insurance Company Ltd.	Director	Since 2008
	China State Shipbuilding Corporation	Director	Since 2009
	New China Life Insurance Co., Ltd.	Director	Since 2009
	New China Asset Management Co., Ltd.	Director	Since 2010
WU Jumin	Shanghai Tobacco (Group) Co., Ltd.	Deputy General Manager	Since 2003
YANG Xiangdong	SmarTone Telecommunications Holdings Limited	Independent Director	Since 2003
ZHENG Anguo	Fortune SGAM Fund Management Co., Ltd	Chairman	Since 2003
	Fortune Trust Co. Ltd.	Chairman	Since 2009
XU Fei	BOC International (China) Limited	Director	2009-2011
	Shanghai Young Sun Investment Co., Ltd	Chairman	Since 2009
	Shanghai Electric Power Co., Ltd.	Independent Director	Since 2008
	Golden Sun Securities Co., Ltd.	Independent Director	Since 2008
XU Shanda	Industrial and Commercial Bank of China Limited	Independent Director	Since 2007
LI Ruoshan	Finance Department of the School of Management of Fudan University	Professor	Since 1997
	Zhejiang Wanfeng Auto Wheel Co., Ltd	Independent Director	Since 2004
	Zhejiang Guangbo Group Stock Co., Ltd.	Independent Director	Since 2007
	Industrial Bank Co., Ltd.	Independent Director	Since 2010
XIAO Wei	Beijing Junhe Law Firm	Director and Managing Partner	Since 1989
	Lombarda China Fund Management Co., Ltd	Independent Director	Since 2006
	Wuhan Iron and Steel Company Limited	Independent Director	Since 2010
	ChangYu Pioneer Wine Company Limited	Independent Director	Since 2010
YUEN Tin Fan	Pacific Century Regional Developments Limited	Vice Chairman	Since 2005
	China Foods Limited	Independent Director	Since 1992
ZHOU Zhuping	Baosteel Finance Co., Ltd.	Chairman	Since 2010
ZHANG Jianwei	Haitong Securities Co., Ltd.	Director	Since 2002
	Shanghai Highly (Group) Co., Ltd	Director	Since 1999
	Shenergy Co., Ltd	Director	Since 2005
XU Jinghui	Shanghai Jiao Yun Co., Ltd	Independent Director	Since 2007

IV. Remuneration of directors, supervisors and senior management

(I) Determination of the remuneration of Directors, Supervisors and senior management:

The remuneration of Directors and Supervisors is determined by the general meetings, while the remuneration of the senior management is set by the Nominations and Remuneration Committee of the Board and submitted to the Board for approval.

(II) Basis of determination of the remuneration of Directors, Supervisors and senior management:

The remuneration of Directors, Supervisors and senior management is determined and adjusted by a professional human resources consulting firm engaged by the Company based on factors such as the Company's operation, the positions being considered and performance appraisals with reference to the market remuneration level.

V. Changes in directors, supervisors and senior management

(I) Changes in Directors

There is no change in directors of the Company during the reporting period.

(II) Changes in Supervisors

There is no change in supervisors of the Company during the reporting period.

(III) Changes in Senior Management

Name	Position held	Change
GU Yue	Financial Officer	Mr. GU Yue was appointed as the Financial Officer of the Company on 26 August 2011, with effect from the date of the approval of qualification review by CIRC.
CHEN Wei	Chief Internal Auditor and the Auditing Officer	Mr. CHEN Wei was appointed as the Chief Internal Auditor and the Auditing Officer of the Company on 26 August 2011, with effect from the date of the approval of qualification review by CIRC.
NGO Tai Chuan	Chief Financial Officer	Mr. NGO Tai Chuan no longer serves as the Company's Chief Financial Officer on 1 July 2011.
CHEN Jihua	Vice President and the Financial Officer	Mr. CHEN Jihua no longer serves as the Company's Vice President and the Financial Officer since 27 August 2011.

VI. Shareholdings of the Company's directors, supervisors and senior management

Unit: share

Name	Position	Type of shares	Shareholding at the beginning of the year	Increase in shareholding during the year	Decrease in shareholding during the year	Shareholding at the end of the year	Reason for the change
GAO Guofu	Chairman and Executive Director	A share	25,700	10,000	—	35,700	Secondary market purchase
HUO Lianhong	Executive Director and President	A share	22,500	22,000	—	44,500	Secondary market purchase
SONG Junxiang	Employee Representative Supervisor	A share	18,000	16,000	—	34,000	Secondary market purchase
XU Jinghui	Executive Vice President	A share	20,000	18,000	—	38,000	Secondary market purchase
GU Yue	Vice-President	A share	18,000	20,000	—	38,000	Secondary market purchase
SUN Peijian	Vice-President	A share	17,025	20,500	—	37,525	Secondary market purchase
CHEN Wei	Chief Internal Auditor, Board Secretary and Joint Company Secretary	A share	9,000	11,000	—	20,000	Secondary market purchase

VII. The Company's employees

As of 31 December 2011, a total of 82,456 employees, including those from CPIC Group, CPIC Life, CPIC Property and CPIC Asset Management, signed employment contracts with the Company. Their expertise and education background are set out below:

(I) Expertise

Expertise	Number	Percentage (%)
Management	4,014	4.87
Professional	49,344	59.84
Marketing	29,098	35.29
Total	82,456	100.00

(II) Education Background

Education Background	Number	Percentage (%)
Master's Degree and Above	1,557	1.68
Bachelor's Degree	29,259	30.86
Other	51,640	67.46
Total	82,456	100.00

Section VIII Corporate Governance Report

Corporate Governance Report

I. Corporate Governance

During 2011, the Company was in strict compliance with the Company Law, the Insurance Law, the Securities Law and other applicable laws and made continuous efforts to improve the Company's governance structure in accordance with the requirements under applicable laws and regulations issued by the regulatory authorities and the international best practices and based on the state of affairs at the Company. The Company has established a relatively sound corporate governance system with appropriate checks and balances by streamlining its group management structure, consolidating its internal resources and strengthening the research on and responsiveness towards the capital market.

The Board of Directors endeavoured to improve the corporate governance structure and system of the Company in order to establish a relatively sound corporate governance system. Corporate governance was effectively advocated in the Group by promoting and implementing the corporate governance measures in the subsidiaries under the streamlined group management structure. By implementing various systems and specific measures, the Company enhanced the communication between the Board of Directors and the management, facilitated the due diligence of directors and supervisors and kept them abreast of the state of affairs of the Company.

The general meeting, the Board of Directors, the Board of Supervisors and the senior management of the Company fulfilled their functions independently, exercised their rights and performed their duties respectively in accordance with the Articles of Association without breach of laws and regulations.

The Company has gradually established and improved relevant systems in compliance with the Code on Corporate Governance Practices. Currently, the Company is in compliance with all the provisions of the code and substantially all of the recommended best practices set out in the Code on Corporate Governance Practices.

(I) Shareholders and the General Meeting

According to the Articles of Association, the general meeting is authorized to, among others, formulate the operation directions and investment plans, elect and change the Directors and Supervisors who are not Employee Representatives and decide on their remuneration, consider and approve the annual budgets and accounts, profit distribution plans and loss compensation plans of the Company, adopt proposals rearding any increase or reduction of the registered capital of the Company and any merger, separation, dissolution or liquidation or change of corporate form of the Company, consider and approve the listing of all or any part of the Shares on any stock exchange as well as any proposed issuance of bonds or other securities of the Company, adopt proposals regarding the appointment, dismissal or termination of appointment of the accountant of the Company, and amend the Articles of Association.

The Articles of Association and the Procedural Rules for Shareholders' General Meetings also contain detailed rules for convening extraordinary general meetings and specific procedures for putting forward temporary proposals at the general meetings. According to Article 70 (3) of the Articles of Association and Article 6 (3) of the Procedural Rules for Shareholders' General Meetings, shareholders holding 10%or above of total voting shares issued by the Company individually or jointly may sign and submit a request in writing to demand the Board of Directors to convene an extraordinary general meeting or a classified shareholders' meeting. Upon receipt of such request in writing, the Board of Directors shall decide whether to convene a general meeting or classified shareholders' general meeting based on the actual situation according to the laws, administrative regulations and the Articles of Association. Pursuant to Article 67(12) of the Articles of Association and Articles 12 and 13 of the Procedural Rules for Shareholders' General Meetings, shareholders holding 3% or above (including 3%) of total voting shares issued by the Company individually or jointly may put forward temporary proposal, but they must submit the proposal to the convener in writing ten days prior to the holding of general meeting. If the shareholder entitled to submit proposal has any objection towards the decision of the Board for not including his/her proposal in the agenda of the general meeting, he/she may demand to convene a separate extraordinary general meeting according to the procedures as set out in the Procedural Rules for Shareholders' General Meetings. The contact information for shareholders' enquiry regarding the affairs of Company is set out in Section II "Corporate Information" of this annual report.

During 2011, the Company held the 2010 annual general meeting. The notice of general meeting and the procedures followed for convening, holding and voting at such meetings were in compliance with the Company Law, the Articles of Association and applicable regulations. The general meetings serve as an established and effective communication channel between the Company and the shareholders to consider the views and advice put forward by the shareholders, and ensure the shareholders' rights to information, participation and voting in respect of any significant issues of the Company to create a positive atmosphere for the shareholders to take part in the decision-making process of the Company and equally exercise their rights.

The Company held the 2010 annual general meeting in Shenzhen on 18 May 2011, and various resolutions were considered and approved during the meeting, including the Resolution regarding the Report of Board of Directors of China Pacific Insurance (Group) Co., Ltd. for the year 2010. Details of the resolutions were set out in the announcements published on the websites of SSE and the Company. GAO Guofu, Chairman of the Board of Directors, presided at the meeting and HUO Lianhong, the President and an Executive Director, LI Ruoshan, chairman of the Audit Committee of the Board of Directors, CHANG Tso Tung Stephen, chairman of the Risk Management Committee of the Board of Directors, ZHOU Zhuping, Chairman of the Board of Supervisors, and SONG Junxiang and LIN Lichun, Supervisors of the Company, attended the meeting.

As adopted as special resolution at the 2010 annual general meeting and approved by CIRC, the Articles of Association and the appendix to the Articles of Association as well as the Procedural Rules for Shareholders' General Meetings were amended, which mainly included the provisions regarding the actions in relation to external guarantee businesses of the Company, the establishment of a strategic and investment decision-making committee, and the requirement in relation to the permission of preparation of financial statements in accordance with the PRC accounting standards and regulations by overseas listing places.

(II) Directors, Board of Directors and Special Committees of the Board of Directors

The Company's Board of Directors consists of 15 directors (biographies of current Directors are set out in Section VII "Directors, Supervisors, Senior Management and Employees" of this annual report). The number and composition of the Board of Directors were in compliance with the applicable regulatory requirements and the Articles of Association.

According to the Articles of Association, the board of directors shall be accountable to the general meeting and is authorized to, among others, convene the general meetings, implement the resolutions of the general meetings, determine the business and operation plans and investment plans of our Company, formulate our annual financial budget and final accounting plans, formulate our profit distribution plans and loss compensation plans, formulate the proposals for increases or reductions of our registered share capital and issue of corporate bonds and issue and listing of other securities of our Company, appoint or remove our President and secretary of the board of directors and, based on the recommendations of the President, to appoint or remove such senior officers as vice-President or Chief Financial Officer and to decide on their remuneration. The President of the Company is responsible to the Board of Directors and directs the operation and management of the Company. The Chairman is Mr. GAO Guofu and the President is Mr. HUO Lianhong.

1. Attendance of Board Meetings

During 2011, the Board of Directors held 4 meetings. All Directors duly performed their duties and actively attended the meetings in person or by electronic communication means in order to make informed decisions to safeguard the interests of the Company and the shareholder as a whole. The attendance of each director is as follows:

Names of directors	Board Meetings	Attendance in person	Attendance by proxy	Absence	Remarks
Executive Directors					
GAO Guofu	4	4	0	0	
HUO Lianhong	4	4	0	0	
Non-executive Directors					
YANG Xianghai	4	3	1	0	Unable to attend the 7th session of the 6th Board of Directors for business reason and ZHOU Ciming, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
WANG Chengran	4	3	1	0	Unable to attend the 7th session of the 6th Board of Directors for business reason and ZHENG Anguo, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
FENG Junyuan, Janine	4	4	0	0	
WU Jumin	4	2	2	0	Unable to attend the 5th and the 6th session of the 6th Board of Directors for business reason and GAO Guofu, the Chairman, was appointed as his proxy to attend and vote at the meeting on his behalf.
YANG Xiangdong	4	4	0	0	
ZHOU Ciming	4	4	0	0	
ZHENG Anguo	4	4	0	0	
XU Fei	4	4	0	0	
Independent Non-executive Directors					
XU Shanda	4	4	0	0	
CHANG Tso Tung Stephen	4	4	0	0	
LI Ruoshan	4	4	0	0	
XIAO Wei	4	4	0	0	
YUEN Tin Fan	4	4	0	0	

2. Board Meetings and Resolutions

The Board of Directors held 4 meetings in 2011 (please see the announcement published on the website of SSE and the Company's website for more details).

1. On 25 March 2011, the Company held the 4th session of the 6th Board of Directors in Shanghai, at which resolutions including Resolution in Relation to the Report on China Pacific Insurance (Group) Co., Ltd.'s Board of Directors 2010 were considered and approved.

2. On 28 April 2011, the Company held the 5th session of the 6th Board of Directors in Dongguan, at which resolutions including Resolution in Relation to 1st Quarter Report 2011 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

3. On 26 June 2011, the Company held the 6th session of the 6th Board of Directors in Zhangchun, at which resolutions including Resolution in Relation to A Share Interim Report 2011 and the Abstract of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

4. On 18 October 2011, the Company held the 7th session of the 6th Board of Directors in Shanghai, at which resolutions including Resolution in Relation to 3rd Quarter Report 2011 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

3. Implementation of the Resolutions of the General Meeting by the Board of Directors

During 2011, all the Company's Board members conscientiously implemented the resolutions of the general meeting in relation to the Profit Distribution Plan for the year 2010, Appointment of Auditors for the year 2011, and the Amendments of the Articles of Association, and accomplished all the tasks designated by the general meeting with due diligence in compliance with the relevant laws and regulations and the provisions under the Articles of Association.

The Company distributed a cash dividend of RMB0.35 per share (including tax) in accordance with the Resolution on Profit Distribution Plan for the year 2010 approved at the 2010 Annual General Meeting. The implementation of this distribution plan was completed in July 2011.

4. Performance of Duties by the Special Committees under the Board of Directors

The Board of Directors established four special committees, namely the Strategic and Investment Decision-Making Committee, the Audit Committee, the Nominations and Remuneration Committee and the Risk Management Committee, which conduct in-depth studies on specific issues and submit their recommendations to the Board of Directors for consideration.

(1) Performance of Duties by the Strategic and Investment Decision-Making Committee

In 2011, after consideration and approval by the Board of Directors, the Strategic Committee of the Board was renamed as the Strategic and Investment Decision-Making Committee and its terms of reference, duties and authority were amended correspondingly. Its primary duties are, among others, to study and provide advice and suggestions on the long term development strategies of the Company; review the investment decision-making procedures and authorization mechanism as well as the management of the usage of insurance funds; and study and provide advices and suggestions on material investments or proposals, material capital operation and asset management.

In 2011, the Strategic and Investment Decision-Making Committee held 2 meetings and provided comments and suggestions on issues of the Company such as profit distribution, amendment of the Articles of Association and capital injection into a subsidiary. The attendance of each member of the Strategic and Investment Decision-Making Committee is as follows:

Name of members	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
GAO Guofu (Chairman)	2	2	0	0
YANG Xianghai	2	2	0	0
WANG Chengran	2	2	0	0
YANG Xiangdong	2	2	0	0
XU Shanda	2	1	1	0

(2) Performance of Duties by the Audit Committee of the Board of Directors

The primary duties of the audit committee are, among other things, to nominate external auditors; review the Company's basic internal audit systems and to make recommendations to the Board; approve the Company's annual audit plan and audit budget; supervise the independence of the Company's internal audit department; review the financial information of the Company and its disclosure; evaluate the completeness and effectiveness of the Company's internal control system on a regular basis; review the report and assess the performance of the Auditing Officer regularly and provide advice to the Board of Directors; and review the financial and accounting policies and practices of the Company and its subsidiaries.

In 2011, the Audit Committee held 9 meetings to review the Company's 2010 annual report, the 2011 interim report and quarterly reports for 2011 of the Company, and the internal control evaluation report and the internal audit plan. The attendance of each member of the Audit Committee is as follows:

Name of members	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
LI Ruoshan (Chairman)	9	9	0	0
ZHOU Ciming	9	9	0	0
CHANG Tso Tung Stephen	9	9	0	0

The Audit Committee discussed with the external auditors and agreed on the schedule for the audit of the Company's financial statements for the year based on the requirement on the preparation of the Company's annual report. It held a meeting to review the financial statements prepared by the Company and issued a written opinion prior to the commencement of the audit by the external auditors, and maintained adequate and timely communication with such auditor during the audit process. The Audit Committee held a meeting to review again the financial statements of the Company after receipt of the external auditors' preliminary opinions on the audit, and issued their written opinion. At the 4th meeting of the Audit Committee in 2011, a resolution on the submission of the Company's annual report to the Board of Directors for approval was passed.

In 2011, according to the Administrative Measures on the Appointment of Auditors by Financial Institutions (Provisional) (金融企業選聘會計師事務所招標管理辦法(試行)) issued by the Ministry of Finance, the Company conducted open recruitment for the appointment of domestic auditor for the year 2011. The Company had established an appraisal committee, which was chaired by the Chairman of the Audit Committee, to make an objective evaluation to the independence and objectivity of the candidates and Ernst & Young was being longlisted. The Audit Committee submitted an overview report of audit work carried out by the external auditors for the year 2010 to the Board of Directors and it was satisfied with the overall performance of the external auditors. The Audit Committee also suggested new working requirements of the external auditors, and resolved at the 4th meeting of the Audit Committee of the Board of Directors in 2011 to submit a resolution of the appointment of the external auditors to the Board of Directors for consideration.

The Audit Committee monitored the internal control of the Company closely and received periodical and interim updates on audit issues, report of auditing work and progress of the optimization of internal control system from the relevant department in order to be informed in a timely manner of any significant issues encountered in the internal control and risk management of the Company. The Audit Committee also strengthened the guidance in relation to the Company's internal audit and took part in the appraisal and evaluation of the annual performance of the internal audit department.

(3) Report for Performance of Duties by the Nominations and Remuneration Committee of the Board of Directors

The primary duties of the Nominations and Remuneration committee are, among others, to provide recommendations to the Board with respect to the remuneration and performance management policy and structures for the Directors and senior management; conduct examination and evaluation of the performance of duties and annual performance of the Directors and the senior management; review the designation system for the Directors and senior management and provide recommendations to the Board; and evaluate candidates of senior management positions nominated by the President.

In 2011, the Nominations and Remuneration Committee held 4 meetings to review the performance evaluation results of the Company in 2010 and performance appraisal plan of the senior management for the year 2011, the nomination and appointment of certain members of the senior management and the amendment of the remuneration management system for the Directors and Supervisors. The attendance of each member of the Nominations and Remuneration Committee is as follows:

Name of members	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
YUEN Tin Fan (Chairman)	4	4	0	0
FENG Junyuan, Janine	4	4	0	0
ZHENG Anguo	4	4	0	0
XU Shanda	4	3	1	0
XIAO Wei	4	4	0	0

(4) Report for Performance of Duties by the Risk Management Committee of the Board of Directors

In 2011, the Risk Management Committee amended its terms of reference upon consideration and approval of the Board which included asset and liability management as one of its duties. The primary duties regarding asset and liability management are, among others, to provide advices and recommendations with respect to the overall objective, basic policies and working rules of risk management; provide advices and recommendations with respect to the risk evaluation for important decisions and solutions for significant risks; review material connected transactions and related party transactions; review the management system for usage of insurance funds; provide advices and recommendations with respect to strategic asset allocation plan, annual investment plan and investment guidelines and related adjustments; and provide advices and recommendations with respect to the coordination and implementation of product design, sales and investment.

In 2011, the Risk Management Committee held 4 meetings to review the Company's risk assessment report, compliance report and solvency report, the amendment of Management Measures on Connected Transactions of H Shares, the execution of connected transactions, and Implementation Plan on Internal Control Standards. The attendance of each member of the Risk Management Committee is as follows:

Name of members	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
CHANG Tso Tung, Stephen (Chairman)	4	4	0	0
FENG Junyuan, Janine	4	4	0	0
WU Jumin	4	3	1	0
XU Fei	4	4	0	0
HUO Lianhong	4	4	0	0

(III) Supervisors and the Board of Supervisors

Currently, the Company has 5 Supervisors, including 3 shareholder representative Supervisors and 2 staff representative Supervisors (biographies of existing Supervisors are set out in Section VII "Directors, Supervisors, Senior Management and Employees" of this annual report). The number and composition of the members of the Board of Supervisors are in compliance with the applicable regulations and the Articles of Association.

According to the Articles of Association, the Board of Supervisors is authorized to examine financial reporting of the Company; monitor the behaviors of Directors, President, vice-President and other senior management during the performance of their duties; review the financial information including financial reports, operation reports and profit distribution plans to be submitted to the general meeting; propose to convene extraordinary general meeting and propose resolutions at general meetings; and conduct investigation when there is any unusual operation condition of the Company.

In 2011, the Board of Supervisors held 4 meetings to examine and monitor the operation, financial activities, internal control management and risk control of the Company by reviewing the meeting minutes and reports, conducting on-site inspection and visiting branch offices. In addition, the Board of Supervisors modified the guidelines for internal audit and participated in the annual appraisal and evaluation of the performance of internal audit department. All Supervisors duly performed their duties on supervision with integrity to effectively safeguard the rights and interests of the shareholder, the Company and its staff. The attendance of each Supervisor is as follows:

Name of Supervisor	Supervisory meetings to be attended	Attendance in person	Attendance by proxy	Absence
ZHOU Zhuping	4	3	1	0
ZHANG Jianwei	4	4	0	0
LIN Lichun	4	4	0	0
SONG Junxiang	4	4	0	0
HE Jihai	4	4	0	0

Furthermore, the Supervisors attended the meetings held by the Board of Directors in 2011 and supervised the duty performance of the Directors and senior management of the Company to safeguard the sustainable, stable and healthy growth of the Company.

(IV) Inspections and Studies by the Directors and Supervisors

In 2011, a number of the Company's Directors and Supervisors inspected the Inner Mongolia branches of CPIC Property and CPIC Life. The Directors and Supervisors conducted a study on the development of the local insurance markets and the operation, management, growth of business, development, business strategies, risk management and other aspects of the branch operation. Based on the results of the inspections and the studies, the Company's Directors and Supervisors made recommendations to the management in the form of a special research and study report on, among others, strengthening specialized regional guidelines, enhancing brand building, improving customer services quality, and exploring new channels. The Company's management highly valued these recommendations and studied the feasibility of their implementation promptly and submitted reports to all Directors and Supervisors with respect to the implementation result in a timely manner.

(V) Training for the Director and Supervisor

In 2011, the Directors, Wang Chengran, Zhou Ciming, Zheng Anguo, Feng Junyuan, Janine, Xu Fei and the Supervisor, Lin Lichun participated in the training program for directors and supervisors of insurance companies organized by CIRC. The corporate governance standard was further improved and the understanding on the characteristics of insurance market and business development pattern were enhanced. In addition, all Directors and Supervisors gained knowledge of the latest laws and regulations and supervisory rules issued by CSRC, CIRC and the stock exchanges of listing regions from time to time and their duty performances were enhanced by understanding the relevant laws and regulations and the supervisory activities of the supervising departments.

(VI) Securities Transactions by the Director and Supervisor

The Company adopted and implemented the Model Code for Securities Transactions set out in Appendix 10 to the Hong Kong Listing Rules to govern the Directors and Supervisors' securities transactions. After specific inquiry by the Company, all of the Directors and Supervisors confirmed that they have complied with the code of conduct set out under the Model Code for Securities Transactions throughout the reporting period. During the reporting period, the Company was not aware of any activities of the Directors or Supervisors that were not in full compliance with the Model Code for Securities Transactions.

(VII) Auditors' Fee

Information on auditors' fee is set out in Section IX "Report of the Board of Directors".

(VIII) Directors' Responsibility for the Financial Statements

The Directors confirmed that it is their responsibility to prepare the financial statements which present a true and fair view of the state of affairs at the Company. A statement on reporting responsibility with respect to the accounts made by the Company's auditor is set out in Section XVI "Appendix" of this annual report. After appropriate enquiries, the Directors are of the opinion that the Company has sufficient resources to continue its operations as a going concern in the foreseeable future, and it is appropriate to prepare the financial statements on a going concern basis.

(IX) Disclosure of Information and Transparency

The Company is committed to improving the development of its information disclosure system. It has set up and continuously improved the "Information Disclosure Management Measures", "Working Procedures of Regular Reports" and "Working Procedures of Interim Reports", which provided detailed rules for the report, circulation, review and disclosure procedures of information and established a standardized system for the collection, reporting and public disclosure of information and an accountability system for discrepancy.

In 2011, the Company has issued specific notices with regard to insider information management and invited experts from SSE to offer trainings for the Company in order to strengthen the management of insider information which may affect the share prices and achieved significant results.

II. Performance of Duties by the Independent Non-executive Directors

The Company's 6th Board of Directors has 5 Independent Non-executive Directors comprising of professionals in the financial, fiscal and taxation, auditing and legal fields, and the number of our Independent Non-executive Directors, which is one-third of the total number of the Board of Directors, is in compliance with the applicable regulatory requirement and the provisions of the Articles of Association.

The Company's Independent Non-executive Directors have the required expertise and experience and are able to perform their duties strictly in accordance with the requirements of the applicable laws and regulations, regulatory documents and the Articles of Association. They have provided comments and suggestions on, among other things, corporate governance, business operation, risk management and internal control. Independent Non-executive Directors have played a meaningful role from an impartial and objective perspective, particularly when taking into consideration the legal interests of the minority shareholders, in the Company's decision making process.

In 2011, all Independent Non-executive Directors attended meetings of the Board of Directors as scheduled to understand the operating situation of the Company, actively investigate and obtain necessary materials and information for decision-making, and provide independent and unqualified opinions on the changes of significant accounting estimates of the Company, appointment and remuneration policy and appraisal of senior management of the Company.

(I) Attendance of Independent Non-executive Directors at Board Meetings

During the reporting period, the Company's Independent Non-executive Directors actively attended the meetings of the Board of Directors, details of which are as follows:

Names of independent non-executive directors	Board meetings to be attended	Attendance in person	Attendance by proxy	Absence
XU Shanda	4	4	0	0
CHANG Tso Tung Stephen	4	4	0	0
LI Ruoshan	4	4	0	0
XIAO Wei	4	4	0	0
YUEN Tin Fan	4	4	0	0

(II) Objections by the Independent Non-executive Directors on Relevant Matters of the Company

No objections were raised by independent non-executive directors on relevant matters of the Company.

(III) The Independence of the Independent Non-executive Directors

The Company received from each independent non-executive director a written confirmation of his independence to the Company pursuant to the Hong Kong Listing Rules. The Company considers all of the Independent Non-executive Directors to be independent of the Company.

III. Independence of the Company to its controlling shareholders in asset, personnel, finance, organization and business

The ownership structure of the Company is diversified and there is no controlling shareholder or de facto controller.

As a wholly-listed comprehensive insurance group company, the Company is fully independent in the following five aspects: asset, personnel, finance, organization and business.

IV. The appraisal and incentive programs for the senior management

The performance management of the Company's senior management primarily comprises of formulation of performance appraisal plan, tracking the performance, appraisal of performance and application of the appraisal results. The annual performance appraisal plan will be determined by the Board based on the long-term and medium-term development strategies and the operation plan for the year. The Company will take follow-up actions on the fulfillment of various appraisal indicators regularly. At the end of the year, the Board will assess the performance based on the fulfillment of the operational objectives for the entire year. The results of appraisal are linked to the yearly bonus for the senior management.

The Company has in place a remuneration policy with reference to the positions and performance of the employee and the market condition. It also has a deferred bonus plan for senior management as a long-term incentive. The deferred bonus will be determined according to the performances of the Company and the senior management after the completion of the annual appraisal. Deferred bonus granted will not be paid immediately and will be paid in cash gradually in the forthcoming years. If the performance of the Company or individual does not meet the requirement in the accounting year immediate before the payment of the deferred bonus, the actual amount paid to the senior management will be reduced accordingly.

V. Establishment and improvement of the Company's internal control system

The Company is committed to establishing a sound internal control system in order to provide reasonable assurance of the achievement of internal control objectives, including the legal compliance of our operation and management, assets security and reliability, truthfulness and completeness of financial reports and related information, improvement of operation efficiency and implementation of development strategies for the sustainable development of the Company.

The Board of Directors of the Company is responsible for the sound establishment and effective implementation of its internal control. It is also responsible for reviewing the internal control structure, major internal control policy and the solution for significant risks, and studying and evaluating the comprehensiveness, rationality and effectiveness of internal control regularly. The Operation and Management Committee of the Company is responsible for establishing a sound internal control structure, improving internal control system and providing guidelines for the daily operation of internal control system. The Board of Supervisors of the Company is responsible for overseeing the establishment and implementation of sound internal control by the Board of Directors and the management.

According to the requirements of the Basic Standards for Enterprise Internal Control (Cai Kuai [2008] No.7) and its relevant guidelines issued by the Ministry of Finance, CSRC, the National Audit Office, CBRC and CIRC and the Basic Standards for Internal Control of Insurance Companies issued by CIRC (Bao Jian Fa [2010] No. 69), and the need to improve its risk prevention capability, the Company has implemented internal control optimization project in 2011 to streamline the systematic procedures focusing on areas with major risks. The Company has identified and assessed the major risks effectively, analyzed the reasons for such risks, and rationalized the measures of risk management and control. The responsibilities for risk management and control were specified to further improve the internal control system consisting of five key elements, namely internal environment, risk assessment, control activities, information and communication and internal supervision with a focus on the controls of sales, operations, corporate management and fund utilization.

In order to improve the internal control system, the Company established the "Provisional Measures of Internal Control for China Pacific Insurance (Group) Co, Ltd." in 2011. The model of internal control with three levels was further strengthened and the responsibilities of management at each level of internal control were clarified. The internal control mechanism was implemented effectively and the identification, assessment, solution and supervision of risks under the internal control mechanism were further strengthened.

VI. Risk management of the Company

Risk management is one of the core elements of the Company's operation and management. The Company has an integrated risk management framework covering the Group as a whole to identify, assess and control the risks in its operation and management to ensure better business decision making and prudent operation.

The Risk Management Committee under the Board of Directors is responsible for the risk management of the Company. The Risk Management Committee monitors the effectiveness of the risk management system based on the investigation of the significant risks faced by the Company and the relevant management measures.

The Company has set up a Compliance and Risk Management Working Committee under the Operation and Management Committee, which comprises the senior management and the heads of key operational departments of the Company and its subsidiaries. The Compliance and Risk Management Working Committee is responsible for the formulation, coordination and implementation of risk management policies and supervising the implementation of these policies.

Both the Company and its subsidiaries have their risk management divisions or departments responsible for the implementation of risk management. Other functional departments and branches also have officers to take charge of risk management and have corresponding concurrent posts in charge of the risk management within their respective scope of duties and the communication with the risk management departments. Meanwhile, the Company has a risk management framework linking the CPIC Group and each of the Company's subsidiaries to facilitate the establishment of the risk management systems in its subsidiaries.

The Company's fundamental process for risk management includes risk information collection, risk identification and assessment, risk management and control, and risk reporting and rectification.

In 2011, the Company further improved its management system and mechanism building to enhance the management of all kinds of risks in its business operation. The Company further improved its risk management system and pushed forward the mechanism building in risk trend, risk warning and emergency management system. The Company also improved the risk management tools and methods and strengthened the overall assessment and specific monitoring of risks by submitting regular report to the Risk Management Committee of the Board of the Directors on the overall assessment of the risks, and paying close attention to and coping with the effects of the general environment, regulations, market changes and emergencies on the operations of the Company. Focuses were put on the longevity risks, interest risks, risks of catastrophes, solvency risks and asset-liability management risks. By strengthening the foundation of risk management, constructing risk management information system, the efficiency and standardization of risk management were enhanced. The Company further promoted the risk management culture and continued to improve the consciousness and ability of risk management of organizations and departments at all levels by educating the risk management culture, specific training and self-evaluation of risks for the establishment of a comprehensive risk management system. Tha Company enhanced the building of the risk management team and appointed risk management staff to various departments to improve the practical experience of its risk management staff and the quality of the professional team.

In 2011, the Company focused on the management of insurance risk, market risk, credit risk, operational risk, asset and liability mismatching risk and solvency margin adequacy compliance risk.

(For details of the analysis on various risks, please refer to notes to the financial statements in the section XVI 'Appendix' of this annual report.)

Section IX Report of the Board of Directors

Report of the Board of Directors

I. Principal businesses

We are a leading comprehensive insurance group in the PRC, providing, through our subsidiaries, a broad range of life and property and casualty insurance and pension products and services to individual and institutional customers throughout the country. We also manage and deploy our insurance funds through our subsidiaries.

II. Major customers

Our top five major customers accounted for approximately 0.4 % of gross written premiums during the reporting period.

III. Results and distributions

The net profits for the year 2011 included in the audited financial statements of the parent company, prepared in accordance with the PRC GAAP and HKFRS, were RMB5.304 billion and RMB5.359 billion, respectively. According to the Company's Articles of Association and other applicable regulations, the Company is required to set aside 10% of the net profit in the financial statements under the PRC GAAP as the statutory surplus reserves. Taking into account the retained profits brought forward from the previous year, the retained profits of the Company at the end of 2011 included in the financial statements, prepared in accordance with the PRC GAAP and HKFRS, were both RMB7.380 billion.

Therefore, the profit distribution for 2011 is made based on the audited financial statements of the parent company. The Company intends to declare a cash dividend of RMB0.35 per share (including tax) for the year. Based on the total share capital of 8,600,000,000 shares, the amount of dividend in aggregate will be RMB3.010 billion. The remaining retained profits will be carried forward to 2012.

No capital reserve was transferred to the share capital during the year.

The above profit distribution proposal is subject to shareholders' approval at the general meeting.

Dividend distributions for the past three years are as follows:

Unit: RMB million

Year of dividend distribution	Cash Dividend (including tax) (1)	Net profit attributable to the dividend distribution year Note (2)	Payout ratio (%) (3)=(1)/(2)
2008	2,310	1,339	172.5
2009	2,580	7,356	35.1
2010	3,010	8,557	35.2

Note: Net profit attributable to the dividend distribution year is presented as net profit attributable to equity holders of the parent, of which the 2009 and 2010 data is prepared in accordance with the PRC GAAP by the Company after the adoption of "Standard for accounting treatment for insurance contracts" issued by the Ministry of Finance, and the 2008 data is prepared in accordance with the PRC GAAP by the Company before the adoption.

IV. Reserves

Details for reserves (including distributable reserves) are shown in note 37 to the financial statements.

V. Property and equipment and investment properties

Details for property and equipment and investment properties are shown in notes 17 and 18 to the financial statements.

VI. Financial summary

Summary of financial information is shown in Section III "Highlight of Accounting and Operation Data" of this annual report.

VII. Use of proceeds raised from listing

As disclosed in the prospectus, the entire proceeds raised have been used to strengthen our capital base for the purpose of continuing business expansion.

VIII. Share capital and sufficient public float

The changes in our share capital are shown in Section VI "Changes in the Share Capital and Shareholders' Profile" of this annual report.

Based on the information that is publicly available and within the knowledge of the Directors as at the latest practicable date prior to the printing of this annual report, since 12 January 2011, not less than 25% of the total issued share capital of the Company was held in public hands and not less than 15% of the H share capital of the Company was held in public hands, which is consistent with the requirements under the Hong Kong Listing Rules to maintain a minimum public float.

IX. Post balance sheet event

Post balance sheet event is shown in note 50 to the financial statements.

X. Connected transactions

During the reporting period, the Company did not enter into any connected transactions or continuing connected transactions which require the compliance with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A 'Connected Transactions' of the Hong Kong Listing Rules.

XI. Bank borrowings

The Company does not have bank borrowings except for the subordinated bonds issued by CPIC Life and securities sold under agreement to repurchase. Details of the subordinated bonds issued by CPIC Life are set out in note 40 to the financial report.

XII. Charitable and other donations

During the reporting period, the Company made charitable and other donations totaled approximately RMB3.2827 million.

XIII. Management contract

The Company did not enter into any management contract in relation to all the Company's business or its principal business.

XIV. Directors, supervisors and senior management

Biographies of the Company's current Directors, Supervisors and senior management are shown in Section VII "Directors, Supervisors, Senior Management and Employees" of this annual report.

XV. Directors' and supervisors' interests in competing businesses

None of our Directors or Supervisors has any interests in businesses which, directly or indirectly, compete with the Company's businesses.

XVI. Directors' and supervisors' service contracts and remunerations

None of our Directors or Supervisors has entered into any service contract with the Company or its subsidiaries which is not terminable within one year, or terminable only when receiving compensation other than the statutory compensation.

Details for our Directors' and Supervisors' remunerations are shown in Section VII "Directors, Supervisors, Senior Management and Employees" of this annual report.

XVII. Special committees of the Board of Directors

The Board of Directors of the Company established four special committees, namely the Strategic Committee, the Audit Committee, the Nominations and Remuneration Committee and the Risk Management Committee. See Section VIII "Corporate Governance Report" of this annual report for details of the special committees of the Board of Directors.

XVIII. Directors' and supervisors' interests in material contracts

During the reporting period, none of our Directors or Supervisors had any personal interests in any of the material contracts involving the Company or any of its subsidiaries as a party.

XIX. Directors' and supervisors' rights to subscribe for shares

The Company did not grant to any Directors, Supervisors or their respective spouses or children under 18 years of age any rights to subscribe for or to acquire shares or bonds of the Company or its subsidiaries.

XX. Directors' and supervisors' interest and short positions in shares

As at 31 December 2011, none of the directors, supervisors or senior management of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions.

The directors' and the supervisors' shareholdings in A Shares are set out in Section VII "Directors, Supervisors, Senior Management and Employees".

XXI. Interests and short positions of substantial shareholders and other persons in the shares and underlying shares

So far as the directors of the Company are aware, as at 31 December 2011, the following persons (excluding the directors and the supervisors of the Company) had an interest or short position in the shares or underlying shares of the Company which shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which, pursuant to Section 336 of the SFO, shall be entered in the register maintained by the Company:

Names of substantial shareholders	Capacity	Types of Shares	Number of Shares	Percentage of shareholderings in the class of shares issued (%)	Percentage of the total shares issued (%)
Carlyle Offshore Partners II, Ltd.[note 1]	Interest of corporation controlled by Carlyle Offshore Partners II, Ltd.	H shares	443,147,600(L)	19.16(L)	5.15(L)
Allianz SE[note 2]	Interest of corporation controlled by Allianz SE	H shares	241,638,600(L)	10.45(L)	2.81(L)
Waddell & Reed Financial, Inc.[note 3]	Investment manager	H shares	192,088,800(L)	8.30(L)	2.23(L)
JPMorgan Chase & Co.[note 4]	Beneficial owner, investment manager and custodian — corporation/approved lending agent	H shares	139,248,324(L) 3,747,710(S) 95,705,643(P)	6.02(L) 0.16(S) 4.14(P)	1.62(L) 0.04(S) 1.11(P)
Blackrock, Inc.[note 5]	Interest of corporation controlled by Blackrock, Inc.	H shares	136,950,827(L) 19,274,418(S)	5.92(L) 0.65(S)	1.59(L) 0.18(S)

(L) denotes long position (S) denotes a short position (P) denotes interest in a lending pool

Notes:

1. *Pursuant to Part XV of the SFO, Carlyle Offshore Partners II, Ltd. is deemed or taken to be interested in a total of 443,147,600 H shares of the Company. Of these shares, Carlyle Asia Ltd., TC Group Cayman Investment Holdings, L.P., TCG Holdings Cayman II, L.P., Carlyle CPL Partners I, L.P., Parallel Investors Holdings Limited, Carlyle Asia Partners, L.P., and Carlyle Holdings Mauritius Limited are interested in 443,147,600 H shares, 443,147,600 H shares, 443,147,600 H shares, 329,824,102 H shares, 329,824,102 H shares, 113,323,498 H shares and 113,323,498 H shares, respectively. All of these entities are either controlled or indirectly controlled subsidiaries of Carlyle Offshore Partners II, Ltd.. In January 2012, Parallel Investors Holdings Limited sold 18,000,000 H shares, following which Parallel Investors Holdings Limited and Carlyle Holdings Mauritius Limited held 425,147,600 H shares in aggregate, representing 4.94% of the Company's total issued share capital.*
2. *Pursuant to Part XV of the SFO, Allianz SE is deemed or taken to be interested in a total of 241,638,600 H shares of the Company. Of these shares, Allianz Deutscheland AG, Jota Vermoegensverwaltungsgesellschaft mbH, Allianz Lebensversicherungs-AG, AZ Euro Investments S.a.r.l, Allianz Finance II Luxembourg S.A., Allianz Global Investors AG, Allianz Global Investors Asia Pacific GmbH, Allianz Global Investors Hong Kong Ltd., Allianz Global Investors Taiwan Ltd., Allianz Global Investors Europe Holdings GmbH and Allianz Global Investors Luxembourg S.A. are interested in 198,482,200 H shares, 198,482,200 H shares, 198,482,200 H shares, 198,482,200 H shares, 41,517,800 H shares, 1,638,600 H shares, 1,301,600 H shares, 1,138,600 H shares, 163,000 H shares, 337,000 H shares and 337,000 H shares, respectively. All of these entities are either controlled or indirectly controlled subsidiaries of Allianz SE.*
3. *Pursuant to Part XV of the SFO, Waddell & Reed Financial, Inc. is deemed or taken to be interested in a total of 192,088,800 H shares of the Company. Of these shares, Waddell & Reed Investment Management Company and Ivy Investment Management Company are interested in 25,441,600 H shares and 166,647,200 H shares, respectively. All of these entities are either controlled or indirectly controlled subsidiaries of Waddell & Reed Financial, Inc.*

4. *Pursuant to Part XV of the SFO, JPMorgan Chase & Co. is deemed or taken to be interested in 139,248,324 H shares (long position) and 3,747,710 H shares (short position) of the Company. Of these shares, JPMorgan Chase Bank, N.A., J.P. Morgan International Inc., Bank One International Holdings Corporation, J.P. Morgan International Finance Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Chase International Holdings, J.P. Morgan Securities Ltd., J.P. Morgan Overseas Capital Corporation, J.P. Morgan Whitefriars Inc., JPMorgan Asset Management Holdings Inc., JPMorgan Asset Management International Limited, JPMorgan Asset Management Holdings (UK) Limited, JPMorgan Asset Management (UK) Limited, J.P. Morgan Investment Management Inc., JPMorgan Asset Management (Asia) Inc., JF Asset Management Limited, JPMorgan Asset Management (Taiwan) Limited and JF International Management Inc. are interested in 107,708,724 H shares, 12,003,081 H shares, 12,003,081 H shares, 12,003,081 H shares, 3,415,808 H shares, 3,415,808 H shares, 3,415,808 H shares, 3,415,808 H shares, 8,587,273 H shares, 8,587,273 H shares, 31,539,600 H shares, 394,400 H shares, 394,400 H shares, 394,400 H shares, 223,200 H shares, 30,922,000 H shares, 28,094,000 H shares, 2,248,200 H shares and 579,800 H shares (long position), respectively, while JPMorgan Chase Bank, N.A., J.P. Morgan International Inc., Bank One International Holdings Corporation, J.P. Morgan International Finance Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Chase International Holdings, J.P. Morgan Securities Ltd., J.P. Morgan Overseas Capital Corporation, J.P. Morgan Whitefriars Inc. and J.P. Morgan Whitefriars (UK) are interested in 3,747,710 H shares, 3,747,710 H shares, 3,747,710 H shares, 3,747,710 H shares, 3,029,208 H shares, 3,029,208 H shares, 3,029,208 H shares, 3,029,208 H shares, 718,502 H shares, 718,502 H shares and 351,720 H shares (short position) of the Company, respectively. All of these entities are either controlled or indirectly controlled subsidiaries of JPMorgan Chase & Co..*
   Included in the 139,248,324 H shares (long position) are 95,705,643 H shares which are held in the "lending pool", as defined under Section 5(4) of the Securities and Futures (Disclosure of Interests Securities Borrowing and Lending) Rules.
5. *Pursuant to Part XV of the SFO, Blackrock, Inc. is deemed or taken to be interested in a total number of 136,950,827 H shares (long position) and 15,158,664 H shares (short position) of the Company. Of these shares, Trident Merger, LLC, BlackRock Investment Management, LLC., BlackRock Holdco 2 Inc., BlackRock Financial Management, Inc., BlackRock Holdco 4 LLC, BlackRock Holdco 6 LLC, BlackRock Delaware Holdings, Inc., BlackRock Institutional Trust Company, N.A., Blackrock Fund Advisors, BlackRock Advisors Holdings Inc., BlackRock Capital Holdings, Inc., BlackRock Advisors, LLC., BlackRock International Holdings Inc., BR Jersey International LP, BlackRock (Institutional) Canada Ltd, BlackRock Holdings Canada Limited, BlackRock Asset Management Canada Limited, BlackRock Australia Holdco Pty Ltd, BlackRock Asset Management Australia Limited, BlackRock HK Holdco Limited, BlackRock Asset Management North Asia Limited, BlackRock Group Limited, BlackRock (Netherlands) B.V., Blackrock Advisors UK Ltd., BlackRock Luxembourg Holdco S.a.r.l., BlackRock Investment Management (LUX), BlackRock Investment Management Ireland Holdings Ltd, BlackRock Asset Management Ireland Ltd, BlackRock Investment Management (UK) Ltd, BlackRock Holdings Deutschland GmbH, BlackRock Asset Management Deutschland AG, BlackRock Fund Managers Ltd, BlackRock International Ltd. and BlackRock Pensions Limited are interested in 1,156,737 H shares, 1,156,737 H shares, 135,794,090 H shares, 135,794,090 H shares, 90,083,800 H shares, 90,083,800 H shares, 90,083,800 H shares, 90,083,800 H shares, 76,247,600 H shares, 45,709,090 H shares, 1,450,200 H shares, 1,450,200 H shares, 44,258,890 H shares, 44,258,890 H shares, 138,800 H shares, 138,800 H shares, 138,800 H shares, 27,600 H shares, 27,600 H shares, 11,091,556 H shares, 11,091,556 H shares, 33,000,934 H shares, 293,800 H shares, 8,679,434 H shares, 20,890,200 H shares, 9,692,800 H shares, 11,197,400 H shares, 11,197,400 H shares, 1,584,800 H shares, 188,000 H shares, 188,000 H shares, 931,400 H shares, 1,552,700 H shares and 464,800 H shares (long position) of the Company, respectively, while BlackRock Holdco 2 Inc., BlackRock Financial Management, Inc., BlackRock Holdco 4 LLC, BlackRock Holdco 6 LLC, BlackRock Delaware Holdings, Inc., BlackRock Institutional Trust Company, N.A., BlackRock Advisors Holdings Inc., BlackRock Capital Holdings, Inc., BlackRock Advisors, LLC., BlackRock International Holdings Inc., BR Jersey International LP, BlackRock HK Holdco Limited, BlackRock Asset Management North Asia Limited, BlackRock Group Limited and Blackrock Advisors UK Ltd. are interested in 15,158,664 H shares, 15,158,664 H shares, 222,000 H shares, 222,000 H shares, 222,000 H shares, 222,000 H shares, 14,936,664 H shares, 2,200 H shares, 2,200 H shares, 14,934,464 H shares, 14,934,464 H shares, 10,647,430 H shares, 10,647,430 H shares, 4,287,034 H shares and 4,287,034 H shares (short position) of the Company, respectively. All of these entities are either controlled or indirectly controlled subsidiaries by Blackrock, Inc..*

Save as disclosed above, as at 31 December 2011, the Company was not aware that there was any other person (other than the directors or the President of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

Specifics on the shareholdings by the Company's top ten shareholders are set out in Section VI "Changes in the Equity Capital and Shareholders' Profile".

XXII. Purchase, redemption or sale of the company's listed securities

During the reporting period, neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed shares.

XXIII. Pre-emptive rights

According to the relevant PRC laws and under the Articles of Association, none of our shareholders have any pre-emptive rights, and the Company does not have any arrangement in respect of share options.

XXIV. The implementation of insider information management system

The Company amended the Information Disclosure Management Measures of China Pacific Insurance (Group) Co., Ltd. and added the chapter of "Management of Insider Information" to define the scope of and regulations of insider information. In July 2011, the Company issued and strictly implemented the "Notice regarding the Additional Regulations on the Circulation and Public Disclosure of Insider Information"(關於進一步規範內幕信息內部流轉與對外報送的通知).

XXV. Appointment of the auditors

In the reporting period, the Company continued to engage Ernst & Young Hua Ming and Ernst & Young as the auditors. In 2011, the Company paid the auditors a total fee of RMB12.9820 million for annual audit service and RMB1.4970 million for internal control audit service.

XXVI. Plan for the optimization and improvement of the internal control system

According to the requirements of the Basic Standards for Enterprise Internal Control (Cai Kuai [2008] No.7) and its relevant guidelines issued by the Ministry of Finance, CSRC, the National Audit Office, CBRC and CIRC and the Basic Standards for Internal Control of Insurance Companies issued by CIRC (Bao Jian Fa [2010] No. 69), and the need to improve its risk prevention capability, the Company pushed forward its internal control optimization project and prepared the implemention plans of internal control. The project was successfully completed. By streamlining the systematic procedures and focusing on areas with major risks, the Company effectively identified and evaluated major risks, analyzed the reasons of such risks and rationalized the measures of risk management and control. It also specified the responsibilities of risk management and control to further optimize the internal control system and enhance the effectiveness of the internal control management system.

XXVII. The Board's statement in respect of internal control responsibilities

The board of directors of the Company will be responsible for establishing and maintaining an internal control system for ensuring the completeness of financial reports.

The objectives of an internal control system regarding the financial report is to ensure that the information in the financial report is true, complete and reliable and to prevent the risk of making material misstatements. Given the inherent limitations of an internal control system, reasonable guarantee can only be given in relation to the aforementioned objectives.

The board of directors of the Company have evaluated the self-control system in relation to financial reports in accordance with the "Basic Norms of Internal Control", and are of the opinion that such rules were effective on 31 December 2011.

In its self-evaluation regarding internal control, the Company did not find any significant and important defects regarding matters that did not relate to the financial report. General defects that may lead to risks were within a manageable risk and did not constitute a substantial impact on the overall operations of the Company. Corrective measures to such risks have been and continue to be implemented.

XXVIII. Change in accounting estimates

When measuring the insurance contract liabilities, the Group determines actuarial assumptions such as discount rate, mortality and morbidity, surrender rates, expense assumptions and policy dividend assumptions based on information currently available as at the balance sheet date. As at 31 December 2011, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in a decrease in long-term life insurance contract liabilities as at 31 December 2011 by approximately RMB50 million and an increase in profit before tax for 2011 by approximately RMB50 million.

XXIX. Performance of duties by the board of directors

Details of the performance of duties by the Board of Directors and its special committees are set out in Section VIII "Corporate Governance Report" in this annual report.

Section X Report of the Board of Supervisors

Report of the Board of Supervisors

I. Performance of duties by the board of supervisors

(I) The meetings of the Board of Supervisors were held in a timely manner to perform supervisory duties

The Board of Supervisors held 4 meetings in 2011 (please see the announcements published on the websites of Hong Kong Stock Exchange and the Company for more details).

1. On 25 March 2011, the 4th session of the 6th Board of Supervisors was held in Shanghai, at which resolutions including the Resolution in Relation to the Report of the Board of Supervisors 2010 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

2. On 28 April 2011, the 5th session of the 6th Board of Supervisors was held in Dongguan, at which Resolution in Relation to the 1st Quarterly Report 2011 of China Pacific Insurance (Group) Co., Ltd. was considered and approved.

3. On 26 August 2011, the 6th session of the 6th Board of Supervisors was held in Shanghai, at which Resolution in Relation to the Interim Report 2011 of China Pacific Insurance (Group) Co., Ltd. was considered and approved.

4. On 18 October 2011, the 7th session of the 6th Board of Supervisors was held by electronic communication means, at which Resolution in Relation to the 3rd Quarterly Report 2011 of China Pacific Insurance (Group) Co., Ltd. was considered and approved.

(II) Performance of Supervisory Duties through Various Means

1. Attending relevant meetings to strengthen the supervision on the Board of Directors and senior management of the Company

In 2011, members of the Board of Supervisors attended the general meetings and the Board meeting of the Company to conduct effective supervision on the decision-making and performance of duties by the Board of Directors. In addition, members of the Board of Supervisors also attended important meetings held by the Operation and Management Committee and the AGM of its subsidiaries when necessary to keep informed of the significant events in the Company's operations. The Supervisors communicated with relevant departments before such meetings. They also participated in the consideration and discussions regarding resolutions poposed at the meetings actively and provided advices and suggestions.

The Board of Supervisors reviewed the due diligence report of Directors and the performance evaluation results of senior management to strengthen the supervision and evaluation of the due diligence of Directors and senior management. The Supervisors also participated in the audit regarding the resignation of certain senior management members, and considered and approved the resignation audit report of GU yue, the former Auditing Officer, CHEN Jihua, the former vice-president and NGO Tai Chuan Alan, the former Chief Financial Officer.

2. Enhancing communication with external auditors to perform supervision on financial activities

In 2011, the Board of Supervisors conducted two meetings with Ernst & Young and listened to the advices on auditing and management. It also requested the auditors to prepare reports regarding the major topics, sampling rate and major adjustments during the auditing of the annual financial report and the resolution regarding profit distribution, and studied the significant events including changes of estimation in order to improve the quality of the preparation of financial reports.

The Board of Supervisors provided opinions on the engagement of auditors of the Company, agreed with the results of open recruitment conducted by the management and recommended the shareholders at the general meeting to engage Ernst & Young as the auditor of the Company for 2011.

3. Arranging effective inspections and investigations and providing management advices

Based on the customer demand-oriented strategic transformation of the Company, the Board of Supervisors and a number of Directors inspected the Inner Mongolia branches of CPIC Life and CPIC Property in the second half of 2011. During the inspections, the Supervisors held meetings and discussed with the middle level management and conducted site visits of outlets to keep informed with the business development, operation and management and infrastructure of all branches. Based on the opinions and suggestions made by the branches, the Supervisors provided guidelines on, among others, strengthening specialized regional guidelines, enhancing brand building, improving customer services quality and exploring new channels. The Board of Supervisors prepared a specific inspection report ad discussed with the management regarding the issues identified during the inspections. These recommendations and reports were highly valued by the Company's management and achieved significant results as expected.

(III) Enhancing supervision on risk and internal control and providing guidelines for the implementation of internal audit

1. The Board of Supervisors highly focused on the establishment of internal control systemand urged the management team to optimize the internal control system and streamlined the internal control management system and proceduresaccording to the requirements of the Board of Directors. In 2011, the Company had remarkable performances in terms of risk management and internal control. The Company implemented an internal control optimization project and streamlined the systematic procedures, conducted risk identification and evaluation and restructured the internal control system. The optimized procedures were applied to the Company's departments of all levels to establish a dynamic, effective and long-term internal control mechanism with continuous improvement and further improve the internal control management and risk prevention of the Company.

2. In 2011, the Board of Supervisors received reports of risk evaluations, compliance and internal control periodically. It enhanced the communications with departments of risk management, compliance management and finance to understand the internal control management and risk control of the Company in a timely manner and provided guidelines on strengthening compliance to the administrative departments to further regulate our operations.

   The Board of Supervisors also received reports on the implementation of connected transactions and audit report of connected transactions. It considered that the Company kept improving its connected transaction management system based on its experiences and enhanced the management of approval and disclosure of connected transactions, which ensured the compliance of the Company's connected translation with the requirements of the regulatory authorities and the listing rules of the place where its shares were listed.

3. In 2011, the Board of Supervisors continued to enhance the monitoring and supervision of internal control of the Company. It reviewed the working reports of the Auditing Officer and provided guidelines of internal audit. In line with reforms of the internal audit department, it formulated a new set of performance appraisal measures, and participated in the annual performance appraisal and evaluations of the internal audit department jointly with the Audit Committee of the Board of Directors to further improve the quality of internal audit.

(IV) Strengthening trainings and supervision standards

In 2011, the Board of Supervisors arranged a number of Supervisors to take part in the training classes of directors and supervisors organized by CIRC for studying the topics regarding the Insurance Law, the philosophy, framework and laws and regulations of corporate governmence, risks of corporate governmence and risk prevention, the specialties and development trends of the PRC insurance industry and interacting with other listing companies in respect of major issues such as corporate governance. In addition, the Board of Supervisors also provided information on the operations and internal management of the Company as well as the guildlines of regulatory authorities to the Supervisers from time to time to enhance the knowledges of the Supervisors, thus improving the overall supervion standard.

II. Independent opinions of the board of supervisors on the following issues

(I) Compliant Operation of the Company

The Board of Supervisors is of the opinion that during the reporting period, the Company's business was operated legally with operation activities being compliant with the applicable provisions of the Company Law and the Articles of Association. The structure of its corporate governance was further improved. The decision-making procedures of the Board of Directors and the management were legal and valid, and the directors and senior management were faithful and diligent in the process of the operation and management of the Company. No conducts which breached any laws or regulations or harmed the interests of shareholders were found.

(II) Truthfulness of the Financial Statements

The financial statements of the Company for the year 2010 were audited, based on their respective independent standards, by Ernst & Young Hua Ming and Ernst & Young respectively who issued the standard unqualified audit reports. The financial statements gave a true and fair view of the Company's financial positions and operation results.

(III) Use of Proceeds from Listing

The Board of Supervisors is of the opinion that according to the information disclosed by the Board of Directors and the management, during the reporting period, the proceeds are used by the Company to increase the capital base to support sustainable business development, which was consistent with the use as undertaken by the Company in its prospectus.

(IV) Acquisition and Disposal of Assets

During the reporting period, there was no significant asset acquisition made by the Company.

During the reporting period, disposal of assets were made by the Company in compliance with applicable laws and regulations and the provisions of the Articles of Association, and no conducts which breached any laws or regulations were found.

(V) Connected Transactions

During the reporting period, the Company's connected transactions were fair and reasonable. No conducts which damaged the interests of the Company and shareholders were found.

(VI) Review of Report on Internal Controls

During the reporting period, the Company established a relatively complete, reasonable and effective internal control system. The Board of Supervisors reviewed the Company's "Assessment Report on Internal Control" and "Implementation Plan on Internal Control Standards", and raised no objection to the above reports.

(VII) Implementation of Resolutions Reached by the General Meeting

During the reporting period, the Board of Supervisors raised no objections on all reports and resolutions submitted for consideration by the Board of Directors at the general meeting and supervised the implementation of the general meeting resolutions. The Board of Supervisors considered the Board of Directors to be able to conscientiously implement the relevant resolutions approved at the general meeting.

Section XI Corporate Social Responsibility

Corporate Social Responsibility

The Company adheres to its mission to "be a responsible insurance company" and its core corporate values of "business integrity, prudence and sustainability, pursuit of performance excellence". It will promote and realize its objective of sustainable value-enhancing growth and strive to fulfill its corporate social responsibility through its strategies and business operations in order to maintain sustainable development and create values for the shareholders, customers, employees and the society.

In 2011, the Company continued to optimize its accountability system. It promoted the awareness of social responsibility internally and initiated a systematic research on stakeholders by conducting questionaires and interviews to gain a full picture of the expections of stakeholders on the Company regarding social responsibility.

The Company always strived to protect the interests of stakeholders. It continued to promote the customer-demand oriented strategic transformation to differentiate its competitiveness. The business scale continued to expand and its profitability and value growth kept enhancing. In addition, the Company strengthened its comprehensive risk management and internal control mechanism by establishing a sound risk management framework and internal control with three levels for the Group.

The Company is devoted to improving its service capability and quality to satisfy customers' demand and further enhance their experience. In 2011, the Company launched customized products including the "Golden Life Insurance"(金尊人生保障計劃) and "the Guardian"(全能衛士) to better serve its customers. The Company also optimized its sales model and promoted sales of product building by launching the service of single application for different insurances and upgrading insurance policy system. The Company offered innovative services and developed a 3G fast claim settlement system and electronic mobile platforms such as "the Shen Xing Tai Bao"(「神行太保」) and "E Bao Tong"(E保通) by applying new technologies to streamline service process and improve efficiency. The Company implemented unified brand strategy to improve customer services and maintained close interactions with customers by organising the branded activity of "Music Around the World" and establishing the "CPIC Customer Club".

The Company implemented market position-salary system and open recruitment, and refined the mentorship and job rotation systems. The Company has established clear qualifications for every position and continued to enhance the career development of employees. Career development management of risk management and information technology staff was reinforced. The Company also improved the training system by organizing different types of programmes for the development of employees. The Company maintained close communications with its staff members through various channels including the employee representive meetings, "Staff Mailbox" and "CPIC Youth Forum" to take care physical and phycological health of its employees and create a harmonious working environment.

The Company offered various insurance protections for its agents, including death insurance, accident medical insurance and pensions. Agents were provided with special trainings and technical support including a life insurance marketing system and "Mobile Selling"(手機展業通) to boost sales and regulate the sales activities. The Company also strengthend support for its business partners by developing electronic channels for bancassurance business and offering exclusive services and products for car dealership. The Company also exerted efforts in educating the society of financial and insurance knowledge. The Company advocated the concepts of insurance by producing and promoting the first themed movie named Stay by Yourside of the insurance industry.

The Company put more efforts in the development of micro insurance business to fulfill the needs of the underprivileged and support the poverty by commercial means. Leveraging on the professional advantanges, the Company invested in the affordable housing projects in Shanghai. The Company actively participated in the new type of rural cooperative medical care system and implemented the "Jinjiang model" by establishing a multi-layer medical insurance system. The Company supported the development of cultural industry and launched the first 11 trial insurance products for cultural industry. The Company is dedicated to social welfares and continued its campaign with a slogan of"Responsibility Shines the Future". In 2011, the Company sent 29 volunteers as teachers to five CPIC Hope Schools in Jilin, Guangxi, Chongqing, Shandong and Jiangxi. In addition, the Company cared about children welfare and made donations to Shanghai Children's Welfare Center for the 16th consecutive year.

The Company has launched innovative green products and services. It provided insurance services for environmental-friendly enterprises and clean energy projects and offered environment pollution liability insurance to support the development of low- carbon green industries. The Company developed a new back office operation system and launched electronic insurance application procedures. The Company promoted electronic operations and green office to lower carbon emission, and implemented "Lvjihua"(「綠G劃」) to cultivate the concept of environmental protection and adopt new energy saving measures.

Section XII Significant Events

Significant Events

I. Establishment of Pacific Insurance Online Services Technology Co., Ltd

On 5 January 2012, CPIC Online was incorporated by the Company with a registered capital of RMB50 million. The Company held 100% of its shares. CPIC Online is mainly engaged in the provision of consultation service for insurance business.

II. Material Litigations and Arbitrations

During the reporting period, the Company did not engage in any litigation or arbitration of significant importance which was required to be disclosed.

III. Asset Acquisition

During the reporting period, the Company did not engage in any asset acquisition which was required to be disclosed.

IV. Significant Connected Transaction during the Reporting Period

During the reporting period, there was no significant connected transaction entered into by the Company which was required to be disclosed.

V. Custody

During the reporting period, the Company did not engage in any custody arrangement which was required to be disclosed.

VI. Contracting

During the reporting period, the Company did not engage in any contracting arrangement which was required to be disclosed.

VII. Lease

During the reporting period, the Company did not have any lease which was required to be disclosed.

VIII. Guarantee

During the reporting period, the Company did not issue any guarantee which was required to be disclosed.

IX. Entrusted Wealth Management

During the reporting period, the Company did not have any entrusted wealth management arrangement which was required to be disclosed.

X. Penalty on and Rectification on Listed Companies and Their Directors, Supervisors and Senior Management

During the reporting period, neither the Company nor its Directors, Supervisors and senior management was subject to any investigation, administrative penalty or official censure by CSRC, or public reprimand by any stock exchange.

XI. Shareholding of the Company in Other Listed Companies and Financial Institutions

1. Investment in securities (included in financial assets at fair value through profit or loss)

Unit: RMB million

No.	Stock type	Stock code	Abbreviated stock name	Initial cost	Number of shares (Million shares)	Carrying amount at the end of the period	Percentage to total investment at the end of the period (%)	Profit or loss in the reporting period
1	CB	113001	BOCCB	1,803.06	17.82	1,683.91	76.91	(290.12)
2	CB	110013	SDICCB	367.20	3.35	324.56	14.82	(42.65)
3	CB	110018	Guodian CB	95.68	0.95	100.84	4.61	5.16
4	CB	110015	Sinopec CB	49.93	0.50	50.36	2.30	0.42
5	CB	125709	Tang Steel CB	16.28	0.15	16.11	0.74	(0.17)
6	CB	113002	ICBCCB	14.62	0.13	13.52	0.62	(21.90)
Profit or loss from investment securities sold during the reporting period				N/A	N/A	N/A	N/A	44.45
Total				2,346.77	N/A	2,189.30	100.00	(304.81)

Notes:

1. *The table above reflects the shares, warrants and convertible bonds included in the financial assets at fair value through profit or loss of the Company.*
2. *Profit or loss for the reporting period includes dividend income and gain or loss from the change in fair value of the investment during the reporting period.*

Significant Events

2. Investment in securities (included in available-for-sale financial assets)

Unit: RMB million

No.	Stock code	Abbreviated stock name	Amount of initial investment	Shareholding of the company (%)	Carrying amount at the end of the period	Profit or loss in the reporting period	Changes in shareholders' equity in the reporting period	Source of shares
1	601398	ICBC	2,190	0.15	2,133	59	(1)	Purchase from market
	HK01398		116		82	2	(23)	Purchase from market
2	601006	Daqin Railway	2,284	1.77	1,959	87	(98)	Purchase from market
3	601939	CCB	2,024	0.17	1,864	89	(87)	Purchase from market
	HK00939		85		62	3	(23)	Purchase from market
4	601288	ABC	1,681	0.19	1,631	36	(48)	Purchase from market
	HK01288		14		12	—	(1)	Purchase from market
5	600036	CMB	1,628	0.55	1,363	37	(102)	Purchase from market
	HK03968		66		49	1	(12)	Purchase from market
6	601668	CSCEC	1,578	1.32	1,157	13	2	Purchase from market
7	000402	Financial Street	841	3.98	730	30	(94)	Purchase from market
8	000729	Yanjing Beer	725	3.35	547	—	(169)	Purchase from market
9	601328	BoComm	496	0.16	431	8	(34)	Purchase from market
10	600598	Beidahuang	694	2.61	402	(25)	(194)	Purchase from market

Notes:

1. *The above table reflects the top ten shareholdings of the Company in other listed companies, which is included in the available-for-sale financial assets.*
2. *Profit or loss in the reporting period represents the dividend payment and bid-ask spread income of the investment during the reporting period.*
3. *Percentage of shareholding in the company is calculated based on the investment of total number of shares denominated in different currencies.*

3. Shareholdings in non-listed financial institutions

Unit: RMB million

Name of institution	Amount of initial investment	Number of shares held at the beginning of the period (Million shares)	Percentage of shareholding in the company at the beginning of the period (%)	Number of shares held at the end of the period (Million shares)	Percentage of shareholding in the company at the end of the period (%)	Carrying amount at the end of the period	Profit or loss in the reporting period	Changes in shareholders' equity in the reporting period	Accounting item	Source of shares
Bank of Hangzhou	1,300	100	5.98	100	5.98	1,082	20	(156)	Available-for-sale financial assets	Private placement
Shanghai Rural Commercial Bank	1,296	—	—	200	4.00	1,080	1	(216)	Available-for-sale financial assets	Private placement

Note: Investment of insurance funds (excluding associates, jointly-controlled entities and subsidiaries).

4. Trading of the Shares in Other Listed Companies

Unit: RMB million

Purchase/sell	Stock names	Number of shares held at the beginning of the reporting period (million shares)	Number of shares purchased/ sold during the reporting period (million shares)	Number of shares held at the end of the reporting period (million shares)	Amount paid	Investment returns
Purchase	N/A	N/A	3,537	N/A	40,212	N/A
Sell	N/A	N/A	2,424	N/A	N/A	(301)

Note: Due to the nature of the business, the trading volume of securities is relatively large. The overall transactions have been presented in the above table.

Section XIII Financial Report

Financial Report

Ernst & Young audited the Company's annual financial report and issued a standard unqualified audit opinion. Please refer to the audited financial report set out in Section XVI Appendix for details.

HKFRS Financial Statements

Section XIV Embedded Value

Embedded Value

To The Directors China Pacific Insurance (Group) Company Limited

INDEPENDENT ACTUARIES REVIEW OPINION REPORT ON EMBEDDED VALUE

Towers Watson Management (Shenzhen) Consulting Co. Ltd Beijing Branch, trading as Towers Watson, ("Towers Watson" or "we") has been engaged by China Pacific Insurance (Group) Company Limited ("CPIC Group") to review the embedded value information of CPIC Group as at 31 December 2011.

This review opinion is addressed solely to CPIC Group in accordance with the terms of our engagement letter, and sets out the scope of our work and our conclusions. To the fullest extent permitted by applicable law, we do not accept or assume any responsibility, duty of care or liability to anyone other than CPIC Group for or in connection with our review work, the opinions we have formed, or for any statement set forth in this report.

Scope of work

Towers Watson's scope of work comprised:

- a review of the methodology used to develop the embedded value of CPIC Group and the value of one year's sales of China Pacific Life Insurance Co. Ltd. ("CPIC Life") as at 31 December 2011, in the light of the requirements of the "Life Insurance Embedded Value Reporting Guidelines" issued by the China Insurance Regulatory Commission ("CIRC") in September 2005;
- a review of the economic and operating assumptions used to develop CPIC Group's embedded value and the value of one year's sales of CPIC Life as at 31 December 2011;
- a review of the results of CPIC Group's calculation of the value of in-force business, the value of one year's sales of CPIC Life, the results of the analysis of movement of embedded value of CPIC Group, and the sensitivity results of the value of in-force business and value of one year's sales of CPIC Life.

Opinion

As a result of our review of the embedded value of CPIC Group as at 31 December 2011 and the value of one year's sales of CPIC Life prepared by CPIC Group, Towers Watson has concluded that:

- The methodology used is consistent with a traditional deterministic discounted cash flow approach, and is consistent with the requirements of the "Life Insurance Embedded Value Reporting Guidelines" issued by the CIRC;
- The operating assumptions have been set with appropriate regard to past, current and expected future experience;
- The economic assumptions have been set with regard to current market information.

Towers Watson has performed reasonableness checks and analysis of CPIC Group's embedded value and value of one year's sales of CPIC Life as at 31 December 2011, and Towers Watson has concluded that these results have been determined in a manner consistent with the methodology and assumptions described in the Embedded Value Section of CPIC Group's 2011 annual report and that the aggregate results are reasonable in this context.

Towers Watson confirms that the results shown in the Embedded Value section of CPIC Group's 2011 annual report are consistent with those reviewed by Towers Watson.

In carrying out our review we have relied on the accuracy of audited and unaudited data and information provided by CPIC Group.

For and on behalf of Towers Watson

Adrian Liu, FIAA, FCAA
23 March 2012

2011 Embedded Value Annual Report of CPIC Group

I Background

In order to provide investors with an additional tool to understand our economic value and business results, we have prepared CPIC Group Embedded Value as at 31 December 2011 in accordance with the disclosure rules set by the China Securities Regulatory Commission ("CSRC") for publicly listed insurer and the embedded value guidelines issued by China Insurance Regulatory Commission ("CIRC") and have disclosed information relating to our group embedded value in this section. We have engaged Towers Watson, an independent firm of consultants, to review the reasonableness of the valuation methodology, the valuation assumptions as well as the valuation results, and to issue their independent embedded value review report, which is contained in our 2011 annual report.

The Group Embedded Value is defined as the sum of the Group Adjusted Net Worth determined on the PRC statutory basis, and the value of in force business of CPIC Life attributable to the shareholders of CPIC Group. The value of in force business and the value of one year's sales of CPIC Life are defined as the discounted value of the projected stream of future after-tax distributable profits for existing business in force at the valuation date and for one year's sales in the 12 months immediately preceding the valuation date, where distributable profits are determined based on PRC statutory reserves and solvency margins at the required regulatory minimum level. Embedded value does not allow for any value attributable to future new business sales.

The value of in force business and the value of one year's sales of CPIC Life are determined by using a traditional deterministic discounted cash flow methodology. This methodology makes implicit allowance for the cost of investment guarantees and policyholder options, asset/liability mismatch risk, credit risk and the economic cost of capital through the use of a risk-adjusted discount rate. This methodology is consistent with the embedded value guidelines issued by the CIRC and is also a common methodology used by life insurance companies in China at the current time.

The embedded value and the value of one year's sales provide valuable information to investors in two aspects. First, the value of in force business of CPIC Life represents the total amount of after-tax distributable earnings in present value terms, which can be expected to emerge over time, in accordance with the assumptions used. Second, the value of one year's sales of CPIC Life provides an indication of the value created for investors by current new business activity and hence the potential value of the business. However, the information on embedded value and the value of one year's sales should not be viewed as a substitute of other financial measures on the Company. Investors should not make investment decisions based solely on embedded value and the value of one year's sales information.

The embedded value is an estimation of a component of an insurance company's economic value using actuarial techniques, based on a series of assumptions. As there is uncertainty in selecting assumptions, estimates of embedded value could vary materially as key assumptions are changed, and future actual experience would differ from assumed experience. Therefore, special care is advised when interpreting embedded value results.

II Summary of Embedded Value and Value of One Year's Sales

The table below shows the Group Embedded Value of CPIC Group as at 31 December 2011, and the value of one year's sales of CPIC Life in the 12 month to 31 December 2011 at risk discount rate of 11.5%.

Unit: RMB Million

Valuation date	31 December 2011	31 December 2010
Group Adjusted Net Worth	**72,664**	**75,905**
Adjusted Net Worth of CPIC Life	**31,381**	**35,836**
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written prior to June 1999	(3,085)	(2,974)
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written since June 1999	55,755	46,964
Cost of Solvency Margin Held for CPIC Life	(11,059)	(9,212)
Value of In Force Business of CPIC Life After Cost of Solvency Margin Held	41,611	34,778
CPIC Group's Equity Interest in CPIC Life	98.29%	98.29%
Value of In Force Business of CPIC Life After Cost of Solvency Margin Held attributable to the shareholders of CPIC Group	**40,900**	**34,184**
Group Embedded Value	**113,564**	**110,089**
Life Embedded Value	**72,992**	**70,613**
Value of One Year's Sales of CPIC Life Before Cost of Solvency Margin Held	8,184	7,565
Cost of Solvency Margin	(1,470)	(1,465)
Value of One Year's Sales of CPIC Life After Cost of Solvency Margin Held	**6,714**	**6,100**

Note that figures may not be additive due to rounding

The Group Adjusted Net Worth represents the shareholder net equity of the Company measured on the statutory basis, inclusive of adjustments of the value of certain assets to market value. It should be noted that the Group Adjusted Net Worth incorporates the shareholder net equity of the Company as a whole (including CPIC Life and other operations of the Company), and the value of in force business and the value of one year's sales are of CPIC Life only. The Group Embedded Value also does not include the value of in force business that is attributable to minority shareholders of CPIC Life.

III Key Valuation Assumptions

In determining the embedded value as at 31 December 2011, we have assumed the Company continues to operate on a going concern basis under the current economic and regulatory environment, and that the current method for determining statutory policy reserves and statutory minimum solvency margin levels remain unchanged. The various operational assumptions are mainly based on the results of experience analyses, together with reference to the overall experience of the Chinese insurance industry, as well as with regard to expected future operating experience. As such, these assumptions represent our best estimate of the future based on information currently available at the valuation date.

The following describes the key assumptions used in determining the value of in force business and the value of one year's sales of CPIC Life as at 31 December 2011:

1. Risk Discount Rate

The risk discount rate used to determine the value of in force business and the value of one year's sales of CPIC Life is 11.5%.

2 Investment Returns

The investment returns for long term business are assumed to increase from 4.97% in 2012 to 5.2% in 2014, and remaining at 5.2% thereafter. The investment return for short term business is based on the 2011 one-year bank deposit interest rate as published by the People's Bank of China. These assumptions have been derived based on the current capital market environment, our current and expected future asset mix and the assumed investment returns for each major class of assets.

3. Mortality

Mortality assumptions are expressed as a percentage of the standard industry mortality tables: "China Life Tables (2000-2003)":

- Life Products: 80% of China Life Table (2000-2003) for non-annuitants, with selection factors of 50% in policy year 1, 25% in policy year 2 and ultimate rates applicable thereafter;

- Deferred annuity products: 90% of China Life Table (2000 to 2003) for annuitants, together with an allowance for future mortality improvements.

4. Morbidity

Assumptions have been developed based on CPIC Life's past morbidity experience, expectations of current and future experience, and vary by products. Claim ratios for short term accident and short term health business are assumed to be in the region of 20% to 75%.

5. Lapse and Surrender Rates

Assumptions have been developed based on CPIC Life's past lapse and surrender experience, expectation of current and future experience, and assumptions vary by pricing interest rates, product type, policy duration and distribution channel.

6. Expense

Unit cost assumptions have been developed based on the results of an analysis of CPIC Life's 2011 non-commission related expenses. Future inflation of 2.5% pa in respect of per policy expenses is also assumed.

7. Policyholder Dividend

- Individual participating business: 70 % of interest and mortality surplus;

- Bancassurance participating business: 70 % of interest and mortality surplus; and

- Group participating annuity business: 80 % of interest surplus.

8. Tax

Tax has been assumed to be payable at 25% of profits. The investment income assumed to be exempt from income tax is 10.5% in 2012, and rising to 14% in 2014 and remain level thereafter. The tax exemption assumptions are based on our current and expected future asset mix and assumed investment returns for each major class of assets.

In addition, a 5.5% business tax has been applied to gross premium of the short term accident business.

IV Analysis of Change in Embedded Value

The following table shows the change in the Group Embedded Value from 31 December 2010 to 31 December 2011 at risk discount rate of 11.5%.

Unit: RMB Million

No.	Item	Value	Comments
1	**Embedded Value of the life business at 31 December 2010**	**70,613**	
2	Expected Return on Embedded value	7,254	Expected returns on the 2010 embedded value of CPIC Life and the value of one year's sales of CPIC Life in 2011
3	Value of one year's sales	6,714	Value of one year's sale in respect of new business written in the 12 months prior to 31 December 2011
4	Investment Experience Variance	(10,556)	Reflects the difference between actual and assumed investment return in 2011
5	Operating Experience Variance	(190)	Reflects the difference between actual and assumed operating experience
6	Change in methodology, assumptions and models	(1,018)	Reflects assumption changes, together with model enhancements
7	Change in market value adjustment	1,333	Reflects the change in value of assets not valued on a market value basis
8	Shareholder Dividends	(1,140)	Shareholder dividends distributed to shareholders of CPIC Life
9	Others	(18)	
10	**Embedded Value of the life business at 31 December 2011**	**72,992**	Increased by 3.4% relative to 31 December 2010
11	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2010**	**41,255**	
12	Change in Adjusted Net Worth before payment of shareholder dividends to shareholders of CPIC Group	4,089	
13	Shareholder dividends	(3,010)	Dividend distributed to shareholders of CPIC Group
14	Change in market value adjustment	143	
15	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2011**	**42,477**	
16	Minority interests relating to equity and market value adjustments	(1,904)	Minority interests on Embedded Value as at 31 December 2011
17	**Group Embedded Value as at 31 December 2011**	**113,564**	
18	**Embedded Value as at 31 December 2011 per share(RMB)**	**13.21**	

Note that figures may not be additive due to rounding.

V Sensitivity Analysis

In consideration of the uncertainties as to future experience, we have evaluated the sensitivity of the value of in force business and the value of one year's sales of CPIC Life as at 31 December 2011 to changes in key assumptions. In determining the sensitivity results, only the relevant assumption has been changed, while all other assumptions have been left unchanged.

Alternative sensitivity scenarios are shown for the following:

- Risk Discount Rate Scenario 2 and Scenario 3:11% and 12%;
- Investment Return Scenario 2: Investment returns 25 basis points higher;
- Investment Return Scenario 3: Investment returns 25 basis points lower;
- Mortality: Ultimate mortality rates 10% lower;
- Morbidity:10% lower;
- Lapse and surrender rates: 10% lower;
- Expenses: 10% lower;
- Participating Policyholder Dividends: 5 percentage points higher;
- Short Term Business Claim Ratios: 10% lower;
- Solvency Margin: 150% of the statutory minimum solvency margin.

The following table shows the sensitivity results of the value of in force business and the value of one year's sales after cost of solvency margin held.

(RMB Million)

(RMB Million)	Value of In Force Business After Cost of Solvency Margin Held	Value of One Year's Sales After Cost of Solvency Margin Held
Base	**41,611**	**6,714**
Risk Discount Rate "11%"	43,645	7,136
Risk Discount Rate "12%"	39,698	6,321
Investment Return "+25 basis points"	45,716	7,104
Investment Return "-25 basis points"	37,452	6,320
Mortality "-10%"	41,744	6,735
Morbidity "-10%"	41,874	6,786
Lapse and Surrender Rates "-10%"	41,520	6,727
Expenses "-10%"	42,439	7,267
Participating "+5% Distribution"	39,949	6,324
Short Term Claim Ratio "-10 %"	41,689	6,812
150% Solvency Margin	36,081	5,979

Note that figures may not be additive due to rounding.

Section XV Documents Available for Inspection

Documents Available for Inspection

1. The original copy of the annual report with the seal of the Company affixed and signed by the Chairman
2. The original copy of the signed audit report and the audited financial report from the account's firm
3. The original copies of all publicly disclosed announcements and documents of the Company during the reporting period

Section XVI Appendix

Appendix

The audited financial report dated 31 December 2011

Chairman: 高国富

Board of Directors

China Pacific Insurance (Group) Co., Ltd.

23 March, 2012

Audited Financial Statements
31 December 2011

Contents

Independent Auditors' Report

To the shareholders of China Pacific Insurance (Group) Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Pacific Insurance (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 2 to 94, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
23 March 2012

Consolidated Income Statement
Year Ended 31 December 2011

(All amounts expressed in Renminbi ("RMB") million unless otherwise specified)

Group	Notes	2011	2010
Gross written premiums	6(a)	154,958	139,555
Less: Premiums ceded to reinsurers	6(b)	(13,384)	(13,422)
Net written premiums	6	141,574	126,133
Net change in unearned premium reserves		(4,336)	(6,382)
Net premiums earned		137,238	119,751
Investment income	7	16,392	20,657
Other operating income		1,887	919
Other income		18,279	21,576
Total income		155,517	141,327
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(21,508)	(17,018)
Claims incurred	8	(28,010)	(20,829)
Changes in long-term life insurance contract liabilities	8	(56,063)	(59,241)
Policyholder dividends	8	(3,807)	(3,399)
Finance costs	9	(848)	(373)
Interest credited to investment contracts		(2,257)	(1,722)
Other operating and administrative expenses		(33,120)	(28,063)
Total benefits, claims and expenses		(145,613)	(130,645)
Gain from disposal of a jointly-controlled entity	23	479	—
Share of profit/(loss) of a jointly-controlled entity		16	(12)
Profit before tax	10	10,399	10,670
Income tax	14	(2,006)	(2,005)
Net profit for the year		8,393	8,665
Attributable to:			
Equity holders of the parent		8,313	8,557
Minority interests		80	108
		8,393	8,665
Basic earnings per share	15	RMB0.97	RMB1.00
Diluted earnings per share	15	RMB0.97	RMB1.00

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income
Year Ended 31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

Group	Note	2011	2010
Net profit for the year		8,393	8,665
Other comprehensive income			
Exchange differences on translation of foreign operations		(18)	(11)
Available-for-sale financial assets		(11,899)	(4,242)
Income tax relating to available-for-sale financial assets		2,966	1,060
Other comprehensive loss for the year	16	(8,951)	(3,193)
Total comprehensive (loss)/income for the year		(558)	5,472
Attributable to:			
Equity holders of the parent		(490)	5,417
Minority interests		(68)	55
		(558)	5,472

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2011	31 December 2010
ASSETS			
Property and equipment	17	7,833	6,831
Investment properties	18	6,573	2,366
Goodwill	19	962	149
Other intangible assets	20	533	404
Prepaid land lease payments	21	24	203
Investment in a jointly-controlled entity	23	—	440
Financial assets at fair value through profit or loss	24	2,907	3,604
Held-to-maturity financial assets	25	202,536	157,360
Available-for-sale financial assets	26	117,592	119,759
Investments classified as loans and receivables	27	32,929	22,811
Securities purchased under agreements to resell	28	43	2,600
Term deposits	29	137,373	106,772
Restricted statutory deposits		3,580	2,772
Policy loans		4,094	2,307
Interest receivables	30	11,006	9,207
Reinsurance assets	31	14,118	12,347
Deferred income tax assets	32	4,980	1,586
Insurance receivables	33	6,252	5,409
Other assets	34	2,374	3,824
Cash and short-term time deposits	35	14,903	14,960
Total assets		570,612	475,711

The accompanying notes form an integral part of these financial statements.

Group	Notes	31 December 2011	31 December 2010
EQUITY AND LIABILITIES			
Equity			
Issued capital	36	8,600	8,600
Reserves	37	50,203	58,476
Retained profits	37	17,993	13,221
Equity attributable to equity holders of the parent		76,796	80,297
Minority interests		1,259	1,254
Total equity		78,055	81,551
Liabilities			
Insurance contract liabilities	38	374,931	307,186
Investment contract liabilities	39	47,182	51,272
Policyholders' deposits		80	82
Subordinated debt	40	8,000	2,338
Securities sold under agreements to repurchase	41	32,105	8,150
Deferred income tax liabilities	32	960	2
Income tax payable		624	1,165
Premium received in advance		4,711	3,549
Policyholder dividend payable		9,132	7,110
Payables to reinsurers		3,235	3,510
Other liabilities	42	11,597	9,796
Total liabilities		492,557	394,160
Total equity and liabilities		570,612	475,711

GAO Guofu
Director

HUO Lianhong
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity
Year Ended 31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

2011									
	Attributable to equity holders of the parent								
		Reserves							
Group	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2011	8,600	58,908	1,703	(37)	(2,098)	13,221	80,297	1,254	81,551
Total comprehensive loss	—	—	—	(18)	(8,785)	8,313	(490)	(68)	(558)
Dividend declared [1]	—	—	—	—	—	(3,010)	(3,010)	—	(3,010)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(65)	(65)
Capital injection into subsidiaries	—	(1)	—	—	—	—	(1)	138	137
Appropriations to surplus reserves	—	—	531	—	—	(531)	—	—	—
At 31 December 2011	8,600	58,907	2,234	(55)	(10,883)	17,993	76,796	1,259	78,055

1 *Dividend declared represents final dividend on ordinary shares declared for 2010, amounting to RMB3,010 million (RMB0.35 per share).*

The accompanying notes form an integral part of these financial statements.

2010									
	Attributable to equity holders of the parent								
		Reserves							
Group	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits	Total	Minority interests	Total equity
At 1 January 2010	8,483	56,216	1,395	(26)	1,031	7,552	74,651	1,022	75,673
Total comprehensive income	—	—	—	(11)	(3,129)	8,557	5,417	55	5,472
Dividend declared [1]	—	—	—	—	—	(2,580)	(2,580)	—	(2,580)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(44)	(44)
Issue of shares	117	2,688	—	—	—	—	2,805	—	2,805
Capital injection into subsidiaries	—	4	—	—	—	—	4	221	225
Appropriations to surplus reserves	—	—	308	—	—	(308)	—	—	—
At 31 December 2010	8,600	58,908	1,703	(37)	(2,098)	13,221	80,297	1,254	81,551

1 *Dividend declared represents final dividend on ordinary shares declared for 2009, amounting to RMB2,580 million (RMB0.30 per share).*

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement
Year Ended 31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

Group	Note	2011	2010
OPERATING ACTIVITIES			
Cash generated from operating activities	46	58,470	62,610
Income tax paid		(2,943)	(992)
Net cash inflow from operating activities		55,527	61,618
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(1,745)	(2,296)
Proceeds from sale of items of property and equipment, intangible assets and other assets		733	1,048
Proceeds from disposal of a jointly-controlled entity		949	—
Purchases of investments, net		(99,085)	(83,502)
Acquisition of subsidiaries		(4,125)	—
Interest received		16,897	11,463
Dividends received from investments		2,264	2,687
Net cash outflow from investing activities		(84,112)	(70,600)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		24,004	(1,650)
Capital contribution from minority shareholders of subsidiaries		137	225
Proceeds from issuance of shares		—	2,796
Proceeds from issuance of subordinated debt		8,000	—
Repayment of subordinated debt		(2,000)	—
Interest paid		(952)	(162)
Dividends paid		(3,075)	(2,653)
Others		—	(1,939)
Net cash inflow/(outflow) from financing activities		26,114	(3,383)
Effects of exchange rate changes on cash and cash equivalents		(123)	(313)
Net decrease in cash and cash equivalents		(2,594)	(12,678)
Cash and cash equivalents at beginning of year		17,560	30,238
Cash and cash equivalents at end of year		14,966	17,560
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		7,001	5,713
Time deposits with original maturity of no more than three months		7,628	8,358
Other monetary assets		274	889
Investments with original maturity of no more than three months		63	2,600
Cash and cash equivalents at end of year		14,966	17,560

The accompanying notes form an integral part of these financial statements.

Balance Sheet
31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

Company	Notes	31 December 2011	31 December 2010
ASSETS			
Property and equipment	17	568	619
Investment properties	18	2,486	2,551
Intangible assets		16	22
Prepaid land lease payments	21	—	180
Investments in subsidiaries	22	54,663	44,866
Investment in a jointly-controlled entity	23	—	400
Financial assets at fair value through profit or loss	24	32	415
Held-to-maturity financial assets	25	1,922	1,849
Available-for-sale financial assets	26	4,463	5,279
Investments classified as loans and receivables	27	1,199	1,199
Securities purchased under agreements to resell	28	—	2,600
Term deposits	29	10,029	8,529
Interest receivables		320	248
Deferred income tax assets		300	568
Other assets	34	199	1,115
Cash and short-term time deposits	35	823	5,471
Total assets		77,020	75,911
EQUITY AND LIABILITIES			
Equity			
Issued capital	36	8,600	8,600
Reserves	37	59,696	59,567
Retained profits	37	7,380	5,562
Total equity		75,676	73,729
Liabilities			
Securities sold under agreements to repurchase		900	—
Income tax payable		27	27
Due to subsidiaries		61	575
Other liabilities	42	356	1,580
Total liabilities		1,344	2,182
Total equity and liabilities		77,020	75,911

The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements
31 December 2011

(All amounts expressed in Renminbi ("RMB") million unless otherwise specified)

1. Corporate Information

China Pacific Insurance (Group) Co., Ltd. (the "Company") was established in Shanghai, the People's Republic of China (the "PRC") in May 1991 under the original name of China Pacific Insurance Co., Ltd. Pursuant to the approval of State Council of the PRC and Circular [2001] No. 239 issued by China Insurance Regulatory Commission (the "CIRC"), the Company was restructured as a joint stock limited company in October 2001 with issued capital of RMB2,006.39 million. The Company increased its issued capital to RMB6,700 million through issuing new shares to its then existing shareholders and new shareholders in 2002 and 2007.

In December 2007, the Company conducted a public offering of 1,000 million A shares in the PRC. Upon the completion of the A share offering, the issued capital was increased to RMB7,700 million. The Company's A shares are listed on the Shanghai Stock Exchange and trading of its A shares commenced on 25 December 2007.

In December 2009, the Company conducted a global offering of overseas listed foreign shares ("H shares"). Upon the completion of the H share offering, the issued capital was increased to RMB8,600 million. The Company's H shares are listed on the Hong Kong Stock Exchange and trading of its H shares commenced on 23 December 2009.

The authorized business scope of the Company includes investing in insurance enterprises, supervising and managing domestic and overseas reinsurance businesses of subsidiaries and utilizing funds, participating in global insurance activities upon approval. The principal activities of the Company and its subsidiaries (the "Group") are property and casualty businesses, life insurance businesses, pension and annuity businesses, as well as asset management, etc.

2. Basis of Preparation and Principal Accounting Policies

2.1 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 (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention other than financial instruments that have been measured at fair values and insurance contract liabilities that have been measured primarily based on actuarial methods. These financial statements are presented in RMB and all values are rounded to the nearest million except when otherwise indicated.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.1 Basis of preparation (continued)

All HKFRSs that remain in effect which are relevant to the Group have been applied. The Group has not applied the following key new and revised HKFRSs that have been issued but are not yet effective, in these financial statements:

HKAS 1 Amendments	Presentation of Items of Other Comprehensive Income [3]
HKAS 12 Amendments	Deferred Tax: Recovery of Underlying Assets [2]
HKAS 19 (2011)	Employee Benefits [4]
HKAS 27 (2011)	Separate Financial Statements [4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [4]
HKAS 32 Amendments	Presentation — Offsetting Financial Assets and Financial Liabilities [5]
HKFRS 1 Amendments	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [1]
HKFRS 7 Amendments	Transfers of Financial Assets [1]
HKFRS 7 Amendments	Disclosures — Offsetting Financial Assets and Financial Liabilities [4]
HKFRS 9	Financial Instruments [6]
HKFRS 10	Consolidated Financial Statements [4]
HKFRS 11	Joint Arrangements [4]
HKFRS 12	Disclosure of Interests in Other Entities [4]
HKFRS 13	Fair Value Measurement [4]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine [4]

[1] *Effective for annual periods beginning on or after 1 July 2011*
[2] *Effective for annual periods beginning on or after 1 January 2012*
[3] *Effective for annual periods beginning on or after 1 July 2012*
[4] *Effective for annual periods beginning on or after 1 January 2013*
[5] *Effective for annual periods beginning on or after 1 January 2014*
[6] *Effective for annual periods beginning on or after 1 January 2015*

Amendments to HKAS 1 were issued in July 2011. The amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

HKAS 12 Amendments were issued in December 2010. The amendments mainly concern the determination of deferred tax on investment properties measured using the fair value model in HKAS 40 Investment Property. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

HKAS 19 (2011) was issued in July 2011 which includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. It is expected that the amendments would have no significant impact on the Group's financial statements.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.1 Basis of preparation (continued)

Amendments to HKAS 32 were issued in December 2011. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

In December 2010, the HKICPA issued amendments to HKFRS 1 to introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. It also removes the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. It is expected that the amendments would have no significant impact on the Group's financial statements.

HKFRS 7 Amendments were issued in October 2010. The amendments require more disclosure information that enables users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

Together with the Amendments to HKAS 32 as aforementioned, HKICPA issued amendments to HKFRS 7 to introduce additional disclosure requirements that are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Currently, it is expected that the amendments would have no significant impact on the Group's financial statements.

HKFRS 9 was issued in November 2009. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in HKAS 39. The approach in HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Additions only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these Additions. HKFRS 9 was originally scheduled to be effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. In December 2011, the HKICPA issued amendments to defer the mandatory effective date from 1 January 2013 to 1 January 2015 (with early adoption permission). The Group has not decided to early adopt HKFRS 9. The Group is in the process of making an assessment of the impact of the new standard.

HKFRS 10, issued in June 2011, establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 *Consolidated and Separate Financial Statements* and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. Currently, it is expected that the new standard would have no significant impact on the Group's financial statements.

HKFRS 11 was issued in June 2011. This new standard replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. It is expected that the new standard would have no significant impact on the Group's financial statements.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.1 Basis of preparation (continued)

HKFRS 12 was issued in June 2011. This new standard includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements,* HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities. It is expected that the new standard would have no significant impact on the Group's financial statements.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. It is expected that the amendments would have no significant impact on the Group's financial statements.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. Currently, it is expected that the new standard would have no significant impact on the Group's financial statements.

HK(IFRIC)-Int 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. This new interpretation has no significant impact on the Group's financial statements.

The Group presents its assets and liabilities based on expectations regarding recovery or settlement within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) in the notes to these financial statements.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

2.2 Changes in accounting policy and disclosures

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

- HKAS 24 (Revised): *Related Party Disclosures*

  The revised HKAS 24 clarifies and simplifies the definition of a related party. The revised standard also provides some relief for government-related entities to disclose details of all transactions with other government-related entities (as well as with the government itself). The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under this revised standard. Currently, the revision did not have significant impact on the Group's financial statements.

- HKAS 32 Amendment: *Presentation — Classification of Rights Issues*

  The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. Currently, the amendment did not have significant impact on the Group's financial statements.

- HKFRS 1 Amendment: *Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*

  HKFRS 1 Amendment relieves first-time adopters of HKFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to HKFRS 7). It thereby ensures that first-time adopters benefit from the same transition provisions that Amendments to HKFRS 7 provide to current HKFRSs preparers. The amendment did not have significant impact on the Group's financial statements.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.2 Changes in accounting policy and disclosures (continued)

- HK(IFRIC)-Int 14 Amendments: *Prepayments of a Minimum Funding Requirement*

  The amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in the future contributions is thus equal to the sum of (i) the prepayment of future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. Currently, the amendments did not have significant impact on the Group's financial statements.

- HK(IFRIC)-Int 19: *Extinguishing Financial Liabilities with Equity Instruments*

  HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 Financial Instruments: Recognition and Measurement and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognized in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. Currently, the interpretation did not have significant impact on the Group's financial statements.

- *Improvements to HKFRSs (issued May 2010)*

  In May 2010, HKICPA issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in certain changes to accounting policies, but did not have significant impact on the financial position or performance of the Group.

  (a) HKFRS 3 Business Combinations: The amendments limit the measurement choice of minority interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of minority interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of minority interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  (b) HKAS 34 Interim Financial Statements: Requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities, in the interim condensed financial statements.

Other amendments resulting from improvements to HKFRSs to the following standards did not have significant impact on the accounting policies, financial position or performance of the Group:

(a) HKFRS 3 Business Combinations: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

The amendments also add explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 27 Consolidated and Separate Financial Statements: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies

A summary of the significant accounting policies adopted and consistently applied by the Group in the preparation of these financial statements is set out below.

(1) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Group for the year ended 31 December 2011. The financial statements of the subsidiaries for the purpose of preparing the consolidated financial statements are prepared for the same reporting period, using consistent accounting policies. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the parent shareholders' equity. Losses within a subsidiary are attributed to the minority interests even if this results in a deficit balance.

The acquisition of subsidiaries not under common control is 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 results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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.

The changes in the Company's ownership interest in a subsidiary that do not result in the change of control are accounted for as equity transactions (i.e., transactions between owners acting in their capacity as owners), whereby the carrying amounts of the minority interests shall be adjusted to reflect the changes in their interests in the subsidiary. Any difference between the amount by which the minority interest is adjusted and the fair value of the consideration paid or received shall be recognized directly in equity (as capital reserve). If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any minority interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

(2) Foreign currency translation

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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. All foreign exchange differences are taken to the income statement or other comprehensive income.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(2) Foreign currency translation (continued)

The functional currencies of certain overseas operations are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these overseas operations are translated into RMB at the exchange rates ruling at the balance sheet date and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences arising on the retranslation are recognized in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in equity relating to that particular foreign operation is recognized in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas operations are translated into RMB at the weighted average exchange rates for the period.

(3) Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

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

(4) Jointly-controlled entities

A jointly-controlled entity is an entity that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealized losses provided evidence of an impairment of the asset transferred.

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

(5) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred.

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

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(6) Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it reassesses all assets and liabilities acquired to determine their classification or designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. However, no reclassification of leases and insurance contracts is required for business combination unless the contractual terms are modified at the acquisition date.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss. Any related amount that was previously recognised in other comprehensive income shall be reclassified to profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability will be recognised as measurement period adjustments. If the contingent consideration is classified as equity, it will not be remeasured and its subsequent settlement will be accounted for within equity.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for minority interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the income statement.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(7) 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 its parent.

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 (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(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);

(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. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(8) Property and equipment and depreciation

Property 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 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 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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	1.39% to 3.23%
Motor vehicles	12.13% to 32.33%
Office furniture and equipment	10% to 33.33%
Leasehold improvements	Over the shorter of the lease terms and 20%

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

Where parts of an item of property 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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents costs of construction of buildings and other items of property as well as costs of equipment under installation. Construction in progress is stated at cost less any impairment losses, and is not depreciated, and is reclassified to the appropriate category of property and equipment when completed and ready for use.

(9) Investment properties

The Group's investment properties are buildings held to earn rental income, rather than for the supply of services or for administrative purposes.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment loss.

Depreciation is computed on the straight-line basis over the estimated useful life. The estimated useful life of the investment properties is 30 to 70 years.

The useful life and the depreciation method are reviewed at least at each year end to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the investment properties.

An investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal. A transfer to, or from, an investment property is made when, and only when, there is evidence of a change in use.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(10) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each year end.

(11) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortized on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

(12) Investments and other financial assets

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 financial assets, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognized 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognized in the income statement. The net fair value gain or loss recognized in the income statement does not include any dividends on these financial assets, which are recognized in accordance with the policy set out for "Revenue recognition" below.

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 carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized 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. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(12) Investments and other financial assets (continued)

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are subsequently measured at amortized cost less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment revaluation reserve until the investments are derecognized or until the investments are determined to be impaired, at which time the cumulative gain or loss is recognized in the income statement and removed from the available-for-sale investment revaluation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognized in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognized in the income statement.

When the fair value of unlisted equity securities 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 securities are stated at cost less any impairment losses.

(13) Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through profit or loss.

(14) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business at the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations. If current market prices are not available at the balance sheet date, reference is made to the most recent arm's length transaction prices, adjusted for significant changes, if any, in economic circumstances since the date of that recent transaction.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models. For discounted cash flow techniques, estimated future cash flows are based on directors' best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(14) Fair value of financial instruments (continued)

The fair values of floating rate and overnight deposits with credit institutions are their carrying values. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the balance sheet date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability, less impairment losses. All transaction costs directly attributable to the acquisition are also included in the cost.

(15) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is removed from other comprehensive income and recognized in the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. The Group collectively considers the magnitude of the decline in fair value relative to the cost, volatility, and the duration of the decline in evaluating whether a decline in fair value is significant. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. In general, the larger the magnitude of the decline in fair value relative to cost, the lower the volatility, the longer the duration of the decline or the more consistent the magnitude of the decline, the more likely objective evidence of impairment of an equity instrument exists.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(15) Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

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, deterioration of going concern expectations;
- Adverse changes relative to the investee's technology, market, customer base, macroeconomic indicators relative to the business, and significant legal or regulatory matters.

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 recognized directly in other comprehensive income. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

(16) 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 derecognized 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 asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from a financial asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes 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.

(17) Securities purchased under agreements to resell

The Group enters into purchases of securities under agreements to resell substantially identical securities. These agreements are classified as loans and receivables. The amounts advanced under these agreements are reflected as assets in the balance sheet. The Group does not take physical possession of securities purchased under agreements to resell. In the event of default by the counterparty to repay the loan, the Group has the right to the underlying securities.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(18) Impairment of non-financial assets other than deferred tax assets and goodwill

Where an indication of impairment exists, or when impairment testing for an asset is required at least at each year end (other than deferred tax assets, 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 to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized 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/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

(19) Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance agreements that transfer significant insurance risk are treated as reinsurance contracts; reinsurance agreements that do not transfer significant insurance risk are not treated as reinsurance contracts. Reinsurance assets primarily represent balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. 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. Premiums and claims on assumed reinsurance are recognized as income 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. Amounts payable to reinsurers are estimated in a manner consistent with that of the associated reinsurance contracts.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance unless a legal right and the intention of offset exist.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

(20) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(21) 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 determined by the Group is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Contracts that only transfer insurance risk are treated as insurance contracts. If the Group signs contracts with policyholders which transfer insurance risk as well as other risks, the treatments would depend on:

(a) If the insurance risk portion and other risk portion are distinct and separately measurable, the insurance risk portion and other risk portion should be unbundled. The portion with insurance risk should be treated as insurance contract, while the portion with other risks should not be treated as insurance contract.

(b) If the insurance risk portion and other risk portion cannot be distinct, or if they are distinct but cannot be separately measurable, the whole contract should be treated as insurance contract if the insurance risk is significant; the whole contract should not be treated as insurance contract if the insurance risk is insignificant.

(22) Testing the significance of insurance risk

For contracts issued by the Group which require testing the significance of insurance risk, it should be performed at the initial recognition of such contracts, and based on a group of contracts with similar nature.

When testing the significance of insurance risk, the Group makes judgements in this sequence: (i) whether the contract transfers insurance risk; (ii) whether the contract has commercial substance; (iii) whether the insurance risk transferred is significant.

When determining whether the contracts (or policies) transfer significant insurance risk, the Group considers: (i) annuity contracts that transfer longevity risk are treated as insurance contracts; (ii) for non-annuity contracts, if the insurance risk ratio is greater than or equal to 5% sometimes during the duration of the contracts, they are treated as insurance contracts; the insurance risk ratio is derived by comparing the benefits paid with the benefits payable if the insured event did not occur. For property and casualty and short-term life policies that obviously transfer significant risk, the Group recognizes them as insurance contracts directly.

When determining whether reinsurance policies transfer significant insurance risk, the Group considers thoroughly the commercial substance and other relevant contracts and agreements, and if the insurance risk ratio of reinsurance policies is greater than 1%, they are treated as reinsurance contracts. The insurance risk ratio of reinsurance policies is derived by comparing the present value of probability-weighted expected loss with the present value of expected reinsurance premiums. If the reinsurance policies obviously transfer significant insurance risk, the Group directly recognizes them as reinsurance contracts.

For the purpose of testing the significance of insurance risk, contracts of similar nature are grouped together. Through considering the risk distribution and characteristics, the Group selects sufficient representative samples to test the significance of insurance risk. If most samples transfer significant insurance risk, all contracts in the group are treated as insurance contracts.

The assumptions used for testing the significance of insurance risk mainly include loss ratio, mortality and morbidity, loss distribution, etc. The Group determines such assumptions based on historical experiences and the estimation on future development trends so as to reflect the Group’s product characters and actual claim payments.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities

The Group's insurance contract liabilities include unearned premium reserves, claim reserves and long-term life insurance contract reserves.

When measuring long-term life insurance contract reserves, the Group classifies insurance contracts whose insurance risks are of similar nature as a measurement unit. The Group mainly considers product characteristics, effective year and risk profile of contracts in this regard.

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

Insurance contract liabilities are measured based on reasonable estimate of amount of payments when the Group fulfils relevant obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows under such contracts.

- Expected future cash outflows represent reasonable cash outflows which are necessary for the Group to fulfil relevant obligations under the insurance contracts, and mainly include: (a) guaranteed benefits or claims under the insurance contracts, including mortality benefits, disability benefits, morbidity benefits, survival benefits, maturity benefits and claims payments, etc; (b) non-guaranteed benefits under the insurance contracts in respect of constructive obligations, including policyholder dividends, etc; (c) reasonable expenses necessary for maintaining and serving the insurance contracts, claims handling, including policy maintenance expenses, claim expenses, etc.
- Expected future cash inflows represent cash inflows from assuming insurance contractual obligations, including premiums and other charges.

Reasonable estimate of expected net future cash flows is determined based on information currently available at the balance sheet date.

Margin factor is considered and separately measured when determining insurance contract reserves as at the balance sheet date. Margins are released to profit or loss over the coverage period using systematic and reasonable approach. Initial recognition of an insurance contract issued should not result in the recognition of an accounting profit. However, a loss should be recorded in profit or loss at inception when it occurs.

Margins for long-term life insurance contract reserves include a risk adjustment and a residual margin. The risk adjustment represents provision for the uncertainty associated with the future cash flows. The residual margin is provided to eliminate any gain at inception of the contract and is amortized over the life of the contract in a systematic manner. Upon initial recognition, the residual margin is separately measured from expected future cash outflows and the risk adjustment, and will not be adjusted for future change in assumptions.

The risk adjustment for property and casualty and short-term life insurance contract liabilities is determined by reference to industry ratio and the Group's experience.

When measuring insurance contract liabilities as at the balance sheet date, time value of money is considered. The related future cash flows should be discounted when the impact of time value of money is significant. The discount rate used in the measurement of time value of money should be determined with reference to information currently available at the balance sheet date.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

The Group uses information currently available as at the balance sheet date to derive the following assumptions used for measuring related reserves:

- For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on the market interest rate which is in line with the period and risk of liability cash outflows. For insurance contracts whose future insurance benefits will be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on expected investment return rates of the portfolios backing the liabilities.
- The Group reasonably estimates insurance incident occurrence rate, surrender rate and expense rate based on actual experience and future development trends.
- Policy dividend assumption is determined based on expected investment return rates of participating accounts, the Group's participating dividend policy, reasonable expectations of policyholders, etc.

When measuring related reserves, expected future net cash flows should cover the entire insurance period.

Unearned premium reserves for property and casualty and short-term life insurance contracts are also measured by using unearned premium approach. At inception of the contract, unearned premium reserves are measured based on premiums received minus relevant acquisition costs. After initial recognition, the reserve is released over the term of the contracts based on a 365-day basis, risk distribution method, etc. When evaluating unearned premium reserves for property and casualty and short-term life insurance contracts, expected future claims cost is also considered.

Claim reserves include incurred and reported claim reserves, incurred but not reported ("IBNR") claim reserves and claim expense reserves.

Incurred and reported claim reserves represent insurance contract provisions for the claims incurred and reported to the Group. The Group uses case-by-case estimate method, average claim per case method, etc, to measure incurred and reported claim reserves based on reasonable estimate of ultimate claim amount and the margin factor.

IBNR claim reserves represent insurance contract provisions for the claims incurred but not reported to the Group. The Group uses chain ladder method, average claim per case method, development of reserves method, Bornhuetter-Ferguson method, etc, to measure IBNR claim reserves based on reasonable estimate of ultimate claim amount and the margin factor, and after considering the nature and distribution of insurance risk, claims developments, experience data, etc.

Claim expense reserves represent insurance contract provisions for related claims handling costs. The Group measures claim expense reserves based on reasonable estimate of necessary claim expenses in the future. The Group uses case-by-case estimate method and ratio allocation method to measure claim expense reserves.

When evaluating insurance contract liabilities, the Group performs liability adequacy tests based on information currently available as at the balance sheet date. Additional insurance contract liabilities should be made if any deficiency exists.

Acquisition costs in relation to the sale of new contracts such as commissions are recorded as expenses in profit or loss, but the residual margin is calibrated to offset the impacts of relevant acquisition costs incurred.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(24) Investment contract liabilities

Investment contract liabilities mainly represent liabilities with regard to the non-insurance portion of related contracts, and those contracts which do not pass the testing of significant insurance risk.

(25) Financial liabilities

Financial liabilities at amortized cost (including interest-bearing borrowings)

Financial liabilities at amortized cost are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized 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 recognized in the income statement.

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

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 sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the income statement. The net fair value gain or loss recognized in the income statement does not include any interest charged on these financial liabilities.

(26) Derecognition of financial liabilities

A financial liability is derecognized 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 recognized in the income statement.

(27) Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are financial liabilities and are recorded at amortized cost. The Group may be required to provide additional collateral based on the fair value of the underlying securities and such collateral assets continue to be carried on the balance sheet.

(28) Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Other than insurance contracts for which potential future losses are already considered in establishing the insurance contract liabilities, a provision is recognized for onerous contracts in which the unavoidable costs of meeting the resulting obligation exceed the expected future economic benefits.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(29) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability 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 taxable temporary differences associated with investments in subsidiaries, associates and a jointly-controlled entity, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences 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, associates and a jointly-controlled entity, deferred tax assets are only recognized 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 utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(30) Revenue recognition

Revenue is recognized 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) Gross premiums

Premium income and reinsurance premium income is recognized when the insurance contracts are issued, related insurance risk is undertaken by the Group, it is probable that the related economic benefits will flow to the Group and the related income can be reliably measured.

Premiums from direct life insurance contracts with instalment or single payments are recognized as revenue when due. Premiums from direct non-life insurance contracts are recognized as revenue based on the amount of total premium stated in the contracts.

Reinsurance premiums are recognized as revenue in accordance with the terms stated in the reinsurance contracts.

(b) Income from investment contracts

Investment contracts issued by the Group are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholders' balance. The fees are recognized as revenue in the period in which they are collected unless they relate to services to be provided in future periods which would be deferred and recognized as the service is provided. Initiation and other front-end fees are charged for certain investment contracts recorded at amortized cost and are mainly recognized through an adjustment to the effective yield.

Income from investment contracts is included in other operating income.

(c) Investment income

Investment income includes interest from term deposits, fixed maturity securities, securities purchased under agreements to resell, policy loans and other loans, dividends from investment funds and securities, etc.

Interest income is recognized on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Dividends are recognized when the shareholders' right to receive payment is established.

(31) Employee benefits

(a) Pension schemes

The employees of the Group participate in various defined contribution pension plans principally organized by municipal and provincial governments. The Group makes and accrues contributions to the pension plans based on certain percentages of the salaries of the employees on a monthly basis. Certain employees also participate in enterprise annuity plans. The Group has no other significant legal or constructive obligations for retirement benefits beyond the said contributions, which are expensed as incurred.

The Group pays early retirement benefits to those employees who accept early retirement arrangements approved by management. Early retirement benefits are paid to those employees who voluntarily retire before the normal retirement date. The related benefit payments are made from the date of early retirement through the normal retirement date. The Group records a liability for the present value of its early retirement obligation when employees retire early. Any change in the present value of the early retirement obligation is charged or credited to the income statement immediately as it occurs.

2. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(31) Employee benefits (continued)

(b) Housing benefits

The employees of the Company and its subsidiaries which operate in the PRC are entitled to participate in various government-sponsored housing funds. The Company and these subsidiaries contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(c) Medical benefits

The Group makes contributions for medical benefits to the local authorities in accordance with the relevant local regulations.

(d) Long-term incentive plans

The Group also operates long-term incentive plans for senior management and some of the key employees. The employee benefits under the long-term incentive plans are accrued during the periods when employees provide services and are paid gradually.

(32) Borrowing costs

Borrowing costs are recognized as expenses in the income statement in the period in which they are incurred.

(33) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, 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 recognized as a liability.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires directors to make judgements and estimates that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

3.1 Significant judgements

In the process of applying the Group's accounting policies, the directors have made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

(1) Classification of financial assets

The Group classifies its financial assets as financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. These classifications require judgements of the directors. In making these judgements, the Group considers the intention of holding these financial assets, the requirements of HKAS 39 and their implications to the presentation in the financial statements.

3. Significant Accounting Judgements and Estimates (continued)

3.1 Significant judgements (continued)

(2) Unbundling and classification of hybrid contracts

The Group makes significant judgements on whether a written policy contains both an insurance component and a deposit component and whether the insurance component and deposit component are distinct and separately measurable. The result of such judgement affects the unbundling of insurance contracts.

In addition, the Group makes significant judgements on whether the contract transfers insurance risk, whether transfer of insurance risk has commercial substance, and whether the transferred insurance risk is significant when performing significant insurance risk tests. The result of such judgement affects the classification of insurance contracts. Whether to unbundle a contract and different contract classifications would affect the accounting treatment and the Group's financial position and operating results.

(3) Measurement unit for insurance contracts

The Group shall make judgments on whether a group of insurance contracts' insurance risks are of the same nature. Different measurement units would affect the measurement results of insurance contract liabilities.

(4) Impairment of available-for-sale equity financial instruments

The Group determines that available-for-sale equity financial instruments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement of directors. When making such judgement, the Group considers the normal volatility of security price, the length of the period over which the fair value is lower than cost, the magnitude of the decline in fair value and the financial position of the investee, etc.

3.2 Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(1) Valuation of insurance contract liabilities

When measuring the insurance contract liabilities, the Group needs to make a reasonable estimate of the amounts that the Group is required to pay in fulfilling the obligations under the insurance contracts. Such estimates are determined by calculating various possible outcomes and relevant probabilities based on information currently available as at the balance sheet date.

At the balance sheet date, the Group makes estimates of the assumptions used in the measurement of insurance contract liabilities. The Group determines such assumptions based on information currently available as at the balance sheet date and a risk adjustment is considered.

Unearned premium and related reserves

The main assumptions used in measuring unearned premium reserves include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), loss ratios, surrender rates, expense assumptions and policy dividend assumptions, etc.

(a) Discount rates

For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined by reference to the 750-day moving average bond yield curve, published on the "China Bond" website. A premium is added by considering the liquidity, taxation impacts and other relevant factors. The ranges of discount rates used as at 31 December 2010 and 2011 are from 2.61% to 5.83% and from 2.65% to 7.09%, respectively.

3. Significant Accounting Judgements and Estimates (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Unearned premium and related reserves (continued)

(a) Discount rates (continued)

For insurance contracts whose future insurance benefits will be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on expected investment return rates. The ranges of discount rates used as at 31 December 2010 and 2011 are from 4.75% to 5.20% and from 4.85% to 5.20%, respectively.

The discount rate assumption is affected by certain factors, such as future macro-economy, capital market, availability of investment channel of insurance funds, investment strategy and other factors. The Group determines discount rate assumption based on the information available as at the balance sheet date and a risk adjustment is considered.

(b) Mortality and morbidity

Mortality assumption is determined based on the Group's historical mortality experience and future development trends, etc. The Group bases its mortality assumptions on the China Life Insurance Mortality Table (2000-2003), adjusted where appropriate to reflect the Group's recent historical mortality experience.

Morbidity assumption is determined based on the Group's products pricing assumptions, analysis of historical morbidity experience and expectations of future developments, etc.

Mortality and morbidity assumptions are affected by certain factors, such as wide-ranging lifestyle changes in future, future development of medical technologies, continuing advancements in social conditions and other factors. A risk adjustment is considered in the Group's mortality and morbidity assumptions.

(c) Loss ratios

The Group bases its loss ratio assumption on analysis of its historical claims payments experience and future development trends.

(d) Surrender rates

Surrender rates are determined based on product type, the Group's historical experience and future expectation, and vary by interest rate, product type and sale channel.

The surrender rate assumption is affected by certain factors, such as future macro-economy, market competition and other factors. The Group determines surrender rate assumption based on the information available as at the balance sheet date and a risk adjustment is considered.

(e) Expenses

The Group bases its expense assumption on its expense analysis and future expectation for policy acquisition costs and maintenance expenses.

The Group's expense assumption is affected by certain factors, such as inflation, market competition and other factors. The Group uses information currently available as at the balance sheet date to determine expense assumption and a risk adjustment is considered.

3. Significant Accounting Judgements and Estimates (continued)

3.2 Estimation uncertainty (continued)

(1) Valuation of insurance contract liabilities (continued)

Unearned premium and related reserves (continued)

(f) Policy dividend

Policy dividend assumption is determined based on expected investment return rates of participating accounts, the Group's participating dividend policy, reasonable expectations of policyholders, etc.

The Group's policy dividend assumption is affected by the above factors and is determined based on the information available as at the balance sheet date and a risk adjustment is considered.

Claim reserves

The main assumption in measuring claim reserves is that the Group's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident year, but can also be further analysed by geographical area, as well as by significant business line and claim type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the probability-weighted ultimate cost of claims.

(2) Fair values of financial assets and derivative financial instruments determined using valuation techniques

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as reference to prices used in most recent market transactions between knowledgeable and willing parties, reference to the current fair value of another instrument which is substantially the same, a discounted cash flow analysis and/or option pricing models. For reference to other financial instruments, instruments must have similar credit ratings.

For a discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions, concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk-free interest rates and credit risk.

(3) Deferred income tax assets

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. Significant judgement is required to estimate the amount and timing of future taxable profit so as to determine, together with the tax planning strategies, the amount of deferred income tax assets to be recognized.

3. Significant Accounting Judgements and Estimates (continued)

3.3 Change in accounting estimates

When measuring the insurance contract liabilities, the Group determines actuarial assumptions such as discount rate, mortality and morbidity, surrender rates, expense assumptions and policy dividend assumptions based on information currently available as at the balance sheet date.

As at 31 December 2011, the Group used information currently available to determine the above assumptions and the impact of change in assumptions was charged to profit or loss. Such change in accounting estimates resulted in a decrease in long-term life insurance contract liabilities as at 31 December 2011 by approximately RMB50 million and an increase in profit before tax for 2011 by approximately RMB50 million.

The above change in accounting estimates has been approved by the board of directors of the Company on 23 March 2012.

4. Segment Information

The Group presents segment information based on its major operating segments.

For management purpose, the Group is organized into business units based on their products and services. Different operating segments provide products and services with different risks and rewards.

The Group's operating segments are listed as follows:

- The life insurance segment offers a wide range of RMB life insurance;
- The property and casualty insurance segment provides a wide range of RMB and foreign-currency property and casualty insurance;
- Other businesses segment provides management services and usage of fund services.

Intersegment sales and transfers are measured based on the actual transaction price.

More than 99% of the Group's revenue is derived from its operations in the PRC. More than 99% of the Group's assets are located in the PRC.

In 2011, gross written premiums from transactions with the top five external customers amounted to 0.4% (2010: 0.3%) of the Group's total gross written premiums.

4. Segment Information (continued)

Segment income statement for the year ended 31 December 2011

	Life insurance	Property and casualty insurance: Mainland China	Property and casualty insurance: Hong Kong	Property and casualty insurance: Eliminations	Property and casualty insurance: Sub-total	Corporate and others	Eliminations	Total
Gross written premiums	93,203	61,687	332	(264)	61,755	—	—	154,958
Less: Premiums ceded to reinsurers	(2,549)	(11,061)	(38)	264	(10,835)	—	—	(13,384)
Net written premiums	90,654	50,626	294	—	50,920	—	—	141,574
Net change in unearned premium reserves	(161)	(4,140)	(35)	—	(4,175)	—	—	(4,336)
Net premiums earned	90,493	46,486	259	—	46,745	—	—	137,238
Investment income	13,503	1,821	21	—	1,842	896	151	16,392
Other operating income	768	205	3	—	208	1,532	(621)	1,887
Other income	14,271	2,026	24	—	2,050	2,428	(470)	18,279
Segment income	104,764	48,512	283	—	48,795	2,428	(470)	155,517
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(21,508)	—	—	—	—	—	—	(21,508)
Claims incurred	(646)	(27,235)	(129)	—	(27,364)	—	—	(28,010)
Changes in long-term life insurance contract liabilities	(56,063)	—	—	—	—	—	—	(56,063)
Policyholder dividends	(3,807)	—	—	—	—	—	—	(3,807)
Finance costs	(784)	(58)	—	—	(58)	(6)	—	(848)
Interest credited to investment contracts	(2,257)	—	—	—	—	—	—	(2,257)
Other operating and administrative expenses	(16,310)	(16,150)	(109)	—	(16,259)	(1,167)	616	(33,120)
Segment benefits, claims and expenses	(101,375)	(43,443)	(238)	—	(43,681)	(1,173)	616	(145,613)
Segment results	3,389	5,069	45	—	5,114	1,255	146	9,904
Gain from disposal of a jointly-controlled entity	—	—	—	—	—	479	—	479
Share of profits/(losses) of:								
A jointly-controlled entity	—	—	—	—	—	16	—	16
Associates	(14)	(1)	—	—	(1)	—	15	—
Profit before tax	3,375	5,068	45	—	5,113	1,750	161	10,399
Income tax	(200)	(1,301)	—	—	(1,301)	(440)	(65)	(2,006)
Net profit for the year	3,175	3,767	45	—	3,812	1,310	96	8,393

4. Segment Information (continued)

Segment balance sheet at 31 December 2011

	Life insurance	Property and casualty insurance Mainland China	Hong Kong	Eliminations	Sub-total	Corporate and others	Eliminations	Total
Investments in securities *	299,983	46,993	409	—	47,402	8,583	(4)	355,964
Term deposits	113,484	13,604	—	—	13,604	10,285	—	137,373
Others	44,047	24,627	237	(232)	24,632	10,582	(1,986)	77,275
Segment assets	457,514	85,224	646	(232)	85,638	29,450	(1,990)	570,612
Insurance contract liabilities	327,810	47,037	234	(150)	47,121	—	—	374,931
Investment contract liabilities	47,182	—	—	—	—	—	—	47,182
Policyholders' deposits	11	69	—	—	69	—	—	80
Subordinated debt	8,000	—	—	—	—	—	—	8,000
Securities sold under agreements to repurchase	27,735	3,470	—	—	3,470	900	—	32,105
Others	17,805	10,987	90	(82)	10,995	3,449	(1,990)	30,259
Segment liabilities	428,543	61,563	324	(232)	61,655	4,349	(1,990)	492,557

* *Investments in securities comprise financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets and investments classified as loans and receivables.*

Other segment information for the year ended 31 December 2011

	Life insurance	Property and casualty insurance Mainland China	Hong Kong	Eliminations	Sub-total	Corporate and others	Eliminations	Total
Depreciation and amortization	467	352	—	—	352	355	—	1,174
Capital expenditure	5,336	1,060	1	—	1,061	126	—	6,523
Impairment loss charges	2,205	541	—	—	541	104	—	2,850
Interest income	15,811	2,160	21	—	2,181	992	(2)	18,982
Unrealized losses from financial assets at fair value through profit or loss	(303)	(74)	—	—	(74)	(6)	—	(383)

4. Segment Information (continued)

Segment income statement for the year ended 31 December 2010

	Life insurance	Property and casualty insurance Mainland China	Hong Kong	Eliminations	Sub-total	Corporate and others	Eliminations	Total
Gross written premiums	87,873	51,622	245	(185)	51,682	—	—	139,555
Less: Premiums ceded to reinsurers	(3,036)	(10,537)	(34)	185	(10,386)	—	—	(13,422)
Net written premiums	84,837	41,085	211	—	41,296	—	—	126,133
Net change in unearned premium reserves	(172)	(6,191)	(19)	—	(6,210)	—	—	(6,382)
Net premiums earned	84,665	34,894	192	—	35,086	—	—	119,751
Investment income	17,088	2,416	23	—	2,439	1,120	10	20,657
Other operating income	618	158	(3)	—	155	484	(338)	919
Other income	17,706	2,574	20	—	2,594	1,604	(328)	21,576
Segment income	102,371	37,468	212	—	37,680	1,604	(328)	141,327
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(17,018)	—	—	—	—	—	—	(17,018)
Claims incurred	(693)	(20,043)	(93)	—	(20,136)	—	—	(20,829)
Changes in long-term life insurance contract liabilities	(59,241)	—	—	—	—	—	—	(59,241)
Policyholder dividends	(3,399)	—	—	—	—	—	—	(3,399)
Finance costs	(343)	(24)	—	—	(24)	(6)	—	(373)
Interest credited to investment contracts	(1,722)	—	—	—	—	—	—	(1,722)
Other operating and administrative expenses	(14,607)	(12,775)	(94)	—	(12,869)	(930)	343	(28,063)
Segment benefits, claims and expenses	(97,023)	(32,842)	(187)	—	(33,029)	(936)	343	(130,645)
Segment results	5,348	4,626	25	—	4,651	668	15	10,682
Share of losses of:								
A jointly-controlled entity	—	—	—	—	—	(12)	—	(12)
Associates	(24)	(1)	—	—	(1)	—	25	—
Profit before tax	5,324	4,625	25	—	4,650	656	40	10,670
Income tax	(713)	(1,114)	—	—	(1,114)	(178)	—	(2,005)
Net profit for the year	4,611	3,511	25	—	3,536	478	40	8,665

4. Segment Information (continued)

Segment balance sheet at 31 December 2010

	Life insurance	Property and casualty insurance Mainland China	Hong Kong	Eliminations	Sub-total	Corporate and others	Eliminations	Total
Investment in a jointly-controlled entity	—	—	—	—	—	440	—	440
Investments in securities *	255,734	37,693	410	—	38,103	9,701	(4)	303,534
Term deposits	89,763	8,330	—	—	8,330	8,679	—	106,772
Others	32,856	18,688	159	(160)	18,687	14,120	(698)	64,965
Segment assets	378,353	64,711	569	(160)	65,120	32,940	(702)	475,711
Insurance contract liabilities	269,955	37,144	191	(104)	37,231	—	—	307,186
Investment contract liabilities	51,272	—	—	—	—	—	—	51,272
Policyholders' deposits	11	71	—	—	71	—	—	82
Subordinated debt	2,338	—	—	—	—	—	—	2,338
Securities sold under agreements to repurchase	4,250	3,900	—	—	3,900	—	—	8,150
Others	13,813	9,618	59	(56)	9,621	2,398	(700)	25,132
Segment liabilities	341,639	50,733	250	(160)	50,823	2,398	(700)	394,160

* *Investments in securities comprise financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets and investments classified as loans and receivables.*

Other segment information for the year ended 31 December 2010

	Life insurance	Property and casualty insurance Mainland China	Hong Kong	Eliminations	Sub-total	Corporate and others	Eliminations	Total
Depreciation and amortization	481	342	1	—	343	165	—	989
Capital expenditure	1,005	911	—	—	911	302	—	2,218
Impairment loss charges	554	81	—	—	81	54	—	689
Interest income	12,060	1,417	—	—	1,417	834	—	14,311
Unrealized gains from financial assets at fair value through profit or loss	157	30	—	—	30	6	—	193

5. Scope of Consolidation

Particulars of the Company's incorporated subsidiaries as at 31 December 2011 are as follows:

Name	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Organization code	Registered capital (RMB thousand, unless otherwise stated)	Paid-up capital (RMB thousand, unless otherwise stated)	Percentage of equity attributable to the Company		Percentage of voting rights attributable to the Company	Notes
							Direct	Indirect		
China Pacific Property Insurance Co., Ltd. ("CPIC Property")	Property and casualty insurance	Shanghai	The PRC	73337320-X	9,500,000	9,500,000	98.50	—	98.50	(1)
China Pacific Life Insurance Co., Ltd. ("CPIC Life")	Life insurance	Shanghai	The PRC	73337090-6	7,600,000	7,600,000	98.29	—	98.29	
Pacific Asset Management Co., Ltd. ("CPIC Asset Management")	Investment management	Shanghai	Shanghai	78954956-9	500,000	500,000	80.00	19.67	100.00	
China Pacific Insurance Co., (H.K.) Ltd.	Property and casualty insurance	Hong Kong	Hong Kong	Not applicable	HK$250,000 thousand	HK$250,000 thousand	100.00	—	100.00	
Shanghai Pacific Real Estate Co., Ltd.	Management of properties	Shanghai	Shanghai	13370078-0	115,000	115,000	100.00	—	100.00	
Fenghua Xikou Garden Hotel	Hotel operations	Zhejiang	Zhejiang	72639899-4	8,000	8,000	—	98.39	100.00	
Changjiang Pension Insurance Co., Ltd.	Pension fund management business	Shanghai	Shanghai	66246731-2	787,610	787,610	—	51.00	51.75	
CPIC Investment Management (H.K.) Company Limited	Investment management	Hong Kong	Hong Kong	Not applicable	HK$50,000 thousand	HK$50,000 thousand	49.00	50.83	100.00	
City Island Development Limited ("City Island")	Investment Holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$1,000	—	98.29	100.00	(2)
Great Winwick Limited *	Investment Holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$100	—	98.29	100.00	(2)

5. Scope of Consolidation (Continued)

Name	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Organization code	Registered capital (RMB thousand, unless otherwise stated)	Paid-up capital (RMB thousand, unless otherwise stated)	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Percentage of voting rights attributable to the Company	Notes
Great Winwick (Hong Kong) Limited *	Investment Holding	Hong Kong	Hong Kong	Not applicable	HK$10,000	HK$1	—	98.29	100.00	(2)
Newscott Investments Limited *	Investment Holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$100	—	98.29	100.00	(2)
Newscott (Hong Kong) Investments Limited *	Investment Holding	Hong Kong	Hong Kong	Not applicable	HK$10,000	HK$1	—	98.29	100.00	(2)
Shanghai Xinhui Real Estate Development Co., Ltd. *	Real Estate	Shanghai	Shanghai	607203795	US$15,600 thousand	US$15,600 thousand	—	98.29	100.00	(2)
Shanghai Hehui Real Estate Development Co., Ltd. *	Real Estate	Shanghai	Shanghai	607325768	US$46,330 thousand	US$46,330 thousand	—	98.29	100.00	(2)
Pacific Insurance Online Services Technology Co., Ltd. ("CPIC Online")	Consulting Service	Shandong	Shandong	58877325-7	50,000	50,000	100.00	—	100.00	(3)

* *Subsidiaries of City Island*

(1) Capital injection in CPIC Property

On 19 November 2010, CPIC Property's 2nd extraordinary shareholders' meeting resolved to further increase CPIC Property's registered capital through issuance of 1,839,000,000 new ordinary shares with par value of RMB1 per share to its then existing shareholders at a price of RMB2.3 per share, of which the Company subscribed for 1,809,847,303 shares. In January 2011, the Company subscribed for additional 6,322,311 shares voluntarily forfeited by other shareholders. Upon the completion of this capital injection, CPIC Property's issued capital was increased to RMB7,300 million, of which the Company holds 7,190,599,260 shares. The Company's equity interest in CPIC Property was increased from 98.41% to 98.50%. The increase of registered capital was approved by CIRC (Baojianfagai [2011]424) on 30 March 2011.

On 19 September 2011, CPIC Property's 2nd extraordinary shareholders' meeting resolved to further increase CPIC Property's registered capital through issuance of 2,200,000,000 new ordinary shares with par value of RMB1 per share to its then existing shareholders at a price of RMB2.57 per share, of which the Company subscribed for 2,167,029,914 shares. Upon the completion of this capital injection, CPIC Property's issued capital was increased to RMB9,500 million, of which the Company holds 9,357,629,174 shares. The Company's equity interest in CPIC Property remained unchanged at 98.50%. The increase in registered capital was approved by CIRC (Baojianfagai [2011]1908) on 13 December 2011.

5. Scope of Consolidation (Continued)

(2) Acquisition of City Island

Pursuant to the resolution of CPIC Life's 3rd term of board of directors' 6th extraordinary meeting in 2010 and the approval from CIRC (Baojianzijin[2010]1520), CPIC Life resolved to purchase the entire 100% equity interest in and receivables from City Island held by Hawkwind Investment Limited, at a consideration amounting to approximately RMB4.3 billion (the "Acquisition of City Island"). City Island, through its subsidiaries, owns The Centre, a property located in Shanghai. CPIC Life completed the acquisition on 17 March 2011. All considerations were paid in cash.

The fair values of the identifiable assets and liabilities acquired as at the acquisition date were set out below:

Assets:	
Investment properties	4,370
Cash and short-term time deposits	144
Other assets	35
	4,549
Liabilities:	
Amount due to the parent company	(1,704)
Deferred income tax liabilities	(941)
Other liabilities	(164)
	(2,809)
Total identifiable net assets at fair value	1,740
Receivable from City Island	1,704
Goodwill arising on acquisition	813
Total consideration paid in cash	4,257

An analysis of the net cash flows in respect of the acquisition is as follows:

Cash and bank balances acquired	144
Consideration paid in cash	(4,257)
Prepayment to be returned	(12)
Net cash outflow	(4,125)

From the date of acquisition, City Island has contributed approximately RMB198 million, RMB33 million and RMB39 million to the Group's total income, net profit and net cash outflow for the period ended 31 December 2011, respectively.

The goodwill arises primarily from the difference between how deferred tax is calculated for accounting purposes and the value ascribed to it in negotiations.

From the date of acquisition to 31 December 2011, the Group did not dispose of nor has it any intention to dispose of any significant assets or liabilities of City Island.

5. Scope of Consolidation (Continued)

(3) Establishment of CPIC Online

In 2011, the Company established CPIC Online with registered capital of RMB50 million. As of 31 December 2011, the Group has paid up all capital in cash, which has been verified by a firm of the Chinese Certified Public Accountants.

(4) Dissolution of Jiaxing Taibao Insurance Agency Co., Ltd. ("Taibao")

In December 2010, the 12th meeting of CPIC Life's 3rd term of board of directors resolved to dissolve its subsidiary Taibao. The dissolution was approved by CIRC Zhejiang Bureau in March 2011 and was completed in 2011.

6. Net Written Premiums

(a) Gross written premiums

	2011	2010
Long-term life insurance premiums	88,590	83,767
Short-term life insurance premiums	4,613	4,106
Property and casualty insurance premiums	61,755	51,682
	154,958	139,555

(b) Premiums ceded to reinsurers

	2011	2010
Long-term life insurance premiums ceded to reinsurers	(1,483)	(1,985)
Short-term life insurance premiums ceded to reinsurers	(1,066)	(1,051)
Property and casualty insurance premiums ceded to reinsurers	(10,835)	(10,386)
	(13,384)	(13,422)

(c) Net written premiums

	2011	2010
Net written premiums	141,574	126,133

7. Investment Income

	2011	2010
Interest and dividend income (a)	21,199	17,034
Realized (losses)/gains (b)	(1,619)	4,049
Unrealized (losses)/gains (c)	(383)	193
Charge of impairment losses on financial assets	(2,805)	(615)
Others	—	(4)
	16,392	20,657

(a) Interest and dividend income

	2011	2010
Financial assets at fair value through profit or loss		
— Fixed maturity investments	31	20
— Investment funds	2	16
	33	36
Held-to-maturity financial assets		
— Fixed maturity investments	7,858	6,035
Loans and receivables		
— Fixed maturity investments	8,053	5,248
Available-for-sale financial assets		
— Fixed maturity investments	3,040	3,008
— Investment funds	1,565	2,431
— Equity securities	650	276
	5,255	5,715
	21,199	17,034

(b) Realized(losses)/gains

	2011	2010
Financial assets at fair value through profit or loss		
— Fixed maturity investments	43	214
— Investment funds	—	40
— Equity securities	1	1
	44	255
Available-for-sale financial assets		
— Fixed maturity investments	(7)	103
— Investment funds	(1,354)	997
— Equity securities	(302)	2,694
	(1,663)	3,794
	(1,619)	4,049

7. Investment Income (Continued)

(c) Unrealized (losses)/gains

	2011	2010
Financial assets at fair value through profit or loss		
— Fixed maturity investments	(345)	188
— Investment funds	(38)	5
	(383)	193

8. Net Policyholders' Benefits and Claims

			2011
	Gross	Ceded	Net
Life insurance death and other benefits paid	21,729	(221)	21,508
Claims incurred			
— Short-term life insurance	1,374	(728)	646
— Property and casualty insurance	33,310	(5,946)	27,364
Changes in long-term life insurance contract liabilities	56,422	(359)	56,063
Policyholder dividends	3,807	—	3,807
	116,642	(7,254)	109,388

			2010
	Gross	Ceded	Net
Life insurance death and other benefits paid	17,168	(150)	17,018
Claims incurred			
— Short-term life insurance	1,146	(453)	693
— Property and casualty insurance	25,047	(4,911)	20,136
Changes in long-term life insurance contract liabilities	60,358	(1,117)	59,241
Policyholder dividends	3,399	—	3,399
	107,118	(6,631)	100,487

9. Finance Costs

	2011	2010
Current liabilities		
— Interest expense on securities sold under agreements to repurchase	629	160
— Interest expense on policyholder dividends	166	135
— Others	4	3
	799	298
Non-current liabilities		
— Interest expense on subordinated debt	49	75
	848	373

10. Profit Before Tax

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

	2011	2010
Employee benefit expense (including directors' and supervisors' emoluments) (note 11)	9,576	7,265
Auditors' remuneration	16	18
Operating lease payments in respect of land and buildings	570	449
Depreciation of property and equipment (note 17)	798	801
Depreciation of investment properties (note 18)	172	—
Amortization of other intangible assets (note 20)	184	176
Amortization of prepaid land lease payments (note 21)	2	5
Amortization of other assets	18	7
(Gain)/loss from disposal of items of property and equipment, intangible assets and other long-term assets	(665)	10
Charge of impairment loss on insurance receivables	28	83
Charge of impairment loss on financial assets (note 7)	2,805	615
Foreign exchange loss, net	71	200

11. Employee Benefit Expense (Including Directors' and Supervisors' Emoluments)

	2011	2010
Salaries, allowances and other short-term benefits	8,094	6,191
Contributions to defined contribution plans (1)	1,381	998
Early retirement benefit obligation	17	15
Long-term incentive (2)	84	61
	9,576	7,265

(1) Contributions to defined contribution plans mainly include contributions made to the state pension schemes.
(2) In order to motivate senior management and certain key employees, the Group operates long-term incentive plans.

12. Directors' and Supervisors' Remuneration

(in RMB thousand)

	2011	2010
Fees	1,337	1,250
Other remuneration		
— Salaries, allowances and other short-term benefits	8,726	8,485
— Contributions to defined contribution plans	849	694
— Long-term incentive paid (1)	3,015	402
	12,590	9,581
	13,927	10,831

(1) This represents the amount paid under the Group's long-term incentive plans mentioned in note 11(2). Amounts accrued for all eligible participants under the plans as a whole but not yet allocated to individual personnel are not included above because such amounts are not yet fully vested.

(a) Independent non-executive directors

Included in the fees is an amount of RMB1,337 thousand paid to independent non-executive directors for the year ended 31 December 2011 (2010: RMB1,250 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2011.

(in RMB thousand)

2011	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LI Ruoshan	279	—	—	—	279
XIAO Wei	250	—	—	—	250
YUEN Tin Fan	279	—	—	—	279
CHANG Tso Tung, Stephen	279	—	—	—	279
XU Shanda	250	—	—	—	250
	1,337	—	—	—	1,337

(in RMB thousand)

2010	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LI Ruoshan	250	—	—	—	250
XIAO Wei	250	—	—	—	250
YUEN Tin Fan	250	—	—	—	250
CHANG Tso Tung, Stephen	250	—	—	—	250
XU Shanda	250	—	—	—	250
	1,250	—	—	—	1,250

12. Directors' and Supervisors' Remuneration (Continued)

(b) Executive directors and non-executive directors

(in RMB thousand)

	2011			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu *	336	1,608	257	2,201
HUO Lianhong *	358	1,458	241	2,057
Non-executive directors:				
YANG Xianghai	—	250	—	250
ZHOU Ciming	—	250	—	250
WANG Chengran	—	250	—	250
ZHENG Anguo	—	250	—	250
WU Jumin	—	250	—	250
XU Fei	—	250	—	250
YANG Xiangdong	—	250	—	250
FENG Junyuan, Janine	—	250	—	250
	694	5,066	498	6,258

* *According to the policies of the relevant authorities in China, the final amounts of remunerations for the executive directors are currently subject to review and approval. The remaining portion of the remunerations will be disclosed when it is confirmed.*

12. Directors' and Supervisors' Remuneration (Continued)

(b) Executive directors and non-executive directors (continued)

(in RMB thousand)

	2010			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu [3]	—	1,445	208	1,653
HUO Lianhong [3]	—	1,359	196	1,555
Non-executive directors:				
YANG Xianghai	—	250	—	250
ZHOU Ciming	—	250	—	250
WANG Chengran [1]	—	125	—	125
ZHENG Anguo [1]	—	125	—	125
WU Jumin [1]	—	125	—	125
XU Fei [1]	—	125	—	125
YANG Xiangdong	—	250	—	250
FENG Junyuan, Janine	—	250	—	250
HUANG Kongwei [2]	—	125	—	125
XU Hulie [2]	—	125	—	125
	—	4,554	404	4,958

1 *Non-executive directors since July 2010*

2 *Resigned with effect from in June 2010*

3 *As at 31 December 2010, part of the two executive directors' remunerations was subject to review and approval and thus not included in the above amount. With relevant approval obtained in 2011, the total remunerations for Mr. Gao Guofu and Mr. Huo Lianhong for 2010 amounted to RMB2,445 thousand and RMB2,286 thousand, respectively.*

Pursuant to the resolution of the 2009 annual general meeting, the allowance for each of the existing directors (excluding executive directors) is RMB250,000 (before tax) per year. In May 2011, the 2010 annual general meeting resolved to grant an additional allowance of RMB50,000 (before tax) per year to each of those directors who take the role of chairman in special committees established under the board of directors. There was no arrangement under which a director waived or agreed to waive any remuneration during 2011.

12. Directors' and Supervisors' Remuneration (Continued)

(c) Supervisors

(in RMB thousand)

2011

	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
ZHOU Zhuping	—	250	—	250
ZHANG Jianwei	—	250	—	250
LIN Lichun	—	250	—	250
SONG Junxiang	2,204	2,168	232	4,604
HE Jihai	117	742	119	978
	2,321	3,660	351	6,332

(in RMB thousand)

2010

	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
ZHOU Zhuping [1]	—	125	—	125
ZHANG Jianwei	—	250	—	250
LIN Lichun	—	250	—	250
SONG Junxiang	348	2,342	193	2,883
HE Jihai [1]	54	481	51	586
MA Guoqiang [2]	—	125	—	125
YUAN Songwen [2]	—	358	46	404
	402	3,931	290	4,623

1 *Supervisors since July 2010*
2 *Resigned with effect from June 2010*

Pursuant to the resolution of the 2009 annual general meeting, the allowance for each of the existing supervisors (excluding employees' representative supervisors) is RMB250,000 (before tax) per year. There was no arrangement under which a supervisor waived or agreed to waive any remuneration during 2011.

13. Five Highest Paid Individuals

The five individuals whose remuneration was the highest in the Group include no director for the years ended 31 December 2011 and 2010. The number of non-director, highest paid individuals whose remuneration fell within the following bands is set out below:

	2011	2010
Nil to RMB1,000,000	—	—
RMB1,000,001 to RMB2,000,000	—	—
RMB2,000,001 to RMB3,000,000	—	—
RMB3,000,001 to RMB4,000,000	—	2
RMB4,000,001 to RMB5,000,000	1	2
RMB5,000,001 to RMB6,000,000	1	1
RMB6,000,001 to RMB7,000,000	3	—
RMB7,000,001 to RMB8,000,000	—	—
Total	5	5

Details of the remuneration of the highest paid non-director individuals are as follows:

(in RMB thousand)

	2011	2010
Salaries, allowances and other short-term benefits	11,310	17,987
Contributions to defined contribution plans	1,143	665
Long-term incentive paid (1)	17,756	3,314
	30,209	21,966
The number of non-director individuals for the above remuneration	5	5

(1) *This represents the amount paid under the Group's long-term incentive plans mentioned in note 11(2). Amounts accrued for all eligible participants under the plans as a whole but not yet allocated to individual personnel are not included above because such amounts are not yet fully vested.*

In 2011 and 2010, no emoluments were paid by the Group to any of these non-director individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

14. Income Tax

(a) Income tax

	2011	2010
Current income tax	2,417	1,885
Deferred income tax (note 32)	(411)	120
	2,006	2,005

(b) Tax recorded in other comprehensive income

	2011	2010
Deferred income tax (note 32)	(2,966)	(1,060)

(c) Reconciliation of tax expense

Current income tax has been provided at the rate of 25% on the assessable profits arising in the PRC. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the PRC statutory income tax rate of 25% to the tax expense at the Group's effective tax rate is as follows:

	2011	2010
Profit before tax	10,399	10,670
Tax computed at the statutory tax rate	2,600	2,668
Adjustments to income tax in respect of previous periods	44	(24)
Income not subject to tax	(927)	(857)
Expenses not deductible for tax	224	197
Attributable to a jointly-controlled entity	(4)	3
Others	69	18
Tax expense at the Group's effective rate	2,006	2,005

There was no share of income tax attributable to a jointly-controlled entity as it has been included in "Share of profit/(loss) of a jointly-controlled entity" on the face of the consolidated income statement.

15. Earnings Per Share

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

	2011	2010
Consolidated net profit for the year attributable to equity holders of the parent	8,313	8,557
Weighted average number of ordinary shares in issue (million)	8,600	8,590
Basic earnings per share	RMB0.97	RMB1.00
Diluted earnings per share	RMB0.97	RMB1.00

The Company had no dilutive potential ordinary shares as at 31 December 2011 and 2010.

16. Other Comprehensive Loss

	2011	2010
Exchange differences on translation of foreign operations	(18)	(11)
Available-for-sale financial assets		
Losses arising during the year	(15,713)	(3,090)
Reclassification adjustments for losses/(gains) included in profit or loss	1,663	(3,794)
Fair value change on available-for-sale financial assets attributable to policyholders	(654)	2,027
Impairment charges reclassified to the income statement	2,805	615
	(11,899)	(4,242)
Income tax relating to available-for-sale financial assets	2,966	1,060
	(8,933)	(3,182)
Other comprehensive loss	(8,951)	(3,193)

17. Property and Equipment

Group	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2010	4,515	3,155	565	2,764	646	11,645
Additions	71	1,193	170	273	210	1,917
Transfers	641	(641)	—	—	—	—
Disposals	(158)	—	(53)	(139)	(27)	(377)
Transfer to investment properties (note 18)	—	(2,366)	—	—	—	(2,366)
At 31 December 2010	5,069	1,341	682	2,898	829	10,819
Additions	127	644	140	625	288	1,824
Transfers	408	(408)	—	—	—	—
Acquisition of subsidiaries	—	—	—	1	—	1
Disposals	(16)	(4)	(50)	(138)	(16)	(224)
At 31 December 2011	5,588	1,573	772	3,386	1,101	12,420
Accumulated depreciation and impairment						
At 1 January 2010	(1,141)	—	(327)	(1,673)	(359)	(3,500)
Depreciation charge	(156)	—	(66)	(468)	(111)	(801)
Disposals	113	—	50	131	19	313
At 31 December 2010	(1,184)	—	(343)	(2,010)	(451)	(3,988)
Depreciation charge	(180)	—	(85)	(373)	(160)	(798)
Acquisition of subsidiaries	—	—	—	(1)	—	(1)
Disposals	6	—	46	132	16	200
At 31 December 2011	(1,358)	—	(382)	(2,252)	(595)	(4,587)
Net book value						
At 31 December 2010	3,885	1,341	339	888	378	6,831
At 31 December 2011	4,230	1,573	390	1,134	506	7,833

17. Property and Equipment (Continued)

Company	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2010	298	2,319	9	429	113	3,168
Additions	—	171	4	17	59	251
Transfers	124	(124)	—	—	—	—
Disposals	(3)	—	—	(16)	—	(19)
Transfer to investment properties (note 18)	(8)	(2,366)	—	—	—	(2,374)
At 31 December 2010	411	—	13	430	172	1,026
Additions	1	1	1	17	65	85
Disposals	—	—	(3)	(7)	—	(10)
Transfer to investment properties (note 18)	(16)	—	—	—	—	(16)
At 31 December 2011	396	1	11	440	237	1,085
Accumulated depreciation and impairment						
At 1 January 2010	(84)	—	(5)	(210)	(14)	(313)
Depreciation charge	(9)	—	—	(77)	(27)	(113)
Disposals	2	—	—	15	—	17
Transfer to investment properties (note 18)	2	—	—	—	—	2
At 31 December 2010	(89)	—	(5)	(272)	(41)	(407)
Depreciation charge	(13)	—	(3)	(63)	(44)	(123)
Disposals	—	—	2	6	—	8
Transfer to investment properties (note 18)	5	—	—	—	—	5
At 31 December 2011	(97)	—	(6)	(329)	(85)	(517)
Net book value						
At 31 December 2010	322	—	8	158	131	619
At 31 December 2011	299	1	5	111	152	568

18. Investment Properties

	Group	Company
Cost		
At 1 January 2010	—	250
Transfer from property and equipment	2,366	2,374
At 31 December 2010	2,366	2,624
Acquisition of subsidiaries	4,370	—
Additions	9	9
Transfer from property and equipment	—	16
At 31 December 2011	6,745	2,649
Accumulated amortization		
At 1 January 2010	—	(63)
Transfer from property and equipment	—	(2)
Depreciation charge	—	(8)
At 31 December 2010	—	(73)
Depreciation charge	(172)	(85)
Transfer from property and equipment	—	(5)
At 31 December 2011	(172)	(163)
Carrying amount		
At 31 December 2010	2,366	2,551
At 31 December 2011	6,573	2,486

The fair values of investment properties of the Group and the Company as at 31 December 2011 amounted to RMB7,229 million and RMB3,520 million (31 December 2010: RMB2,588 million and RMB3,351 million), respectively, which were estimated by the Company having regard to valuations performed by independent valuers. The Company leases part of its investment properties to CPIC Property, CPIC Life and CPIC Asset Management and charges rentals based on the areas occupied by the respective entities. These properties are categorized as property and equipment of the Group in the consolidated balance sheet.

19. Goodwill

Group	
Cost	
At 1 January 2010 and 31 December 2010	149
Acquisition of subsidiaries (note 5(2))	813
At 31 December 2011	962
Accumulated impairment losses	
At 1 January 2010, 31 December 2010 and 31 December 2011	—
Net book value	
At 31 December 2010	149
At 31 December 2011	962

20. Other Intangible Assets

Group	Software
Cost	
At 1 January 2010	754
Additions	293
Disposal	(105)
At 31 December 2010	942
Additions	314
Disposal	(1)
At 31 December 2011	1,255
Accumulated amortization	
At 1 January 2010	(378)
Amortization	(176)
Disposal	16
At 31 December 2010	(538)
Amortization	(184)
At 31 December 2011	(722)
Carrying amount	
At 31 December 2010	404
At 31 December 2011	533

21. Prepaid Land Lease Payments

	Group	Company
Cost		
At 1 January 2010 and 31 December 2010	241	213
Disposal	(214)	(213)
At 31 December 2011	27	—
Accumulated amortization		
At 1 January 2010	(33)	(29)
Amortization	(5)	(4)
At 31 December 2010	(38)	(33)
Amortization	(2)	(2)
Disposal	37	35
At 31 December 2011	(3)	—
Carrying amount		
At 31 December 2010	203	180
At 31 December 2011	24	—

Land use rights are acquired under the PRC laws for fixed periods, and the related costs are amortized on the straight-line basis. All of the Group's land use rights are related to pieces of land located in the PRC. The costs of the land use rights are amortized over the lease terms ranging from 30 to 50 years.

22. Investments In Subsidiaries

Company	31 December 2011	31 December 2010
Unlisted shares, at cost	54,663	44,866

Particulars of the Company's subsidiaries as at 31 December 2011 are set out in note 5.

The amounts due from and to subsidiaries are disclosed in note 34 or on the face of the Company's balance sheet. The amounts are unsecured, interest-free and are repayable on demand or within one year. The carrying amounts of the amounts due from and to subsidiaries approximate their fair values.

23. Investment In A Jointly-Controlled Entity

Group	31 December 2011	31 December 2010
Share of net assets	—	440

Company	31 December 2011	31 December 2010
Unlisted shares, at cost	—	400

Pursuant to a resolution made at the 2nd meeting of the Company's 5th term of board of directors held on 17 August 2007, the Company intended to sell its entire 50% equity interest in Pacific-Antai Life Insurance Co., Ltd. ("Pacific Antai"). On 27 December 2010, the Company entered into a share transfer agreement with joint purchasers led by China Construction Bank Corporation to sell its entire 50% equity interest in Pacific Antai for a consideration of RMB950 million. The consideration was determined through negotiations with the joint purchasers by reference to the valuation performed by independent valuers. The share transfer was approved by CIRC (Baojianfagai [2011] 425) on 31 March 2011. The risks and rewards associated with the ownership of the equity interest in Pacific Antai have been transferred and the Company recognized a net gain of RMB479 million in 2011.

24. Financial Assets At Fair Value Through Profit Or Loss

All the Group's financial assets at fair value through profit or loss are held for trading and were as follows:

Group	31 December 2011	31 December 2010
Listed		
Investment funds	11	14
Debt securities		
— Government bonds	32	32
— Finance bonds	1,698	2,247
— Corporate bonds	525	17
	2,266	2,310
Unlisted		
Investment funds	641	238
Debt securities		
— Corporate bonds	—	1,056
	641	1,294
	2,907	3,604

Company	31 December 2011	31 December 2010
Listed		
Debt securities		
— Government bonds	32	32
— Finance bonds	—	104
	32	136
Unlisted		
Debt securities		
— Corporate bonds	—	279
	32	415

25. Held-to-maturity Financial Assets

Held-to-maturity financial assets are stated at amortized cost and comprise the following:

Group	31 December 2011	31 December 2010
Listed		
Debt securities		
— Government bonds	2,522	3,027
— Finance bonds	47	62
— Corporate bonds	9,095	9,698
	11,664	12,787
Unlisted		
Debt securities		
— Government bonds	41,239	31,610
— Finance bonds	86,674	52,290
— Corporate bonds	62,959	60,673
	190,872	144,573
	202,536	157,360

Company	31 December 2011	31 December 2010
Listed		
Debt securities		
— Corporate bonds	989	959
Unlisted		
Debt securities		
— Finance bonds	833	790
— Corporate bonds	100	100
	933	890
	1,922	1,849

26. Available-For-Sale Financial Assets

Available-for-sale financial assets are stated at fair value and comprise the following:

Group	31 December 2011	31 December 2010
Listed		
Equity securities	26,862	24,979
Investment funds	7,568	9,174
Debt securities		
— Government bonds	1,089	1,447
— Finance bonds	958	767
— Corporate bonds	16,206	14,095
	52,683	50,462
Unlisted		
Other equity investments	6,164	5,240
Investment funds	12,327	15,431
Debt securities		
— Government bonds	306	522
— Finance bonds	20,499	23,469
— Corporate bonds	25,613	24,635
	64,909	69,297
	117,592	119,759

Company	31 December 2011	31 December 2010
Listed		
Equity securities	1,278	1,442
Investment funds	411	420
Debt securities		
— Finance bonds	726	760
— Corporate bonds	698	102
	3,113	2,724
Unlisted		
Debt securities		
— Finance bonds	—	481
— Corporate bonds	1,350	2,074
	1,350	2,555
	4,463	5,279

27. Investments Classified as Loans and Receivables

Group	31 December 2011	31 December 2010
Debt securities		
— Finance	7,226	6,886
— Debt investment scheme	25,563	15,925
Others	140	—
	32,929	22,811

Company	31 December 2011	31 December 2010
Debt securities		
— Finance	1,199	1,199

28. Securities Purchased Under Agreements to Resell

Group	31 December 2011	31 December 2010
Securities — bonds		
Stock exchange	43	—
Inter-bank market	—	2,600
	43	2,600

Company	31 December 2011	31 December 2010
Securities — bonds		
Inter-bank market	—	2,600

The Group does not sell or re-pledge the collateral underlying the securities purchased under agreements to resell.

29. Term Deposits

Group	31 December 2011	31 December 2010
Within 1 year (including 1 year)	20,278	15,536
1 to 3 years (including 3 years)	42,940	62,260
3 to 5 years (including 5 years)	73,240	25,060
More than 5 years	915	3,916
	137,373	106,772

29. Term Deposits (Continued)

Company	31 December 2011	31 December 2010
Within 1 year (including 1 year)	4,029	29
1 to 3 years (including 3 years)	2,500	6,500
3 to 5 years (including 5 years)	3,500	2,000
	10,029	8,529

30. Interest Receivables

Group	31 December 2011	31 December 2010
Interest receivables from deposits	6,042	5,094
Interest receivables from bonds	4,844	4,079
Interest receivables from loans	121	35
	11,007	9,208
Less: Bad debt provision	(1)	(1)
	11,006	9,207

31. Reinsurance Assets

Group	31 December 2011	31 December 2010
Reinsurers' share of insurance contracts (note 38)	14,118	12,347

32. Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, to be levied by the same tax authority and the same taxable entity.

Group	2011	2010
Net deferred income tax assets, at beginning of year	1,584	644
Acquisition of subsidiaries	(941)	—
Recognized in profit or loss (note 14(a))	411	(120)
Recognized in other comprehensive income (note 14(b))	2,966	1,060
Net deferred income tax assets, at end of year	4,020	1,584

32. Deferred Income Tax Assets and Liabilities (Continued)

Group	31 December 2011	31 December 2010
Insurance contract liabilities	81	(295)
Impairment of assets	486	159
Commissions and handling fees	174	185
Tax losses carried forward	71	472
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	3,671	645
Fair value adjustments arising from acquisition of subsidiaries	(889)	—
Others	426	418
Net deferred income tax assets	4,020	1,584
Represented by:		
Deferred tax assets	4,980	1,586
Deferred tax liabilities	(960)	(2)

33. Insurance Receivables

Group	31 December 2011	31 December 2010
Insurance receivables	6,475	5,610
Provision for impairment of insurance receivables	(223)	(201)
	6,252	5,409

An aged analysis of the insurance receivables is as follows:

Group	31 December 2011	31 December 2010
Within 3 months (including 3 months)	4,895	4,216
Over 3 months and within 1 year (including 1 year)	881	762
Over 1 year	476	431
	6,252	5,409

Insurance receivables include premium receivables from policyholders or agents and receivables from reinsurers.

The credit terms for premium receivables from life insurance policyholders are 60 days. CPIC Property normally collects premium receivables from agents on a monthly or quarterly basis, and certain premiums are collected by CPIC Property in installments. According to the Group's credit policy, the credit terms for premium receivables cannot be longer than the insurance coverage period. The Group and reinsurers normally settle receivables and payables on a quarterly basis.

The Group's insurance receivables relate to a large number of counterparties, and there is no significant concentration of credit risk. Insurance receivables are non-interest-bearing.

33. Insurance Receivables (Continued)

The following insurance receivables are individually determined to be impaired mainly because they are past due and were not collected before the end of the insurance coverage period. The Group does not hold any collateral or other enhancements over these balances.

Group	31 December 2011	31 December 2010
Insurance receivables that are individually determined to be impaired	59	55
Related provision for impairment	(59)	(55)
	—	—

34. Other Assets

Group	31 December 2011	31 December 2010
Tax receivable other than income tax	1,123	320
Foreclosed assets (1)	1	874
Receivable from securities clearance	145	1,742
Due from agents	58	58
Co-insurance receivable	52	56
Investment refund (2)	78	78
Others	917	696
	2,374	3,824

Company	31 December 2011	31 December 2010
Due from subsidiaries	111	23
Foreclosed assets (1)	—	873
Receivable from securities clearance	—	198
Others	88	21
	199	1,115

(1) *In June 2007, the Company entered into a debt restructuring agreement with Fudan Pacific Institute of Finance (the "Institute"), pursuant to which the Company agreed to take possession of the buildings, related facilities and other assets of the Institute to settle the receivables due from the Institute.*
According to relevant regulations, in 2010, the Company entered into an assets transfer agreement with Shanghai Pudong New Area Land Reserve Centre ("上海市浦東新區土地資源儲備中心") to transfer to it the related land use right, buildings and facilities of the Institute (the "Institute-related assets"). The consideration was determined through negotiations with the transferee by reference to the valuation performed by independent valuers. During 2011, the Company completed the transaction and recognised a net gain of approximately RMB659 million.

(2) *In November 2010, CPIC Life entered into a share subscription agreement with Bank of Tianjin Co. Ltd. to subscribe for 100 million RMB ordinary shares. The total investment amounted to RMB520 million. The transaction was cancelled in 2011 by both parties. As at 31 December 2011, the cumulative amount of RMB78 million previously paid by CPIC Life was recorded as receivable and was subsequently recovered in January 2012.*

35. Cash and Short-Term Time Deposits

Group	31 December 2011	31 December 2010
Cash at banks and on hand	7,001	5,713
Time deposits with original maturity of no more than three months	7,628	8,358
Other monetary assets	274	889
	14,903	14,960

Company	31 December 2011	31 December 2010
Cash at banks and on hand	280	621
Time deposits with original maturity of no more than three months	370	4,196
Other monetary assets	173	654
	823	5,471

The Group's balances denominated in RMB amounted to RMB13,860 million as at 31 December 2011 (31 December 2010: RMB11,038 million). Under PRC's foreign exchange regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business after obtaining approval from foreign exchange regulatory authorities.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and short-term time deposits approximate their fair values.

36. Issued Capital

Group and Company	31 December 2011	31 December 2010
Number of shares issued and fully paid at RMB1 each (million)	8,600	8,600

37. Reserves and Retained Profits

The amounts of the Group's reserves and the movements therein during the year are presented in the consolidated statement of changes in equity.

(a) Capital reserve

Capital reserve mainly represents share premiums from issuance of shares and the deemed disposal of an equity interest in CPIC Life to certain foreign investors in December 2005, and the subsequent repurchase of the said interest in the same subsidiary by the Company in April 2007.

(b) Surplus reserves

Surplus reserves consist of the statutory surplus reserve and the discretionary surplus reserve.

(i) Statutory surplus reserve (the "SSR")

According to the PRC Company Law and the articles of association of the Company and its subsidiaries in the PRC, the Company and its subsidiaries are required to set aside 10% of their net profit (after offsetting the accumulated losses incurred in previous years) determined under PRC GAAP, to the SSR until the balance reaches 50% of the respective registered capital.

Subject to the approval of shareholders, the SSR may be used to offset the accumulated losses, if any, and may also be converted into capital, provided that the balance of the SSR after such capitalisation is not less than 25% of the registered capital.

Of the Group's retained profits, RMB3,181 million as at 31 December 2011 (31 December 2010: RMB2,493 million) represents the Company's share of its subsidiaries' surplus reserve fund.

(ii) Discretionary surplus reserve (the "DSR")

After making necessary appropriations to the SSR, the Company and its subsidiaries in the PRC may also appropriate a portion of their net profit to the DSR upon the approval of the shareholders in general meetings.

Subject to the approval of the shareholders, the DSR may be used to offset accumulated losses, if any, and may be converted into capital.

(c) General reserve

In accordance with the relevant regulations, general reserve should be set aside to cover catastrophic losses as incurred by companies operating in the insurance business. The Company's insurance subsidiaries in the PRC would need to make appropriations for such reserve based on their respective year end net profit determined in accordance with PRC GAAP, and based on the applicable PRC financial regulations, in the annual financial statements. Such reserve is not available for profit distribution or transfer to capital.

Of the Group's retained profits, RMB3,168 million as at 31 December 2011 (31 December 2010: RMB2,484 million) represents the Company's share of its subsidiaries' general reserve.

(d) Other reserves

The investment revaluation reserve records the fair value changes of available-for-sale financial assets. The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries incorporated outside the PRC.

(e) Distributable profits

According to the Articles of Association of the Company, the amount of retained profits available for distribution of the Company should be the lower of the amount determined under PRC GAAP and the amount determined under HKFRSs. Pursuant to the resolution of the 8th meeting of the Company's 6th term of board of directors held on 23 March 2012, a final dividend of approximately RMB3,010 million (equivalent to RMB0.35 per share (including tax)) was proposed after the appropriation of statutory surplus reserve and is subject to the approval of the forthcoming annual general meeting.

37. Reserves and Retained Profits (Continued)

(f) The movements in reserves and retained profits of the Company are set out below:

Company	Capital reserve	Surplus reserves	Available-for-sale investment revaluation reserve	Total	Retained profits
At 1 January 2010	55,641	1,091	(4)	56,728	5,355
Total comprehensive income for the year	—	—	(157)	(157)	3,095
Issue of shares	2,688	—	—	2,688	—
Dividend declared	—	—	—	—	(2,580)
Appropriations to surplus reserves	—	308	—	308	(308)
At 31 December 2010	58,329	1,399	(161)	59,567	5,562
At 1 January 2011	58,329	1,399	(161)	59,567	5,562
Total comprehensive income for the year	—	—	(402)	(402)	5,359
Dividend declared	—	—	—	—	(3,010)
Appropriations to surplus reserves	—	531	531	(531)	
At 31 December 2011	58,329	1,930	(563)	59,696	7,380

Dividends from subsidiaries amounting to RMB4,006 million were included in the Company's net profit for 2011 (2010: RMB2,579 million).

38. Insurance Contract Liabilities

	As at 31 December 2011		
Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
Long-term life insurance contracts	325,558	(5,180)	320,378
Short-term life insurance contracts			
— Unearned premiums	1,621	(285)	1,336
— Claim reserves	631	(144)	487
	2,252	(429)	1,823
Property and casualty insurance contracts			
— Unearned premiums	26,556	(3,916)	22,640
— Claim reserves	20,565	(4,593)	15,972
	47,121	(8,509)	38,612
	374,931	(14,118)	360,813
Incurred but not reported claim reserves	3,237	(746)	2,491

38. Insurance Contract Liabilities (continued)

			As at 31 December 2010
Group	**Insurance contract liabilities**	**Reinsurers' share of insurance contract liabilities (note 31)**	**Net**
Long-term life insurance contracts	267,953	(4,821)	263,132
Short-term life insurance contracts			
— Unearned premiums	1,456	(280)	1,176
— Claim reserves	546	(131)	415
	2,002	(411)	1,591
Property and casualty insurance contracts			
— Unearned premiums	21,951	(3,483)	18,468
— Claim reserves	15,280	(3,632)	11,648
	37,231	(7,115)	30,116
	307,186	(12,347)	294,839
Incurred but not reported claim reserves	2,445	(593)	1,852

(a) Long-term life insurance contract liabilities

Group	**Insurance contract liabilities**	**Reinsurers' share of insurance contract liabilities (note 31)**	**Net**
At 1 January 2010	208,810	(3,704)	205,106
Valuation premiums	83,767	(1,985)	81,782
Liabilities released for payments on benefits and claims	(17,168)	150	(17,018)
Other movements	(7,456)	718	(6,738)
At 31 December 2010	267,953	(4,821)	263,132
Valuation premiums	88,590	(1,483)	87,107
Liabilities released for payments on benefits and claims	(21,729)	221	(21,508)
Other movements	(9,256)	903	(8,353)
At 31 December 2011	325,558	(5,180)	320,378

38. Insurance Contract Liabilities (continued)

(b) Short-term life insurance contract liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2010	1,229	(226)	1,003
Premiums written	4,106	(1,051)	3,055
Premiums earned	(3,879)	997	(2,882)
At 31 December 2010	1,456	(280)	1,176
Premiums written	4,613	(1,066)	3,547
Premiums earned	(4,448)	1,061	(3,387)
At 31 December 2011	1,621	(285)	1,336

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2010	470	(136)	334
Claims incurred	1,146	(453)	693
Claims paid	(1,070)	458	(612)
At 31 December 2010	546	(131)	415
Claims incurred	1,374	(728)	646
Claims paid	(1,289)	715	(574)
At 31 December 2011	631	(144)	487

38. Insurance Contract Liabilities (continued)

(c) Property and casualty insurance contract liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2010	14,634	(2,372)	12,262
Premiums written	51,682	(10,386)	41,296
Premiums earned	(44,365)	9,275	(35,090)
At 31 December 2010	21,951	(3,483)	18,468
Premiums written	61,755	(10,835)	50,920
Premiums earned	(57,150)	10,402	(46,748)
At 31 December 2011	26,556	(3,916)	22,640

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2010	11,009	(2,709)	8,300
Claims incurred	25,047	(4,911)	20,136
Claims paid	(20,776)	3,988	(16,788)
At 31 December 2010	15,280	(3,632)	11,648
Claims incurred	33,310	(5,946)	27,364
Claims paid	(28,025)	4,985	(23,040)
At 31 December 2011	20,565	(4,593)	15,972

39. Investment Contract Liabilities

Group	
At 1 January 2010	52,090
Deposits received	4,943
Deposits withdrawn	(7,069)
Fees deducted	(300)
Interest credited	1,722
Others	(114)
At 31 December 2010	51,272
Deposits received	3,366
Deposits withdrawn	(9,335)
Fees deducted	(295)
Interest credited	2,257
Others	(83)
At 31 December 2011	47,182

40. Subordinated Debt

On 29 June 2006, CPIC Life issued a 10-year fixed rate subordinated debt with a face value of RMB2,000 million. CPIC Life has the option to redeem all or part of the aforementioned debt at face value before the interest payment date in the fifth year. CPIC Life exercised the option to redeem the debt in full on 29 June 2011 and settled in cash in July 2011.

On 21 December 2011, CPIC Life issued a 10-year subordinated debt with a total face value of RMB8,000 million. CPIC Life has the option to redeem the debt at the end of the fifth year. The simple coupon rate of the debt is 5.5% per annum, with interest payable on an annual basis. If CPIC Life does not exercise the redemption option, the annual coupon rate for the next 5 years would increase to 7.5% and this would remain unchanged for the remaining period.

41. Securities Sold Under Agreements to Repurchase

Group	31 December 2011	31 December 2010
Bonds		
Stock exchange	12,581	3,650
Inter-bank market	19,524	4,500
	32,105	8,150

As at 31 December 2011, bond investments of approximately RMB32,770 million (31 December 2010: RMB9,765 million) were pledged as securities sold under agreements to repurchase. Securities sold under agreements to repurchase are generally repurchased within 12 months from the date the securities are sold.

42. Other Liabilities

Group	31 December 2011	31 December 2010
Annuity and other insurance payables	4,315	2,669
Salary and staff welfare payable	1,717	1,457
Commission and brokerage payable	1,348	1,325
Tax payable other than income tax	1,221	923
Accrued expenses	374	369
Payables for purchase of office buildings	264	145
Insurance guarantee fund	236	286
Co-insurance payable	138	174
Provisions	13	119
Dividend payable	4	4
Proceeds received from disposal of the Institute-related assets	—	1,000
Others	1,967	1,325
	11,597	9,796

Company	31 December 2011	31 December 2010
Salary and staff welfare payable	132	161
Payables for purchase of office buildings	61	55
Provisions	5	94
Proceeds received from disposal of the Institute-related assets	—	1,000
Others	158	270
	356	1,580

43. Insurance Contract Liabilities and Reinsurance Assets — Assumptions and Sensitivities

(a) Long-term life insurance contracts

Key assumptions

Judgements are required in the process of determining the liabilities and making the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Life insurance contract estimates are based on current assumptions. Assumptions are made in relation to future deaths, voluntary terminations, investment returns and administration expenses. If the liabilities are not adequate, the assumptions are altered to reflect the current estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), surrender rates, expense assumptions and policy dividend assumptions.

43. Insurance Contract Liabilities and Reinsurance Assets — Assumptions and Sensitivities (continued)

(a) Long-term life insurance contracts (continued)

Sensitivities

The analysis below is performed to show the reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross long-term life insurance contract liabilities. The correlation of assumptions will have a significant effect in determining the ultimate liabilities; however, for the purpose of demonstrating the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	As at 31 December 2011		
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(11,854)	-3.64%
	-25 basis points	12,672	3.89%
Mortality and morbidity rates	+10%	1,028	0.32%
	-10%	(1,009)	-0.31%
Surrender rates	+10%	655	0.20%
	-10%	(646)	-0.20%
Expenses	+10%	1,858	0.57%
Policy dividend	+5%	4,016	1.23%

	As at 31 December 2010		
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(9,970)	-3.72%
	-25 basis points	10,674	3.98%
Mortality and morbidity rates	+10%	811	0.30%
	-10%	(784)	-0.29%
Surrender rates	+10%	751	0.28%
	-10%	(772)	-0.29%
Expenses	+10%	1,612	0.60%
Policy dividend	+5%	2,857	1.07%

43. Insurance Contract Liabilities and Reinsurance Assets — Assumptions and Sensitivities (continued)

(a) Long-term life insurance contracts (continued)

Sensitivities (continued)

The sensitivity analysis also does not take into account the fact that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above analysis include the use of hypothetical market movements to demonstrate potential risk and the assumption that interest rates move in identical fashion.

(b) Property and casualty and short-term life insurance contracts

Key assumptions

The principal assumption underlying the estimates is the Group's past claim development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as changes in internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include explicit margin, delays in settlement, etc.

Sensitivities

The property and casualty and short-term life insurance claim reserves are sensitive to the above key assumptions. The sensitivity of certain variables like legislative changes, uncertainty in the estimation process, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim reserves are not known with certainty at the balance sheet date.

To illustrate the sensitivities of ultimate claim costs, for example, a respective percentage change in average claim costs or the number of claims alone results in a similar percentage change in claim reserves. In other words, while other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short-term life insurance as at 31 December 2011 by RMB799 million and RMB24 million (31 December 2010: RMB582 million and RMB21 million), respectively.

43. Insurance Contract Liabilities and Reinsurance Assets — Assumptions and Sensitivities (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Claim development tables

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date.

Gross property and casualty insurance claim reserves:

					Property and casualty insurance (Accident year)	
Estimate of ultimate claim cost as of:	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
End of current year	13,249	18,631	19,144	24,635	33,232	
One year later	12,725	18,473	19,317	24,251		
Two years later	12,520	18,429	19,591			
Three years later	12,528	18,500				
Four years later	12,516					
Current estimate of cumulative claims	12,516	18,500	19,591	24,251	33,232	108,090
Cumulative payments to date	(12,429)	(18,252)	(18,492)	(21,218)	(17,740)	(88,131)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin						606
Total gross claim reserves included in the consolidated balance sheet						20,565

Net property and casualty insurance claim reserves:

					Property and casualty insurance (Accident year)	
Estimate of ultimate claim cost as of:	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
End of current year	10,459	14,036	15,280	19,768	27,311	
One year later	10,108	14,055	15,440	19,565		
Two years later	9,989	14,042	15,596			
Three years later	9,954	14,281				
Four years later	9,951					
Current estimate of cumulative claims	9,951	14,281	15,596	19,565	27,311	86,704
Cumulative payments to date	(9,887)	(14,140)	(15,078)	(17,344)	(14,840)	(71,289)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin						557
Total net claim reserves included in the consolidated balance sheet						15,972

43. Insurance Contract Liabilities and Reinsurance Assets — Assumptions and Sensitivities (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Claim development tables (continued)

Gross short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
Estimate of ultimate claim cost as of:	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
End of current year	909	1,005	1,002	1,197	1,423	
One year later	920	990	985	1,177		
Two years later	876	964	965			
Three years later	865	954				
Four years later	867					
Current estimate of cumulative claims	867	954	965	1,177	1,423	5,386
Cumulative payments to date	(867)	(953)	(953)	(1,112)	(886)	(4,771)
Liability in respect of prior years and risk adjustment margin						16
Total gross claim reserves included in the consolidated balance sheet						631

Net short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
Estimate of ultimate claim cost as of:	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
End of current year	545	711	725	901	1,091	
One year later	558	692	717	885		
Two years later	524	677	701			
Three years later	519	668				
Four years later	520					
Current estimate of cumulative claims	520	668	701	885	1,091	3,865
Cumulative payments to date	(520)	(667)	(691)	(834)	(678)	(3,390)
Liability in respect of prior years and risk adjustment margin						12
Total net claim reserves included in the consolidated balance sheet						487

44. Risk Management

(a) Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

Insurance risk could occur due to any of the following factors:

Occurrence risk — the possibility that the number of insured events will differ from that expected.

Severity risk — the possibility that the cost of the events will differ from that 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 above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines, as well as the use of reinsurance arrangements.

The businesses of the Group mainly comprise long-term life insurance contracts, short-term life insurance contracts and property and casualty insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For property and casualty insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

There would be no significant mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums. Insurance risk is also affected by the policyholders' rights to terminate the contract, to pay reduced premiums, to refuse to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behaviour and decisions.

The Group manages insurance risks through reinsurance to reduce the effect of potential losses to the Group. Two major types of reinsurance agreements, ceding on a quota share basis or a surplus basis, are usually used to cover insurance liability risk, with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claim provisions and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that neither it is dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

Currently, the Group's insurance risk does not vary significantly in relation to the locations of the risks insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note 6.

44. Risk Management (continued)

(b) Financial risk

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 market prices. Market risk comprises three types of risk, which arise from foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

The following policies and procedures are in place to mitigate the Group's exposure to market risk:

- A group market risk policy setting out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group's risk management committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Asset allocation and portfolio limit structure, which ensures that assets back specific policyholder liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.
- Strict control over hedging activities.

(i) Currency risk

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

The Group operates principally in the PRC with only limited exposure to foreign exchange rate risk arising primarily from certain foreign currency insurance policies, bank deposits and securities denominated in United States dollar ("USD") or Hong Kong dollar ("HKD").

The following tables summarize the Group's exposure to foreign currency exchange rate risk at the balance sheet date by categorizing financial assets, financial liabilities, reinsurance assets and insurance contract liabilities by major currency.

				As at 31 December 2011
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	2,888	—	19	2,907
Held-to-maturity financial assets	202,356	171	9	202,536
Available-for-sale financial assets	115,356	205	2,031	117,592
Investments classified as loans and receivables	32,929	—	—	32,929
Term deposits	137,342	25	6	137,373
Reinsurance assets	14,118	—	—	14,118
Cash and short-term time deposits	13,860	655	388	14,903
Others	26,361	697	31	27,089
	545,210	1,753	2,484	549,447
Insurance contract liabilities	374,931	—	—	374,931
Investment contract liabilities	47,182	—	—	47,182
Policyholders' deposits	80	—	—	80
Subordinated debt	8,000	—	—	8,000
Securities sold under agreements to repurchase	32,105	—	—	32,105
Others	21,858	160	19	22,037
	484,156	160	19	484,335

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

				As at 31 December 2010
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	3,604	—	—	3,604
Held-to-maturity financial assets	157,145	207	8	157,360
Available-for-sale financial assets	117,586	20	2,153	119,759
Investments classified as loans and receivables	22,811	—	—	22,811
Term deposits	106,746	26	—	106,772
Reinsurance assets	12,347	—	—	12,347
Cash and short-term time deposits	11,038	199	3,723	14,960
Others	24,360	495	167	25,022
	455,637	947	6,051	462,635
Insurance contract liabilities	307,186	—	—	307,186
Investment contract liabilities	51,272	—	—	51,272
Policyholders' deposits	82	—	—	82
Subordinated debt	2,338	—	—	2,338
Securities sold under agreements to repurchase	8,150	—	—	8,150
Others	18,275	361	6	18,642
	387,303	361	6	387,670

The Group has no significant concentration of currency risk.

Sensitivities

The analysis below is performed to show the reasonably possible movements in foreign currency exchange rates with all other assumptions held constant, showing the pre-tax impact on profit before tax of the Group (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity of the Group when the foreign exchange rates of USD and HKD vary. 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 variables, variables had to be changed on an individual basis.

			31 December 2011
Currency	Changes in exchange rate	Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	101	101
USD and HKD	- 5%	(101)	(101)

			31 December 2010
Currency	Changes in exchange rate	Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	231	231
USD and HKD	- 5%	(231)	(231)

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk

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

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities. Interest on floating rate instruments is repriced when benchmark interest rates change. Interest on other instruments is either fixed during its term or repriced at intervals of less than one year if the benchmark interest rates change.

The Group has no significant concentration of interest rate risk.

The tables below summarize the contractual or estimated repricing/maturity date of the Group's financial instruments. Other financial instruments not included in the following tables are interest-free and not exposed to interest rate risk.

						As at 31 December 2011
	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
Deposits with original maturity of no more than three months	7,628	—	—	—	7,273	14,901
Financial assets at fair value through profit or loss	24	44	1,701	486	—	2,255
Securities purchased under agreements to resell	43	—	—	—	—	43
Policy loans	4,094	—	—	—	—	4,094
Term deposits	4,328	15,830	60,510	200	56,505	137,373
Available-for-sale financial assets	6,355	19,136	9,869	29,311	—	64,671
Held-to-maturity financial assets	5,188	14,111	7,911	175,326	—	202,536
Investments classified as loans and receivables	14,618	3,336	4,350	2,345	8,280	32,929
Restricted statutory deposits	460	1,652	1,308	—	160	3,580
Financial liabilities:						
Securities sold under agreements to repurchase	32,105	—	—	—	—	32,105
Investment contract liabilities	47,182	—	—	—	—	47,182
Policyholders' deposits	80	—	—	—	—	80
Subordinated debt	—	—	8,000	—	—	8,000

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2010

	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
Deposits with original maturity of no more than three months	8,358	—	—	—	6,599	14,957
Financial assets at fair value through profit or loss	978	31	8	2,335	—	3,352
Securities purchased under agreements to resell	2,600	—	—	—	—	2,600
Policy loans	2,307	—	—	—	—	2,307
Term deposits	14,536	18,900	20,880	2,700	49,756	106,772
Available-for-sale financial assets	6,897	13,657	16,167	28,214	—	64,935
Held-to-maturity financial assets	5,049	13,461	6,909	131,941	—	157,360
Investments classified as loans and receivables	6,719	2,386	3,220	2,349	8,137	22,811
Restricted statutory deposits	100	2,012	—	500	160	2,772
Financial liabilities:						
Securities sold under agreements to repurchase	8,150	—	—	—	—	8,150
Investment contract liabilities	51,272	—	—	—	—	51,272
Policyholders' deposits	82	—	—	—	—	82
Subordinated debt	2,338	—	—	—	—	2,338

Interest rates on floating rate bonds/liabilities are re-priced when the benchmark interest rates are adjusted.

Sensitivities

The analysis below is performed for reasonably possible movements in interest rate with all other variables held constant, for the following financial instruments, showing the pre-tax impact on profit and equity. Since almost all financial instruments of the Group that bear interest rate risks are financial instruments denominated in RMB, the sensitivity analysis below only shows the pre-tax impact of RMB financial instruments on the Group's profit before tax and equity when RMB interest rate changes.

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivities (continued)

Sensitivities on fixed-rate financial instruments

As at the balance sheet dates, the Group's fixed-rate financial instruments exposed to interest rate risk mainly include financial assets at fair value through profit or loss and available-for-sale financial assets. The following tables show the pre-tax impact on profit (fair value change on held-for-trading bonds) and equity (fair value change on held-for-trading bonds combined with fair value change on available-for-sale bonds).

	31 December 2011	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+ 50 basis points	—	(798)
- 50 basis points	—	818

	31 December 2010	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+ 50 basis points	(5)	(897)
- 50 basis points	5	932

The above impact on equity represents adjustments to profit before tax and changes in fair value of available-for-sale financial assets.

Sensitivities on floating-rate financial instruments

The following tables show the pre-tax impact of change in interest rate on profit and equity due to change in interest income or expense arising from floating-rate financial instruments as at the balance sheet dates.

	31 December 2011	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+ 50 basis points	359	359
- 50 basis points	(359)	(359)

	31 December 2010	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+ 50 basis points	320	320
- 50 basis points	(320)	(320)

The above impact on equity represents adjustments to profit before tax.

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(iii) Price risk

Equity price risk is the risk that the fair value 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 the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group's price risk policy requires it to manage such risk by setting and monitoring objectives and constraints on investments, diversification plans, and limits on investment type.

The Group's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment funds and equity securities. The Group uses the 5-day market price value-at-risk ("VAR") technique to estimate its risk exposure for listed equity securities and equity investment funds. The Group adopts 5 days as the holding period on the assumption that not all the investments can be sold in one day. Moreover, the VAR calculation is made based on normal market condition and a 95% confidence level impact on equity for listed equity securities and equity investments funds with 5-day reasonable market fluctuation and with 95% confidence level.

As at 31 December 2011, the estimated impact on equity for listed equity securities and equity investment funds, using the VAR technique and the assumptions above in the normal market is RMB1,622 million (31 December 2010: RMB2,098 million).

Credit risk

Credit risk is the risk that one party to a financial instrument (debt instrument) or reinsurance asset will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in bonds, reinsurance arrangements with reinsurers, premium receivables, securities purchased under agreements to resell and policy loans.

Majority of the Group's financial assets are bond investments which include government bonds, finance bonds and corporate bonds. The finance bonds have high domestic credit rating and the corporate bonds are guaranteed mainly by financial institutions with high domestic credit rating. Hence, the related credit risk should be regarded as relatively low.

For securities purchased under agreements to resell and policy loans, there is security pledge and the maturity period is less than one year. Hence, the related credit risk should not have significant impact on the Group's financial statements.

The Group mitigates credit risk by utilizing credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counterparty exposure limits.

The table below shows the maximum exposure to credit risk for the assets subject to credit risk. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancements.

	31 December 2011	31 December 2010
Financial assets at fair value through profit or loss	2,255	3,352
Held-to-maturity financial assets	202,536	157,360
Available-for-sale financial assets	64,671	64,935
Investments classified as loans and receivables	32,929	22,811
Term deposits	137,373	106,772
Reinsurance assets	14,118	12,347
Insurance receivables	6,252	5,409
Cash and short-term time deposits	14,901	14,957
Others	20,837	19,613
Total credit risk exposure	495,872	407,556

The above asset account balances did not include equity investment balances.

44. Risk Management (continued)

(b) Financial risk (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. 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 Group is exposed to liquidity risk on insurance policies that permit surrenders, withdrawals or other forms of early termination. The Group seeks to manage its liquidity risk by matching, to the extent possible, the duration of its investment assets with the duration of its insurance policies and ensuring that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk:

- Implementing group liquidity risk policy by setting out the assessment and determination of what constitutes liquidity risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group's risk management committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Setting out guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure that sufficient funding is available to meet insurance and investment contract obligations.
- Setting up contingency funding plans which specify the minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The tables below summarize the maturity profiles of the financial assets and financial liabilities of the Group based on remaining undiscounted cash flows, and insurance contract liabilities of the Group based on the estimated timing of the net cash outflows.

						As at 31 December 2011
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Financial assets at fair value through profit or loss	—	61	1,959	500	652	3,172
Held-to-maturity financial assets	—	13,266	59,627	286,468	—	359,361
Available-for-sale financial assets	—	6,799	40,495	35,765	52,921	135,980
Investments classified as loans and receivables	—	1,959	15,249	27,882	—	45,090
Securities purchased under agreements to resell	—	43	—	—	—	43
Term deposits	—	27,379	137,419	1,077	—	165,875
Restricted statutory deposits	—	1,155	2,907	—	—	4,062
Insurance receivables	707	5,358	406	4	—	6,475
Cash and short-term time deposits	7,275	7,628	—	—	—	14,903
Others	257	6,264	19	—	—	6,540
Total	8,239	69,912	258,081	351,696	53,573	741,501
Liabilities:						
Insurance contract liabilities	—	44,625	53,077	277,229	—	374,931
Investment contract liabilities	—	1,163	1,147	44,872	—	47,182
Policyholders' deposits	69	11	—	—	—	80
Subordinated debt	—	440	9,760	—	—	10,200
Securities sold under agreements to repurchase	—	32,191	—	—	—	32,191
Others	13,630	7,829	489	14	—	21,962
Total	13,699	86,259	64,473	322,115	—	486,546

44. Risk Management (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

As at 31 December 2010

	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Financial assets at fair value through profit or loss	—	1,016	155	2,165	252	3,588
Held-to-maturity financial assets	—	9,987	49,111	213,163	—	272,261
Available-for-sale financial assets	—	6,672	42,147	34,680	54,824	138,323
Investments classified as loans and receivables	—	1,292	9,773	20,099	—	31,164
Securities purchased under agreements to resell	—	2,609	—	—	—	2,609
Term deposits	—	20,155	98,245	4,075	—	122,475
Restricted statutory deposits	—	108	2,312	614	—	3,034
Insurance receivables	480	4,676	434	20	—	5,610
Cash and short-term time deposits	6,602	8,358	—	—	—	14,960
Others	277	4,980	8	—	—	5,265
Total	7,359	59,853	202,185	274,816	55,076	599,289
Liabilities:						
Insurance contract liabilities	—	42,578	32,750	231,858	—	307,186
Investment contract liabilities	—	1,474	1,187	48,611	—	51,272
Policyholders' deposits	71	11	—	—	—	82
Subordinated debt	—	2,375	—	—	—	2,375
Securities sold under agreements to repurchase	—	8,168	—	—	—	8,168
Others	9,829	8,249	523	35	—	18,636
Total	9,900	62,855	34,460	280,504	—	387,719

44. Risk Management (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

The table below summarizes the expected utilisation or settlement of assets and liabilities.

			As at 31 December 2011
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	2,907	—	2,907
Held-to-maturity financial assets	3,628	198,908	202,536
Available-for-sale financial assets	50,702	66,890	117,592
Investments classified as loans and receivables	140	32,789	32,929
Term deposits	514	136,859	137,373
Cash and short-term time deposits	14,903	—	14,903
Others	34,559	27,813	62,372
Total assets	107,353	463,259	570,612
Liabilities:			
Insurance contract liabilities	44,625	330,306	374,931
Investment contract liabilities	1,163	46,019	47,182
Policyholders' deposits	80	—	80
Subordinated debt	—	8,000	8,000
Securities sold under agreements to repurchase	32,105	—	32,105
Others	28,872	1,387	30,259
Total liabilities	106,845	385,712	492,557

			As at 31 December 2010
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	3,604	—	3,604
Held-to-maturity financial assets	2,872	154,488	157,360
Available-for-sale financial assets	53,438	66,321	119,759
Investments classified as loans and receivables	180	22,631	22,811
Term deposits	863	105,909	106,772
Cash and short-term time deposits	14,960	—	14,960
Others	29,789	20,656	50,445
Total assets	105,706	370,005	475,711
Liabilities:			
Insurance contract liabilities	30,354	276,832	307,186
Investment contract liabilities	—	51,272	51,272
Policyholders' deposits	71	11	82
Subordinated debt	2,338	—	2,338
Securities sold under agreements to repurchase	8,150	—	8,150
Others	24,598	534	25,132
Total liabilities	65,511	328,649	394,160

44. Risk Management (continued)

(c) Operational risk

Operational risk is the risk of loss arising from inadequate or failure on business processes, human error, information system failure, etc. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Group is exposed to many types of operational risks in the conduct of its business, from inadequate or failure to obtain proper authorizations or supporting documentation to comply with operational and informational security procedures that prevent frauds or errors by employees.

The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes, including the use of compliance check and internal audit.

(d) Mismatching risk of assets and liabilities

Assets and liabilities mismatching risk is the risk due to the Group's inability to match its assets with its liabilities on the basis of duration, cash flow and investment return. Under the current regulatory and market environment, the Group is unable to invest in assets with a duration of sufficient length to match the duration of its medium and long term life insurance liabilities. When the current regulatory and market environment permits, the Group will lengthen the duration of its assets and increase the profile of securities with fixed investment returns to narrow the gap of duration and investment returns of the existing liabilities.

In order to further enhance the management of matching of assets and liabilities, the Group has the Asset-Liability Management Committee to make significant decisions on asset-liability management. The committee has an asset-liability working group which analyzes the extent of assets and liabilities matching.

(e) Capital management risks

CIRC monitors capital management risks mainly through a set of solvency regulatory rules to ensure insurance companies can maintain sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy solvency margin capital ratios in order to support its business objectives and maximize shareholders' value.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. The Group has stepped up efforts to maintain a platform for sustained financing in order to meet solvency margin needs arising from future expansion in business activities. The Group continuously and proactively adjusts the business mix, optimizes the asset allocation, improves the asset quality and enhances the operating efficiency so as to underscore the role of profitability in relation to solvency margin.

In practice, the Group manages its capital requirements mainly through monitoring the solvency margins of the Group and its major insurance subsidiaries. The solvency margins are computed based on the relevant regulations issued by CIRC; actual solvency margins are the excess of admitted assets over admitted liabilities as determined under the regulations.

44. Risk Management (continued)

(e) Capital management risks (continued)

The table below summarizes the minimum and actual solvency margins of the Group and its major insurance subsidiaries determined according to CIRC's solvency rules.

Group	31 December 2011	31 December 2010
Actual solvency margin	73,556	76,673
Minimum solvency margin	25,884	21,486
Surplus	47,672	55,187
Solvency margin ratio	284%	357%

CPIC Property	31 December 2011	31 December 2010
Actual solvency margin	17,644	10,266
Minimum solvency margin	7,568	6,132
Surplus	10,076	4,134
Solvency margin ratio	233%	167%

CPIC Life	31 December 2011	31 December 2010
Actual solvency margin	34,213	36,687
Minimum solvency margin	18,267	15,222
Surplus	15,946	21,465
Solvency margin ratio	187%	241%

According to the relevant regulations, if the actual solvency margin of an insurance company falls below the minimum solvency margin, CIRC may take additional necessary measures depending on the circumstances, until the minimum solvency margin requirement is satisfied.

45. Fair Value of Financial Assets and Liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments. When an active market exists, such as an authorized securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market, fair value is determined using valuation techniques (note 3.2(2)).

The Group's financial assets mainly include cash and short-term time deposits, financial assets at fair value through profit or loss, securities purchased under agreements to resell, policy loans, term deposits, available-for-sale financial assets, held-to-maturity financial assets, investments classified as loans and receivables, statutory deposits, etc.

The Group's financial liabilities mainly include securities sold under agreements to repurchase, policyholders' deposits, investment contract liabilities, subordinated debt, etc.

45. Fair Value of Financial Assets and Liabilities (continued)

Fair value of financial assets and liabilities not carried at fair value

The following table summarizes the carrying values and estimated fair values of held-to-maturity debt securities, investments classified as loans and receivables and subordinated debt whose fair values are not presented in the consolidated balance sheet.

	As at 31 December 2011	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	202,536	201,656
Investments classified as loans and receivables	32,929	32,524
Financial liabilities:		
Subordinated debt	8,000	8,043

	As at 31 December 2010	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	157,360	154,812
Investments classified as loans and receivables	22,811	22,434
Financial liabilities:		
Subordinated debt	2,338	2,329

As permitted by HKFRS 7, the Group has not disclosed fair values for certain investment contract liabilities with discretionary participation features ("DPF") because fair values or fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business.

Carrying amounts of other financial assets and financial liabilities approximate their fair values.

Determination of fair value and fair value hierarchy

The Group establishes a framework that includes a hierarchy used to classify the inputs used in measuring fair value for financial assets. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The levels of the fair value hierarchy are as follows:

(a) Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities ("Level 1");

(b) Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) ("Level 2"); and

(c) Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs) ("Level 3").

45. Fair Value of Financial Assets and Liabilities (continued)

Determination of fair value and fair value hierarchy (continued)

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

				As at 31 December 2011
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit or loss				
— Investment funds	652	—	—	652
— Debt securities	2,255	—	—	2,255
	2,907	—	—	2,907
Available-for-sale financial assets				
— Equity securities	26,862	—	—	26,862
— Investment funds	19,895	—	—	19,895
— Other equity investments	—	—	6,164	6,164
— Debt securities	16,906	47,765	—	64,671
	63,663	47,765	6,164	117,592
Total	66,570	47,765	6,164	120,499

				As at 31 December 2010
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit or loss				
— Investment funds	252	—	—	252
— Debt securities	2,295	1,057	—	3,352
	2,547	1,057	—	3,604
Available-for-sale financial assets				
— Equity securities	24,979	—	—	24,979
— Investment funds	24,605	—	—	24,605
— Other equity investments	—	—	5,240	5,240
— Debt securities	16,308	48,627	—	64,935
	65,892	48,627	5,240	119,759
Total	68,439	49,684	5,240	123,363

In 2011, the Group transferred certain debt securities from Level 1 to Level 2 as there were no available quoted prices (unadjusted) in active markets. As at 31 December 2011, the carrying amount of these debt securities approximated RMB1,156 million. There were no transfers between Level 1 and Level 2 in 2010.

Reconciliation of movements in Level 3 financial instruments:

					2011
	Beginning of year	**Purchases**	**Transfer from cost model to Level 3**	**Changes in fair value**	**End of year**
Available-for-sale financial assets					
— Other equity investments	5,240	1,296	—	(372)	6,164

45. Fair Value of Financial Assets and Liabilities (continued)

Determination of fair value and fair value hierarchy (continued)

					2010
	Beginning of year	Purchases	Transfer from cost model to Level 3	Changes in fair value	End of year
Available-for-sale financial assets					
— Other equity investments	—	148	5,154	(62)	5,240

46. Notes to Consolidated Cash Flow Statement

Reconciliation from profit before tax to cash generated from operating activities:

	2011	2010
Profit before tax	10,399	10,670
Investment income	(16,392)	(20,657)
Foreign currency losses, net	71	200
Finance costs	682	238
Charge of impairment losses on insurance receivables and other assets, net	45	74
Depreciation of property and equipment	798	801
Depreciation of investment properties	172	—
Amortization of other intangible assets	184	176
Amortization of prepaid land lease payments	2	5
Amortization of other assets	18	7
(Gain)/loss on disposal of items of property and equipment, intangible assets and other long-term assets, net	(665)	10
(Reversal)/accrual of provision for lawsuits	(106)	21
Gain from disposal of a jointly-controlled entity	(479)	—
Share of (profit)/loss of a jointly-controlled entity	(16)	12
	(5,287)	(8,443)
Increase in reinsurance assets	(1,771)	(3,200)
Increase in insurance receivables	(865)	(1,615)
Increase in other assets	(1,783)	(951)
Change in insurance contract liabilities, net	66,569	72,255
Increase in other operating liabilities	1,607	4,564
Cash generated from operating activities	58,470	62,610

47. Related Party Transactions

The Group had the following material transactions with related parties:

(a) Sale of insurance contracts

	2011	2010
Equity holders who individually own more than 5% of equity interests of the Company	9	73

The Group's above related party transactions were entered into based on normal commercial terms during the normal course of insurance business.

(b) Compensation of key management personnel

	2011	2010
Salaries, allowances and other short-term benefits	32	38
Long-term incentive paid [1]	12	3
Total compensation of key management personnel	44	41

(1) *This represents the amount paid under the Group's long-term incentive plans mentioned in note 11(2). Amounts accrued for all eligible participants under the plans as a whole but not yet allocated to individual personnel are not included above because such amounts are not yet fully vested.*

Further details of directors' emoluments are included in note 12.

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

The Group mainly operates in an economic environment predominated by enterprises that are controlled, jointly controlled or significantly influenced by the PRC government through its authorities, affiliates or other organizations (collectively "government-related entities"). The Company is also a government-related entity.

Apart from the disposal of equity interest in Pacific Antai and the disposal of the Institute-related assets, as disclosed in note 23 and note 34, respectively, during 2010 and 2011, the Group had other transactions with other government-related entities primarily related to insurance, investment and other activities (including, but not limited to, issuing insurance policies, provision of asset management or other services, the sale, purchase, and redemption of bonds or equity instruments).

Management considers that those transactions with other 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 controlled, jointly controlled or significantly influenced 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.

48. Commitments

(a) Capital commitments

The Group had the following capital commitments at the balance sheet date:

	31 December 2011	31 December 2010
Contracted, but not provided for[(1), (2)]	1,712	2,436
Authorized, but not contracted for[(1)]	1,000	4,300
	2,712	6,736

(1) *In March 2008, the Company's shareholders' general meeting approved to establish the IT Backup Center and the Customer Support Center in the Chengdu High-tech Zone. The expected total investment amounts to RMB1,000 million. As at 31 December 2011, the cumulative amount paid by the Company was RMB40 million, and RMB960 million was disclosed as capital commitments contracted but not provided for.*

In March 2011, the 4th meeting of the Company's 6th term of board of directors resolved to increase the total investment of the above project by RMB1,000 million. As at 31 December 2011, the additional investment was disclosed as capital commitments authorized but not contracted for.

(2) *In December 2011, CPIC Life and CPIC Property, acting as principals, entered into the "Subscription Agreement regarding Pacific-Longyuan Electric Power Debt Investment Scheme" with CPIC Asset Management. The investments amount to RMB1,475 million and RMB295 million respectively. As at 31 December 2011, the cumulative amounts paid by CPIC Life and CPIC Property were RMB1,300 million and RMB260 million respectively, and the total unpaid amount of RMB210 million was disclosed as capital commitments contracted but not provided for.*

(b) Operating lease commitments

The Group leases office premises and staff quarters under various operating lease agreements. Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2011	31 December 2010
Within 1 year (including 1 year)	436	352
1 to 2 years (including 2 years)	316	249
2 to 3 years (including 3 years)	206	163
3 to 5 years (including 5 years)	228	183
More than 5 years	343	346
	1,529	1,293

(c) Operating lease rental receivables

The Group leases its investment properties under various rental agreements. Future minimum lease receivables under non-cancellable operating leases are as follows:

	31 December 2011	31 December 2010
Within 1 year (including 1 year)	561	19
1 to 2 years (including 2 years)	449	40
2 to 3 years (including 3 years)	260	40
3 to 5 years (including 5 years)	155	22
More than 5 years	19	—
	1,444	121

49. Contingent Liabilities

Owing to the nature of the insurance business, the Group is involved in the making of estimates for contingencies and legal proceedings in the ordinary course of business, both in the capacity as plaintiff or defendant in litigation and arbitration. Legal proceedings mostly involve claims on the Group's insurance policies. Provision has been made for the probable losses to the Group, including those claims where directors can reasonably estimate the outcome of the litigations taking into account the related legal advice, if any. No provision is made for contingencies and legal proceedings when the result cannot be reasonably estimated or the probability of loss is so low.

In addition to the above legal proceedings, as at 31 December 2011, the Group was the defendant in certain pending litigation and disputes. Provisions have been made for the possible loss based on best estimate by the directors and the Group would only be contingently liable for any claim that is in excess of what had been provided.

50. Post Balance Sheet Events

Other than as mentioned in other notes, the Group does not have other significant post balance sheet events.

51. Approval of the Financial Statements

These financial statements have been approved and authorized for issue by the Company's directors on 23 March 2012.

中国太平洋保险
China Pacific Insurance

中國上海市銀城中路190號交銀金融大廈南樓
190 Central Yincheng Road, Shanghai, China
郵編(Zip): 200120
電話(Tel): +8621-58767282
傳真(Fax): +8621-68870791

This Annual report is printed on environmental paper.