2012
Annual Report

(Stock Code: 02601)

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)

中国太平洋保险
China Pacific Insurance

Operational overview

Unit: in RMB million

Indicators	As at 31 December 2012/for the period between January and December in 2012	As at 31 December 2011/for the period between January and December in 2011	Changes (%)
Key value indicators			
Embedded value of the Group	135,280	113,564	19.1
Value of in-force business[note 1]	49,043	40,900	19.9
Net assets of the Group[note 2]	96,177	76,796	25.2
New business value of life insurance	7,060	6,714	5.2
New business value margin of life insurance (%)	17.8	13.6	4.2pt
Combined ratio of property and casualty insurance (%)	95.8	93.1	2.7pt
Growth rate of investments' net asset value (%)	5.5	1.2	4.3pt
Key operating indicators			
Gross written premium	163,228	154,958	5.3
Life insurance	93,461	93,203	0.3
Property and casualty insurance	69,697	61,687	13.0
Market share			
Life insurance (%)	9.4	9.7	(0.3pt)
Property and casualty insurance (%)	12.6	12.9	(0.3pt)
Insurance sale agents (in thousand)	295	292	1.0
Average monthly first-year gross written premiums per agent (RMB)	3,573	3,199	11.7
Number of group customers (in thousand)[note 3]	76,207	69,995	8.9
Average number of insurance policies per customer (in number)	1.46	1.41	3.5
Total investment yield (%)	3.2	3.7	(0.5pt)
Net investment yield (%)	5.1	4.7	0.4pt
Pension business			
Assets entrusted	31,522	27,258	15.6
Assets under investment management	23,741	18,104	31.1
Key financial indicators			
Net Profit attributable to equity holders of the parent	5,077	8,313	(38.9)
Life insurance	2,495	3,175	(21.4)
Property and casualty insurance	2,659	3,767	(29.4)
Solvency margin ratio (%)			
CPIC Group	312	284	28pt
Life insurance	211	187	24pt
Property and casualty insurance	188	233	(45pt)

Note:

1. *Based on the value of in-force business of the life insurance business attributable to the Group.*
2. *Based on the amount attributable to the shareholders of the Company.*
3. *Number of group customers refers to the number of insurers and policyholders who hold at least one insurance policy issued by one or any of CPIC subsidiaries as at the end of the year which 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 of the Company as at year ends

unit: in RMB million

Key Accounting Data	2012	2011	Variance (%)	2010	2009	2008
Total income	167,157	155,517	7.5	141,327	104,189	76,267
Profit before tax	6,113	10,399	(41.2)	10,670	9,506	1,317
Net profit[note]	5,077	8,313	(38.9)	8,557	7,356	2,569
Net cash inflow from operating activities	52,124	55,527	(6.1)	61,618	38,474	25,056

	31 December 2012	31 December 2011	Variance (%)	31 December 2010	31 December 2009	31 December 2008
Total assets	681,502	570,612	19.4	475,711	397,187	317,897
Equity[note]	96,177	76,796	25.2	80,297	74,651	48,638

Note: Attributable to equity holders of the parent.

Key Accounting Indicators	2012	2011	Variance (%)	2010	2009	2008
Basic earnings per share (RMB per share)[note]	0.59	0.97	(39.2)	1.00	0.95	0.33
Diluted earnings per share (RMB per share)[note]	0.59	0.97	(39.2)	1.00	0.95	0.33
Weighted average return on equity (%)[note]	6.1	10.6	Decreased by 4.5pt	10.9	14.0	4.7
Net cash inflow per share from operating activities (RMB per share)	5.75	6.46	(11.0)	7.16	4.54	3.25

	31 December 2012	31 December 2011	Variance (%)	31 December 2010	31 December 2009	31 December 2008
Net assets per share (RMB per share)[note]	10.61	8.93	18.8	9.34	8.80	6.32

Note: Attributable to equity holders of the parent.

Contents

Cautionary Statements:

Forward-looking statements included in this report, including future plans and development strategies, do not constitute a guarantee of the Company to investors. Investors shall be aware of the risks of investment.

You are advised to exercise caution.

Section I Important Information and Definitions

Important Information

1. The Annual Report 2012 of the Company was considered and approved at the 12th session of the 6th Board of Directors on 22 March 2013, which 15 Directors were required to attend and 12 of them attended in person and WANG Chengran, a director, appointed in ZHENG Anguo, a director, to attend the meeting and vote on his behalf, WU Jumin, a director, appointed in GAO Guofu, Chairman of the Board of Directors, to attend the meeting and vote on his behalf, and YANG Xiangdong, a director, appointed in FENG Junyuan, Janine, a director, to attend the meting and vote on his behalf.
2. Ernst & Young audited the 2012 financial report of the Company and issued the standard unqualified auditors' 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., a wholly-owned subsidiary of CPIC Group
"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
"Corporate Governance Code"	The Corporate Governance Code 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)
"pt"	Percentage point

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: FANG Lin
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 LLP
Office of Domestic Accountant:
Level 16, Ernst & Young Tower, Oriental Plaza,
No. 1 East Chang An Avenue, Dongcheng District, Beijing, PRC
Signing Certified Public Accountants:
GUO Hangxiang, ZHU Baoqin

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 and indicators of the Company as at year ends

unit: in RMB million

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Net assets per share (RMB per share)[note]	10.61	8.93	18.8	9.34	8.80	6.32

Note: Attributable to equity holders of the parent.

II. Other Key Financial and Regulatory Indicators

Unit: in RMB million

Indicators	31 December 2012/ 2012	31 December 2011/ 2011
The Group		
Investment assets[note 1]	627,328	522,530
Investment yield (%)[note 2]	3.2	3.7
Life insurance[note 5]		
Net premiums earned	91,513	90,493
Growth rate of net premiums earned (%)	1.1	6.9
Net policyholders' benefits and claims	84,372	82,024
Property and casualty insurance[note 5]		
Net premiums earned	56,010	46,486
Growth rate of net premiums earned (%)	20.5	33.2
Claims incurred	34,276	27,235
Unearned premium reserves	29,588	26,536
Claim reserves	21,537	20,501
Combined ratio (%)[note 3]	95.8	93.1
Comprehensive loss ratio (%)[note 4]	61.2	58.6

Note:

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 placing of H shares of the Company in 2012.*
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.*

III. 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 2012 and 31 December 2011 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

Mr. Gao Guofu, Chairman of the Company, is making a speech on the introduction of strategic transformation of the Group at the meeting of senior management.

Looking back to 2012, we continued to promote and realize our objective of sustainable value growth by focusing on value creation and sustainable development. Despite the significant slowdown of the industrial growth and the sluggish capital market, the Group maintained growth in overall corporate value. In 2012, the Group realized gross written premiums of RMB163.228 billion, representing a YOY increase of 5.3%. The embedded value of the Group amounted to RMB135.280 billion, representing an increase of 19.1% as compared with the end of the previous year. Net assets of the Group[1] amounted to RMB96.177 billion, representing an increase of 25.2% as compared with the end of the previous year. The solvency ratio of the Group amounted to 312%, representing an increase of 28pt as compared with the end of the previous year. The new business value of life insurance amounted to RMB7.060 billion, representing a YOY increase of 5.2%. The combined ratio of property and casualty insurance was 95.8%, representing a YOY increase of 2.7pt. The growth rate of investments' net asset value was 5.5%, representing a YOY increase of 4.3pt.

From the perspective of the general industry, the development of traditional insurance business was exposed to challenges due to the grim changes in internal and external environments. As such, we maintained our development strategy of focusing on increasing the value of our major insurance businesses and promoted transformation of development based on customer demands in order to create opportunities for our future development. In 2012, the Company took a number of initiatives transformation, including the placing of H shares and establishment of a professional health insurance company. We believe that such measures will become a new driving force for the continuous development of the Company to maintain the steady and healthy development in its business and achieve a sustainable development in the company value under competitive market conditions.

Note:

1 Based on the amount attributable to the shareholders of the Company.

I. Focusing on the capacity of value creation

(I) Achieving a continuous growth in the new business value by adopting strategies focusing on the development of agency channels and regular premium businesses for life insurance

Prosperous development in agency channels was the major driving force for the growth in the new business value. In 2012, premiums from new policies through agency channels amounted to RMB11.752 billion, representing a YOY increase of 8.6%. The new business value through agency channels amounted to RMB5.558 billion, representing a YOY increase of 9.4%, which accounted for 78.7% of the total new business value, representing a YOY increase of 3.0pt. The steady growth of new policies through agency channels was attributable to the healthy growth in manpower and enhancing productivity. The Company maintained the scale of manpower and optimized the manpower structure by increasing the proportion of outstanding agents. Furthermore, through innovating sales modes and strengthening basic management, the sales capability of our agents improved. The monthly average agent productivity recorded a YOY increase of 11.7%.

Enhancement of regular premium business was another important factor for the growth in the new business value. Through the implementation of strategies focusing on regular premium business, the Company continued to optimize its business structure. The ratio of gross premiums from regular premium business of 2012 amounted to 76.3%, representing a YOY increase of 9.2pt. Premiums from regular premium business attributed to 40.6% of the premiums from new policies, representing a YOY increase of 6.0pt. Premiums from new regular premium business through the agency channels amounted to RMB10.980 billion, representing a YOY increase of 9.1%. The Company transformed the model of Bancassurance in order to achieve value growth and launched high value regular premium products, realizing premiums of RMB1.006 billion, representing a YOY increase of 204.8%.

(II) The Group improved underwriting profitability by focusing on the development quality of property and casualty insurance

Under the influence of the slowdown of economic growth, market competition and increasing claim handling cost, the combined ratio of property and casualty insurance of 2012 increased. The Company strived to consolidate its leading position in the industry by maintaining a stable combined ratio and growing along with the industry. Premium from property and casualty insurance amounted to RMB69.697 billion, representing a YOY increase of 13.0%. The combined ratio was 95.8%, representing a YOY increase of 2.7pt.

In 2012, the Company strengthened the specialized establishment of channels and management of policy renewals to maintain healthy business growth. In addition, premium from specialized channels such as car dealership, telemarketing, cross-selling and bancassurance businesses recorded rapid growth with an increase in ratio to the premium. As the Company continued to improve its policy renewal management system, the renewal rate of commercial vehicle insurance increased to 61.9%.

(III) The Group emphasized on the growth in net investment assets in strict compliance with the principles of asset and liability management

As at 31 December 2012, the total investment assets amounted to RMB627.328 billion, representing an increase of 20.1% as compared with the end of the previous year. The growth rate of investments' net asset value was 5.5%, representing a YOY increase of 4.3pt. For fixed income investments, we grasped the opportunity arising from the high interest rate during the period to increase the allocation of fixed income investments with high yield. As such, the net investment yield was further enhanced. For equity investment, we increased the investment in blue chips with long-term investment potential and stable dividend distribution. The adjustment of equity asset structure achieved positive results during the year.

II. Strategic measures to promote the development of major insurance business

(I) The Company pushed forward the "customer demand-oriented" transformation and developed innovative commercial operating mode for customers

We pushed forward the customer demand-oriented transformation of business strategically to seize future business opportunities. The transformation achieved premilinary success in 2012. **Firstly, we supported the application of new technologies to enhance customers' experience.** "Shen Xing Tai Bao" ("神行太保"), a smart mobile insurance platform for life insurance has been widely used by all units above branch level. The application and promotion of the "3G Claim Management System" for property insurance effectively enhanced the efficiency of assessment by loss adjustor. **Secondly, we promoted the sharing of customer resources among the Group to achieve synergy effects.** Online companies were established for the integration of telephone and online marketing of insurance business. **Thirdly, we established a large customer database to provide customers with products and service to better suit their needs.** We implemented precise marketing, increased renewal rate of car insurance policies and provided products exclusively for small and medium enterprises so as to expand customer resources and values.

(II) Capital strength was significantly improved by the successful completion of H share placing

In 2012, we captured the favourable opportunity and issued 462 million additional new H shares in a private placing, raising proceeds of HKD10.395 billion. As at the end of 2012, the solvency margin ratio of CPIC Group was 312%. The market risk prevention ability of the Company was further strengthened. Sufficient capital also provided strong support to the business transformation of the Company by seizing development opportunities in launching new businesses such as health insurance and retirement insurance.

(III) The Company resolved to set up a health insurance company to enhance its specialised operation capability in health insurance business

The Company intended to set up a health insurance company jointly with the Allianz Group to focus on developing its health insurance products and service requiring higher calibre in specialized operation with less business lines at current and great potential for development. As a professional health insurance operation platform of the CPIC Group, the health insurance company will leverage on the professional technology edges of Allianz in health insurance to bring synergy effects on the business development and operation management of the health insurance company and other subsidiaries of the CPIC Group, and strive to become a leading health insurance product and service provider in China.

III. Prospects of 2013

In 2013, the economic environment in China remains complicated and under the pressure of economic downturn. Factors such as surging labor costs and intensive market competition will continue to lift up operating costs and affect the stable growth of the industry. Therefore, the development mode has to be transformed. Despite the difficulties, the insurance industry in China will see a lot of important strategic opportunities in the long run. Driven by the development of urbanization, the increasing consumption power and demands of the public and the reform of social security policies, the demands for insurance products and services in relation to pension, health, environmental protection, agriculture-related and food safety will keep increasing with huge potential for future development. In order to transform the development potential into source of growth, the Company will speed up its transformation based on the principle of value creation and consolidate its business advantages by expediting the change from peer competition to differentiated competition.

(I) Formulating operating targets for major business segments based on their value and market orientations

The life insurance business will continue to outperform its peers in terms of growth in the value of new business. Underwriting profit margin of the property insurance business will maintain the leading position. The focus of asset management will be on the growth of net value. In order to realize those targets, we will optimize our operation benchmarking system to reflect our competitiveness in maximizing value.

(II) Developing differentiated competitiveness and identifying targets of transformation

Firstly, the Company will conduct data analysis to meet customers' demands and facilitate innovation of products and services. Based on the data collected and analysis, we will capitalize on the changes in demand for commercial insurance due to aging population and seize the development opportunity of new medical insurance under the medical system reform. The Company will also accelerate the establishment of a unique auto insurance product system under the market reform of commercial auto insurance.

Secondly, the Company will strengthen the application of new technology, promote sharing of resources and optimize operational process to raise input and output level. Through sharing resources among property and life insurance offices in different places, the Company can strengthen its channels to cater for customers' demands and maximize value for customers while reducing its service and operating costs. The sharing of IT resources can support wider application of mobile intelligence tools such as "Shen Xing Tai Bao".

Thirdly, the Company will improve transformation measures by launching pilot offices and taking advantage of local innovation. These measures will help lay a foundation for the transformation in other areas of China and accumulate experience in business development and talent management.

In the face of opportunities and challenges in 2013, we have specific targets and development plan. We will continue to focus on our existing development strategies. With the implementation of marketing strategies and transformation, we will maximize value for our shareholders and provide better products and services to our customers.

Mr. Huo Lianhong (right), the President of the Company, attended to the award ceremony of Fortune Global 500 in China.

- ## Awards of the Company

  ➢ CPIC continuously ranked 450th in the "Fortune Global 500" list;

  ➢ CPIC continuously ranked among the "FT Global 500" and the "Forbes Global Top 500 Listed Companies";

  ➢ CPIC was awarded for the second time "Excellent Enterprise Award" in the "First Financial Corporate Social Responsibility Rankings";

  ➢ CPIC Life was selected as the "2012 Outstanding Insurance Company" by China Insurance Marketing and sina.com.;

  ➢ The "Shen Xing Tai Bao Intelligent Mobile Insurance Sales Platform" ("神行太保智能移動保險生態系統") project of CPIC Life won the 2012 Shanghai Financial Innovation Award issued by Shanghai Municipal People's Government;

  ➢ CPIC Property was selected as the "China Model Unit in Promoting Quality Benchmark of On-site Management" ("全國現場管理推進質量標杆示範單位") by China Association for Quality;

  ➢ The "Shenxing Auto Insurance" ("神行車保") product of CPIC Property was selected as the "Best Motor Vehicle Insurance Product for 2011" by China Insurance News (sinoins.com).

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[1] and CPIC Property[1], and manages and deploys insurance funds through its subsidiary, CPIC Asset Management[1]. At the same time, the Company carries on pension business through its subsidiary, Changjiang Pension and carries on property and casualty insurance business and asset management business in Hong Kong through CPIC HK and CPIC Investment (H.K.), respectively. It also sells its life insurance products and property and casualty insurance products via the telemarketing and e-commerce platform of CPIC Online (www.ecpic.com.cn).

I. Summery of operating results

CPIC has adhered to its objective of sustainable value-enhancing growth and continued to strengthen its capabilities in value creation. In 2012, the Company realized gross written premiums of RMB163.228 billion, representing an increase of 5.3% as compared with the same period of the previous year, among which, life insurance premiums amounted to RMB93.461 billion, representing an increase of 0.3% as compared with the same period of the previous year, and property and casualty insurance premiums amounted to RMB69.697 billion, representing an increase of 13.0% as compared with the same period of the previous year. The Group's embedded value amounted to RMB135.280 billion, representing an increase of 19.1% as compared with the end of the previous year. The value of in-force business[2] and net assets of the Group[3] amounted to RMB49.043 billion and RMB96.177 billion respectively, representing an increase of 19.9% and 25.2% respectively as compared with the end of the previous year.

In response to the challenging market, CPIC Life continued to adhere to its development strategies of focusing on the development of agency channels and regular premium and achieved satisfactory results.

- The new business value of life insurance amounted to RMB7.060 billion, representing an increase of 5.2% as compared with the same period of the previous year;
- The new business value margin[4] reached 17.8%, representing an increase of 4.2pt as compared with the same period of the previous year;
- Contribution from the agency channels accounted for 78.7% of the total new business value, representing an increase of 3.0pt as compared with the same period of the previous year;
- Average monthly first-year gross written premiums per agent amounted to RMB3,573, representing an increase of 11.7% as compared with the same period of the previous year;
- Percentage of regular premiums from new policies to premiums from total new policies increased from 34.6% in 2011 to 40.6%;
- Proportion of business with a term of 10 years or above to regular premiums from new policies increased to 52.6%, representing an increase of 6.7pt as compared with the same period of the previous year.

CPIC Property expedited the expansion of new sales channels and strengthened the retention of target customers with the objective of taking the lead in the industry in terms of comprehensive cost and coordinating its development with the growth of the industry.

- Premiums derived from property and casualty insurance amounted to RMB69.697 billion, representing an increase of 13.0% as compared with the same period of the previous year;

Note:

1. *The following analysis of life insurance business, property and casualty insurance business and asset management business only refers to the businesses of CPIC Life, CPIC Property and CPIC Asset Management, respectively.*
2. *Based on the value of in-force business of the life insurance business attributable to the Group.*
3. *Based on the amount attributable to the shareholders of the Company.*
4. *New business value margin = new business value / life insurance first year premium used to calculate new business value.*

- The combined ratio of property and casualty insurance was 95.8%, representing an increase of 2.7pt as compared with the same period of the previous year;

- The sales from new channels including telemarketing, internet sales and cross-selling accounted for 18.6% of the total sales from property and casualty insurance business, representing an increase of 6.7pt as compared with the same period of the previous year;

- Renewal rate of commercial automobile insurance amounted to 61.9%, representing an increase of 4.6pt as compared with the same period of the previous year.

CPIC Asset Management actively allocated the deposits by leveraging on the opportunities when interest rate of fixed income assets was in the upward cycle in the first half of 2012 and prudently allocated the bonds in the second half of the year. New fixed income assets allocated during the year amounted to RMB85.856 billion, which effectively stabilized the net investment yield and the Company was well prepared for a healthy and sustainable development in next few years. In addition, to meet the challenges of the volatile capital market, the Company calmly adjusted the structure of its equity assets by increasing its investments in blue chips with reasonable valuation, long-term investment potential and stable dividend distributions. As a result, the growth rate of investments' net asset value recorded a significant increase as compared with that of 2011.

- Growth rate of investments' net asset value reached 5.5%, representing an increase of 4.3pt as compared with the same period of the previous year;

- Net investment yield reached 5.1%, representing an increase of 0.4pt as compared with the same period of the previous year.

II. Key operational indicators

Unit: in RMB million

Indicators	As at 31 December 2012/ for the period between January and December in 2012	As at 31 December 2011/ for the period between January and December in 2011	Changes (%)
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Value of in-force business[note 1]	49,043	40,900	19.9
Net assets of the Group[note 2]	96,177	76,796	25.2
New business value of life insurance	7,060	6,714	5.2
New business value margin of life insurance (%)	17.8	13.6	4.2pt
Combined ratio of property and casualty insurance (%)	95.8	93.1	2.7pt
Growth rate of investments' net asset value (%)	5.5	1.2	4.3pt
Key operating indicators			
Gross written premium	163,228	154,958	5.3
Life insurance	93,461	93,203	0.3
Property and casualty insurance	69,697	61,687	13.0
Market share			
Life insurance (%)	9.4	9.7	(0.3pt)
Property and casualty insurance (%)	12.6	12.9	(0.3pt)
Insurance sale agents (in thousand)	295	292	1.0
Average monthly first-year gross written premiums per agent (RMB)	3,573	3,199	11.7
Number of group customers (in thousand)[note 3]	76,207	69,995	8.9
Average number of insurance policies per customer (in number)	1.46	1.41	3.5
Total investment yield (%)	3.2	3.7	(0.5pt)
Net investment yield (%)	5.1	4.7	0.4pt
Pension business			
Assets entrusted	31,522	27,258	15.6
Assets under investment management	23,741	18,104	31.1
Key financial indicators			
Net Profit attributable to equity holders of the parent	5,077	8,313	(38.9)
Life insurance	2,495	3,175	(21.4)
Property and casualty insurance	2,659	3,767	(29.4)
Solvency margin ratio (%)			
CPIC Group	312	284	28pt
Life insurance	211	187	24pt
Property and casualty insurance	188	233	(45pt)

Note:

1. *Based on the value of in-force business of the life insurance business attributable to the Group.*
2. *Based on the amount attributable to the shareholders of the Company.*
3. *Number of group customers refers to the number of insurers and policyholders who hold at least one insurance policy issued by one or any of CPIC subsidiaries as at the end of the year which 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.*

A staff of CPIC Life is introducing products to a customer by using mobile terminal of "Shen Xing Tai Bao" ("神行太保").

III. Life insurance business

(I) Business analysis

In 2012, affected by various factors, such as slowdown of the overall economic growth, sluggish capital market and cyclical adjustment of the industry, the Company recorded gross written premiums of RMB93.461 billion from life insurance business, representing an increase of 0.3% as compared with the same period of the previous year. Premiums from new policies amounted to RMB37.333 billion, representing a decrease of 20.5% over the same period of the previous year and premiums from renewed policies amounted to RMB56.128 billion, representing an increase of 21.3% over the same period of the previous year.

1. Analysis by channels

Unit: in RMB million

For 12 months ended 31 December	2012	2011	Changes (%)
Agency channel			
Gross written premiums	50,993	42,818	19.1
New policies	11,752	10,826	8.6
Regular premium	10,980	10,065	9.1
Single premium	772	761	1.4
Renewed policies	39,241	31,992	22.7
Bancassurance			
Gross written premiums	34,541	44,450	(22.3)
New policies	18,245	30,512	(40.2)
Regular premium	3,624	5,847	(38.0)
Single premium	14,621	24,665	(40.7)
Renewed policies	16,296	13,938	16.9
Direct sales			
Gross written premiums	6,990	5,427	28.8
New policies	6,840	5,285	29.4
Regular premium	49	14	250.0
Single premium	6,791	5,271	28.8
Renewed policies	150	142	5.6
New channels			
Gross written premiums	937	508	84.4
New policies	496	313	58.5
Regular premium	496	308	61.0
Single premium	—	5	(100.0)
Renewed policies	441	195	126.2
Total	93,461	93,203	0.3

For 12 months ended 31 December/as at 31 December	2012	2011	Changes (%)
Insurance sale agents (in thousand)	295	292	1.0
Average monthly first-year gross written premiums per agent (RMB)	3,573	3,199	11.7
Average number of new life insurance policies per agent per month (in number)	1.15	1.10	4.5

(1) Agency channel

In 2012, the Company recorded premiums from new policies through the agency channel of RMB11.752 billion, representing an increase of 8.6% over the same period of the previous year. Proportion of the premiums from new policies in 2012 to the premiums from total new policies increased to 31.5% from 23.1% in 2011. The premiums from renewed policies amounted to RMB39.241 billion, representing an increase of 22.7% over the same period of the previous year. Proportion of the gross written premiums from agency channel to the gross premiums from life insurance business increased to 54.6% from 45.9% in 2011, representing an increase of 8.7pt as compared with the same period of the previous year. Contribution of the agency channel business accounted for 78.7% of the total new business value representing an increase of 3.0pt as compared with the same period of the previous year.

The Company put a great emphasis on the healthy development of the agency channel manpower and the continuous improvement of their contributions. It has strived to enhance the sales capabilities of the agent teams at different levels, established and promoted the well-performed teams and boosted the proportion of the outstanding agents through various fundamental management measures, including strict assessments, attendance management and effective trainings combined with products promotion. The average monthly premiums per agent constantly increased to RMB3,573, representing an increase of 11.7% compared with the same period of the previous year.

In order to enhance the customer experience, the Company has continued to expand the customer base and increase the proportion of additional insurance plans for existing customers by various measures, such as data analysis, customer feedbacks and development of customized products. The Company promoted precise marketing and combined customer service concept with traditional marketing to enhance the team performance, customer value and sales capabilities. The coverage rate of "Shen Xing Tai Bao" ("神行太保"), a mobile sales channel, was increased and several functional applications, such as "Advanced Customized Insurance" ("高級定製保險") and "Precise Marketing" ("精確營銷") were implanted, which effectively improved the customer experience and underwriting efficiency.

(2) Bancassurance

Throughout 2012, the overall bancassurance of the industry experienced a slowdown and business development continued to decline. The gross written premium from bancassurance of the Company was RMB34.541 billion, representing a decrease of 22.3% as compared with the same period of the previous year. Premiums from new policies amounted to RMB18.245 billion, representing a decrease of 40.2% as compared with the same period of the previous year.

In the face of serious challenges, the Company insisted to promote the transformation of bancassurance with a focus on regular premium business. During the year, regular premiums from new policies amounted to RMB3.624 billion, among which premiums from regular premiums with a term of five years or above amounted to RMB2.926 billion, with its proportion to the regular premiums from new policies increasing by 19.6pt. Premiums from high value regular premium business amounted to RMB1.006 billion, which helped to maintain a stable contribution from bancassurance business. Premiums from renewed policies amounted to RMB16.296 billion, representing an increase of 16.9% as compared with the same period of the previous year.

(3) Direct sales

In 2012, gross written premiums from direct sales amounted to RMB6.990 billion, representing an increase of 28.8% as compared with the same period of the previous year. The direct sales of the Company adhered to customer segmentation and integrated expansion to further enhance the market competitiveness of its major products. The Company also expanded the application of "Jiangyin Model" ("江陰模式") by capitalizing on the opportunities brought by major diseases medical insurance to lay a solid foundation for its development in the new rural cooperative medical insurance market.

(4) New channels

In 2012, the Company accelerated the development of new channels such as telemarketing, and focused on the development of high value regular premium business. The gross written premiums from new channels amounted to RMB937 million, representing an increase of 84.4% as compared with the same period of the previous year. Premiums from new policies amounted to RMB496 million, representing an increase of 58.5% as compared with the same period of the previous year, whereas premiums from renewed policies amounted to RMB441 million, representing an increase of 126.2% over the same period of the previous year.

2. Analysis by insurance category

Unit: RMB million

For 12 months ended 31 December	2012	2011	Changes (%)
Gross written premiums	**93,461**	**93,203**	**0.3**
Traditional	16,457	15,636	5.3
Participating	71,992	72,873	(1.2)
Universal	62	81	(23.5)
Short-term accident and health	4,950	4,613	7.3
Gross written premiums	**93,461**	**93,203**	**0.3**
Individual business	88,952	89,904	(1.1)
Group business	4,509	3,299	36.7

The Company continued to develop risk prevention and long-term savings insurance businesses. In 2012, premiums from traditional insurance policies amounted to RMB16.457 billion, representing an increase of 5.3% as compared with the same period of the previous year, and its proportion increased by 0.8pt. Premiums from participating insurance policies amounted to RMB71.992 billion, representing a decrease of 1.2% as compared with the same period of the previous year. The short-term accident and health insurance policies recorded premiums of RMB4.950 billion, representing an increase of 7.3% as compared with the same period of the previous year. From the perspective of customer types, premiums from individual business accounted for 95.2% of the total premiums.

Information of top five products

Unit: RMB million

For 12 months ended 31 December 2012				
Ranking	**Name**	**Type**	**Premium**	**Sales channel**
1	Hong Fu Bao Endowment Insurance (紅福寶兩全保險) (participating) with a term of 10 years	Participating	16,662	Bancassurance
2	Insurance with Bonus (Wealth) (紅利發兩全保險) (participating) with a term of 5 years	Participating	8,070	Bancassurance
3	Hongxin Endowment Insurance (鴻鑫人生兩全保險) (participating)	Participating	7,705	Agency Channel
4	Peaceful Days – Comfortable Life B (太平盛世-長泰安康B款) (9906)	Traditional	4,911	Agency Channel
5	Golden life Insurance (金享人生終身壽險) (Participating)	Participating	4,319	Agency Channel

3. Persistency ratio of policies

For 12 months ended 31 December	2012	2011	Changes (%)
Individual life insurance customer 13-month persistency ratio (%)[note 1]	90.7	92.7	(2.0pt)
Individual life insurance customer 25-month persistency ratio (%)[note 2]	89.7	89.8	(0.1pt)

Note:

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.*

The Company strived to enhance its customer service and management of policy renewal premium. In 2012, the individual life insurance customers' 13-month persistency ratio and 25-month persistency ratio maintained at favourable levels.

4. Gross written premiums from top ten geographical areas

The Company's gross written premiums from life insurance business were mainly derived from more economically developed or more densely populated provinces or cities. 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. The Company will also seek to expand the business coverage in urban areas.

Unit: RMB million

For 12 months ended 31 December	2012	2011	Changes (%)
Gross written premiums	**93,461**	**93,203**	**0.3**
Jiangsu	9,211	9,048	1.8
Henan	8,093	8,798	(8.0)
Shandong	7,733	7,712	0.3
Guangdong	6,646	7,080	(6.1)
Zhejiang	5,899	5,686	3.7
Hebei	5,501	5,523	(0.4)
Shanghai	4,673	3,967	17.8
Beijing	4,476	4,355	2.8
Sichuan	4,266	5,168	(17.5)
Hubei	4,181	4,318	(3.2)
Subtotal	60,679	61,655	(1.6)
Others	32,782	31,548	3.9

(II) Financial Analysis

Unit: RMB million

For 12 months ended 31 December	2012	2011	Changes (%)
Net premiums earned	91,513	90,493	1.1
Investment income[note]	16,190	13,489	20.0
Other operating income	714	768	(7.0)
Total income	**108,417**	**104,750**	**3.5**
Net policyholders' benefits and claims	(84,372)	(82,024)	2.9
Finance costs	(2,088)	(784)	166.3
Interest credited to investment contracts	(1,715)	(2,257)	(24.0)
Other operating and administrative expenses	(17,830)	(16,310)	9.3
Total benefits, claims and expenses	**(106,005)**	**(101,375)**	**4.6**
Profit before tax	2,412	3,375	(28.5)
Income tax	83	(200)	(141.5)
Net profit	**2,495**	**3,175**	**(21.4)**

Note: Investment income includes investment income and shares of losses of associates in the financial statements.

Investment income Investment income amounted to RMB16.190 billion in 2012, representing an increase of 20.0% over the same period of the previous year. The increase was mainly attributable to the increase in interest income of fixed income investment, loss in securities trading and increase in provision for the impairment loss of financial assets.

Net policyholders' benefits and claims Net policyholders' benefits and claims amounted to RMB84.372 billion in 2012, representing an increase of 2.9% over the same period in the previous year. Of which, life insurance death and other benefits paid decreased by 4.2% as compared with the same period of the previous year. The decrease was mainly due to the decrease in maturity and survival benefits and increase in surrenders.

Unit: RMB million

For 12 months ended 31 December	2012	2011	Changes (%)
Net policyholders' benefits and claims	84,372	82,024	2.9
Life insurance death and other benefits paid	20,596	21,508	(4.2)
Claims incurred	1,370	646	112.1
Changes in long-term insurance contract liabilities	58,501	56,063	4.3
Policyholder dividends	3,905	3,807	2.6

Finance costs Finance costs amounted to RMB2.088 billion in 2012, representing an increase of 166.3% over the same period of the previous year. The increase was mainly attributable to the increase in interest expenses of securities sold under agreements to repurchase and subordinate debts.

Other operating and administrative expenses Other operating and administrative expenses amounted to RMB17.830 billion in 2012, representing an increase of 9.3% over the same period of the previous year. The increase was mainly attributable to the increase in commission expenses of agency channels, development of new channels 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 RMB2.495 billion for 2012.

IV. Property and Casualty Insurance Business

(I) Business Analysis

In 2012, in face of the slower economic growth in China and the challenges brought by the changes in market competition, the Company accelerated its business transformation for rational participation in market competition and further improved the operation efficiency and cost control. The gross written premiums from the property and casualty insurance business and the combined ratio were RMB69.697 billion and 95.8%, representing an increase of 13.0% and 2.7pt, respectively.

1. Analysis by insurance category

Unit: RMB million

For 12 months ended 31 December	2012	2011	Changes(%)
Gross written premiums from insurance business	69,697	61,687	13.0
Automobile insurance	54,333	47,409	14.6
Compulsory motor insurance	13,010	11,389	14.2
Commercial automobile insurance	41,323	36,020	14.7
Non-automobile insurance	15,364	14,278	7.6
Commercial property insurance	5,064	4,902	3.3
Liability insurance	2,286	1,967	16.2
Accident insurance	1,866	1,508	23.7
Cargo insurance	1,598	1,524	4.9
Others	4,550	4,377	4.0

(1) Automobile insurance

The Company continued to consolidate the advantage of its traditional channels and improved the auto insurance renewal management and established new channels. The Company created new technologies for handling claims, such as the "3G Claim Management System", to improve customer experience with its unique competitive edges so as to realize steady growth of its auto insurance business. Gross written premiums from automobile insurance in 2012 amounted to RMB54.333 billion, representing an increase of 14.6% compared with the same period of the previous year. The renewal rate of commercial vehicle insurance was 61.9%, representing an increase of 4.6pt as compared with last year.

An assessor of CPIC Property is transmitting assessment information to backstage assessment center through 3G mobile video assessment technology in a 4S store.

(2) Non-automobile insurance

The Company strengthened the resource integration and further enhanced the speciality of its channels. In addition, the Company improved the categorized management of customers and reinforced the management system for major customers. The Company carried out differentiated development strategies for different type of insurances and exerted efforts in developing traditional insurance. Agricultural insurance, credit insurance and guarantee insurance were launched effectively, and specialized and centralized operation was adopted for shipping insurance. In 2012, the Company recorded gross written premiums from non-automobile insurance of RMB15.364 billion, representing an increase of 7.6% over the same period of the previous year.

Details of top five products

Unit: RMB million

For 12 months ended 31 December 2012						
Rank	Name of commercial insurance	Premiums	Amounts Insured	Claims paid	Reserves	Underwriting profit
1	Automobile insurance	54,333	7,090,292	31,635	33,872	1,237
2	Commercial property insurance	5,034	9,070,758	2,643	2,311	153
3	Liability insurance	2,279	9,208,804	1,165	1,442	44
4	Accident insurance	1,864	18,888,319	725	1,279	159
5	Cargo insurance	1,579	3,649,031	809	478	278

Note: Premiums do not include inward premiums.

2. Analysis by channels

Unit: RMB million

For 12 months ended 31 December	2012	2011	Changes (%)
Gross written premiums	69,697	61,687	13.0
Direct sales	12,102	12,856	(5.9)
Insurance agents	39,560	36,770	7.6
Insurance brokers	5,079	4,695	8.2
New channels	12,956	7,366	75.9

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

The Company adhered to synergistic development of various channels to strengthen its specialized operation and production capacity. As for new channels, the Company refined the management model and enhanced the ability of the channels to attract customers. Premiums from telemarketing amounted to RMB10.294 billion, representing an increase of 91.6% as compared with the same period of the previous year. The Company also enhanced the cross-selling management system and promoted the development of agency business for life insurance. Premiums from cross-selling amounted to RMB2.600 billion, representing an increase of 30.5% as compared with the same period of the previous year. The premiums from new channels accounted for 18.6% of the gross written premiums from the total property and casualty insurance business, representing an increase of 6.7pt over the same period of the previous year. As for the agency business, the Company further expanded its competitive business channels, such as car dealership and bancassurance, to explore new areas for business development. The premiums from car dealership and bancassurance increased by 18.3% and 26.1% compared with the same period of the previous year, respectively.

3. Gross written premiums from top ten geographical areas

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: in RMB million

For 12 months ended 31 December	2012	2011	Changes (%)
Gross written premiums	69,697	61,687	13.0
Guangdong	9,766	8,928	9.4
Jiangsu	7,987	6,953	14.9
Zhejiang	6,269	5,462	14.8
Shanghai	5,482	4,800	14.2
Shandong	5,153	4,579	12.5
Beijing	4,171	3,516	18.6
Hebei	2,171	1,963	10.6
Sichuan	2,140	1,827	17.1
Fujian	2,131	1,900	12.2
Liaoning	2,006	1,881	6.6
Sub-total	47,276	41,809	13.1
Others	22,421	19,878	12.8

(II) Financial analysis

Unit: in RMB million

For 12 months ended 31 December	2012	2011	Changes (%)
Net premiums earned	56,010	46,486	20.5
Investment income[note]	1,425	1,820	(21.7)
Other operating income	260	205	26.8
Total income	**57,695**	**48,511**	**18.9**
Claims incurred	(34,276)	(27,235)	25.9
Finance costs	(185)	(58)	219.0
Other operating and administrative expenses	(19,566)	(16,150)	21.2
Total benefits, claims and expenses	**(54,027)**	**(43,443)**	**24.4**
Profit before tax	3,668	5,068	(27.6)
Income tax	(1,009)	(1,301)	(22.4)
Net profit	**2,659**	**3,767**	**(29.4)**

Note: Investment income includes investment income and shares of losses of associates in the financial statements.

Investment income Investment income amounted to RMB1.425 billion in 2012, representing a decrease of 21.7% compared with that of the previous year, mainly attributable to the combined effects of the increase in interest income from fixed income investments, losses in trading of securities and the increase in provisions for impairment of investment assets.

Claims incurred Claims incurred amounted to RMB34.276 billion in 2012, representing an increase of 25.9% compared with that of the previous year, mainly attributable to the increase in claim costs.

Other operating and administrative expenses Other operating and administrative expenses amounted to RMB19.566 billion in 2012, representing an increase of 21.2% compared with that of the previous year, mainly attributable to factors such as the increases in handling fees due to market competition and relevant expenses in the development of new channels.

As a result, property and casualty insurance business recorded a net profit of RMB2.659 billion for 2012.

V. Asset Management Business

In terms of asset management business, the Company strived to maintain the stability and sustainability of investment income by adopting prudent investment strategies, nurturing and enhancing assets allocation and strengthening market-oriented investment management capabilities in compliance with the requirements of asset and liability management. As at the end of 2012, the Company's total investment assets were RMB627.328 billion, representing an increase of 20.1% compared with the end of the previous year. Growth rate of investments' net asset value in 2012 reached 5.5%, representing an increase of 4.3pt compared with that of the previous year. In 2012, the Company recorded a total investment income of RMB18.521 billion, representing an increase of 7.4% compared with that of the previous year. Total investment yield was 3.2%, representing a decrease of 0.5pt compared with that of the previous year. Net investment income amounted to RMB26.878 billion, representing an increase of 25.7% compared with that of the previous year. Net investment yield was 5.1%, representing an increase of 0.4pt compared with that of the previous year.

In 2012, the capital market performance was sluggish, and the market interest rate continued to decrease after the central bank in China lowered the mandatory reserve ratio on RMB deposits and the benchmark RMB deposit and lending rates of deposit-taking financial institutions. The Company conducted researches and study on the market trends, followed the movement of market interest rate and proactively invested in fixed income assets with higher yield rate to stabilize the net investment income. It also closely monitored the fluctuations in the equity market and restructured its investment assets flexibly, resulting in significant growth in net investment asset.

(I) Investment portfolio

Unit: RMB million

	31 December 2012	31 December 2011	Changes (%)
Investment assets (Total)	627,328	522,530	20.1
By investment category			
Fixed income investments	533,274	447,418	19.2
— Debt securities	331,006	276,688	19.6
— Term deposits	164,297	137,373	19.6
— Debt investment plans	28,341	25,563	10.9
— Other fixed income investments[note 1]	9,630	7,794	23.6
Equity investments	62,715	53,573	17.1
— Investment Funds	28,516	20,547	38.8
— Equity securities	27,058	26,862	0.7
— Other equity investments[note 2]	7,141	6,164	15.9
Investment properties	6,349	6,573	(3.4)
Cash and cash equivalents	24,990	14,966	67.0
By investment purpose			
Financial assets at fair value through profit or loss	1,714	2,907	(41.0)
Available-for-sale financial assets	135,815	117,592	15.5
Held-to-maturity financial assets	248,766	202,536	22.8
Loan and other investments[note 3]	241,033	199,495	20.8

Note:

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 2012, the Company's total investment assets were RMB627.328 billion. The Company's fixed income investments accounted for 85.0% of its total investment assets, representing a decrease of 0.6pt over that at the end of the previous year. An additional RMB85.856 billion was invested in fixed income assets, with allocation focused towards debt securities and negotiated deposits. Debt securities and term deposits increased 19.6% over that at the end of the previous year. The Company launched the Guangdong Expressway and Tianjin public rental housing plan. The Company's equity investments accounted for 10.0% of the total investment assets, representing a decrease of 0.3pt compared with that at the end of the previous year.

The Company's investment assets were mainly allocated to three categories, 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 22.8% compared with the end of the previous year, primarily due to the increase in bond investment. Loans and other investments increased by 20.8% over the previous year, mainly attributable to the increase in negotiated deposits.

(II) Investment income

In 2012, the Company recorded a total investment income of RMB18.521 billion, representing an increase of 7.4% compared with that of the previous year. Total investment yield was 3.2%, representing a decrease of 0.5pt compared with that of the previous year. This was mainly due to the trading losses of equity investment and the provision for impairment on investment assets.

Net investment income amounted to RMB26.878 billion, representing an increase of 25.7% compared with that of the previous year. This was mainly due to the increases in total fixed income investments and additional income from asset investments. Interest income from fixed income investments and rental income from investment properties recorded increases of 30.4% and 45.6% respectively compared with those of the previous year. Net investment yield was 5.1%, representing an increase of 0.4pt compared with that of the previous year.

Unit: RMB million

For 12 months ended 31 December	2012	2011	Changes (%)
Interest income from fixed income investments	24,646	18,902	30.4
Dividend income from equity securities	1,852	2,217	(16.5)
Rental income from investment properties	380	261	45.6
Net investment income	**26,878**	**21,380**	**25.7**
Realized losses	(4,244)	(1,619)	162.1
Unrealized gains/(losses)	99	(383)	(125.8)
Charge of impairment losses on investment assets	(4,413)	(2,805)	57.3
Net gain on disposal of a jointly-controlled entity	—	479	(100.0)
Other income [note]	201	200	0.5
Total investment income	**18,521**	**17,252**	**7.4**
Net investment yield (%)	5.1	4.7	0.4pt
Total investment yield (%)	3.2	3.7	(0.5pt)

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

VI. Analysis of specific items

(I) Key consolidated results

Unit: RMB million

	31 December 2012/ Year 2012	31 December 2011/ Year 2011	Changes (%)	Major Reason
Total assets	681,502	570,612	19.4	Business Expansion
Total liabilities	583,933	492,557	18.6	Business Expansion
Total equity	97,569	78,055	25.0	Profit for the period, fair value change on available-for-sale financial assets and private placement of H Shares
Net profit attributable to equity holders of the parent	5,077	8,313	(38.9)	Decrease of investment yield and slowdown of business growth

(II) Liquidity analysis

1. Cash flow

Unit: RMB million

For 12 months ended 31 December	2012	2011	Changes(%)
Net cash inflow from operating activities	52,124	55,527	(6.1)
Net cash outflow from investing activities	(70,992)	(84,112)	(15.6)
Net cash inflow from financing activities	28,896	26,114	10.7

2. Gearing ratio

	31 December 2012	31 December 2011	Changes
Gearing ratio (%)	85.9	86.5	(0.6pt)

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

Management Discussion and Analysis

3. Liquidity analysis

The Company centralized the management of liquidity of the Group and its subsidiaries at the group level. As a holding company, the cash flow 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.

The cash inflow from operating activities of the Company generally record a net inflow due to increase in premium income. On the other hand, the Company strengthened the asset and liability management by maintaining an appropriate proportion of assets with high liquidity to meet liquidity requirement.

The ability of fund raising and financing of the Company is also a major part of liquidity management. The Company can obtain additional liquidity through securities repurchase arrangement and other financing arrangements.

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

(III) 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 2012	31 December 2011	Reason of Change
CPIC Group			
Actual solvency margin	92,254	73,556	Profit for the period, profit distribution to the shareholders, change of the fair value of investment assets, private placing of H Shares, and issue of life insurance subordinated bonds
Minimum solvency margin	29,600	25,884	Business development of property and life insurance
Solvency margin ratio (%)	312	284	
Life insurance			
Actual solvency margin	43,478	34,213	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	20,654	18,267	Growth of insurance business
Solvency margin ratio (%)	211	187	
Property and casualty insurance			
Actual solvency margin	16,739	17,644	Profit for the period, profit distribution to the shareholders and change of the fair value of investment assets
Minimum solvency margin	8,891	7,568	Growth of insurance business
Solvency margin ratio (%)	188	233	

VII. Analysis of core competitiveness

The Company is a leading integrated insurance group with strong market position in China. The Company focus on the development of its core business for sustainable growth in value and seeks to create sustainable value and stable returns for shareholders.

- strong competitiveness in insurance business;
- CPIC is one of the most recognized insurance brand names with an extensive customer base;
- nationwide, extensive distribution network and integrated service platform;
- asset-liability-management-based professional and prudent insurance asset investment and management capabilities;
- sound corporate governance and solid risk management and internal control capabilities;
- advanced and reliable information technology system; and
- experienced management team and centralized group management platform.

VIII. Use of proceeds

On 14 November 2012, the Company issued 462,000,000 H Shares at an issue price of HKD22.5 per share and raised a total of HKD10.395 billion through private placing pursuant to the approval from the relevant authorities. Upon completion of the issue, the number of issued H Shares of the Company increased from 2,313,300,000 H Shares to 2,775,300,000 H Shares and the total share capital increased from 8,600,000,000 Shares to 9,062,000,000 Shares.

IX. Prospects

(I) Market outlook

According to CIRC, the gross insurance premiums in China for 2012 were RMB1.55 trillion, representing an increase of 8.0% as compared with the previous year. Total insurance assets exceeded RMB7.35 trillion, representing an increase of 22.9% as compared with the beginning of the year. China's insurance market developed in a prudent manner.

As a whole, the development of China will remain fast in the coming years and the insurance industry will see a lot of opportunities due to economic growth. Strengthened economic structure and system will facilitate the development of the insurance industry.

In the near term, the insurance industry will be substantially influenced by the uncertain global economic conditions in 2013. The economic growth of China is likely to slow down in 2013 and there are still uncertainties in the recovery of world economy. Although there are opportunities for the sustainable healthy development of the insurance industry, the market remains challenging. Currently, the external environment and internal structure of the insurance industry have experienced remarkable changes. Therefore, it is relatively difficult for the industry to remain a steady growth. Risk prevention and industrial restructuring bring new challenges to the industry and the industrial development pattern needs to be transformed urgently.

On the regulatory side, the CIRC will remain prudent in pursuit of development. Although the CIRC realises that the industry requires changes in mentality and practices, it will emphasis on the protection of consumer interest under the principles of "emphasizing services, enforcing stringent regulations, preventing risks and promoting development". The CIRC has to eliminate the problems of the insurance market and the regulatory regime to ensure the sustainable healthy development of the industry. For 2013, the CIRC has five objectives: (1) to remain prudent in the pursuit of development; (2) to perform its duties under the principles of "emphasizing services, enforcing stringent regulations, preventing risks and promoting development"; (3) to expand insurance coverage to benefit more people; (4) to promote the restructuring of the industry; and (5) to allow market forces to take effects in the reformation of the industry. The Company considers that these regulatory measures will be beneficial to the protection of customer interest and the regulation of the market and will contribute to the sustainable and healthy growth of the insurance industry.

(II) Operation plans

In 2013, the Company will remain prudent in the pursuit of business growth. The Company will focus on the creation of value and to improve efficiency through business restructuring. On one hand, the Company will change its market strategy to focus on the growth of values. On the other hand, the Company will develop new business to improve capital return. The Company will adopt a customer-oriented business model to create value through innovation. The Company will also speed up its transformation to achieve a sustainable growth in value.

- to achieve healthy growth through value creation
- to encourage innovation to develop advantages in business development
- to improve profitability through value creation
- to apply new technologies to enhance customers' experience
- to strengthen risk control and management system for a healthy growth in value

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 2012:

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	0.87
held by:									
legal entities	78,412,727	0.91	—	—	—	—	—	78,412,727	0.87
natural persons	—	—	—	—	—	—	—	—	—
(4) Foreign shares	—	—	—	—	—	—	—	—	—
held by:									
legal persons	—	—	—	—	—	—	—	—	—
natural persons	—	—	—	—	—	—	—	—	—
Total	78,412,727	0.91	—	—	—	—	—	78,412,727	0.87
2. Shares without selling restrictions									
(1) Ordinary shares denominated in RMB	6,208,287,273	72.19	—	—	—	—	—	6,208,287,273	68.51
(2) Domestically listed foreign shares	—	—	—	—	—	—	—	—	—
(3) Overseas listed foreign shares (H share)	2,313,300,000	26.90	+462,000,000	—	—	—	+462,000,000	2,775,300,000	30.63
(4) Others	—	—	—	—	—	—	—	—	—
Total	8,521,587,273	99.09	+462,000,000	—	—	—	+462,000,000	8,983,587,273	99.13
3. Total number of shares	8,600,000,000	100.00	+462,000,000	—	—	—	+462,000,000	9,062,000,000	100.00

Note: As approved by the relevant regulatory authorities, the Company issued 462,000,000 H shares according to the placing on 14 November 2012. Upon the completion of the placing, the total number of issued H shares of the Company increased from 2,313,300,000 H shares to 2,775,300,000 H shares, and the total share capital increased from 8,600,000,000 shares to 9,062,000,000 shares.

(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 2012:

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. Previous issuance of securities

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	14 November 2012	HK$22.50	462,000,000	14 November 2012	462,000,000	—

The Company issued 462,000,000 H shares under the placing in November 2012.

2. Shares held by employees

As at 31 December 2012, 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 149,095 shareholders (including 141,621 A shareholders and 7,474 H shareholders) at the end of the reporting period.

Total number of shareholders as at the end of 18 March 2013: 166,640 (including 159,454 A shareholders and 7,186 H shareholders)

Shares held by top ten shareholders at the end of the reporting period

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	28.32	2,566,515,999	+701,393,000	—	—	H Share
Fortune Investment Co., Ltd.	14.17	1,284,277,846	—	—	189,717,800	A Share
Shenergy Group Co., Ltd.	13.63	1,235,291,781	—	—	—	A Share
Shanghai Haiyan Investment Management Company Limited	5.17	468,828,104	+47,124,930	—	—	A Share
Shanghai State-Owned Assets Operation Co., Ltd.	4.68	424,099,214	—	—	—	A Share
Shanghai Jiushi Corporation	2.77	250,949,460	+936,000	—	—	A Share
Yunnan Hongta Group Co., Ltd.	1.92	174,339,390	—	—	—	A Share
Carlyle Holdings Mauritius Limited	1.25	113,323,498	—	—	—	H Share
Parallel Investors Holdings Limited	1.00	90,384,102	-239,440,000	—	—	H Share
Account No. 1 of the NSSF	0.87	78,412,727	-18,501,528	78,412,727	—	A Share

Shares held by top ten shareholders without selling restrictions at the end of the reporting period

Names of shareholders	Number of shares held without selling restrictions	Types of shares
HKSCC Nominees Limited	2,566,515,999	H Share
Fortune Investment Co., Ltd.	1,284,277,846	A Share
Shenergy Group Co., Ltd.	1,235,291,781	A Share
Shanghai Haiyan Investment Management Company Limited	468,828,104	A Share
Shanghai State-Owned Assets Operation Co., Ltd.	424,099,214	A Share
Shanghai Jiushi Corporation	250,949,460	A Share
Yunnan Hongta Group Co., Ltd.	174,339,390	A Share
Carlyle Holdings Mauritius Limited	113,323,498	H Share
Parallel Investors Holdings Limited	90,384,102	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:

1. *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 to, the number of such shares subject to pledge or lock-up period.*
2. *In January 2013, Parallel Investors Holdings Limited and Carlyle Holdings Mauritius Limited disposed 90,384,102 H shares and 113,323,498 H shares in the Company, respecitively. Parallel Investors Holdings Limited and Carlyle Holdings Mauritius Limited are no longer interested in any shares in the Company.*

(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 2012, our substantial shareholders were:

1. Fortune Investment Co., Ltd.

Fortune Investment Co., Ltd. (organisation code: 132228816) was established on 21 November 1994 and has a registered capital of RMB6,869,000,000, with 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. (organisation code: 13227181-4) 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).

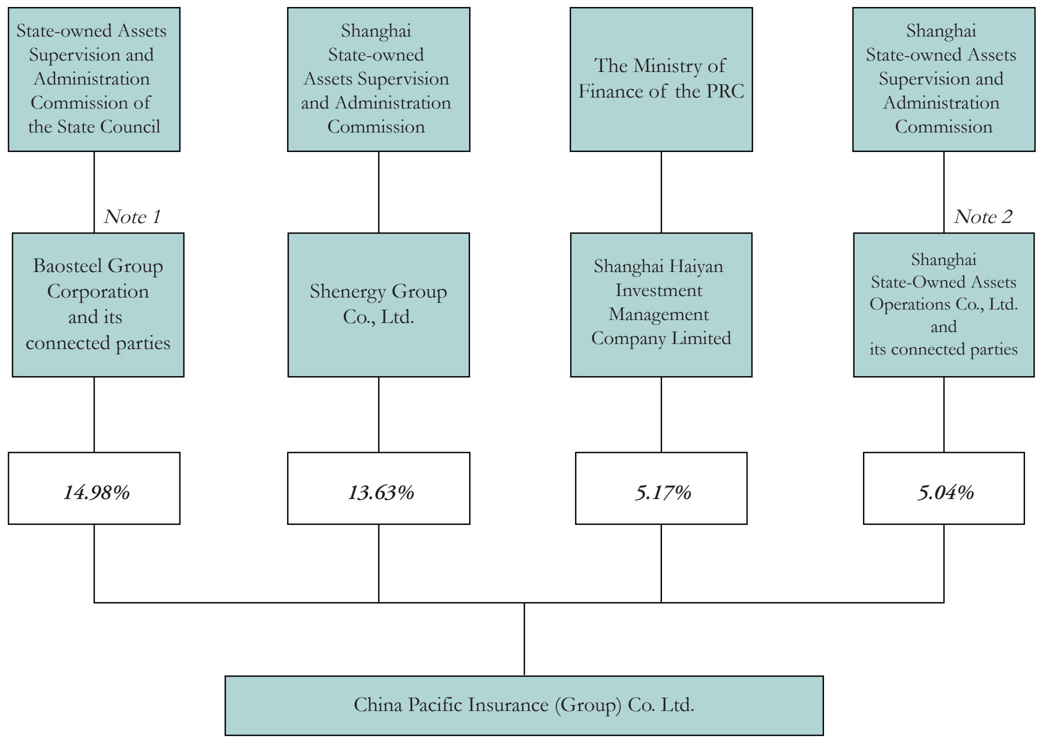
3. Shanghai State-Owned Assets Operation Co., Ltd.

Shanghai State-Owned Assets Operation Co., Ltd. (organisation code: 63160459-9) 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, debt 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 (organisation code: 695793528) was established on 15 October 2009 with a registered capital of RMB3,300,000,000. Its legal representative is Jiang Ligong. Its main businesses include entrepreneurial investments, investment management, project management, asset management, enterprise management advisory and domestic trading.

The following chart sets forth the connection of the Company and the ultimate controllers of our substantial shareholders as of 31 December 2012:



Note:

1. *Baosteel Group Corporation and its subsidiaries Fortune Investment Co., Ltd., and Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. hold in aggregate 1,357,888,334 A Shares in the Company, representing 14.98% of the entire share capital of the Company.*
2. *Shanghai State-Owned Assets Operation Co., Ltd. and its subsidiary Shanghai Guoxin Investment and Development Co., Ltd. hold in aggregate 457,123,365 A Shares in the Company, representing 5.04% of the entire share capital of the Company.*

Section VII Directors, Supervisors, Senior Management and Employees

Directors, Supervisors, Senior Management and Employees

I. Directors, Supervisors and Senior Management

Unit: RMB thousand

Name	Position	Gender	Date of birth	Term of office	Remuneration from the Company
GAO Guofu	Chairman and Executive Director	Male	June 1956	Since July 2010	2,190
HUO Lianhong	Executive Director and President	Male	April 1957	Since July 2010	2,049
YANG Xianghai	Vice-Chairman and Non-Executive Director	Male	February 1952	Since July 2010	See note 3
WANG Chengran	Non-Executive Director	Male	April 1959	Since July 2010	250
FENG Junyuan, Janine	Non-Executive Director	Female	March 1969	Since July 2010	See note 3
WU Jumin	Non-Executive Director	Male	April 1956	Since July 2010	250
WU Junhao	Non-Executive Director	Male	June 1965	Since July 2012	See note 3
YANG Xiangdong	Non-Executive Director	Male	January 1965	Since July 2010	See note 3
ZHENG Anguo	Non-Executive Director	Male	November 1964	Since July 2010	250
XU Fei	Non-Executive Director	Female	December 1967	Since July 2010	250
XU Shanda	Independent Non-Executive Director	Male	September 1947	Since July 2010	See note 3
CHANG Tso Tung, Stephen	Independent Non-Executive Director	Male	November 1948	Since July 2010	300
LI Ruoshan	Independent Non-Executive Director	Male	February 1949	Since July 2010	300
XIAO Wei	Independent Non-Executive Director	Male	December 1960	Since July 2010	250
YUEN Tin Fan	Independent Non-Executive Director	Male	October 1952	Since July 2010	300
ZHOU Zhuping	Chairman of the Board of Supervisors, Shareholder Representative Supervisor	Male	March 1963	Since July 2010	250
ZHANG Jianwei	Shareholder Representative Supervisor	Male	September 1954	Since July 2010	104[note 4]
LIN Lichun	Shareholder Representative Supervisor	Female	August 1970	Since July 2010	250
SONG Junxiang	Employee Representative Supervisor	Male	October 1955	Since July 2010	3,975
HE Jihai	Employee Representative Supervisor	Male	October 1954	Since July 2010	997
XU Jinghui	Executive Vice-President	Male	March 1957	Since September 2010	4,486
GU Yue	Executive Vice-President	Male	June 1965	Since March 2012	4,123
SUN Peijian	Vice-President	Male	September 1963	Since September 2010	4,031
CAO Zenghe	Vice-President	Male	September 1954	Since May 2012	1,402
HUANG Xueying	Chief Information Technology Officer	Female	November 1967	Since February 2008	3,477
CHEN Wei	Chief Internal Auditor	Male	April 1967	Since September 2011	2,082
YU Bin	Assistant President	Male	August 1969	Since May 2012	1,016
FANG Lin	Board Secretary	Male	October 1970	Since June 2012	1,243
	Joint Company Secretary			Since August 2012	

Unit: RMB thousand

Name	Position	Gender	Date of birth	Term of office	Remuneration from the Company
LI Jieqing	Chief Risk & Compliance Officer	Male	November 1968	Since June 2012	807
ZHANG Yuanhan	Chief Actuary	Male	November 1967	Since January 2013	—
Total	—	—	—	—	35,882

Note:

1. *The above table lists the directors, supervisors and senior management as at 31 December 2012.*
2. *According to the policies of the relevant authorities of China, the final amounts of remunerations of the Chairman and the President are yet to be reviewed and approved. The final remuneration will be disclosed when confirmed.*
3. *Mr. YANG Xianghai, Ms. FENG Junyuan, Janine, Mr. YANG Xiangdong, Mr. WU Junhao and Mr. XU Shanda did not take any allowances.*
4. *Mr. ZHANG Jianwei has not taken any allowances since June 2012.*
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. *As at 31 December 2012, the total remuneration paid by the Company to all directors, supervisors and senior management of the Company amounted to RMB39.807 million.*
7. *The remuneration of Mr. YANG Xianghai, a director, and ZHANG Jianwei, a supervisor, received from the shareholder in 2012 was approved by Shanghai State-owned Assets Supervision and Administration Commission. The remuneration of Mr.WANG Chengran, a director, and Mr. ZHENG Anguo, a director, received from the shareholder in 2012 was approved by the shareholder. The remuneration of Mr. WU Junhao, a director, received from the shareholder in 2012 was approved by Shenergy (Group) Co., Ltd. The remuneration of Ms. XU Fei, a director, received from the shareholder in 2012 was approved by Shanghai International Group. The remuneration of Mr. ZHOU Zhuping, the Chairman of the Board of Supervisors, received from the shareholder in 2012 was approved by the State-owned Assets Supervision and Administration Commission of the State Council. Ms. FENG Junyuan, Janine, a director, Mr. WU Jumin, a director, Mr. YANG Xiangdong, a director, and Ms. LIN Lichun, a supervisor, did not receive remuneration from any shareholders.*
8. *RMB0.881 million of Mr. SONG Junxiang's annual total pre-tax remuneration for 2012 is cash realized from the long-term incentive scheme in 2006.*
9. *RMB0.881 million of Mr. XU Jinghui's annual total pre-tax remuneration for 2012 is cash realized from the long-term incentive scheme in 2006.*
10. *RMB0.881 million of Mr. GU Yue's annual total pre-tax remuneration for 2012 is cash realized from the long-term incentive scheme in 2006.*
11. *RMB0.881 million of Mr. SUN Peijian's annual total pre-tax remuneration for 2012 is cash realized from the long-term incentive scheme in 2006.*
12. *RMB0.389 million of Mr. FANG Lin's annual total pre-tax remuneration for 2012 is cash realized from the long-term incentive scheme in 2006.*

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, a member of the National Committee of CPPCC and a member of the Advisory Council for China of the City of London. 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 Life, a director of CPIC Property and a director of CPIC Asset Management. Mr. HUO previously served as the Chairman of CPIC Property, the chairman of CPIC Asset Management and 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 Shanghai Gas (Group) Co., Ltd. and the Chairman of Shenergy Company Limited (a company listed on the SSE). 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 President Assistant 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. WU Junhao currently serves as the manager of the Financial Management Department of Shenergy Group Co., Ltd., a non-executive Director of the Company, a director of CPIC Life and a director of CPIC Property. Mr. WU formerly worked as the head of the Teaching & Research Center of the Business Management Department of Changzhou University, executive deputy general manager of Shanghai New Resources Investment Consulting Company, deputy general manager of Shanghai Bailitong Investment Company, deputy chief of Shanghai Shenergy Assets Management Co., Ltd., deputy chief, chief and senior chief of the Assets Management Department and deputy manager of the Financial Management Department of Shenergy Group Co., Ltd. Currently, Mr. WU also serves as the supervisor of Shanghai ICY Capital Co., Ltd., the director of Shanghai Chenyi New Energy Venture Capital Co., Ltd., the director of Orient Securities Company Limited, the director of Chengdu Xinshen Venture Company, the director of Shanghai Jiulian Group Co., Ltd., the supervisor of China Everbright Bank Co., Ltd., a listed company of the SSE, and the supervisor of Shanghai Pharmaceuticals Holding Co., Ltd., a listed company of the SSE and Hong Kong Stock Exchange. Mr. WU is an economist, a postgraduate with a master's degree.

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. 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. 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. Ms. XU also worked as the Chairman of Shanghai Guoxin Investment Development Co., Ltd. and the Chairman of Shanghai Young Sun Investment Co., Ltd. (a company listed on the SSE). 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, a qualified company legal consultant 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. In current, Mr. CHANG is serving as an independent non-executive director of Kerry Properties Limited, a company listed on the Hong Kong Stock Exchange. 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 Advisory 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. Mr. LI also served as an independent director of Zhejiang Wanfeng Auto Wheel Co., Ltd., a company listed on the Shenzhen Stock Exchange. Besides, Mr. LI is currently an independent director of Zhejiang Guangbo Group Co., Ltd., a company 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 founding partner and a lawyer of the Beijing Office of Junhe Law Office, 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 was a non-executive director of Gemini Investments (Holdings) Limited (a company listed on the Hong Kong Stock Exchange and formerly known as Kee Shing (Holdings) Limited) until November 2010. 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, a supervisor of CPIC Property, a director of Shenyin & Wanguo Securities Co., Ltd. and a director of Shanghai Highly (Group) Co., Ltd., a company listed on the SSE. Besides, Mr. ZHANG is currently a director of Shanghai International Trust Co., Ltd., a director of Haitong Securities Company Limited (a company listed on the SSE) 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 Hongta Tobacco (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 currently serves as the Chairman of the Company. Please refer to the section headed "(I) Directors" above for the details of his biography.

Mr. HUO Lianhong currently serves as the President of the Company. Please refer to the section headed "(I) Directors" above for the details of his biography.

Mr. XU Jinghui currently serves as 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. 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 currently serves as the Executive Vice President and the Financial Officer of the Company. He is also a director of CPIC Property, CPIC Life and CPIC Asset Management. 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, the Auditing Officer and the Vice President of the Company, the Chairman of the Board of Supervisors of CPIC Asset Management and a director of CPIC HK. Prior to joining the Company, Mr. Gu worked for the Shanghai Statistics Bureau. Mr. Gu holds an EMBA degree.

Mr. SUN Peijian currently serves as the Vice President, of the Company. He is also a Director of CPIC Property, CPIC Life, CPIC Asset Management and CPIC (HK). Mr. Sun served as the General Manager of the Reinsurance Department of the Company, the Assistant to the President of the Company, the Chief Compliance Officer of the Company and compliance officer 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.

Mr. CAO Zenghe currently serves as the Vice President of the Company. Prior to joining the Company, he was the secretary (department director and division deputy chief grade) of the general office in the Provinical Government of Liaoning, the deputy general manager of Liaoning Branch (Shenyang), the deputy director (or vice president) of Policy Research Department of the head office and the deputy general manager for overseas operation of PICC, and the deputy secretary-general of the Insurance Institute of China. Mr. Cao also served as the chief deputy officer of Shenyang Foreign Economic and Trade Commission, the deputy secretary-general of Shenyang municipal government (bureau level), the chief representive in North American Representative Office, the president of North American International Limited, a Chinese-owned entperise in the U.S. and the executive president of Hamilton Pacific Financial Holdings Inc. Mr. Cao holds a bachelor's degree in economics and is a senior economist.

Ms. HUANG Xueying currently serves as the Chief Information Technology Officer of the Company. Prior to joining the Company, she was the Vice President of 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 currently serves as the Chief Internal Auditor and the Auditing Officer 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, the Board Secretary of CPIC Life, the Board Secretary of the Company and the Chairman of the Board of Supervisors of CPIC Asset Management. 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.

Mr. YU Bin currently serves as the assistant president of the Company and the general manager of CPIC Online. Mr. Yu served as various positions in CPIC Property, including the deputy general manager of the non-marine insurance department, the deputy general manager of the claim settlement department, the general manager of marketing research center, the general manager of the marketing department, the Chief Marketing Officer and the deputy general manager. Mr. Yu holds a master's degree in business administration and obtained a bachelor's degree in Engineering from Shanghai Jiaotong University. He is an economist.

Mr. FANG Lin currently serves as the Board Secretary and a joint company secretary of the Company. Mr. Fang previously served as the deputy general manager of Shenzhen Branch of the Company. He also served as various positions in CPIC Life, including the general manager of health insurance department, the general manager of group insurance department, the general manager of Hebei Branch, an executive member of the operation committee, the Chief Marketing Officer, and deputy general manager and the Chief Sales Officer (channel cooperation). Mr. Fang holds a master's degree in business administration.

Mr. LI Jieqing currently serves as the Chief Risk & Compliance Officer, the Compliance Officer and general manager of risk management department of the Company. Mr. Li previously served as the deputy general manager of Shanghai Branch of CPIC Property, the general manager of the reinsurance department of the Company, the general manager of the risk management department of the Company, and the general manager of business administration center and the Chief Underwriting Officer of CPIC Property. Mr. Li holds a bachelor's degree and is an economist.

Mr. ZHANG Yuanhan currently serves as the Chief Actuary of the Company. Prior to joining the Company, Mr. Zhang served as the deputy general manager, CFO and the Chief Actuary of Sun Life Everbright Life Insurance Co., Ltd., a director of Sun Life Everbright Asset Management Co., Ltd., the Chief Actuary of Sino Life Insurance Co., Ltd., the Chief Actuary, the deputy general manager and the vice president of MetLife Insurance Company Limited and the Chief Actuary of the head office of CITI Insurance of Citigroup Travelers Insurance. Mr. Zhang holds a master's degree and is a director of China Association of Actuaries and a member of The Society of Actuaries and American Academy of Actuaries.

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
WU Junhao	Shenergy Group Co., Ltd.	Manager of the Financial Management Department	Since 2009
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	2009-2012
ZHOU Zhuping	Baosteel Group Corporation	Deputy General Manager	Since 2009
ZHANG Jianwei	Shanghai Jiushi Corporation	Deputy General Manager	Since 2002

(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
FENG Junyuan, Janine	The Carlyle Group	Managing Director	Since 1998
WU Jumin	Shanghai Tobacco (Group) Co., Ltd.	Deputy General Manager	Since 2003
WU Junhao	China Everbright Bank Co., Ltd.	Supervisor	Since 2009
	Shanghai Pharmaceuticals Holding Co., Ltd.	Supervisor	Since 2010
	Shanghai ICY Capital Co., Ltd.	Supervisor	Since 2010
	Shanghai Chenyi New Energy Venture Capital Co., Ltd.	Director	Since 2011
	Orient Securities Company Limited	Director	Since 2011
	Chengdu Xinshen Venture Company	Director	Since 2011
	Shanghai Jiulian Group Co., Ltd.	Director	Since 2012
YANG Xiangdong	The Carlyle Group	Managing Director	Since 2001
	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	Shanghai Young Sun Investment Co., Ltd	Chairman	2009-2012
	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
CHANG Tso Tung, Stephen	Kerry Properties Limited	Independent Director	Since 2012
LI Ruoshan	Finance Department of the School of Management of Fudan University	Professor	Since 1997
	Zhejiang Wanfeng Auto Wheel Co., Ltd	Independent Director	2004-2012
	Zhejiang Guangbo Group Stock Co., Ltd.	Independent Director	Since 2007
	Industrial Bank Co., Ltd.	Independent Director	Since 2010
XIAO Wei	Beijing Junhe Law Office	Director and Founding 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	Shenyin & Wanguo Securities Co., Ltd.	Director	2002-2012
	Shanghai Highly (Group) Co., Ltd	Director	1999-2012
	Shanghai International Trust Co., Ltd.	Director	Since 2005
	Haitong Securities Co., Ltd.	Director	Since 2002
	Shenergy Co., Ltd	Director	Since 2005
LIN Lichun	Hongta Tobacco (Group) Co., Ltd.	Head of Shanghai Office	Since 2007
	Shanghai Hongta Hotel Co., Ltd.	General Manager	Since 2009

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 determined by the Nomination 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 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

Name	Position held	Change
WU Junhao	Director of the 6th Board of Directors	Mr. WU Junhao was appointed as a director of the 6th Board of Directors of the Company in July 2012.
ZHOU Ciming	Director of the 6th Board of Directors	Mr. ZHOU Ciming resigned in May 2012 due to retirement.

(II) Changes in Supervisors

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

(III) Changes in Senior Management

Name	Appointment	Change
GU Yue	Executive Vice President	Mr. GU Yue was appointed as the Executive Vice President of the Company in March 2012.
YU Bin	Assistant President	Mr. YU Bin was appointed as the Assistant President of the Company in May 2012.
CAO Zenghe	Vice President	Mr. CAO Zenghe was appointed as the Vice President of the Company in May 2012.
LI Jieqing	Chief Risk & Compliance Officer and Compliance Officer	Mr. LI Jieqing was appointed as the Chief Risk & Compliance Officer and Compliance Officer of the Company in June 2012.
FANG Lin	Board Secretary	Mr. FANG Lin was appointed as the Board Secretary of the Company in June 2012.
ZHANG Yuanhan	Chief Actuary	Mr. ZHANG Yuanhan was appointed as the Chief Actuary of the Company in January 2013.

Name	Termination of office	Change
SUN Peijian	Compliance Officer	Mr. SUN Peijian no longer serves as the Company's Compliance Officer with effect from June 2012 due to the change in work arrangement.
CHEN Wei	Board Secretary	Mr. CHEN Wei no longer serves as the Company's Board Secretary with effect from June 2012 due to the change in work arrangement.
CHI Xiaolei	Chief Actuary	Ms. CHI Xiaolei no longer serves as the Company's Chief Actuary with effect from October 2012 due to personal reasons.

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	35,700	32,000	—	67,700	Secondary market purchase
HUO Lianhong	Executive Director and President	A share	44,500	28,600	—	73,100	Secondary market purchase
SONG Junxiang	Employee Representative Supervisor	A share	34,000	10,000	—	44,000	Secondary market purchase
XU Jinghui	Executive Vice President	A share	38,000	22,000	—	60,000	Secondary market purchase
GU Yue	Vice-President and the Financial Officer	A share	38,000	18,000	—	56,000	Secondary market purchase
SUN Peijian	Vice-President	A share	37,525	21,400	—	58,925	Secondary market purchase
CHEN Wei	Chief Internal Auditor	A share	20,000	—	—	20,000	
YU Bin	Assistant President	A share	3,800	—	—	3,800	

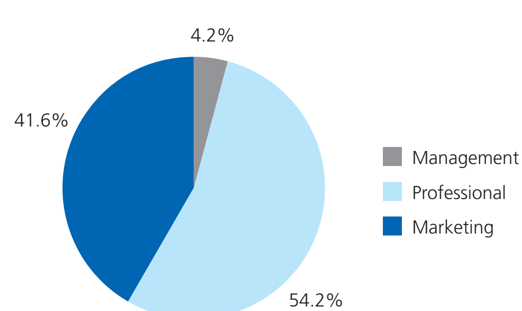
VII. The Company's Employees

As of 31 December 2012, a total of 85,137 employees, including those from CPIC Group, CPIC Life, CPIC Property, CPIC Asset Management and CPIC Online, have signed employment contracts with the Company. Their expertise and educational background are set out below:

(I) Expertise

Expertise	Number	Percentage
Management	3,589	4.2%
Professional	46,116	54.2%
Marketing	35,432	41.6%
Total	85,137	100%

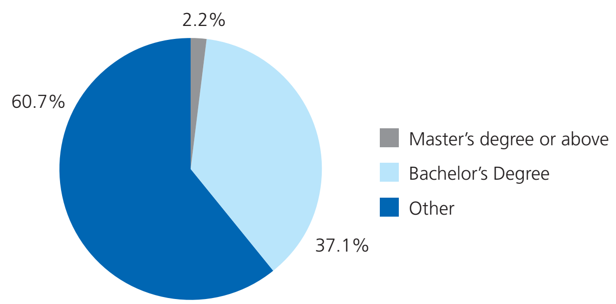
The chart below sets out the composition of employees of the Company by expertise:



(II) Education Background

Education Background	Number	Percentage
Master's Degree or Above	1,834	2.2%
Bachelor's Degree	31,595	37.1%
Other	51,708	60.7%
Total	85,137	100%

The chart below sets out the composition of the employees of the Company by educational background:



(III) The Remuneration Policies and Training Programs for Employees

The Company has established a management system for our market-oriented remuneration mechanism, based on specific positions and performance of the employees with reference to the market conditions. The basic remuneration of our employees is determined based on their positions, duty performances and working experience. The performance-related remuneration of our employees is linked to the results performance of the Company and is determined and paid according to the results of operation of the Company and their individual performance. The Company also provides its employees with benefits and allowance according to applicable regulations of China and industry standards.

The Company organized training programs for its employees based on its development strategies and the working experience of the employees. The Company also set up a training program system and internet training platform as well as a team of lecturers covering all expertise.

Section VIII Corporate Governance Report

Corporate Governance Report

I. Corporate Governance

During 2012, the Company was in strict compliance with the Company Law, the Insurance Law, the Securities Law and other applicable laws of the PRC 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 of 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 effectively 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.

In 2012, the Company revised the Articles of Association, the Procedural Rules for Shareholders' General Meetings, the Terms of Reference of the Nomination and Remuneration Committee, the Terms of Reference of the Audit Committee and formulated the Shareholder Communication Policy.

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.

During the reporting period, the Company was in compliance with all code provisions and substantially all of the recommended best practices of the Corporate Governance Code, except a deviation with the code provision A.6.7 with the reasons below:

All non-executive Directors (including independent non-executive Directors) attended the annual general meeting of the Company held on 11 May 2012 other than 7 non-executive Directors (including 2 independent non-executive Directors) who were not able to attend the annual general meeting as they were not in Shenzhen.

All non-executive Directors (including independent non-executive Directors) attended the First Extraordinary General Meeting of 2012 of the Company held on 25 October 2012 other than 4 non-executive Directors who were not able to attend the extraordinary general meeting as they were not in Zhuhai.

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.

(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 their remuneration, consider and approve the annual budgets and accounts, profit distribution plans and loss compensation plans of the Company, adopt proposals 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 the 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 2012, the Company held the 2011 annual general meeting and the First Extraordinary General Meeting of 2012. 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 2011 annual general meeting in Shenzhen on 11 May 2012, 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 2011. Details of the resolutions were set out in the announcements published on the websites of Hong Kong Stock Exchange and the Company. GAO Guofu, Chairman of the Board of Directors, presided at the meeting and YANG Xianghai, the vice-chairman, HUO Lianhong, the director and president, ZHENG Auguo and XU Fei, the directors, YUEN Tin Fan, ZHANG Zutong and LI Ruoshan, the independent directors, ZHOU Zhuping, the chairman of the Board of Supervisors, and Zhang Jianwei and LIN Lichan, the supervisors, attended the meeting.

As adopted as a special resolution at the 2011 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. The amendments to the Articles of Association mainly included the followings: if a substantial shareholder or a director has a conflict of interests in a matter to be considered by the Board which the Board has determined to be material, the matter shall be dealt with by a physical board meeting rather than a written resolution. The amendments to the Procedural Rules for Shareholders' General Meetings mainly included the followings: the Company shall ensure the external auditor attends the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and independence of the auditor.

The Company held the First Extraordinary General Meeting of 2012 in Zhuhai on 25 October 2012 to consider and approve the resolution on the amendments to the Articles of Association of China Pacific Insurance (Group) Co., Ltd. Details of the resolution were set out in the announcements published on the websites of Hong Kong Stock Exchange and the Company. GAO Guofu, Chairman of the Board of Directors, presided at the meeting and YANG Xianghai, the vice-chairman, HUO Lianhong, the director and president, ZHENG Auguo, XU Fei and Wu Junhao, the directors, YUEN Tin Fan, ZHANG Zutong, LI Ruoshan, XIAO Wei and XU Shanda, the independent directors, ZHOU Zhuping, the chairman of the Board of Supervisors, and Zhang Jianwei and HE Jihai, the supervisors, attended the meeting.

As adopted as a special resolution at the First Extraordinary General Meeting of 2012 and approved by CIRC, the Articles of Association was amended. The amendments to the Articles of Association mainly included the followings: the Company shall give priority to profit distribution in cash. In distributing the profits of the Company, the cumulative profit distribution in cash of the Company in the last three years shall be not less than 30% of the average annual distributable profits of the last three years, except under special circumstances. The Company may adjust its profit distribution policies, which shall be resolved by the Board after thorough consideration and submitted to the Shareholders' general meeting together with the opinion of the Independent Directors for approval by the way of special resolution. The Board and Shareholders' general meeting shall properly consider the opinions from the Independent Directors and public investors and communicate with public investors through various channels. The implementation of the profit distribution policies shall be supervised by the Independent Directors and public investors.

(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. So far as the Company is aware, no financial, business, family or other material/relevant relationship exists among the Board members. In particular, there are none between the Chairman and the President. The roles of the Chairman and the President are segregated and assumed by Mr. GAO Guofu and Mr. HUO Lianhong, respectively. The Chairman is responsible for presiding over the shareholders' general meeting and Board meetings and other functions and powers as conferred by the Board of Directors, while the President of the Company is responsible to the Board of Directors and directs the operation and management of the Company. The division of responsibilities between the Chairman and the President has been clearly established and set out in writing in its Articles of Association. For the terms of office of all non-executive directors, please refer to Section VII "Directors, Supervisors, Senior Management and Employees" of this report.

1. Attendance of Board Meetings

During 2012, the Board of Directors held 7 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 shareholders 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	7	7	0	0	
HUO Lianhong	7	7	0	0	
Non-executive Directors					
YANG Xianghai	7	7	0	0	
WANG Chengran	7	6	1	0	Unable to attend the 11th session of the 6th Board of Directors for business reasons and Zheng Anguo, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
FENG Junyuan, Janine	7	5	2	0	Unable to attend the 2nd extraordinary meeting of the 6th Board of Directors for business reasons and GAO Guofu, the chairman of the Board, was appointed as her proxy to attend and vote at the meeting on her behalf. Unable to attend the 10th session of the 6th Board of Directors for business reasons and Yang Xiangdong, a Director, was appointed as her proxy to attend and vote at the meeting on her behalf.

Names of directors	Board Meetings	Attendance in person	Attendance by proxy	Absence	Remarks
WU Jumin	7	4	3	0	Unable to attend the 2nd extraordinary meeting of the 6th Board of Directors for business reasons and GAO Guofu, the chairman of the Board, was appointed as his proxy to attend and vote at the meeting on his behalf. Unable to attend the 10th session of the 6th Board of Directors for business reasons and GAO Guofu, the chairman of the Board, was appointed as his proxy to attend and vote at the meeting on his behalf. Unable to attend the 11th session of the 6th Board of Directors for business reasons and GAO Guofu, the chairman of the Board, was appointed as his proxy to attend and vote at the meeting on his behalf.
WU Junhao	5	5	0	0	
YANG Xiangdong	7	6	1	0	Unable to attend the 11th session of the 6th Board of Directors for business reasons and Feng Junyuan, Janine, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
ZHENG Anguo	7	6	1	0	Unable to attend the 2nd extraordinary meeting of the 6th Board of Directors for business reasons and Wang Chengran, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
XU Fei	7	7	0	0	
ZHOU Ciming	2	2	0	0	
Independent Non-executive Directors					
XU Shanda	7	5	2	0	Unable to attend the 9th session of the 6th Board of Directors for business reasons and Xiao Wei, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf. Unable to attend the 2nd extraordinary meeting of the 6th Board of Directors for business reasons and Xiao Wei, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
CHANG Tso Tung, Stephen	7	6	1	0	Unable to attend the 10th session of the 6th Board of Directors for business reasons and Li Ruoshan, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.

Names of directors	Board Meetings	Attendance in person	Attendance by proxy	Absence	Remarks
LI Ruoshan	7	7	0	0	
XIAO Wei	7	6	1	0	Unable to attend the 8th session of the 6th Board of Directors for business reasons and Xu Shanda, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
YUEN Tin Fan	7	7	0	0	

2. Board Meetings and Resolutions

The Board of Directors held 7 meetings in 2012 (please see the announcement published on the website of Hong Kong Stock Exchange and the Company's website for more details).

(1) On 23 March 2012, the Company held the 8th session of the 6th Board of Directors in Shanghai, at which resolutions including the Resolution in Relation to the Report on China Pacific Insurance (Group) Co., Ltd.'s Board of Directors 2011 were considered and approved.

(2) On 27 April 2012, the Company held the 9th session of the 6th Board of Directors in Qingyuan, at which resolutions including the Resolution in Relation to the First Quarter Report 2012 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

(3) On 31 July 2012, the Company held the 1st extraordinary meeting of the 6th Board of Directors by electronic communication means, at which the Resolution in Relation to the Election of Mr. Wu Junhao as a member of Audit Committee of the 6th Board of Directors of China Pacific Insurance (Group) Co., Ltd. was considered and approved.

(4) On 17 August 2012, the Company held the 10th session of the 6th Board of Directors in Shanghai, at which resolutions including Resolutions in Relation to A Share Interim Report 2012 and the Abstract of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

(5) On 7 September 2012, the Company held the 2nd extraordinary meeting of the 6th Board of Directors in Shanghai, at which resolutions including Resolutions in Relation to the Placing of H Shares of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

(6) On 26 October 2012, the Company held the 11th session of the 6th Board of Directors in Zhuhai, at which resolutions including Resolution in Relation to the Third Quarter Report 2012 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

(7) On 21 December 2012, the Company held the 3rd extraordinary meeting of the 6th Board of Directors by electronic communication means, at which resolutions including Resolution in Relation to the Audit Report Regarding the Resignation of Chen Wei, the ex-secretary of the Board of Directors 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 2012, all the Company's Board members conscientiously implemented the resolutions of the general meeting in relation to the Profit Distribution Plan for the year 2011, Appointment of Auditors for the year 2012, 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 2011 approved at the 2011 Annual General Meeting. The implementation of this distribution plan was completed in June 2012.

4. Corporate Governance Functions

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

(1) To develop and review the Company's policies and practices on corporate governance and make recommendations;

(2) To review and monitor the training and continuous professional development of directors and senior management;

(3) To review and monitor the Company's policies and practices on compliance with all legal and regulatory requirements;

(4) To develop, review and monitor the code of conduct applicable to the employees and directors of the Company; and

(5) To review the Company's compliance with the code of corporate governance and disclosure requirements in the Corporate Governance Report.

The Board has approved the revised terms of reference of the Audit Committee, the Nomination and Remuneration Committee, the shareholder communication policy, shareholder enquiry procedures etc., and reviewed and monitored the training and continuous professional development of directors and senior management.

5. 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 Nomination 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 of the Board of Directors

The primary duties of the Strategic and Investment Decision-Making Committee 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 2012, the Strategic and Investment Decision-Making Committee held 4 meetings and provided comments and suggestions on issues of the Company such as profit distribution, amendment of the Articles of Association, placing of H shares and the establishment of a health insurance company. The attendance of each member of the Strategic and Investment Decision-Making Committee is as follows:

Name of members	Position	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
GAO Guofu (Chairman)	Chairman and Executive Director	4	4	0	0
YANG Xianghai	Vice-Chairman and Non-Executive Director	4	4	0	0
WANG Chengran	Non-Executive Director	4	3	1	0
YANG Xiangdong	Non-Executive Director	4	1	3	0
XU Shanda	Independent Non-Executive Director	4	1	3	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 2012, the Audit Committee held 8 meetings to review the Company's 2011 annual report, the interim report and quarterly reports for 2012 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	Position	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
LI Ruoshan (Chairman)	Independent Non-Executive Director	8	8	0	0
CHANG Tso Tung, Stephen	Independent Non-Executive Director	8	8	0	0
WU Junhao	Non-Executive Director	3	3	0	0
ZHOU Ciming	Non-Executive Director	5	5	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 2nd meeting of the Audit Committee in 2012, a resolution on the submission of the Company's annual report to the Board of Directors for approval was passed.

In 2012, the Audit Committee submitted an overview report of audit work carried out by the external auditors for the year 2011 to the Board of Directors and it was satisfied with the overall performance of Ernst & Young as the external auditors. The Audit Committee also suggested new working requirements of the external auditors, and resolved at the 2nd meeting of the Audit Committee of the Board of Directors in 2012 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 Nomination and Remuneration Committee of the Board of Directors

The primary duties of the Nomination 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 2012, the Nomination and Remuneration Committee held 5 meetings to review the performance evaluation results of the Company in 2011 and performance appraisal plan of the senior management for the year 2012, the nomination and appointment of certain members of the senior management, the Administrative Measures on Remuneration (薪酬管理辦法) and the Measures on the Implementation of Remuneration and Performance Assessment for Senior Management (高級管理人員薪酬管理、績效考核實施辦法). The attendance of each member of the Nomination and Remuneration Committee is as follows:

Name of members	Position	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
YUEN Tin Fan (Chairman)	Independent Non-Executive Director	5	5	0	0
FENG Junyuan, Janine	Non-Executive Director	5	5	0	0
ZHENG Anguo	Non-Executive Director	5	5	0	0
XU Shanda	Independent Non-Executive Director	5	3	2	0
XIAO Wei	Independent Non-Executive Director	5	5	0	0

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

The primary duties of the Risk Management Committee 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 2012, the Risk Management Committee held 4 meetings to review the Company's risk assessment report, compliance report, solvency report, the execution of regular connected transactions of bond trading and connected transactions, and the Implementation Plan on Internal Control Standards. The attendance of each member of the Risk Management Committee is as follows:

Name of members	Position	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
CHANG Tso Tung, Stephen (Chairman)	Independent Non-Executive Director	4	4	0	0
FENG Junyuan, Janine	Non-Executive Director	4	4	0	0
WU Jumin	Non-Executive Director	4	3	1	0
XU Fei	Non-Executive Director	4	4	0	0
HUO Lianhong	Executive Director and President	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.

1. Attendance of Supervisors

In 2012, the Board of Supervisors held 5 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	Remarks
ZHOU Zhuping	5	4	1	0	Unable to attend the 11th session of the 6th Board of Supervisors for business reasons and Zhang Jianwei, a Supervisor, was appointed as his proxy to attend and vote at the meeting.
ZHANG Jianwei	5	5	0	0	
LIN Lichun	5	5	0	0	
SONG Junxiang	5	5	0	0	
HE Jihai	5	5	0	0	

2. Meetings of the Board of Supervisors and Resolutions

The Board of Supervisors held 5 meetings in 2012 (please see announcements published on the website of SSE and the Company's website for more details).

(1) On 23 March 2012, the Company held the 8th session of the 6th Board of Supervisors in Shanghai, at which resolutions including the Resolution in Relation to the Report of the Board of Supervisors 2011 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

(2) On 27 April 2012, the Company held the 9th session of the 6th Board of Supervisors in Qingyuan, at which Resolution in Relation to the First Quarter Report 2012 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

(3) On 17 August 2012, the Company held the 10th session of the 6th Board of Supervisors in Shanghai, at which resolutions including Resolution in Relation to A Share Interim Report 2012 and the Abstract of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

(4) On 26 October 2012, the Company held the 11th session of the 6th Board of Supervisors in Zhuhai, at which resolutions including Resolution in Relation to the Third Quarter Report 2012 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

(5) On 21 December 2012, the Company held the 1st extraordinary meeting of the 6th Board of Supervisors by electronic communication means, at which resolutions including Resolution in Relation to the Audit Report Regarding the Resignation of Chen Wei, the ex-secretary of the Board of Directors of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

Furthermore, the Supervisors attended the meetings held by the Board of Directors in 2012 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. The Board of Supervisors has no objection against the supervisory work during the reporting period.

(IV) Inspections and Studies by the Directors and Supervisors

In 2012, a number of the Company's directors and supervisors inspected the Guangdong 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.

(V) Training for Directors and Supervisors

In 2012, all directors and supervisors had thoroughly studied the latest laws and regulations and regulatory rules issued by CSRC, CIRC and stock exchanges in listing places circulated by the Company in a timely manner. By keeping abreast of the changes in applicable laws and regulations and regulatory authorities, the directors and supervisors performed their duties properly. In addition, the expenses for attending training courses by all directors were borne by the Company in full in order to encourage their participation. All directors shall report their attendance of training to the Company for record since 2012.

(VI) Auditors' Remuneration

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

(VII) 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 continuous basis.

(VIII) Disclosure of Information and the Implementation of Insider Information Management System

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 Provisional 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.

The Company amended "the Information Disclosure Management Measures of China Pacific Insurance (Group) Co., Ltd." by adding the chapter headed "Management of Insider Information" to define the scope and regulations of insider information. In July 2011, the Company issued 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). Through inviting experts from SSE to provide training programs, the management of insider information that may be sensitive to the share price was enhanced and achieved remarkable result. The Company also strictly implemented all policies and rules regarding the management of insider information.

(IX) Investor Relations

The Company further enhanced the communication with domestic and foreign investors and exerted its efforts in establishing various communication channels with the capital market, so as to transmit the information of the Company to the market effectively in a timely manner and demonstrate the investment value of the Company. During the reporting period, the Company organized two regular results presentations and two press conferences. The Company also held over 40 annual results roadshows and meetings with domestic and foreign investors. The Company also organized specified telephone conferences for the placing of H shares. In addition, the Company attended to 17 meetings regarding the strategic planning held by domestic and foreign securities companies. The Company organized over 80 market research activities by inviting over 300 domestic and foreign investors and analysts. The Company organized 4 on-site visits in branches for investors. Moreover, the Company answered enquiry phone calls from investors and analysts in time and replied enquiry email from investors.

(X) Joint Company Secretaries

Ms. Ma Sau Kuen, Gloria (the director of KCS Hong Kong Limited) and Mr. Fang Lin were appointed as the joint company secretaries of the Company. Mr. Fang Lin, the secretary of the Board of Directors and joint company secretary, serves as the primary contact person between Ms. Ma and the Company. As at 31 December 2012, Ms. Ma has attended relevant professional trainings for not less than 15 hours. Mr. Fang Li proactively participated in relevant professional training programs organized by the Hong Kong Institute of Chartered Secretaries and the Company since he was appointed as the company secretary of the Company in August 2012.

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

The Company's 6th Board of Directors consists of 5 independent non-executive directors comprising 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 requirements 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 2012, 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

In 2012, 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	Remarks
XU Shanda	7	5	2	0	Unable to attend the 9th session of the 6th Board of Directors for business reason and Xiao Wei, a Director, was appointed as his proxy to attend and vote at the meeting. Unable to attend the 2nd extraordinary meeting of the 6th Board of Directors for business reason and Xiao Wei, a Director, was appointed as his proxy to attend and vote at the meeting.
CHANG Tso Tung, Stephen	7	6	1	0	Unable to attend the 10th session of the 6th Board of Directors for business reason and Li Ruoshan, a Director, was appointed as his proxy to attend and vote at the meeting.
LI Ruoshan	7	7	0	0	
XIAO Wei	7	6	1	0	Unable to attend the 8th session of the 6th Board of Directors for business reason and Xu Shanda, a Director, was appointed as his proxy to attend and vote at the meeting.
YUEN Tin Fan	7	7	0	0	

(II) Attendance of Independent Non-executive Directors to the Shareholders' General Meetings

In 2012, independent non-executive directors proactively attended the shareholders' general meetings and the attendance of each of the independent non-executive directors is as follows:

Name of independent non-executive directors	Number of shareholders' general meetings to be attended	Attendance in person	Attendance by proxy	Absence
XU Shanda	2	1	1	0
CHANG Tso Tung, Stephen	2	2	0	0
LI Ruoshan	2	2	0	0
XIAO Wei	2	1	1	0
YUEN Tin Fan	2	2	0	0

(III) 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 and there were no such cases as any of the proposals by the independent non-executive directors were not accepted.

(IV) 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: assets, 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 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. 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 major 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 2012, the Company further enhanced the establishment of its risk management system and mechanism and refined the risk warning system and emergency management mechanism. The Company also improved its risk evaluation tools and measures and strengthened the overall evaluation and supervision of risks. The Company reported the results of risk evaluation to the Risk Management Committee under the Board of Directors regularly. Furthermore, the Company analyzed and coped with the effects caused by the changes in economic situation, regulatory requirements and market and emergencies to its operation with a focus on major risks including surrender risk, investment risk, liquidity risk and solvency risk. Through further solidating the risk management and establishing risk management information system, the efficiency and standards of risk management were improved. The Company further consolidated the culture of risk management and enhanced the awareness and capability of risk management of all institutions and departments by promoting risk management culture and organized special training. The performance of the risk management department was enhanced as the Company strengthened the establishment of risk management team.

In 2012, the Company was exposed to various risks, including insurance risk, market risk, credit risk, operational risk, risks of mismatching assets and liabilities and compliance risk of solvency adequacy.

(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 2% of the gross written premiums during the reporting period.

III. Results and Distributions

The net profits for the year 2012 included in the audited financial statements of the parent company, prepared in accordance with the PRC GAAP and HKFRS, were both RMB4.637 billion. According to the 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 2012 included in the financial statements, prepared in accordance with the PRC GAAP and HKFRS, were both RMB8.543 billion.

Therefore, the profit distribution for 2012 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 9,062,000,000 shares, the amount of dividend in aggregate will be RMB3.172 billion. The remaining retained profits will be carried forward to 2013. No capital reserve was transferred to the share capital during the year.

No capital reserve was transferred to the share capital during either of the last two years.

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 (2)	Payout ratio (%) (3)=(1)/(2)
2009	2,580	7,356	35.1
2010	3,010	8,557	35.2
2011	3,010	8,313	36.2

According to the Articles of Association, the Company may adjust its profit distribution policies, which shall be resolved by the Board after thorough consideration and submitted to the shareholders' general meeting together with the opinions of the Independent Directors for approval by way of special resolution. The Board and shareholders' general meeting shall properly consider the opinions from the Independent Directors and public investors and communicate with public investors through various channels. The implementation of the profit distribution policies shall be supervised by the Independent Directors and public investors.

The profit distribution policies of the Company are in compliance with the Articles of Association. The policies provide sufficient protection for the interests of minor shareholders with specified distribution standards and ratio of dividends, and regulated and transparent conditions and procedures for the adjustment and amendments to the profit distribution policies.

IV. Reserves

Details for reserves (including distributable reserves) are shown in note 36 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

The use of proceeds raised by the Company is consistent with the usages as set out in the resolutions approved in the shareholders' general meeting and the meeting of the Board of Directors and have been fully 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 49 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 39 to the financial report.

XII. Charitable and Other Donations

During the reporting period, the Company made charitable and other donations totaled approximately RMB3.4684 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 and Investment Decision-Making Committee, the Audit Committee, the Nomination 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 2012, 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 2012, the following persons (excluding the directors, supervisors or senior management 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 (%)
JPMorgan Chase & Co.[Note 1]	Beneficial owner, investment manager and custodian — corporation/approved lending agent	H shares	334,300,731(L) 2,449,600(S) 316,460,410(P)	12.05(L) 0.09(S) 11.40(P)	3.69(L) 0.03(S) 3.49(P)
Government of Singapore Investment Corporation Pte Ltd.	Investment manager	H shares	293,830,400(L)	10.59(L)	3.24(L)
Carlyle Offshore Partners II, Ltd.[Note 2]	Interest of corporation controlled by Carlyle Offshore Partners II, Ltd.	H shares	203,707,600(L)	7.34(L)	2.25(L)
Allianz SE[Note 3]	Interest of corporation controlled by Allianz SE	H shares	243,223,600(L)	8.76(L)	2.68(L)
Norges Bank (Central Bank of Norway)	Beneficial owner	H shares	231,734,200(L)	8.35(L)	2.56(L)
Blackrock, Inc.[Note 4]	Interest of corporation controlled by Blackrock, Inc.	H shares	229,063,871(L) 26,612,929(S)	8.25(L) 0.96(S)	2.53(L) 0.29(S)
Schroders Plc[Note 5]	Investment Manager	H shares	159,099,600(L)	5.73(L)	1.76(L)

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

Note:

1. *Pursuant to Part XV of the SFO, as at 31 December 2012, JPMorgan Chase & Co. is deemed or taken to be interested in a total of 334,300,731 H shares (long position) and 2,449,600 H shares (short position) of the Company. Included in the 334,300,731 H shares are 316,460,410 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. The details of the shareholding interests of the subsidiaries directly or indirectly controlled by JPMorgan Chase & Co. are set out below:*

Name of controlled subsidiary	Number of shares
JPMorgan Chase Bank, N.A.	316,460,410(L)
J.P. Morgan Whitefriars Inc.	13,427,333(L) 1,735,600(S)
J.P. Morgan Overseas Capital Corporation	13,427,333(L) 1,735,600(S)
J.P. Morgan International Finance Limited	15,636,521(L) 2,449,600(S)
Bank One International Holdings Corporation	15,636,521(L) 2,449,600(S)
J.P. Morgan International Inc.	15,636,521(L) 2,449,600(S)
JPMorgan Chase Bank, N.A.	15,636,521(L) 2,449,600(S)
JF Asset Management Limited	1,850,000(L)
JPMorgan Asset Management (Asia) Inc.	2,203,800(L)
JPMorgan Asset Management Holdings Inc.	2,203,800(L)
J.P. Morgan Securities plc	2,209,188(L) 714,000(S)
J.P. Morgan Chase International Holdings	2,209,188(L) 714,000(S)
J.P. Morgan Chase (UK) Holdings Limited	2,209,188(L) 714,000(S)
J.P. Morgan Capital Holdings Limited	2,209,188(L) 714,000(S)
JPMorgan Asset Management (Taiwan) Limited	353,800(L)

(L) denotes long position (S) denotes a short position

As at the date of this annual report, JPMorgan Chase & Co. is deemed or taken to be interested in a total of 358,506,955 H shares (long position) and 4,765,827 (short position) of the Company.

2. *Pursuant to Part XV of the SFO, as at 31 December 2012, Carlyle Offshore Partners II, Ltd. is deemed or taken to be interested in a total of 203,707,600 H shares of the Company. The details of the shareholding interests of the subsidiaries directly or indirectly controlled by Carlyle Offshore Partners II, Ltd. are set out below:*

Name of controlled subsidiary	Number of shares
TCG Holdings Cayman II, L.P.	203,707,600(L)
TC Group Cayman Investment Holdings, LP	203,707,600(L)
Carlyle Asia Ltd.	203,707,600(L)
Carlyle Asia Partners, L.P.	113,323,498(L)
Carlyle CPL Partners I, L.P.	90,384,102(L)
Parallel Investors Holdings Limited	90,384,102(L)
Carlyle Holdings Mauritius Limited	113,323,498(L)

(L) denotes long position

On 10 January 2013, Carlyle Offshore Partners II, Ltd. sold all of the 203,707,600 H shares it held in the Company and ceased to be a shareholder of the Company.

3. *Pursuant to Part XV of the SFO, as at 31 December 2012, Allianz SE is deemed or taken to be interested in a total of 243,223,600 H shares of the Company. The details of the shareholding interests of the subsidiaries directly or indirectly controlled by Allianz SE are set out below:*

Name of controlled subsidiary	Number of shares
Allianz Deutschland AG	233,458,103(L)
Allianz Lebensversicherungs-AG	233,458,103(L)
AZ Euro Investments S.a.r.l.	191,940,303(L)
Allianz Finance II Luxembourg S.A.	41,517,800(L)
YAO Investment S.a.r.l.	6,541,897(L)
Allianz Asset Management AG	3,058,800(L)
Allianz Global Investors Holding GmbH	3,058,800(L)
Allianz Global Investors Taiwan Ltd.	220,000(L)
RCM Asia Pacific Ltd.	2,821,600(L)
Allianz Global Investors Europe GmbH	17,200(L)
Allianz Holding eins GmbH	6,706,697(L)
Allianz Elementar Versicherungs-AG	6,706,697(L)
Allianz Investmentbank AG	164,800(L)
Allianz Invest Kapitalanlagegesellschaft mbH	164,800(L)

(L) denotes long position

4. *Pursuant to Part XV of the SFO, as at 31 December 2012, Blackrock, Inc. is deemed or taken to be interested in a total of 229,063,871 H shares (long position) and 26,612,929 H shares (short position) of the Company. The details of the shareholding interests of the subsidiaries directly or indirectly controlled by Blackrock, Inc. are set out below:*

Name of controlled subsidiary	Number of shares
Trident Merger, LLC	1,407,159(L)
BlackRock Investment Management, LLC.	1,407,159(L)
BlackRock Holdco 2 Inc.	227,656,712(L) 26,612,929(S)
BlackRock Financial Management, Inc.	227,656,712(L) 26,612,929(S)
BlackRock Holdco 4 LLC	152,599,200(L) 5,215,000(S)
BlackRock Holdco 6 LLC	152,599,200(L) 5,215,000(S)
BlackRock Delaware Holdings, Inc.	152,599,200(L) 5,215,000(S)
BlackRock Institutional Trust Company, N.A.	31,379,600(L) 5,215,000(S)
BlackRock Fund Advisors	121,219,600(L)
BlackRock Advisors Holdings Inc.	74,924,712(L) 21,397,929(S)
BlackRock Capital Holdings, Inc.	852,000(L) 940,600(S)
BlackRock Advisors, LLC.	852,000(L) 940,600(S)

Name of controlled subsidiary	Number of shares
BlackRock International Holdings Inc.	74,072,712(L) 20,457,329(S)
BR Jersey International LP	74,072,712(L) 20,457,329(S)
BlackRock Cayco Ltd.	27,400(L)
BlackRock Trident Holding Company Limited	27,400(L)
BlackRock Japan Holdings GK	27,400(L)
BlackRock Japan Co. Ltd.	27,400(L)
BlackRock (Institutional) Canada Ltd	291,800(L)
BlackRock Holdings Canada Limited	291,800(L)
BlackRock Asset Management Canada Limited	228,200(L)
BlackRock Investments Canada, Inc	63,600(L)
BlackRock Australia Holdco Pty Ltd	146,000(L)
BlackRock Asset Management Australia Limited	146,000(L)
BlackRock HK Holdco Limited	14,175,155(L) 13,211,472(S)
BlackRock Asset Management North Asia Limited	14,175,155(L) 13,211,472(S)
BlackRock Group Limited	59,432,357(L) 7,245,857(S)
BlackRock (Netherlands) B.V.	341,000(L)
Blackrock Advisors (UK) Limited	20,263,257(L) 7,245,857(S)
BlackRock Luxembourg Holdco S.a.r.l.	33,916,400(L)
BlackRock (Luxembourg) S.A.	13,767,200(L)
BlackRock Investment Management Ireland Holdings Ltd	20,149,200(L)
BlackRock Asset Management Ireland Limited	20,149,200(L)
BlackRock Investment Management (UK) Limited	2,661,000(L)
BlackRock Holdings Deutschland GmbH	257,200(L)
BlackRock Asset Management Deutschland AG	257,200(L)
BlackRock Fund Managers Limited	1,120,600(L)
BlackRock International Limited	2,250,700(L)
BlackRock Life Limited	484,600(L)

(L) denotes long position (S) denotes a short position

As at the date of this annual report, Blackrock, Inc. is deemed or taken to be interested in a total of 219,731,792 H shares (long position) and 1,905,600 H shares (short position) of the Company.

5. *According to the corporate substantial shareholder notice (Form 2) filed by Schroders Plc on 8 February 2013, Schroders Plc became a substantial shareholder of the Company under the SFO by a further acquisition of a total of 1,495,800 H shares on 18 April 2012. Pursuant to Part XV of the SFO, as at 31 December 2012, Schroders Plc is deemed or taken to be interested in a total of 159,099,600 H shares (long position) of the Company, representing 5.73% of the Company's total H shares. The details of the shareholding interests of the subsidiaries directly or indirectly controlled by Schroders Plc are set out below:*

Name of controlled subsidiary	Number of shares
Schroder Administration Limited	159,099,600(L)
Schroder International Holdings Limited	60,443,800(L)
Schroder Holdings (Bermuda) Limited	60,443,800(L)
Schroder International Holdings (Bermuda) Limited	60,443,800(L)
Schroder Investment Management Limited	83,973,000(L) (direct interest)
Schroder Investment Management Limited	14,682,800(L) (indirect interest)
Schroder Investment Management North America Limited	14,682,800(L)
Schroder Investment Management (Singapore) Limited	3,261,400(L) (direct interest)
Schroder Investment Management (Singapore) Limited	3,381,400(L) (indirect interest)
Nissay Schroders Asset Management Asia Limited (Joint Venture)	3,381,400(L)
Schroder Investment Management (Hong Kong) Limited	53,801,000(L)

(L) denotes a long position;

Save as disclosed above, as at 31 December 2012, the Company was not aware that there was any other person (other than the directors, supervisors or senior management 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 Share Capital and Shareholders' Profile" of this annual report.

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. Appointment of the Auditors

Ernst & Young Da Hua Certified Public Accountants has served as the auditors for financial reports prepared under PRC GAAP since 2006.

Ernst & Young Hua Ming has served as the auditors for financial reports prepared under PRC GAAP since 2008.

Ernst & Young has served as the auditors for financial reports prepared under HKFRS since 2009.

In 2011, the Company continued to retain Ernst & Young Hua Ming and Ernst & Young as the auditors for financial reports prepared under PRC GAAP and HKFRS, respectively for the year 2011 by way of public tender in accordance with the notice on Administrative Measures for Financial Enterprises to Appoint Accounting Firms by Way of Public Tender (for Trial Implementation) (Cai Jin No. [2010]169).

Ernst & Young Hua Ming transformed to limited liability partnership in 2012 and renamed as Ernst & Young Hua Ming LLP.

In the reporting period, the Company continued to engage Ernst & Young Hua Ming LLP and Ernst & Young as the auditors for the annual report of the Company and continued to engage Ernst & Young Hua Ming LLP as the auditors for the internal control of the Company. The signing certified public accountants for the financial reports prepared under PRC GAAP in 2012 were Mr. GUO Hangxiang and Mr. ZHU Baoqin. Mr. ZHU Baoqin also served as the signing certified public accountant for the financial reports prepared under PRC GAAP in 2010 and 2011.

In 2012, the remuneration paid/payable to the auditors for provision of annual audit service and internal control audit service is RMB13.6940 million and RMB1.5960 million, respectively.

XXV. Change in Accounting Estimates

When measuring the insurance contract liabilities and other policy-related 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 2012, 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 an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2012 by approximately RMB260 million and a decrease in profit before tax for 2012 by approximately RMB260 million.

XXVI. 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 Corporate Social Responsibility

Corporate Social Responsibility

For details of the corporate social responsibility of the Company, please refer to the Corporate Social Responsibility Report 2012 (2012年企業社會責任報告) disclosed in the website of SSE (www.sse.com.cn).

Section XI Significant Events

Significant Events

CPIC and Allianz Group entered into a cooperation agreement for the health insurance project.

I. Placing of H Shares

As approved by the relevant regulatory authorities, the Company issued 462,000,000 H shares according to the placing on 14 November 2012 at an offer price of HK$22.50 per share and raised HK$10.395 billion. Upon the completion of the placing, the total number of issued H Shares of the Company increased from 2,313,300,000 H shares to 2,775,300,000 H shares, and the total share capital increased from 8,600,000,000 shares to 9,062,000,000 shares.

II. Planning on the establishment of CPIC Allianz Health Insurance Co., Ltd.

On 22 January 2013, as approved at the 1st extraordinary meeting in 2013 of the 6th Board of Directors, the Company and Allianz Group entered into various documents including the agreement between China Pacific Insurance (Group) Co., Ltd. and Allianz Group for the establishment of CPIC Allianz Health Insurance Co., Ltd. ("Health Insurance Company"). The establishment of the Health Insurance Company and relevant legal documents are subject to the approval of CIRC and other regulatory authorities.

III. 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.

IV. Asset Acquisition

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

V. 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.

VI. Custody

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

VII. Contracting

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

VIII. Lease

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

IX. Guarantee

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

X. Entrusted Wealth Management

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

XI. 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.

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

(I) 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 pieces/ 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	1,154.17	11.41	1,097.59	82.52	62.58
2	CB	110003	Xingang CB	19.11	0.19	19.15	1.44	0.04
3	CB	110022	Tongren CB	18.72	0.16	19.09	1.44	0.36
4	Share	601668	CSCEC	15.19	4.48	17.47	1.31	2.29
5	Share	600276	HR	13.58	0.49	14.83	1.12	1.27
6	Share	000999	CR Sanjiu	8.42	0.41	9.60	0.72	1.18
7	Share	600309	Yantai Wanhua	6.90	0.49	7.64	0.57	0.74
8	Share	600048	PRE	5.20	0.47	6.39	0.48	1.19
9	Share	600887	MYILI	5.49	0.29	6.38	0.48	0.89
10	Share	002262	NHWA	4.55	0.22	6.03	0.45	1.49
Other security investment held at the end of the period				122.89	11.16	125.94	9.47	3.93
Profit or loss from investment securities sold during the reporting period				N/A	N/A	N/A	N/A	12.91
Total				1,374.22	29.77	1,330.11	100.00	88.87

Note:

1. *The table above reflects the shares, warrants and convertible bonds ("CB") (top ten) included in the financial assets at fair value through profit or loss of the Company.*
2. *Other security investment refers to the investment in securities other than the top ten securities mentioned in the above table.*
3. *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.*

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

Unit: RMB million

No.	Stock Code	Abbreviated stock name	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	601006	Daqin Railway	3,846	3.36	3,381	114	(141)	Market purchase
2	600000	SPD Bank	2,187	1.39	2,575	269	469	Market purchase
3	600036	CMB	2,199	0.81	2,352	32	418	Market purchase
	HK03968		62		57	(10)	12	Market purchase
4	601398	ICBC	2,081	0.15	1,984	97	(40)	Market purchase
	HK01398		146		132	5	20	Market purchase
5	601939	CCB	1,832	0.15	1,723	78	51	Market purchase
	HK00939		68		64	(12)	18	Market purchase
6	601288	ABC	1,478	0.17	1,532	78	104	Market purchase
	HK01288		5		5	1	1	Market purchase
7	601668	CSCEC	877	0.85	989	47	274	Market purchase
8	000402	Financial Street	848	4.02	822	12	85	Market purchase
9	600900	Yangtze Power	629	0.49	555	21	48	Market purchase
10	000729	Yanjing Beer	713	3.46	493	(53)	(43)	Market purchase

Note:

1. *The above table reflects the shareholding of the Company in other listed companies (top ten), which is included in 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 is calculated based on the investment of total number of shares denominated in different currencies being invested.*

(III) Shareholdings in non-listed financial institutions

Unit: RMB million

Name of institution	Initial investment	Number of shares held at the beginning of the period (million shares)	Percentage of shareholding at the beginning of the period (%)	Number of shares held at the end of the period (million shares)	Percentage of shareholding 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 share
Bank of Hangzhou	1,300	100	5.98	100	5.98	1,224	20	142	Available for-sale financial asset	Private placement
Shanghai Rural Commercial Bank	2,117	200	4.00	350	7.00	1,915	24	13	Available for-sale financial asset	Private placement and share transfer

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

(IV) 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	2,001	N/A	16,173	N/A
Sell	N/A	N/A	2,418	N/A	N.A	(2,576)

Note: Due to the business nature, the trading volume of securities of the Company is relatively large. A summary is presented in the above table.

Section XII Internal Control

Internal Control

I. 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 are to ensure that the information in the financial report is true, complete and reliable, and to prevent the risks 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 has evaluated the self-control system in relation to financial reports in accordance with the "Basic Norms of Internal Control", and is of the opinion that such rules were effective on 31 December 2012.

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.

II. 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.

In order to improve the internal control system, the Company established the "Provisional Measures of Internal Control for China Pacific Insurance (Group) Co, Ltd.". The model of internal control with three levels was further strengthened and the responsibilities of management at each level of internal control were clarified, facilitating the effective operation of internal control. In 2012, the Company continued to improve the efficiency and implement reforms of internal control. The Company conducted self-assessment of risk and internal control with a focus on the measures on coping with new risks and the rectification of defeats in internal control. Major procedures were modified and the Measures on Internal Control were issued and updated from time to time. The risk identification, evaluation, solution and supervision of internal control were improved, thereby strengthening the internal control system of the Company.

III. Progress of the Implementation of Internal Control

In 2012, pursuant to the Basic Standards for Enterprise Internal Control (企業內部控制基本規範) and the supplementary guidelines jointly promulgated by the Ministry of Finance, CSRC, the National Audit Office, China Banking Regulatory Commission and CIRC, and the requirements of the Notice on the Preparation for the Implementation of Internal Control in Listed Companies in Shanghai (關於做好上海轄區上市公司實施內控規範有關工作的通知) (Hu Zheng Jian Gong Si Zi No. [2012]41) issued by the CSRC Shanghai Bureau, the Company formulated measures for the implementation of internal control in 2012 in accordance with the actual condition of its internal control system and the requirements for the future development of the Company. The measures were disclosed on the website of the SSE upon approval by the Board of Directors.

In 2012, the Company implemented the measures with satisfactory progress. Firstly, the continuous implementation and enhancement of internal control ensured the efficiency of the internal control management system in the long run. Secondly, the Company carried out self-evaluation of internal control according to the working schedule and assessment standards were improved. Thirdly, the Company conducted audit of internal control and achieved good progress.

IV. Establishment and Implementation of Accountability System for Material Errors in Annual Report

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" and "Working Procedures of Regular Reports", which provided detailed rules for the report, circulation, review and disclosure procedures of information relevant to regular reports and established a standardized system for the collection, reporting and public disclosure of information and an accountability system for discrepancy.

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 2012.

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 2012, 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 2012;

- 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 2012 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 2012, 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 2012 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 2012 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
22 March 2013

2012 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 2012 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 2012 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 valuation assumption. 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 2012, and the value of one year's sales of CPIC Life in the 12 month to 31 December 2012 at risk discount rate of 11.5%.

Unit: RMB Million

Valuation date	31 December 2012	31 December 2011
Group Adjusted Net Worth	**86,237**	**72,664**
Adjusted Net Worth of CPIC Life	**35,371**	**31,381**
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written prior to June 1999	(3,080)	(3,085)
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written since June 1999	65,129	55,755
Cost of Solvency Margin Held for CPIC Life	(12,153)	(11,059)
Value of In Force Business of CPIC Life After Cost of Solvency Margin Held	49,895	41,611
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	**49,043**	**40,900**
Group Embedded Value	**135,280**	**113,564**
Life Embedded Value	**85,266**	**72,992**
Value of One Year's Sales of CPIC Life Before Cost of Solvency Margin Held	8,316	8,184
Cost of Solvency Margin	(1,256)	(1,470)
Value of One Year's Sales of CPIC Life After Cost of Solvency Margin Held	**7,060**	**6,714**

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 2012, 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 2012:

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 5.1% in 2013 to 5.2% in 2014, and remaining at 5.2% thereafter. The investment return for short term business is based on the 2012 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 2012 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 2013, 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 2011 to 31 December 2012 at risk discount rate of 11.5%.

Unit: RMB Million

No.	Item	Value	Comments
1	**Embedded Value of the life business at 31 December 2011**	**72,992**	
2	Expected Return on Embedded value	7,717	Expected returns on the 2011 embedded value of CPIC Life and the value of one year's sales of CPIC Life in 2012
3	Value of One Year's Sales	7,060	Value of one year's sale in respect of new business written in the 12 months prior to 31 December 2012
4	Investment Experience Variance	437	Reflects the difference between actual and assumed investment return in 2012
5	Operating Experience Variance	(244)	Reflects the difference between actual and assumed operating experience
6	Change in Valuation Basis	(129)	Change in mortality tables used to estimate PRC statutory reserves
7	Change in methodology, assumptions and models	(520)	Reflects assumption changes, together with model enhancements
8	Change in market value adjustment	(1,295)	Reflects the change in value of assets not valued on a market value basis
9	Shareholder Dividends	(836)	Shareholder dividends distributed to shareholders of CPIC Life
10	Others	86	
11	**Embedded Value of the life business at 31 December 2012**	**85,266**	Increased by 16.8% relative to 31 December 2011
12	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2011**	**42,477**	
13	Change in Adjusted Net Worth before payment of shareholder dividends to shareholders of CPIC Group	12,596	Including total amount of RMB8.297 billion from issue additional H shares
14	Shareholder dividends	(3,010)	Dividend distributed to shareholders of CPIC Group
15	Change in market value adjustment	32	
16	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2012**	**52,094**	
17	Minority interests relating to equity and market value adjustments	(2,081)	Minority interests on Embedded Value as at 31 December 2012
18	**Group Embedded Value as at 31 December 2012**	**135,280**	
19	**Embedded Value as at 31 December 2012 per share(RMB)**	**14.93**	

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 2012 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)	Value of In Force Business After Cost of Solvency Margin Held	Value of One Year's Sales After Cost of Solvency Margin Held
Base	**49,895**	**7,060**
Risk Discount Rate "11%"	52,276	7,483
Risk Discount Rate "12%"	47,658	6,665
Investment Return "+25 basis points"	54,412	7,435
Investment Return "-25 basis points"	45,330	6,685
Mortality "-10%"	50,035	7,081
Morbidity "-10%"	50,225	7,144
Lapse and Surrender Rates "-10%"	49,631	7,062
Expenses "-10%"	50,833	7,641
Participating "+5% Distribution"	47,899	6,699
Short Term Claim Ratio "-10 %"	49,974	7,169
150% Solvency Margin	43,819	6,432

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 2012

Chairman: 高国富

Board of Directors

China Pacific Insurance (Group) Co., Ltd.

22 March, 2013

Audited Financial Statements
31 December 2012

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 89, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
22 March 2013

Consolidated Income Statement
Year Ended 31 December 2012

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

Group	Notes	2012	2011
Gross written premiums	6(a)	163,228	154,958
Less: Premiums ceded to reinsurers	6(b)	(11,795)	(13,384)
Net written premiums	6	151,433	141,574
Net change in unearned premium reserves		(3,594)	(4,336)
Net premiums earned		147,839	137,238
Investment income	7	18,060	16,392
Other operating income		1,258	1,887
Other income		19,318	18,279
Total income		167,157	155,517
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(20,596)	(21,508)
Claims incurred	8	(35,815)	(28,010)
Changes in long-term life insurance contract liabilities	8	(58,501)	(56,063)
Policyholder dividends	8	(3,905)	(3,807)
Finance costs	9	(2,288)	(848)
Interest credited to investment contracts		(1,715)	(2,257)
Other operating and administrative expenses		(38,224)	(33,120)
Total benefits, claims and expenses		(161,044)	(145,613)
Gain from disposal of a jointly-controlled entity		—	479
Share of profit of a jointly-controlled entity		—	16
Profit before tax	10	6,113	10,399
Income tax	14	(983)	(2,006)
Net profit for the year		5,130	8,393
Attributable to:			
Equity holders of the parent		5,077	8,313
Minority interests		53	80
		5,130	8,393
Basic earnings per share	15	RMB0.59	RMB0.97
Diluted earnings per share	15	RMB0.59	RMB0.97

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

Consolidated Statement of Comprehensive Income
Year Ended 31 December 2012

(All amounts expressed in RMB million unless otherwise specified)

Group	Note	2012	2011
Net profit for the year		5,130	8,393
Other comprehensive income			
Exchange differences on translation of foreign operations		—	(18)
Available-for-sale financial assets		12,202	(11,899)
Income tax relating to available-for-sale financial assets		(3,034)	2,966
Other comprehensive income/(loss) for the year	16	9,168	(8,951)
Total comprehensive income/(loss) for the year		14,298	(558)
Attributable to:			
Equity holders of the parent		14,094	(490)
Minority interests		204	(68)
		14,298	(558)

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

Consolidated Balance Sheet
31 December 2012

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2012	31 December 2011
ASSETS			
Property and equipment	17	9,364	7,833
Investment properties	18	6,349	6,573
Goodwill	19	962	962
Other intangible assets	20	738	533
Prepaid land lease payments	21	60	24
Financial assets at fair value through profit or loss	23	1,714	2,907
Held-to-maturity financial assets	24	248,766	202,536
Available-for-sale financial assets	25	135,815	117,592
Investments classified as loans and receivables	26	36,097	32,929
Securities purchased under agreements to resell	27	1,115	43
Term deposits	28	164,297	137,373
Restricted statutory deposits		3,600	3,580
Policy loans		5,700	4,094
Interest receivables	29	13,659	11,006
Reinsurance assets	30	14,121	14,118
Deferred income tax assets	31	2,067	4,980
Insurance receivables	32	8,177	6,252
Other assets	33	5,026	2,374
Cash and short-term time deposits	34	23,875	14,903
Total assets		681,502	570,612

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

Group	Notes	31 December 2012	31 December 2011
EQUITY AND LIABILITIES			
Equity			
Issued capital	35	9,062	8,600
Reserves	36	67,519	50,203
Retained profits	36	19,596	17,993
Equity attributable to equity holders of the parent		96,177	76,796
Minority interests		1,392	1,259
Total equity		97,569	78,055
Liabilities			
Insurance contract liabilities	37	438,887	374,931
Investment contract liabilities	38	41,754	47,182
Policyholders' deposits		79	80
Subordinated debt	39	15,500	8,000
Securities sold under agreements to repurchase	40	50,143	32,105
Deferred income tax liabilities	31	958	960
Income tax payable		487	624
Premium received in advance		4,376	4,711
Policyholder dividend payable		11,711	9,132
Payables to reinsurers		3,514	3,235
Other liabilities	41	16,524	11,597
Total liabilities		583,933	492,557
Total equity and liabilities		681,502	570,612

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 2012

(All amounts expressed in RMB million unless otherwise specified)

2012									
	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 2012	8,600	58,907	2,234	(55)	(10,883)	17,993	76,796	1,259	78,055
Total comprehensive income	—	—	—	—	9,017	5,077	14,094	204	14,298
Dividend declared [1]	—	—	—	—	—	(3,010)	(3,010)	—	(3,010)
Dividends paid to minority shareholders	—	—	—	—	—	—	—	(71)	(71)
Issue of shares	462	7,835	—	—	—	—	8,297	—	8,297
Appropriations to surplus reserves	—	—	464	—	—	(464)	—	—	—
At 31 December 2012	9,062	66,742	2,698	(55)	(1,866)	19,596	96,177	1,392	97,569

1 *Dividend declared represents the final dividend on ordinary shares declared for 2011, amounting to RMB3,010 million (RMB0.35 per share).*

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 the 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.

Consolidated Cash Flow Statement
Year Ended 31 December 2012

(All amounts expressed in RMB million unless otherwise specified)

Group	Note	2012	2011
OPERATING ACTIVITIES			
Cash generated from operating activities	45	53,368	58,470
Income tax paid		(1,244)	(2,943)
Net cash inflow from operating activities		52,124	55,527
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(3,057)	(1,745)
Proceeds from sale of items of property and equipment, intangible assets and other assets		56	733
Proceeds from disposal of a jointly-controlled entity		—	949
Purchases of investments, net		(91,693)	(99,085)
Acquisition of subsidiaries		—	(4,125)
Interest received		21,848	16,897
Dividends received from investments		1,854	2,264
Net cash outflow from investing activities		(70,992)	(84,112)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		17,943	24,004
Proceeds from issuance of shares		8,314	—
Capital contribution from minority shareholders of subsidiaries		—	137
Proceeds from issuance of subordinated debt		7,500	8,000
Repayment of subordinated debt		—	(2,000)
Interest paid		(1,768)	(952)
Dividends paid		(3,081)	(3,075)
Others		(12)	—
Net cash inflow from financing activities		28,896	26,114
Effects of exchange rate changes on cash and cash equivalents		(4)	(123)
Net increase/(decrease) in cash and cash equivalents		10,024	(2,594)
Cash and cash equivalents at beginning of year		14,966	17,560
Cash and cash equivalents at end of year		24,990	14,966
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		6,817	7,001
Time deposits with original maturity of no more than three months		16,794	7,628
Other monetary assets		264	274
Investments with original maturity of no more than three months		1,115	63
Cash and cash equivalents at end of year		24,990	14,966

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

Balance Sheet

31 December 2012

(All amounts expressed in RMB million unless otherwise specified)

Company	Notes	31 December 2012	31 December 2011
ASSETS			
Property and equipment	17	576	568
Investment properties	18	2,377	2,486
Intangible assets		30	16
Prepaid land lease payments	21	37	—
Investments in subsidiaries	22	54,663	54,663
Financial assets at fair value through profit or loss	23	37	32
Held-to-maturity financial assets	24	2,275	1,922
Available-for-sale financial assets	25	7,617	4,463
Investments classified as loans and receivables	26	1,200	1,199
Term deposits	28	7,672	10,029
Interest receivables		333	320
Deferred income tax assets		150	300
Other assets	33	186	199
Cash and short-term time deposits	34	9,550	823
Total assets		86,703	77,020
EQUITY AND LIABILITIES			
Equity			
Issued capital	35	9,062	8,600
Reserves	36	68,423	59,696
Retained profits	36	8,543	7,380
Total equity		86,028	75,676
Liabilities			
Securities sold under agreements to repurchase		—	900
Income tax payable		27	27
Due to subsidiaries		183	61
Other liabilities	41	465	356
Total liabilities		675	1,344
Total equity and liabilities		86,703	77,020

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

Notes to Financial Statements
31 December 2012

(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 the State Council of the PRC and Circular [2001] No. 239 issued by the China Insurance Regulatory Commission (the "CIRC"), the Company was restructured as a joint stock limited company in October 2001 with an 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.

In November 2012, the Company conducted a non-public offering of 462 million H shares. Upon completion of the H share offering, the issued capital was increased to RMB9,062 million, which was approved by the CIRC in December 2012.

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

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

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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). 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.

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 March 2012, the HKICPA issued amendments to HKFRS 1. The amendments require a first-time adopter to apply the requirements of HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to HKFRSs. Entities may choose to apply the requirements of HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement*, as applicable) and HKAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. 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)

Together with the Amendments to HKAS 32 as aforementioned, the HKICPA issued Amendments to HKFRS 7, which require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. 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 as 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 addresses the issues raised in HK(SIC)-Int 12. Currently, it is estimated that the new standard would have no significant impact on the Group's financial position and performance.

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.

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. Currently, it is expected that the new standard would have no significant impact on the Group's financial statements.

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

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

2.1 Basis of preparation (continued)

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. Currently, the Group expects that these amendments will not have 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. Currently, 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 would have no significant impact on the Group's financial statements.

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

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

HKAS 12 Amendments	Deferred Tax: Recovery of Underlying Assets
HKFRS 1 Amendments	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 Amendments	Transfers of Financial Assets

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 2012. 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.

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.

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

2.3 Summary of principal accounting policies (continued)

(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 a 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.

(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.

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

2.3 Summary of principal accounting policies (continued)

(6) Business combinations and goodwill (continued)

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).

(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.

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

2.3 Summary of principal accounting policies (continued)

(8) Property and equipment and depreciation (continued)

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.

(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 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.

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

2.3 Summary of principal accounting policies (continued)

(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.

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.

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

2.3 Summary of principal accounting policies (continued)

(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.

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.

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

2.3 Summary of principal accounting policies (continued)

(15) Impairment of financial assets (continued)

Assets carried at cost

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

Available-for-sale financial assets

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. The Group usually considers a significant decline to be one in which the fair value is below the cost by more than 50 % or a prolonged decline to be one in which fair value is below the cost for a continuous period of more than twelve months.

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.

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

2.3 Summary of principal accounting policies (continued)

(16) Derecognition of financial assets (continued)

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

(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.

(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.

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

2.3 Summary of principal accounting policies (continued)

(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.

(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 an insurance contract, while the portion with other risks should not be treated as an 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 an insurance contract if the insurance risk is significant; the whole contract should not be treated as an 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 a 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% at certain points of time 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 a 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 a 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 a 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 a reasonable estimate of the 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 changes in assumptions.

The risk adjustment for property and casualty and short-term life insurance contract liabilities is determined by reference to the 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 the 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 the 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 contract using 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 a reasonable estimate of the 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 a reasonable estimate of the 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 a 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 the relevant acquisition costs incurred.

(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.

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

2.3 Summary of principal accounting policies (continued)

(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 bases:

(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 cost. The determination of what is significant or prolonged requires judgement of directors. When making such judgement, the Group considers the normal volatility of the 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.

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

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 2011 and 2012 were from 2.65% to 7.09% and from 3.12% to 6.29%, respectively.

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 2011 and 2012 were from 4.85% to 5.20% and from 4.97% 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 and other policy-related 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 2012, 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 an increase in net insurance contract liabilities and other policy-related liabilities as at 31 December 2012 by approximately RMB260 million and a decrease in profit before tax for 2012 by approximately RMB260 million.

The above change in accounting estimates has been approved by the board of directors of the Company on 22 March 2013.

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 2012, gross written premiums from transactions with the top five external customers amounted to 2% (2011: 0.4%) of the Group's total gross written premiums.

4. Segment Information (continued)

Segment income statement for the year ended 31 December 2012

		Property and casualty insurance						
	Life insurance	Mainland China	Hong Kong	Eliminations	Sub-total	Corporate and others	Eliminations	Total
Gross written premiums	93,461	69,697	375	(305)	69,767	—	—	163,228
Less: Premiums ceded to reinsurers	(1,688)	(10,372)	(40)	305	(10,107)	—	—	(11,795)
Net written premiums	91,773	59,325	335	—	59,660	—	—	151,433
Net change in unearned premium reserves	(260)	(3,315)	(19)	—	(3,334)	—	—	(3,594)
Net premiums earned	91,513	56,010	316	—	56,326	—	—	147,839
Investment income	16,216	1,426	(3)	—	1,423	484	(63)	18,060
Other operating income	714	260	1	—	261	1,426	(1,143)	1,258
Other income	16,930	1,686	(2)	—	1,684	1,910	(1,206)	19,318
Segment income	108,443	57,696	314	—	58,010	1,910	(1,206)	167,157
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(20,596)	—	—	—	—	—	—	(20,596)
Claims incurred	(1,370)	(34,276)	(169)	—	(34,445)	—	—	(35,815)
Changes in long-term life insurance contract liabilities	(58,501)	—	—	—	—	—	—	(58,501)
Policyholder dividends	(3,905)	—	—	—	—	—	—	(3,905)
Finance costs	(2,088)	(185)	—	—	(185)	(15)	—	(2,288)
Interest credited to investment contracts	(1,715)	—	—	—	—	—	—	(1,715)
Other operating and administrative expenses	(17,830)	(19,566)	(124)	—	(19,690)	(1,847)	1,143	(38,224)
Segment benefits, claims and expenses	(106,005)	(54,027)	(293)	—	(54,320)	(1,862)	1,143	(161,044)
Segment results	2,438	3,669	21	—	3,690	48	(63)	6,113
Share of losses of associates	(26)	(1)	—	—	(1)	—	27	—
Profit before tax	2,412	3,668	21	—	3,689	48	(36)	6,113
Income tax	83	(1,009)	(4)	—	(1,013)	(63)	10	(983)
Net profit/(loss) for the year	2,495	2,659	17	—	2,676	(15)	(26)	5,130

4. Segment Information (continued)

Segment balance sheet at 31 December 2012

		Property and casualty insurance						
	Life insurance	Mainland China	Hong Kong	Eliminations	Sub-total	Corporate and others	Eliminations	Total
Investments in securities *	364,743	44,778	446	—	45,224	12,428	(3)	422,392
Term deposits	139,335	17,105	—	—	17,105	7,857	—	164,297
Others	50,904	27,009	265	(275)	26,999	19,106	(2,196)	94,813
Segment assets	554,982	88,892	711	(275)	89,328	39,391	(2,199)	681,502
Insurance contract liabilities	387,674	51,125	259	(171)	51,213	—	—	438,887
Investment contract liabilities	41,754	—	—	—	—	—	—	41,754
Policyholders' deposits	11	68	—	—	68	—	—	79
Subordinated debt	15,500	—	—	—	—	—	—	15,500
Securities sold under agreements to repurchase	48,517	1,530	—	—	1,530	96	—	50,143
Others	23,800	12,096	195	(104)	12,187	3,726	(2,143)	37,570
Segment liabilities	517,256	64,819	454	(275)	64,998	3,822	(2,143)	583,933

* *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 2012

		Property and casualty insurance						
	Life insurance	Mainland China	Hong Kong	Eliminations	Sub-total	Corporate and others	Eliminations	Total
Depreciation and amortization	505	481	1	—	482	359	—	1,346
Capital expenditure	1,130	1,589	1	—	1,590	176	—	2,896
Impairment loss charges	3,227	966	25	—	991	260	—	4,478
Interest income	20,818	3,004	21	—	3,025	939	(16)	24,766
Unrealized gains from financial assets at fair value through profit or loss	68	31	—	—	31	—	—	99

4. Segment Information (continued)

Segment income statement 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
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)

5. Scope of Consolidation

Particulars of the Company's incorporated subsidiaries as at 31 December 2012 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
							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
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. ("Changjiang Pension")	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
Great Winwick Limited *	Investment holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$100	—	98.29	100.00
Great Winwick (Hong Kong) Limited *	Investment holding	Hong Kong	Hong Kong	Not applicable	HK$10,000	HK$1	—	98.29	100.00
Newscott Investments Limited *	Investment holding	The British Virgin Islands	The British Virgin Islands	Not applicable	US$50,000	US$100	—	98.29	100.00

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		Percentage of voting rights attributable to the Company
							Direct	Indirect	
Newscott (Hong Kong) Investments Limited *	Investment holding	Hong Kong	Hong Kong	Not applicable	HK$10,000	HK$1	—	98.29	100.00
Shanghai Xinhui Real Estate Development Co., Ltd. *	Real estate	Shanghai	Shanghai	60720379-5	US$15,600 thousand	US$15,600 thousand	—	98.29	100.00
Shanghai Hehui Real Estate Development Co., Ltd. *	Real estate	Shanghai	Shanghai	60732576-8	US$46,330 thousand	US$46,330 thousand	—	98.29	100.00
Pacific Insurance Online Services Technology Co., Ltd. ("CPIC Online")	Consulting services	Shandong	The PRC	58877325-7	50,000	50,000	100.00	—	100.00

* *Subsidiaries of City Island*

6. Net written Premiums

(a) Gross written premiums

	2012	2011
Long-term life insurance premiums	88,511	88,590
Short-term life insurance premiums	4,950	4,613
Property and casualty insurance premiums	69,767	61,755
	163,228	154,958

(b) Premiums ceded to reinsurers

	2012	2011
Long-term life insurance premiums ceded to reinsurers	(1,446)	(1,483)
Short-term life insurance premiums ceded to reinsurers	(242)	(1,066)
Property and casualty insurance premiums ceded to reinsurers	(10,107)	(10,835)
	(11,795)	(13,384)

(c) Net written premiums

	2012	2011
Net written premiums	151,433	141,574

7. Investment Income

	2012	2011
Interest and dividend income (a)	26,618	21,199
Realized losses (b)	(4,244)	(1,619)
Unrealized gains/(losses) (c)	99	(383)
Charge of impairment losses on financial assets	(4,413)	(2,805)
	18,060	16,392

(a) Interest and dividend income

	2012	2011
Financial assets at fair value through profit or loss		
— Fixed maturity investments	17	31
— Investment funds	7	2
— Equity securities	1	—
	25	33
Held-to-maturity financial assets		
— Fixed maturity investments	10,298	7,858
Loans and receivables		
— Fixed maturity investments	11,197	8,053
Available-for-sale financial assets		
— Fixed maturity investments	3,254	3,040
— Investment funds	915	1,565
— Equity securities	929	650
	5,098	5,255
	26,618	21,199

(b) Realized losses

	2012	2011
Financial assets at fair value through profit or loss		
— Fixed maturity investments	(30)	43
— Investment funds	28	—
— Equity securities	7	1
	5	44
Available-for-sale financial assets		
— Fixed maturity investments	(138)	(7)
— Investment funds	(1,528)	(1,354)
— Equity securities	(2,583)	(302)
	(4,249)	(1,663)
	(4,244)	(1,619)

7. Investment Income (Continued)

(c) Unrealized gains/(losses)

	2012	2011
Financial assets at fair value through profit or loss		
— Fixed maturity investments	100	(345)
— Investment funds	(13)	(38)
— Equity securities	12	—
	99	(383)

8. Net Policyholders' Benefits and Claims

			2012
	Gross	Ceded	Net
Life insurance death and other benefits paid	21,154	(558)	20,596
Claims incurred			
— Short-term life insurance	1,562	(192)	1,370
— Property and casualty insurance	40,377	(5,932)	34,445
Changes in long-term life insurance contract liabilities	59,027	(526)	58,501
Policyholder dividends	3,905	—	3,905
	126,025	(7,208)	118,817

			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

9. Finance Costs

	2012	2011
Current liabilities		
— Interest expense on securities sold under agreements to repurchase	1,391	629
— Interest expense on policyholder dividends	328	166
— Others	4	4
	1,723	799
Non-current liabilities		
— Interest expense on subordinated debt	565	49
	2,288	848

10. Profit Before Tax

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

	2012	2011
Employee benefit expense (including directors' and supervisors' emoluments) (note 11)	10,707	9,576
Auditors' remuneration	17	16
Operating lease payments in respect of land and buildings	752	570
Depreciation of property and equipment (note 17)	903	798
Depreciation of investment properties (note 18)	203	172
Amortization of other intangible assets (note 20)	212	184
Amortization of prepaid land lease payments (note 21)	2	2
Amortization of other assets	26	18
Gain on disposal of items of property and equipment, intangible assets and other long-term assets	(22)	(665)
Charge of impairment loss on insurance receivables	49	28
Charge of impairment loss on financial assets (note 7)	4,413	2,805
Foreign exchange loss, net	11	71

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

	2012	2011
Salaries, allowances and other short-term benefits	8,890	8,094
Contributions to defined contribution plans (1)	1,681	1,381
Early retirement benefit obligation	33	17
Long-term incentive (2)	103	84
	10,707	9,576

(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)

	2012	2011
Fees	1,400	1,337
Other remuneration		
— Salaries, allowances and other short-term benefits	8,584	8,726
— Contributions to defined contribution plans	951	849
— Long-term incentive paid (1)	2,384	3,015
	11,919	12,590
	13,319	13,927

(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.

12. Directors' and Supervisors' Remuneration (Continued)

(a) Independent non-executive directors

Included in the fees is an amount of RMB1,400 thousand paid to independent non-executive directors for the year ended 31 December 2012 (2011: RMB1,337 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2012.

(in RMB thousand)

					2012
	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LI Ruoshan	300	—	—	—	300
XIAO Wei	250	—	—	—	250
YUEN Tin Fan	300	—	—	—	300
CHANG Tso Tung, Stephen	300	—	—	—	300
XU Shanda	250	—	—	—	250
	1,400	—	—	—	1,400

(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

12. Directors' and Supervisors' Remuneration (Continued)

(b) Executive directors and non-executive directors

(in RMB thousand)

	2012			
	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu [1]	289	1,608	293	2,190
HUO Lianhong [1]	314	1,458	277	2,049
Non-executive directors:				
YANG Xianghai	—	250	—	250
ZHOU Ciming [2]	—	104	—	104
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
WU Junhao [3]	—	104	—	104
	603	5,024	570	6,197

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

2. *Resigned with effect from May 2012*

3. *Non-executive director since July 2012*

12. Directors' and Supervisors' Remuneration (Continued)

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

(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

* *As at 31 December 2011, part of the two executive directors' remuneration was subject to review and approval and thus not included in the above amount. With the relevant approval obtained in 2012, the total remuneration for Mr. Gao Guofu and Mr. Huo Lianhong for 2011 amounted to RMB2,577 thousand and RMB2,411 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 2012.

12. Directors' and Supervisors' Remuneration (Continued)

(c) Supervisors

(in RMB thousand)

	2012			
	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	1,575	2,152	248	3,975
HE Jihai	206	658	133	997
	1,781	3,560	381	5,722

(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

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 2012.

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 2012 and 2011.

The number of non-director, highest paid individuals whose remuneration fell within the following bands is set out below:

	2012	2011
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	—	—
RMB4,000,001 to RMB5,000,000	4	1
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)

	2012	2011
Salaries, allowances and other short-term benefits	15,143	11,310
Contributions to defined contribution plans	1,262	1,143
Long-term incentive paid (1)	6,297	17,756
	22,702	30,209
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 2012 and 2011, 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

	2012	2011
Current income tax	1,106	2,417
Deferred income tax (note 31)	(123)	(411)
	983	2,006

(b) Tax recorded in other comprehensive income

	2012	2011
Deferred income tax (note 31)	3,034	(2,966)

(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:

	2012	2011
Profit before tax	6,113	10,399
Tax computed at the statutory tax rate	1,528	2,600
Adjustments to income tax in respect of previous periods	(27)	44
Income not subject to tax	(877)	(927)
Expenses not deductible for tax	421	224
Attributable to a jointly-controlled entity	—	(4)
Others	(62)	69
Tax expense at the Group's effective rate	983	2,006

There was no share of income tax attributable to a jointly-controlled entity as it has been included in "Share of profit 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:

	2012	2011
Consolidated net profit for the year attributable to equity holders of the parent	5,077	8,313
Weighted average number of ordinary shares in issue (million)	8,639	8,600
Basic earnings per share	RMB0.59	RMB0.97
Diluted earnings per share	RMB0.59	RMB0.97

The Company had no dilutive potential ordinary shares as at 31 December 2012 and 2011.

16. Other Comprehensive Income/(Loss)

	2012	2011
Exchange differences on translation of foreign operations	—	(18)
Available-for-sale financial assets		
Gains/(losses) arising during the year	3,554	(15,713)
Reclassification adjustments for losses included in profit or loss	4,249	1,663
Fair value change on available-for-sale financial assets attributable to policyholders	(14)	(654)
Impairment charges reclassified to the income statement	4,413	2,805
	12,202	(11,899)
Income tax relating to available-for-sale financial assets	(3,034)	2,966
	9,168	(8,933)
Other comprehensive income/(loss)	9,168	(8,951)

17. Property and Equipment

Group	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2011	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
Additions	118	1,479	135	505	181	2,418
Transfers	944	(944)	—	—	—	—
Transfer from investment properties, net (note 18)	20	—	—	—	—	20
Disposals	—	—	(59)	(122)	—	(181)
At 31 December 2012	6,670	2,108	848	3,769	1,282	14,677
Accumulated depreciation and impairment						
At 1 January 2011	(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)
Depreciation charge	(196)	—	(99)	(427)	(181)	(903)
Transfers to investment properties, net (note 18)	1	—	—	—	—	1
Disposals	—	—	56	120	—	176
At 31 December 2012	(1,553)	—	(425)	(2,559)	(776)	(5,313)
Net book value						
At 31 December 2011	4,230	1,573	390	1,134	506	7,833
At 31 December 2012	5,117	2,108	423	1,210	506	9,364

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 2011	411	—	13	430	172	1,026
Additions	1	1	1	17	65	85
Disposals	—	—	(3)	(7)	—	(10)
Transfer to investment properties, net (note 18)	(16)	—	—	—	—	(16)
At 31 December 2011	396	1	11	440	237	1,085
Additions	—	75	—	62	(49)	88
Disposals	—	—	(1)	(9)	—	(10)
Transfer from investment properties, net (note 18)	26	—	—	—	—	26
At 31 December 2012	422	76	10	493	188	1,189
Accumulated depreciation and impairment						
At 1 January 2011	(89)	—	(5)	(272)	(41)	(407)
Depreciation charge	(13)	—	(3)	(63)	(44)	(123)
Disposals	—	—	2	6	—	8
Transfer to investment properties, net (note 18)	5	—	—	—	—	5
At 31 December 2011	(97)	—	(6)	(329)	(85)	(517)
Depreciation charge	(13)	—	(2)	(58)	(31)	(104)
Disposals	—	—	1	8	—	9
Transfer from investment properties, net (note 18)	(1)	—	—	—	—	(1)
At 31 December 2012	(111)	—	(7)	(379)	(116)	(613)
Net book value						
At 31 December 2011	299	1	5	111	152	568
At 31 December 2012	311	76	3	114	72	576

18. Investment Properties

	Group	Company
Cost		
At 1 January 2011	2,366	2,624
Acquisition of subsidiaries	4,370	—
Additions	9	9
Transfer from property and equipment, net	—	16
At 31 December 2011	6,745	2,649
Transfer to property and equipment, net	(20)	(26)
At 31 December 2012	6,725	2,623
Accumulated depreciation		
At 1 January 2011	—	(73)
Depreciation charge	(172)	(85)
Transfer from property and equipment, net	—	(5)
At 31 December 2011	(172)	(163)
Depreciation charge	(203)	(84)
Transfer (from)/to property and equipment, net	(1)	1
At 31 December 2012	(376)	(246)
Carrying amount		
At 31 December 2011	6,573	2,486
At 31 December 2012	6,349	2,377

The fair values of investment properties of the Group and the Company as at 31 December 2012 amounted to RMB7,567 million and RMB3,645 million (31 December 2011: RMB7,229 million and RMB3,520 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, CPIC Asset Management, CPIC Online and Changjiang Pension 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 2011	149
Acquisition of subsidiaries	813
At 31 December 2011 and 31 December 2012	962
Accumulated impairment losses	
At 1 January 2011, 31 December 2011 and 31 December 2012	—
Net book value	
At 31 December 2011 and 31 December 2012	962

20. Other Intangible Assets

Group	Software
Cost	
At 1 January 2011	942
Additions	314
Disposal	(1)
At 31 December 2011	1,255
Additions	418
Disposal	(4)
At 31 December 2012	1,669
Accumulated amortization	
At 1 January 2011	(538)
Amortization	(184)
At 31 December 2011	(722)
Amortization	(212)
Disposal	3
At 31 December 2012	(931)
Carrying amount	
At 31 December 2011	533
At 31 December 2012	738

21. Prepaid Land Lease Payments

	Group	Company
Cost		
At 1 January 2011	241	—
Disposal	(214)	—
At 31 December 2011	27	—
Additions	38	38
At 31 December 2012	65	38
Accumulated amortization		
At 1 January 2011	(38)	—
Amortization	(2)	—
Disposal	37	—
At 31 December 2011	(3)	—
Amortization	(2)	(1)
At 31 December 2012	(5)	(1)
Carrying amount		
At 31 December 2011	24	—
At 31 December 2012	60	37

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 2012	31 December 2011
Unlisted shares, at cost	54,663	54,663

Particulars of the Company's subsidiaries as at 31 December 2012 are set out in note 5.

The amounts due from and to subsidiaries are disclosed in note 33 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. 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 2012	31 December 2011
Listed		
Equity securities	194	—
Investment funds	97	11
Debt securities		
— Government bonds	32	32
— Finance bonds	1,098	1,698
— Corporate bonds	44	525
	1,465	2,266
Unlisted		
Investment funds	249	641
	249	641
	1,714	2,907

Company	31 December 2012	31 December 2011
Listed		
Investment funds	5	—
Debt securities		
— Government bonds	32	32
	37	32

24. Held-to-Maturity Financial Assets

Held-to-maturity financial assets are stated at amortized cost and comprise the following:

Group	31 December 2012	31 December 2011
Listed		
Debt securities		
— Government bonds	2,187	2,522
— Finance bonds	60	47
— Corporate bonds	9,234	9,095
	11,481	11,664
Unlisted		
Debt securities		
— Government bonds	50,220	41,239
— Finance bonds	112,053	86,674
— Corporate bonds	75,012	62,959
	237,285	190,872
	248,766	202,536

Company	31 December 2012	31 December 2011
Listed		
Debt securities		
— Corporate bonds	1,021	989
Unlisted		
Debt securities		
— Finance bonds	1,053	833
— Corporate bonds	201	100
	1,254	933
	2,275	1,922

25. Available-For-Sale Financial Assets

Available-for-sale financial assets are stated at fair value and comprise the following:

Group	31 December 2012	31 December 2011
Listed		
Equity securities	26,864	26,862
Investment funds	9,073	7,568
Debt securities		
— Government bonds	46	1,089
— Finance bonds	992	958
— Corporate bonds	20,804	16,206
	57,779	52,683
Unlisted		
Other equity investments	7,141	6,164
Investment funds	19,097	12,327
Debt securities		
— Government bonds	2	306
— Finance bonds	19,160	20,499
— Corporate bonds	32,636	25,613
	78,036	64,909
	135,815	117,592

Company	31 December 2012	31 December 2011
Listed		
Equity securities	934	1,278
Investment funds	670	411
Debt securities		
— Finance bonds	748	726
— Corporate bonds	1,250	698
	3,602	3,113
Unlisted		
Debt securities		
— Finance bonds	500	—
— Corporate bonds	3,515	1,350
	4,015	1,350
	7,617	4,463

26. Investments Classified as Loans and Receivables

Group	31 December 2012	31 December 2011
Debt securities		
— Finance	7,426	7,226
— Debt investment scheme	28,341	25,563
Others	330	140
	36,097	32,929

Company	31 December 2012	31 December 2011
Debt securities		
— Finance	1,200	1,199

27. Securities Purchased Under Agreements to Resell

Group	31 December 2012	31 December 2011
Securities — bonds		
Inter-bank market	1,109	—
Stock exchange	6	43
	1,115	43

The Group does not sell or re-pledge the collateral underlying the securities purchased under agreements to resell.

28. Term Deposits

Group	31 December 2012	31 December 2011
Within 1 year (including 1 year)	43,487	20,278
1 to 3 years (including 3 years)	26,940	42,940
3 to 5 years (including 5 years)	92,980	73,240
More than 5 years	890	915
	164,297	137,373

28. Term Deposits (Continued)

Company	31 December 2012	31 December 2011
Within 1 year (including 1 year)	4,172	4,029
1 to 3 years (including 3 years)	2,000	2,500
3 to 5 years (including 5 years)	1,500	3,500
	7,672	10,029

29. Interest Receivables

Group	31 December 2012	31 December 2011
Interest receivables from deposits	7,990	6,042
Interest receivables from bonds	5,495	4,844
Interest receivables from loans	175	121
	13,660	11,007
Less: Bad debt provision	(1)	(1)
	13,659	11,006

30. Reinsurance Assets

Group	31 December 2012	31 December 2011
Reinsurers' share of insurance contracts (note 37)	14,121	14,118

31. 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	2012	2011
Net deferred income tax assets, at beginning of year	4,020	1,584
Acquisition of subsidiaries	—	(941)
Recognized in profit or loss (note 14(a))	123	411
Recognized in other comprehensive income (note 14(b))	(3,034)	2,966
Net deferred income tax assets, at end of year	1,109	4,020

31. Deferred Income Tax Assets and Liabilities (Continued)

Group	31 December 2012	31 December 2011
Insurance contract liabilities	84	81
Impairment of assets	610	486
Commissions and handling fees	194	174
Tax losses carried forward	32	71
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	628	3,671
Fair value adjustments arising from acquisition of subsidiaries	(862)	(889)
Others	423	426
Net deferred income tax assets	1,109	4,020
Represented by:		
Deferred tax assets	2,067	4,980
Deferred tax liabilities	(958)	(960)

32. Insurance Receivables

Group	31 December 2012	31 December 2011
Insurance receivables	8,449	6,475
Provision for impairment of insurance receivables	(272)	(223)
	8,177	6,252

An aged analysis of the insurance receivables is as follows:

Group	31 December 2012	31 December 2011
Within 3 months (including 3 months)	6,509	4,895
Over 3 months and within 1 year (including 1 year)	1,162	881
Over 1 year	506	476
	8,177	6,252

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.

32. 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 2012	31 December 2011
Insurance receivables that are individually determined to be impaired	190	59
Related provision for impairment	(190)	(59)
	—	—

33. Other Assets

Group	31 December 2012	31 December 2011
Tax receivable other than income tax	2,830	1,123
Receivable from securities clearance	767	145
Due from agents	136	62
Co-insurance receivable	69	52
Investment refund	—	78
Others	1,224	914
	5,026	2,374

Company	31 December 2012	31 December 2011
Due from subsidiaries	149	111
Others	37	88
	186	199

34. Cash and Short-Term Time Deposits

Group	31 December 2012	31 December 2011
Cash at banks and on hand	6,817	7,001
Time deposits with original maturity of no more than three months	16,794	7,628
Other monetary assets	264	274
	23,875	14,903

Company	31 December 2012	31 December 2011
Cash at banks and on hand	262	280
Time deposits with original maturity of no more than three months	9,119	370
Other monetary assets	169	173
	9,550	823

The Group's balances denominated in RMB amounted to RMB16,349 million as at 31 December 2012 (31 December 2011: RMB13,860 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.

35. Issued Capital

Group and Company	31 December 2012	31 December 2011
Number of shares issued and fully paid at RMB1 each (million)	9,062	8,600

36. 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, RMB3,707 million as at 31 December 2012 (31 December 2011: RMB3,181 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, RMB3,675 million as at 31 December 2012 (31 December 2011: RMB3,168 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 12th meeting of the Company's 6th term of board of directors held on 22 March 2013, a final dividend of approximately RMB3,172 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.

36. 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 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
At 1 January 2012	58,329	1,930	(563)	59,696	7,380
Total comprehensive income for the year	—	—	428	428	4,637
Issue of shares	7,835	—	—	7,835	—
Dividend declared	—	—	—	—	(3,010)
Appropriations to surplus reserves	—	464	—	464	(464)
At 31 December 2012	66,164	2,394	(135)	68,423	8,543

Dividends from subsidiaries amounting to RMB4,693 million were included in the Company's net profit for 2012 (2011: RMB4,006 million).

37. Insurance Contract Liabilities

	As at 31 December 2012		
Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 30)	Net
Long-term life insurance contracts	385,283	(5,706)	379,577
Short-term life insurance contracts			
— Unearned premiums	1,654	(57)	1,597
— Claim reserves	737	(96)	641
	2,391	(153)	2,238
Property and casualty insurance contracts			
— Unearned premiums	29,610	(3,637)	25,973
— Claim reserves	21,603	(4,625)	16,978
	51,213	(8,262)	42,951
	438,887	(14,121)	424,766
Incurred but not reported claim reserves	3,479	(736)	2,743

37. Insurance Contract Liabilities (Continued)

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 30)	Net
			As at 31 December 2011
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

(a) Long-term life insurance contract liabilities

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 30)	Net
At 1 January 2011	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
Valuation premiums	88,511	(1,446)	87,065
Liabilities released for payments on benefits and claims	(21,154)	558	(20,596)
Other movements	(7,632)	362	(7,270)
At 31 December 2012	385,283	(5,706)	379,577

37. 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 30)	Net
At 1 January 2011	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
Premiums written	4,950	(242)	4,708
Premiums earned	(4,917)	470	(4,447)
At 31 December 2012	1,654	(57)	1,597

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 30)	Net
At 1 January 2011	546	(131)	415
Claims incurred	1,374	(728)	646
Claims paid	(1,289)	715	(574)
At 31 December 2011	631	(144)	487
Claims incurred	1,562	(192)	1,370
Claims paid	(1,456)	240	(1,216)
At 31 December 2012	737	(96)	641

37. 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 30)	Net
At 1 January 2011	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
Premiums written	69,767	(10,107)	59,660
Premiums earned	(66,713)	10,386	(56,327)
At 31 December 2012	29,610	(3,637)	25,973

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 30)	Net
At 1 January 2011	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
Claims incurred	40,377	(5,932)	34,445
Claims paid	(39,339)	5,900	(33,439)
At 31 December 2012	21,603	(4,625)	16,978

38. Investment Contract Liabilities

Group	
At 1 January 2011	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
Deposits received	3,259
Deposits withdrawn	(10,288)
Fees deducted	(186)
Interest credited	1,715
Others	72
At 31 December 2012	41,754

39. Subordinated Debt

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 coupon rate of the debt is 5.5% per annum, payable annually in arrears. If CPIC Life does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 7.5% and would remain unchanged for the remaining term.

On 20 August 2012, CPIC Life issued a 10-year subordinated debt with a total face value of RMB7,500 million. CPIC Life has the option to redeem the debt at the end of the fifth year. The coupon rate of the debt is 4.58% per annum, payable annually in arrears. If CPIC Life does not exercise the early redemption option, the annual coupon rate for the next five years would increase to 6.58% and would remain unchanged for the remaining term.

40. Securities Sold Under Agreements to Repurchase

Group	31 December 2012	31 December 2011
Bonds		
Stock exchange	1,763	12,581
Inter-bank market	48,380	19,524
	50,143	32,105

As at 31 December 2012, bond investments of approximately RMB52,563 million (31 December 2011: RMB32,770 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.

41. Other Liabilities

Group	31 December 2012	31 December 2011
Annuity and other insurance payables	7,821	4,315
Salary and staff welfare payable	1,777	1,717
Tax payable other than income tax	1,672	1,221
Commission and brokerage payable	1,596	1,348
Accrued expenses	417	374
Payables for construction and purchase of office buildings	345	264
Insurance guarantee fund	233	236
Co-insurance payable	197	138
Provisions	4	13
Dividend payable	4	4
Others	2,458	1,967
	16,524	11,597

Company	31 December 2012	31 December 2011
Salary and staff welfare payable	145	132
Payables for purchase of office buildings	61	61
Provisions	—	5
Others	259	158
	465	356

42. 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.

42. 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 2012		
	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	(13,208)	-3.43%
	-25 basis points	14,115	3.66%
Mortality and morbidity rates	+10%	1,216	0.32%
	-10%	(1,200)	-0.31%
Surrender rates	+10%	397	0.10%
	-10%	(346)	-0.09%
Expenses	+10%	2,083	0.54%
Policy dividend	+5%	4,854	1.26%

	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%

42. 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 an 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 2012 by RMB849 million and RMB32 million (31 December 2011: RMB799 million and RMB24 million), respectively.

42. 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:	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
End of current year	18,631	19,144	24,635	33,232	39,674	
One year later	18,473	19,317	24,251	32,574		
Two years later	18,429	19,591	24,222			
Three years later	18,500	19,526				
Four years later	18,476					
Current estimate of cumulative claims	18,476	19,526	24,222	32,574	39,674	134,472
Cumulative payments to date	(18,371)	(19,080)	(23,181)	(28,569)	(24,298)	(113,499)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin						630
Total gross claim reserves included in the consolidated balance sheet						21,603

Net property and casualty insurance claim reserves:

						Property and casualty insurance (Accident year)
Estimate of ultimate claim cost as of:	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
End of current year	14,036	15,280	19,768	27,311	33,427	
One year later	14,055	15,440	19,565	26,960		
Two years later	14,042	15,596	19,632			
Three years later	14,281	15,566				
Four years later	14,258					
Current estimate of cumulative claims	14,258	15,566	19,632	26,960	33,427	109,843
Cumulative payments to date	(14,210)	(15,417)	(18,943)	(23,970)	(20,898)	(93,438)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin						573
Total net claim reserves included in the consolidated balance sheet						16,978

42. 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:	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
End of current year	1,005	1,002	1,197	1,423	1,500	
One year later	990	985	1,177	1,419		
Two years later	964	965	1,175			
Three years later	954	963				
Four years later	955					
Current estimate of cumulative claims	955	963	1,175	1,419	1,500	6,012
Cumulative payments to date	(955)	(961)	(1,151)	(1,311)	(915)	(5,293)
Liability in respect of prior years and risk adjustment margin						18
Total gross claim reserves included in the consolidated balance sheet						737

Net short-term life insurance claim reserves:

	Short-term life insurance (Accident year)					
Estimate of ultimate claim cost as of:	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
End of current year	711	725	901	1,091	1,288	
One year later	692	717	885	1,073		
Two years later	677	701	859			
Three years later	668	674				
Four years later	573					
Current estimate of cumulative claims	573	674	859	1,073	1,288	4,467
Cumulative payments to date	(573)	(673)	(835)	(983)	(778)	(3,842)
Liability in respect of prior years and risk adjustment margin						16
Total net claim reserves included in the consolidated balance sheet						641

43. 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.

43. 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 2012
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	1,714	—	—	1,714
Held-to-maturity financial assets	248,576	181	9	248,766
Available-for-sale financial assets	133,828	239	1,748	135,815
Investments classified as loans and receivables	36,097	—	—	36,097
Term deposits	162,649	—	1,648	164,297
Reinsurance assets	14,068	—	53	14,121
Cash and short-term time deposits	16,349	382	7,144	23,875
Others	36,285	661	28	36,974
	649,566	1,463	10,630	661,659
Insurance contract liabilities	438,799	—	88	438,887
Investment contract liabilities	41,754	—	—	41,754
Policyholders' deposits	79	—	—	79
Subordinated debt	15,500	—	—	15,500
Securities sold under agreements to repurchase	50,143	—	—	50,143
Others	29,025	222	44	29,291
	575,300	222	132	575,654

43. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

	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

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 2012
Currency	Changes in exchange rate	Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	501	501
USD and HKD	- 5%	(501)	(501)

			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)

43. 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 2012
	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	16,794	—	—	—	7,080	23,874
Financial assets at fair value through profit or loss	43	5	1,124	2	—	1,174
Securities purchased under agreements to resell	1,115	—	—	—	—	1,115
Policy loans	5,700	—	—	—	—	5,700
Term deposits	16,747	22,860	80,730	200	43,760	164,297
Available-for-sale financial assets	15,136	18,479	15,105	24,920	—	73,640
Held-to-maturity financial assets	12,048	6,962	21,980	207,776	—	248,766
Investments classified as loans and receivables	16,780	3,220	2,979	4,650	8,468	36,097
Restricted statutory deposits	1,122	50	2,298	—	130	3,600
Financial liabilities:						
Securities sold under agreements to repurchase	50,143	—	—	—	—	50,143
Investment contract liabilities	41,754	—	—	—	—	41,754
Policyholders' deposits	79	—	—	—	—	79
Subordinated debt	—	—	15,500	—	—	15,500

43. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

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

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.

43. 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 2012	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	—	(758)
-50 basis points	—	783

	31 December 2011	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	—	(798)
-50 basis points	—	818

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 2012	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	295	295
-50 basis points	(295)	(295)

	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)

The above impact on equity represents adjustments to profit before tax.

43. 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 the 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 a 95% confidence level.

As at 31 December 2012, 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 was RMB1,545 million (31 December 2011: RMB1,622 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 a 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 2012	31 December 2011
Financial assets at fair value through profit or loss	1,174	2,255
Held-to-maturity financial assets	248,766	202,536
Available-for-sale financial assets	73,640	64,671
Investments classified as loans and receivables	36,097	32,929
Term deposits	164,297	137,373
Reinsurance assets	14,121	14,118
Insurance receivables	8,177	6,252
Cash and short-term time deposits	23,874	14,901
Others	28,797	20,837
Total credit risk exposure	598,943	495,872

The above asset account balances did not include equity investment balances.

43. 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.

43. Risk Management (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

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 2012
	On demand	Within 1 year	1 to 5 years	Over 5 years	Undated	Total
Assets:						
Financial assets at fair value through profit or loss	—	58	1,230	2	540	1,830
Held-to-maturity financial assets	—	23,150	74,816	354,141	—	452,107
Available-for-sale financial assets	—	17,110	44,399	30,095	62,175	153,779
Investments classified as loans and receivables	—	4,655	18,465	24,009	—	47,129
Securities purchased under agreements to resell	—	1,115	—	—	—	1,115
Term deposits	—	55,269	141,134	947	—	197,350
Restricted statutory deposits	—	1,263	3,068	—	—	4,331
Insurance receivables	853	7,107	470	19	—	8,449
Cash and short-term time deposits	7,081	16,794	—	—	—	23,875
Others	641	10,165	21	—	—	10,827
Total	8,575	136,686	283,603	409,213	62,715	900,792
Liabilities:						
Insurance contract liabilities	—	45,404	57,133	336,350	—	438,887
Investment contract liabilities	—	2,372	2,910	36,472	—	41,754
Policyholders' deposits	69	10	—	—	—	79
Subordinated debt	—	784	18,194	—	—	18,978
Securities sold under agreements to repurchase	—	50,400	—	—	—	50,400
Others	19,742	8,660	597	26	—	29,025
Total	19,811	107,630	78,834	372,848	—	579,123

43. Risk Management (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

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

43. 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 2012
	Current	Non-current	Total
Assets:			
Financial assets at fair value through profit or loss	1,714	—	1,714
Held-to-maturity financial assets	11,208	237,558	248,766
Available-for-sale financial assets	68,779	67,036	135,815
Investments classified as loans and receivables	2,717	33,380	36,097
Term deposits	41,487	122,810	164,297
Cash and short-term time deposits	23,875	—	23,875
Others	44,462	26,476	70,938
Total assets	194,242	487,260	681,502
Liabilities:			
Insurance contract liabilities	45,404	393,483	438,887
Investment contract liabilities	2,372	39,382	41,754
Policyholders' deposits	79	—	79
Subordinated debt	—	15,500	15,500
Securities sold under agreements to repurchase	50,143	—	50,143
Others	36,093	1,477	37,570
Total liabilities	134,091	449,842	583,933

			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

43. Risk Management (continued)

(c) Operational risk

Operational risk is the risk of loss arising from inadequacy 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

The 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 the CIRC; actual solvency margins are the excess of admitted assets over admitted liabilities as determined under the regulations.

43. 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 the CIRC's solvency rules.

Group	31 December 2012	31 December 2011
Actual solvency margin	92,254	73,556
Minimum solvency margin	29,600	25,884
Surplus	62,654	47,672
Solvency margin ratio	312%	284%

CPIC Property	31 December 2012	31 December 2011
Actual solvency margin	16,739	17,644
Minimum solvency margin	8,891	7,568
Surplus	7,848	10,076
Solvency margin ratio	188%	233%

CPIC Life	31 December 2012	31 December 2011
Actual solvency margin	43,478	34,213
Minimum solvency margin	20,654	18,267
Surplus	22,824	15,946
Solvency margin ratio	211%	187%

According to the relevant regulations, if the actual solvency margin of an insurance company falls below the minimum solvency margin, the CIRC may take additional necessary measures depending on the circumstances, until the minimum solvency margin requirement is satisfied.

44. 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.

44. 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 2012	
	Carrying amounts	Fair values
Financial assets:		
Held-to-maturity financial assets	248,766	246,178
Investments classified as loans and receivables	36,097	35,737
Financial liabilities:		
Subordinated debt	15,500	15,714

	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 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.

The 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").

44. 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 2012
	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit or loss				
— Equity securities	194	—	—	194
— Investment funds	346	—	—	346
— Debt securities	1,174	—	—	1,174
	1,714	—	—	1,714
Available-for-sale financial assets				
— Equity securities	26,864	—	—	26,864
— Investment funds	28,170	—	—	28,170
— Other equity investments	—	—	7,141	7,141
— Debt securities	20,164	53,476	—	73,640
	75,198	53,476	7,141	135,815
Total	76,912	53,476	7,141	137,529

				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

In 2012, 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 2012, the carrying amount of these debt securities approximated RMB300 million. In 2011, the Group also transferred certain debt securities from Level 1 to Level 2 with a carrying amount of approximately RMB1,156 million as at 31 December 2011.

Reconciliation of movements in Level 3 financial instruments:

					2012
	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	6,164	821	—	156	7,141

44. Fair Value of Financial Assets and Liabilities (continued)

Determination of fair value and fair value hierarchy (continued)

					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. Note to Consolidated Cash Flow Statement

Reconciliation from profit before tax to cash generated from operating activities:

	2012	2011
Profit before tax	6,113	10,399
Investment income	(18,060)	(16,392)
Foreign currency losses, net	11	71
Finance costs	1,960	682
Charge of impairment losses on insurance receivables and other assets, net	65	45
Depreciation of property and equipment	903	798
Depreciation of investment properties	203	172
Amortization of other intangible assets	212	184
Amortization of prepaid land lease payments	2	2
Amortization of other assets	26	18
Gain on disposal of items of property and equipment, intangible assets and other long-term assets, net	(22)	(665)
Reversal of provision for lawsuits	(9)	(106)
Gain from disposal of a jointly-controlled entity	—	(479)
Share of profit of a jointly-controlled entity	—	(16)
	(8,596)	(5,287)
Increase in reinsurance assets	(3)	(1,771)
Increase in insurance receivables	(1,974)	(865)
Increase in other assets	(1,996)	(1,783)
Change in insurance contract liabilities	63,258	66,569
Increase in other operating liabilities	2,679	1,607
Cash generated from operating activities	53,368	58,470

46. Related Party Transactions

The Group had the following material transactions with related parties:

(a) Sale of insurance contracts

	2012	2011
Equity holders who individually own more than 5% of equity interests of the Company and the equity holders' parent company	28	9

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

	2012	2011
Salaries, allowances and other short-term benefits	31	32
Long-term incentive paid [(1)]	9	12
Total compensation of key management personnel	40	44

[(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.

In 2011, the Group completed the transaction to sell its entire 50% equity interest in Pacific-Antai Life Insurance Co., Ltd. ("Pacific Antai"), a then jointly controlled entity of the Company, to joint purchasers led by China Construction Bank Corporation for a consideration of RMB950 million. The Group recognized a net gain of RMB479 million as a result of this transaction.

Apart from the disposal of the equity interest in Pacific Antai, in 2011 and 2012, 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, and the sale, purchase, issuance 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.

47. Commitments

(a) Capital commitments

The Group had the following capital commitments at the balance sheet date:

	31 December 2012	31 December 2011
Contracted, but not provided for(1)(2)(3)	3,139	1,712
Authorized, but not contracted for(1)(4)	1,425	1,000
	4,564	2,712

(1) *The Company resolved to establish IT Backup Center and Customer Support Center in Chengdu High-tech Zone. The expected total investment amounts to RMB2,000 million. As at 31 December 2012, the cumulative amount paid by the Company was RMB114 million. Of the unpaid amount, RMB886 million was disclosed as a capital commitment contracted but not provided for and RMB1,000 million was disclosed as a capital commitment authorized but not contracted for.*

(2) *In September 2012, CPIC Life, acting as a principal, entered into the "Subscription Agreement regarding Pacific-Yuegaosu Debt Investment Scheme" with CPIC Asset Management. The investments amount to RMB750 million. As at 31 December 2012, the cumulative amount paid by CPIC Life was RMB375 million, and the total unpaid amount of RMB375 million was disclosed as a capital commitment contracted but not provided for.*

(3) *In November 2012, the joint purchasers composed of CPIC Property and a third party won the bid for the land use right of a parcel of land located in Huangpu District, Shanghai for a consideration of RMB2.77 billion, of which the expected total investment to be made by CPIC Property is approximately RMB989 million. As at 31 December 2012, the cumulative amount paid by CPIC Property was RMB198 million, and the total unpaid amount of RMB791 million was disclosed as capital commitments contracted but not provided for.*
In February 2013, the aforementioned two parties entered into an agreement with an intention to set up a project company as the owner of the land use right as well as the developer for this parcel of land. The project company has obtained the business license in March 2013.

(4) *Pursuant to the approval made in the 2012 3rd extraordinary meeting of 4th term of board of directors, CPIC Life resolved to invest in Tianjin City Building through the acquisition of equity interests of a project company. The expected total investment to be made by CPIC Life is not more than RMB425 million and was disclosed as a capital commitment authorized but not contracted for as at 31 December 2012.*

(b) Operating lease commitments

The Group leases office premises and staff quarters under various operating lease agreements as the leasee. Future minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2012	31 December 2011
Within 1 year (including 1 year)	536	436
1 to 2 years (including 2 years)	376	316
2 to 3 years (including 3 years)	274	206
3 to 5 years (including 5 years)	297	228
More than 5 years	369	343
	1,852	1,529

47. Commitments (continued)

(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 2012	31 December 2011
Within 1 year (including 1 year)	411	367
1 to 2 years (including 2 years)	287	313
2 to 3 years (including 3 years)	145	180
3 to 5 years (including 5 years)	40	86
More than 5 years	1	1
	884	947

48. 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 2012, 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.

49. Post Balance Sheet Events

Pursuant to the resolution made in the 2013 1st extraordinary meeting of the 6th term of board of directors, on 22 January 2013, the Company entered into the Shareholder Agreement Between China Pacific Insurance (Group) Co., Ltd. and Allianz SE, whereby the two parties agreed to set up CPIC Allianz Health Insurance Co., Ltd (the "Health Insurance Company"). The setup of the Health Insurance Company is subject to the approval by the CIRC and other relevant regulators.

Other than as mentioned in other notes, the Group does not have other significant post balance sheet events.

50. Approval of the Financial Statements

These financial statements have been approved and authorized for issue by the Company's directors on 22 March 2013.

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