2010 Annual Report

(Stock Code：02601)

中国太平洋保险
China Pacific Insurance

中國太平洋保險(集團)股份有限公司
China Pacific Insurance (Group) Co.,Ltd.

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

Operational Overview

For 12 months ended 31 December (in RMB million)	2010	2009
Gross written premiums		
Life insurance	87,873	61,998
Property and casualty insurance	51,622	34,289
Net profit attributable to equity holders of the parent	8,557	7,356
Life insurance	4,611	5,427
Property and casualty insurance	3,511	1,422
Embedded value of the Group	110,089	98,371
Value of one year's sales of life insurance	6,100	5,000
Combined ratio of property and casualty insurance (%)	93.7	97.5
Number of individual customers (in thousand)		
Life insurance	40,691	33,919
Property and casualty insurance	15,637	13,006
Number of institutional customers (in thousand)		
Life insurance	469	323
Property and casualty insurance	2,872	2,524
Market shares note		
Life insurance (%)	8.8	8.3
Property and casualty insurance (%)	12.8	11.4
Pension business		
Entrusted assets under management	26,038	24,688
Investment assets under management	14,022	12,733

Notes: Calculated based on the statistical data of the insurance industry in 2009 and 2010 published by CIRC.

Key Accounting Data and Financial Indicators

unit: in RMB million

Key Accounting Data	2010	2009	Variance (%)	2008	2007	2006 As Previously Reported
Total income	141,327	104,189	35.6	76,267	37,030	37,732
Profit before tax	10,670	9,506	12.2	1,317	14,975	4,000
Net profit Note	8,557	7,356	16.3	2,569	10,392	2,019
Net cash flow from operating activities	61,618	38,474	60.2	25,056	21,670	27,541

	31 December 2010	31 December 2009	Variance (%)	31 December 2008	31 December 2007	31 December 2006 As Previously Reported
Total assets	475,711	397,187	19.8	317,897	307,209	213,909
Equity Note	80,297	74,651	7.6	48,638	61,485	14,484

Notes: Attributable to equity holders of the parent

Key Financial Indicators	2010	2009	Variance (%)	2008	2007	2006 As Previously Reported
Basic earnings per share (RMB per share) note	1.00	0.95	5.3	0.33	1.69	0.47
Diluted earnings per share (RMB per share) note	1.00	0.95	5.3	N/A	N/A	N/A
Weighted average return on equity (%) note	10.9	14.0	Decreased by 3.1pt	4.7	46.6	17.5
Net cash inflow per share from operating activities (RMB per share)	7.16	4.54	57.7	3.25	2.81	6.40

	31 December 2010	31 December 2009	Variance (%)	31 December 2008	31 December 2007	31 December 2006 As Previously Reported
Net assets per share (RMB per share) note	9.34	8.80	6.1	6.32	7.99	3.37

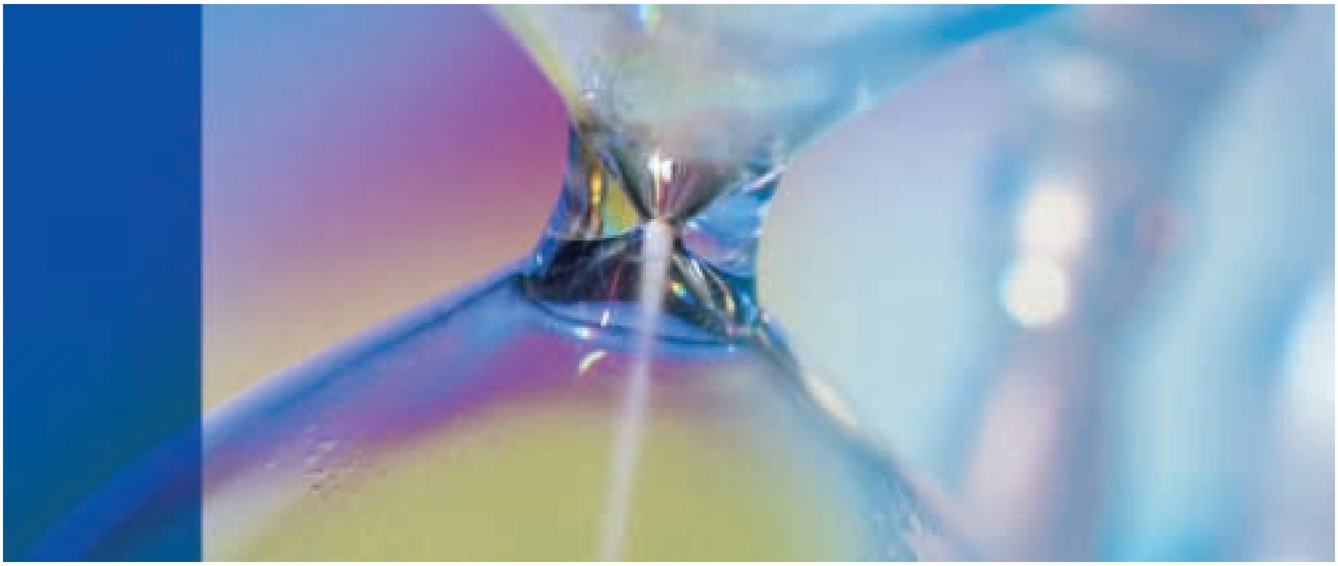
Notes: Attributable to equity holders of the parent

Contents

Cautionary Statements:

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

Section I Important Information and Definitions



Important Information

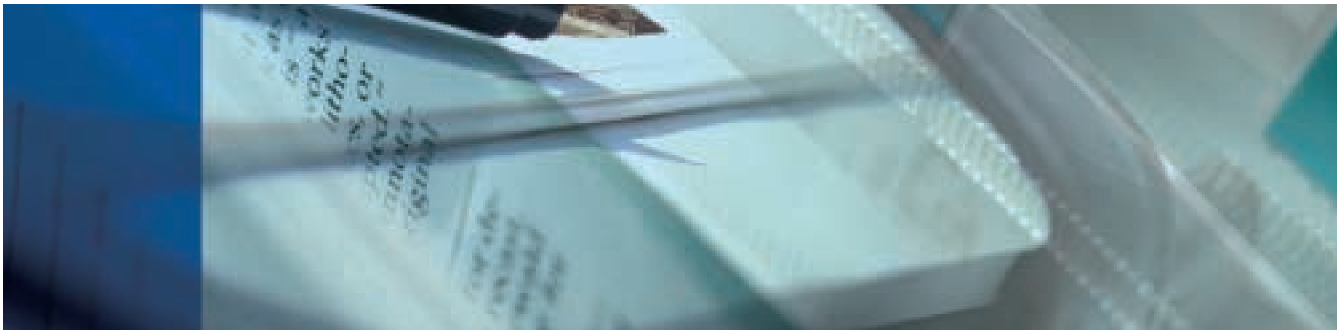
1. The Annual Report 2010 of the Company was considered and approved at the 4th session of the 6th Board of Directors on 25 March 2011, which 15 Directors were required to attend and 15 of them attended in person.
2. Ernst & Young audited the 2010 financial report of the Company and issued the standard unqualified audit report.

Definitions

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

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

Section II Corporate Information



Corporate Information

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

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

Legal Representative and Chairman: GAO Guofu

Board Secretary and Joint Company Secretary: CHEN Wei

Securities Representative: YANG Jihong
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: 8F, 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:
the Board Office of the Company

Stock Exchange for A Share Listing:
The Shanghai Stock Exchange
Stock Name for A Share: 中国太保
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: 1000001001110
Tax Registration No.:
Guo Shui Hu Zi 310043132211707
Di Shui Hu Zi 310043132211707
Organisation Code: 13221170-7

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

International Accountant: Ernst & Young
Office of International Accountant:
18/F, Two International Finance Centre, 8 Finance Street,
Central, Hong Kong

Section III Highlight of Accounting and Operation Data

Highlight of Accounting and Operation Data

I. Key Financial Data for the Current Reporting Period

unit: in RMB million

Items	Amount
Profit before tax	10,670
Net profit attributable to the equity holders of the parent	8,557
Net cash flow from operating activities	61,618

II. Key Accounting Data and Financial Indicators

unit: in RMB million

Key Accounting Data	2010	2009	Variance (%)	2008	2007	2006 As Previously Reported
Total income	141,327	104,189	35.6	76,267	37,030	37,732
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Total assets	475,711	397,187	19.8	317,897	307,209	213,909
Equity note	80,297	74,651	7.6	48,638	61,485	14,484

Notes: Attributable to equity holders of the parent

Key Financial Indicators	2010	2009	Variance (%)	2008	2007	2006 As Previously Reported
Basic earnings per share (RMB per share) note	1.00	0.95	5.3	0.33	1.69	0.47
Diluted earnings per share (RMB per share) note	1.00	0.95	5.3	N/A	N/A	N/A
Weighted average return on equity (%) note	10.9	14.0	Decreased by 3.1pt	4.7	46.6	17.5
Net cash inflow per share from operating activities (RMB per share)	7.16	4.54	57.7	3.25	2.81	6.40
	31 December 2010	31 December 2009	Variance (%)	31 December 2008	31 December 2007	31 December 2006 As Previously Reported
Net assets per share (RMB per share) note	9.34	8.80	6.1	6.32	7.99	3.37

Notes: Attributable to equity holders of the parent

III. Other Key Financial and Regulatory Indicators

unit: in RMB million

Indicators	31 December 2010/ 2010	31 December 2009/ 2009
The Group		
Investment assets [1]	433,385	366,018
Investment returns (%)[2]	5.3	6.3
Life insurance [3]		
Net premiums earned	84,665	59,058
Growth rate of net premiums earned (%)	43.4	29.1
Net policyholders' benefits and claims	80,351	55,733
Property and casualty insurance [3]		
Net premiums earned	34,894	24,910
Growth rate of net premiums earned (%)	40.1	22.4
Claims incurred	20,043	15,202
Unearned premium reserves	21,933	14,617
Claim reserves	15,211	10,939
Combined ratio (%) [4]	93.7	97.5
Comprehensive loss ratio (%)[5]	57.4	61.0

Notes:

1. *Investment assets include cash and short-term time deposits.*
2. *Investment returns = (investment income + interest income from cash and short-term time deposits – 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.*
3. *The life insurance and property and casualty insurance businesses stated above refer to those businesses of CPIC Life and CPIC Property respectively.*
4. *Combined ratio = (claim incurred + operating and administrative expenses relating to insurance businesses) / net premiums earned.*
5. *Comprehensive loss ratio = claim incurred / net premiums earned.*

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

There is no difference on the equity of the Group as at 31 December 2010 and 31 December 2009 and the net profit of the Group for the years then ended as stated in accordance with PRC GAAP and HKFRS.

Section IV Chairman Statement

Chairman Statement

In 2010, China's economy witnessed a very complex domestic and international economic environment and withstood many severe natural disasters and challenges, yet it still realized a steady and fast growth by transforming the economic development mode, and consolidating and expanding the results achieved from the tackling of the international financial crisis. China's insurance market continued to develop at a good momentum, with total written premiums reaching RMB 1,452.797 billion, a YOY increase of 30.4%. Concentrating on insurance as the core business, CPIC adhered to a value-oriented principle, and promoted and realized a sustained growth in the corporate value and a steady increase in market share by focusing on underwriting profitability, developing protection-type and long-term savings-type insurance businesses, optimizing the business structure and strengthening risk prevention and compliance management.

1. The Group maintained good overall development, achieving steady growth in terms of scale and corporate value

CPIC continued to focus on insurance as its core business to pursue an operational strategy of sustainable value-enhancing growth. As a result, CPIC's gross written premiums grew rapidly. Its market share increased steadily and its total assets continued to grow. The Group's income from the insurance business in 2010 was RMB 139.555 billion, an increase of 44.9% over the previous year. As at year end 2010, the Group's share of China's insurance market was 9.9%[1], having risen 0.8pt since the end of 2009. The total assets reached RMB 475.711 billion, having increased 19.8% since the end of 2009.

CPIC capitalized on the overall strengths of the Group, attached importance to underwriting profitability and developing valuable business. CPIC also adopted a firm approach in dealing with the impact of the decline in the capital market and the downward shift of interest rate evaluation curve for life insurance reserves and realized a steady growth in the overall earning capacity and corporate value. The net profit attributable to equity holders of the parent company was RMB 8.557 billion in 2010, a YOY increase of 16.3% while the embedded value surpassed the RMB 100 billion mark, reaching RMB 110.089 billion, having increased 11.9% since the end of the last year. With its strong capital base, the Group's solvency margin ratio reached 357%.

2. CPIC Life continued to develop protection-type and long-term savings-type insurance businesses and steadily increased new business value

CPIC Life accelerated the transformation of development mode related to life insurance businesses, prioritized the development of protection-type and long-term savings-type life insurance products and focused on regular premium businesses. In doing so, CPIC achieved a rapid growth in gross written premiums, which reached RMB 87.873 billion, a YOY growth of 41.7% and a market share of 8.8%[2], 0.5pt higher than that at the end of the previous year. Gross written premiums as a proportion of total written premiums was 95.5% in 2010. The value of sales in respect of new business and the value of in force business expanded with the value of one-year sales in respect of new business in 2010 reaching RMB 6.1 billion, a YOY growth of 22.0% and the value of in force business reaching RMB 34.778 billion, a YOY growth 31.5%. With regards to income structure, first-year regular premium income amounted to RMB 16.869 billion, a YOY growth of 32.5%, among which first-year regular premium income from the sales channel increased by 21.9% over the previous year and first-year regular premium income from bancassurance channel increased by 46.5% over the previous year. Income from insurance renewals was RMB 33.69 billion, a YOY increase of 41.3%.

In respect of the sales channel, the Company took great efforts to promote overall sales capacity, implemented a strategy of product segmentation and promoted the sales mode of product bundling. The Company also continued to improve the fundamental management to promote a sustained and sound growth of manpower and accelerated regional business development to enhance the competitiveness in the urban insurance market. In respect of the bancassurance channel, the Company optimized bancassurance business structure, vigorously developed sales of regular premium products and innovative sales modes to effectively increase the sales capacity of its network. The number of sales agents of the Company in 2010 reached 280,000, having increased 10.2% since the end of the previous year while the average monthly first year insurance income per agent was RMB 2,863, a YOY growth of 10.2%.

[1, 2, 3] *Calculated based on the statistical data of the insurance industry in 2009 and 2010 published by CIRC*

The Company strengthened performance-oriented and quality-oriented business management, optimized the policy renewal operational mode and improved service quality. As a result, business quality continued to improve. The individual life insurance customer 13-month persistency ratio in 2010 was 92.0%, 4.9pt higher than that of the previous year while the 25-month persistency ratio was 84.0%, 2.0pt higher than that of the previous year.

3. CPIC Property leveraged market development opportunities to realize rapid business growth and to achieve a substantial profit increase

By leveraging market development opportunities and sticking to the development strategy of realizing underwriting profit, CPIC Property's business grew at an accelerated rate. It steadily increased its share in the property insurance market and strengthened its cost control capacity, thereby greatly increasing its contribution to the Company's total profit. Income from property insurance was RMB 51.622 billion for 2010, a YOY growth of 50.5%, which was 16pt higher than the industry average. CPIC Property's share in China's property insurance market was 12.8%[3], 1.4pt higher than that at the end of the previous year while the combined ratio was 93.7%, 3.8pt lower than that of the previous year. The net profit of CPIC Property was RMB 3.511 billion, a YOY increase of 146.9%.

In the respect of auto insurance, CPIC further enhanced refinement management, implemented provincial-level centralized management in the settlement of auto insurance claims and intensified its efforts at building a professional team in relation to the car dealership channel. CPIC launched a "5S" claims settlement services model for auto insurance (ie. Sincere, Specialized, Speedy, Secure and Satisfactory services) to promote insurance renewal of premium customers. Through these efforts, the overall profitability of CPIC's auto insurance improved greatly while the Company could maintain its leading position in this industry segment. In respect of non-auto insurance businesses, the Company expanded its efforts in developing the market, accelerating product and service innovation. The Company also implemented a strategy of focusing on clients at the top 500 companies in China. In doing so, CPIC realized a 35.6% growth in non-auto insurance business over the previous year, a growth rate higher than the industry average. The Company's coverage of clients at the top 500 companies exceeded 50%.

In respect of new business channel expansion, the Company realized an income of RMB 2.25 billion, a YOY increase of 234.4%, by further accelerating the development in cross-selling, telemarketing and internet sales, and by further enhancing its organizational structure as well as its operational systems.

4. CPIC Asset Management continued with prudent and progressive investment strategies in asset management and realized a sustained and stable investment income

In 2010, in face of aggravated volatility in the capital market, the Company continued with its prudent and progressive investment strategies in asset management, strengthened its asset and liability management, improved asset liability matching, continued to optimize asset allocation and took great efforts to achieve sustained and stable investment income exceeding the cost of liabilities. At the end of 2010, investment assets totalled RMB 433.385 billion, having increased 18.4% since the end of the previous year. The cumulative investment yield was RMB 20.902 billion and total investment yield rate was 5.3%. The net investment yield was RMB 16.952 billion and net investment yield rate was 4.3%.

In respect of fixed income investment, the Company increased the allocation for ultra-long term government bonds and negotiated deposits, effectively lengthening asset duration and realizing a YOY growth of 19.6% in fixed interest income. In respect of equity investment, the Company monitored market trends closely, proactively making thematic investments. The Company also increased investments in closed-end funds and convertible bonds from large commercial banks to improve the yield stability in equity investments. Further, the Company consolidated and enhanced its alternative investment business and established and issued various debt investment plans on infrastructure. Through these efforts, CPIC maintained its market leading position in terms of the number of products established and the amount of alternative investment assets as a proportion of total investment assets.

5. Changjiang Pension built a specialized operating platform and steadily grew its entrusted assets and its investment assets portfolio

Changjiang Pension focused on the retention of existing customers and on the development of strategic clients. It improved its sales services, product innovation and professional competence in investment management in respect of entrusted assets. At the end of 2010, the amount of managed annuities entrusted by enterprises to Changjiang Pension was RMB 26.038 billion, RMB 1.350 billion more than that at the end of the previous year. The amount of managed investment assets was RMB 14.022 billion, RMB 1.289 billion more than that at the end of the previous year, placing CPIC among the top players in the market.

In 2010, Changjiang Pension initiated the establishment of its sales service network for pension insurance in key areas nationwide, and completed its preliminary construction of a sales system and a sales support platform adapted to market competition. The Company successfully acquired the trusteeship qualification to manage the annuity plan of such large enterprises as China National Building Materials Group Corporation and Commercial Aircraft Corporation of China, Ltd. The Company was elected as the trustee and investment manager of the National Grid Annuity Plan. CPIC also enhanced its product innovation capabilities and received the "2010 Shanghai Financial Innovation Achievement Award" for the launch of its "Changjiang Golden-series (collection type) Enterprise Annuity Plan".

6. Improving the centralized management support platform and bringing the advantages of intensive management into full play

The Company continued its efforts in the construction of a centralized management support platform in 2010 and made significant progress. CPIC officially opened a new-generation data center with advanced technology and promoted the use of comprehensive centralized client service systems, which provided strong support for increasing operational efficiency, strengthening risk management and control, improving service quality and providing one-stop services. The core business system of the Company's property insurance business became fully operational on-line and the continued smooth operation of the business system enhanced business handling capabilities and improved refinement management levels. The new core business system of the Company's life insurance business also became operational on-line for most branches and the national centralized management of distribution channel data was completed. A professional IT technical platform was constructed and intensive management was continuously improved in line with the concept of "centralized management and extended service ".

7. Actively participating in the building of a harmonious society to continue enhancing brand influence

The Company has worked hard to realize the organic integration of corporate social responsibility with its business operations in accordance with its core value of "business integrity, prudence and sustainability, and pursuit of performance excellence". In 2010, the Company further improved its corporate social responsibility system, proactively exploring various means of evaluating corporate social responsibility and effectively implemented the practice of social welfare. The Company donated RMB 6 million to the earthquake-affected Yushu region in Qinghai Province and the Zhouqu mud-rock flow disaster area in Gansu Province to support disaster relief efforts and homeland reconstruction. The Company also provided blanket insurance for the communities, providing property and life insurance for residents to provide practical services for creating a harmonious and civilized community. Furthermore, the Company continued its educational campaign with the slogan of "responsibility illuminating the future" and implemented care action for the children at the Shanghai Children's Welfare Center. CPIC also proactively advocated carbon reduction and environmental protection, pursued green development and promoted, on a pilot basis, environmentally friendly products such as environmental liability insurance. The Company also focused on green environmental protection fields such as new energy, hydropower and wind power which may realize energy savings and emission reduction in formulating its investment plans in infrastructure bonds. In 2010, the Company won many awards for comprehensive strength, corporate governance and business operation, etc., enhancing its brand value significantly.

- CPIC ranked 208th in the UK's "FT Global 500" in 2010;
- CPIC ranked 460th in the United States' "Forbes Global Top 500 Listed Companies:
- CPIC ranked 10th among the "Best Chinese Brands 2010" published by Forbeschina and the branding consultancy Interbrand, and was named as one of China's 500 Most Valuable Brands by World Brand Lab for the sixth time in a row;

- CPIC received the "2010 Hong Kong Corporate Governance Excellence Award" jointly issued by the Chamber of Hong Kong Listed Companies and Hong Kong Baptist University;

- CPIC received the "Board of Directors Award in 2010" issued by the SSE;

- CPIC received the "Annual 100 Top Investor Relationship Award" and "IR Innovation Award" in the election activity of the Fifth China Investor Relationship;

- CPIC received the "Golden Bull Award for General 100 Top Listed Companies" selected by China Securities Journal;

- CPIC was included in the "2010 Corporate Social Responsibility Ranking List" by First Financial" and received the "Excellent Enterprise Award";

- CPIC Life was named one of the "Best Life Insurance Companies in Asia in 2010" by "Asia Insurance Review" and became the first life insurance company in China to receive this award; and

- In the "Asian Insurance Industry Competitiveness Ranking" issued by the "21st Century Economic Report", CPIC Property was ranked third and second respectively in comprehensive competitiveness of non-life insurance business in Asia and China, and was named one of the "2010 Best Non-life Insurance Steady Operation Companies".

2011 is the first year of China's twelfth Five-Year Plan and China continues to face a complex situation with its future economic development. As the impact of the international financial crisis remains, China will continue to implement proactive fiscal policies and stable monetary policies, and to intensify efforts to guarantee and improve the people's livelihood and promote steady and fast-paced economic growth. The insurance industry should adapt to the trend of social and economic development, and accelerate the transformation of the development mode to increase comprehensive insurance service capabilities. Insurance regulation will focus on prevention and diffusion of risks and the standardization of market order.

In face of the new trends and characteristics in the critical period of the comprehensive transformation of the insurance industry and the macro-economy, CPIC firmly recognizes that the "drive for innovation, transformation and development and standardized operation" has become the internal requirements for and the driver for development of the Company in its promotion and realization of sustainable value growth. For the next three years, the Company plans to fully promote and implement a transformed "customer demand oriented" strategy, and to accelerate its move from homogeneous competition towards differential competition. The Company will work hard to seek out further development through transformation and also promote further transformation through such development.

In 2011, the Company will employ the theme of scientific development to accelerate the establishment of customer demand oriented strategy as a priority. The Company plans to give impetus to and realize sustained growth of corporate value through effective strategic initiatives, focusing on discovering client value, implementing subdivision strategy, improving the service and brand, constructing basic platforms, emphasizing and reinforcing the ability of independent innovation and cultivating new business for profit growth. CPIC Life will continue to increase new business value and focus on the sales channel and regular premium businesses. CPIC Property will take its efforts to maintain its leading position in this industry segment in terms of combined ratio and to consolidate and increase its market share. CPIC Asset Management will work hard to realize its goal of continuously achieving investment yields exceeding the cost of liabilities and strengthen its asset and liability management. Changjiang Pension will focus on enhancing its sales capabilities and accelerating its national expansion, making full preparations to participate in the tax-deferred pension insurance pilot plan in Shanghai and to pursue first-mover advantage.

CPIC will also welcome its 20th anniversary in 2011. Reviewing its history of development in the past 20 years, the Company will consolidate its experience, firmly take hold of opportunities for further development and work hard to achieve new breakthroughs to create a brilliant future.

Section V Management Discussion and Analysis

Management Discussion and Analysis

The Company provides a broad range of life insurance and property and casualty insurance products through our subsidiaries, namely CPIC Life and CPIC Property, and manages and deploys our insurance funds through our subsidiaries. The Company also engages in pension business through our subsidiary, Changjiang Pension and engages in property and casualty insurance business in Hong Kong through CPIC HK.

The following analysis of life insurance and property and casualty insurance only refer to the businesses of CPIC Life and CPIC Property respectively.

I. Key operational indicators

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums		
Life insurance	87,873	61,998
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Entrusted assets under management	26,038	24,688
Investment assets under management	14,022	12,733

Notes: Calculated based on the statistical data of the insurance industry in 2009 and 2010 published by CIRC.

II. Business analysis

1. Life insurance business

In 2010, the Company continued to optimize the business structure, actively developed protection-type and long-term savings-type insurance businesses and accelerated the development of regular premium business through the bancassurance channel, while new policies grew at a more rapid pace. The management of business quality was further strengthened and the persistency ratio was steadily improved.

(1) Analysis by insurance category

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums	87,873	61,998
Traditional	15,248	15,149
Participating	68,434	43,419
Universal	85	94
Short-term accident and health	4,106	3,336
Gross written premiums	87,873	61,998
New policies	54,186	38,147
Regular premium	16,869	12,731
Single premium	37,317	25,416
Renewed policies	33,687	23,851
Gross written premiums	87,873	61,998
Individual business	85,677	60,646
Group business	2,196	1,352

1. Business structure

The Company recorded gross written premiums of RMB 87.873 billion from life insurance business in 2010, representing an increase of 41.7% over the previous year. Among them, traditional insurance policies recorded premiums of RMB 15.248 billion, about the same level of that of the previous year. Participating insurance policies recorded premiums of RMB 68.434 billion, representing an increase of 57.6% over the previous year. Universal insurance policies recorded premiums of RMB 85 million, representing a decrease of 9.6% over the previous year. Short-term accident and health policies recorded premiums of RMB 4.106 billion, representing an increase of 23.1% over the previous year.

2. New policies

The Company recorded gross written premiums of RMB 54.186 billion from new life insurance policies in 2010, representing an increase of 42.0% over the previous year. Among them, premiums from regular premium policies amounted to RMB 16.869 billion, representing an increase of 32.5% over the previous year and accounted for 31.1% of the gross written premiums from new policies. Premiums from single premium policies amounted to RMB 37.317 billion, representing an increase of 46.8% over the previous year.

3. Persistency ratio of individual life insurance customers

In 2010, the Company recorded increases of 4.9pt and 2.0pt for the 13-month persistency ratio and the 25-month persistency ratio respectively in respect of individual life insurance over the previous year.

For 12 months ended 31 December	2010	2009
Individual life insurance customer 13-month persistency ratio (%)[1]	92.0	87.1
Individual life insurance customer 25-month persistency ratio (%)[2]	84.0	82.0

Notes:

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

(2) Analysis by channels

1. Sales channel

In 2010, the Company's sales force continued to grow steadily. At year end, the number of agents was 280,000, having increased 10.2% since the end of the previous year. The Company's sales channel focused on team composition and capacity enhancement. The Company mainly emphasized on the development and improvement of sales teams, improved the professional training, and promoted healthy human resource development. The Company continued to promote products portfolio and promoted the transformation of sales model from "products-oriented" to "customers-oriented". The Company launched the innovation of a regional expansion model and focused on the enhancement of overall sales performance.

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums	35,525	29,570
New policies	9,078	7,556
Regular premium	8,389	6,880
Single premium	689	676
Renewed policies	26,447	22,014

In 2010, the Company recorded gross written premiums through sales channel of RMB 35.525 billion, representing an increase of 20.1% over the last year. Among them, premiums from new regular premium policies, which had been the focus of the Company, amounted to RMB 8.389 billion, representing an increase of 21.9% over last year. The premiums from renewed policies amounted to RMB 26.447 billion, representing an increase of 20.1% over the last year. The average monthly first-year gross written premiums per agent amounted to RMB 2,863, representing an increase of 10.2% over the last year.

For 12 months ended 31 December	2010	2009
Insurance sale agents (in thousand)	280	254
Average monthly first-year gross written premiums per agent (RMB)	2,863	2,597
Average number of new life insurance policies per agent per month	1.10	1.36

2. Bancassurance

In 2010, the Company continued with the main direction based on team establishment and network operation in respect of the bancassurance channel, emphasizing the development target of regular premium insurance business, while gradually expanding channel cooperation scope and improving the sales capacity of cooperative networks.

The Company recorded gross written premiums from bancassurance of RMB 48.201 billion in 2010, representing an increase of 63.3% over the previous year. Among them, premiums from new regular premium policies amounted to RMB 8.469 billion, representing an increase of 46.5% over the previous year. The premiums from single premium policies amounted to RMB 32.631 billion, representing an increase of 48.1% over the previous year. The premiums from renewed policies amounted to RMB 7.101 billion, representing a significant increase of 319.4% over the previous year.

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums	48,201	29,514
New policies	41,100	27,821
Regular premium	8,469	5,781
Single premium	32,631	22,040
Renewed policies	7,101	1,693

3. Direct sales

In 2010, the Company actively promoted channel innovation in respect of direct sales and employed the electronic issuing method to continue to consolidate its competitive advantage in accident insurance business.

In 2010, the Company recorded gross written premiums from direct sales of RMB 4.147 billion, representing an increase of 42.3% over the previous year.

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums	4,147	2,914
New policies	4,008	2,770
Regular premium	11	70
Single premium	3,997	2,700
Renewed policies	139	144

(3) Analysis by geographical area

In 2010, approximately 64.2% of the Company's gross written premiums of life insurance business was derived from more economically developed or more densely populated areas, such as Jiangsu, Henan, Shandong, Sichuan, Hebei, Guangdong, Beijing, Zhejiang, Hubei, Shanghai, etc.

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums	87,873	61,998
Jiangsu	8,432	6,441
Henan	7,875	5,154
Shandong	7,251	5,547
Sichuan	5,388	4,252
Hebei	5,342	4,097
Guangdong	4,981	2,964
Beijing	4,802	3,102
Zhejiang	4,439	2,837
Hubei	4,270	3,189
Shanghai	3,646	1,558
Sub-total	56,426	39,141
Other areas	31,447	22,857

2. Property and casualty insurance business

In 2010, the Company adhered to the development concept of sustainable value growth. In view of a positive development of the property insurance industry as a whole, the Company adopted a proactive strategy to accelerate business expansion, thereby achieving a steady increase of market share while maintaining an industry-leading combined ratio.

(1) Analysis by insurance category

In 2010, the property and casualty insurance business of the Company grew at a rapid pace and recorded gross written premiums of RMB 51.622 billion, representing an increase of 50.5% over the previous year, higher than the industry average. Such growth was the fastest recorded in the past three years.

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums	51,622	34,289
Automobile insurance	39,636	25,449
Non-automobile insurance	11,986	8,840

1. Automobile insurance

The Company sought to enhance sales ability with refinement management of the auto insurance business, strengthen insurance underwriting and claims management and increase efforts to promote sales to target auto insurance customers. Therefore, the profitability of auto insurance was significantly improved. As the market order of the industry continued to improve and insurance supervision further strengthened, the Company maintained a faster pace of development than peers on the basis of achieving insurance underwriting profit.

Gross written premiums from automobile insurance amounted to RMB 39.636 billion in 2010, representing an increase of 55.7% over the previous year.

2. Non-automobile insurance

In 2010, the Company accurately took hold of the development opportunities and implemented an aggressive sale strategy of non-automobile insurance, subject to adequate control of the combined ratio. Leveraging on the strengths in customer base and expertise in underwriting and claims adjustment, the Company, through supportive underwriting strategies and sales, accelerated the development of non-automobile insurance, such as short-term accident insurance and liability insurance. Gross written premiums from non-automobile insurance in 2010 amounted to RMB 11.986 billion, representing an increase of 35.6% over the previous year.

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums	11,986	8,840
Commercial property insurance	4,149	3,106
Liability insurance	1,339	883
Accident insurance	1,338	1,110
Engineering insurance	1,326	934
Others	3,834	2,807

(2) Analysis by channels

As at 31 December 2010, the Company's direct sales team had a total of 16,819 sales representatives. In addition, the Company conducted the sales of the property and casualty insurance products through 27,604 insurance agents, 1,361 institutional agents, 12,947 ancillary agents and 1,299 brokerage companies.

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums	51,622	34,289
Direct sales	14,818	11,476
Insurance agents	32,867	21,109
Insurance brokers	3,937	1,704

(3) Analysis by geographical areas

In 2010, approximately 65.8% of the Company's gross written premiums from property and casualty insurance business was derived from more economically developed areas, such as Jiangsu, Guangdong, Zhejiang, Shandong, Shanghai, Beijing, Shenzhen, Hebei, Sichuan and Liaoning, etc. The Company's nation-wide distribution network facilitated the exploration of potential markets in other areas.

(in RMB million)

For 12 months ended 31 December	2010	2009
Gross written premiums	51,622	34,289
Jiangsu	5,828	3,842
Guangdong	5,237	3,674
Zhejiang	4,329	3,070
Shandong	4,146	2,788
Shanghai	4,107	2,810
Beijing	3,232	2,212
Shenzhen	2,298	1,914
Hebei	1,633	1,079
Sichuan	1,570	1,050
Liaoning	1,568	1,139
Sub-total	33,948	23,578
Other areas	17,674	10,711

3. Asset management business

The Company has always been conducting its investment business based on Asset-Liability Management (ALM) principles and implemented stable and aggressive investment strategies. The Company strives to pursue sustainable investment returns that consistently exceed the cost of liabilities, while practically managing various investment risks.

The Company carefully studied and analyzed the requirements with regard to the insurance business expansion and liability attributes of insurance funds in 2010. Through active allocation of fixed income assets and extending the duration of fixed income assets, net investment income continued to increase and the stability and sustainability of investment income was enhanced. As to equity investment, the Company focused on value-based investments while taking into account market trends, and actively carried out various theme investments to obtain certain spread gains. In addition, the Company continued to expand alternative investment businesses with the total size of the infrastructure investment plans amounting to RMB 19.925 billion at the end of 2010.

(1) Investment portfolio

As of 31 December 2010, the Company's total investment assets were RMB 433.385 billion, representing an increase of 18.4% over that at the end of the previous year. The increase was mainly attributable to the Company's cash inflow from insurance business and investment assets value appreciation.

At the end of 2010, the Company's fixed income investments accounted for 79.5% of our total investment assets, representing an increase of 5.1pt over that at the end of the previous year. An additional RMB 71.915 billion was invested in 2010, with allocation focused towards ultra long-term treasury bonds and negotiated deposits, of which a total of RMB 13.04 billion was invested in 50-year treasury bonds.

At the end of 2010, the Company's equity investments accounted for 11.9% of the total investment assets, about the same level of that at the end of the previous year.

As at the end of 2010, the Company's investment assets were mainly classified as held-to-maturity financial assets and available-for-sale financial assets. The amount of held-to-maturity financial assets increased by 50.4% compared to that at the end of the previous year. The financial assets at fair value through profit or loss significantly increased, which was mainly due to the growth of investments in convertible bonds.

(in RMB million)

As of 31 December	2010	2009
Investment assets (Total)	433,385	366,018
By investment category		
Fixed income investments	344,384	272,469
– Debt securities	232,533	182,778
– Term deposits	106,772	86,371
– Other fixed income investments[1]	5,079	3,320
Equity investment	51,516	44,915
– Investment Funds	24,857	18,959
– Equity securities	24,979	24,190
– Other equity investments[2]	1,680	1,766
Investments in infrastructure	19,925	18,396
Cash and cash equivalents	17,560	30,238
By investment purpose		
Financial assets at fair value through profit or loss	3,604	333
Available-for-sale financial assets	119,759	118,475
Held-to-maturity financial assets	157,360	104,618
Investment in a jointly-controlled entity	440	464
Loan and other investments[3]	152,222	142,128

Notes:
1. *Other fixed income investments include restricted statutory deposits and policy loans.*
2. *Other equity investments include investment in a jointly-controlled entity, etc.*
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 other investments classified as loans and receivables, etc.*

(2) Investment income

In 2010, the Company recorded total investment income of RMB 20.902 billion, representing an increase of 7.0% over that of the last year. Total investment yield was 5.3%, representing a decrease of 1.0pt over that of the previous year.

Net investment income amounted to RMB 16.952 billion, representing an increase of 33.1% over that of last year. This was mainly due to the significant increase in interest income from fixed interest assets and dividend income from close-end investment funds. Net investment yield was 4.3%, representing an increase of 0.3pt over that of the previous year.

(in RMB million)

For 12 months ended 31 December	2010	2009
Interest income from fixed income securities investments	14,229	11,902
Dividend income from equity securities	2,723	832
Net investment income	16,952	12,734
Realized gains	4,049	6,575
Unrealized gains	193	140
Impairment losses on financial assets	(615)	(128)
Other income [note]	323	215
Total investment income	20,902	19,536
Net investment yield (%)	4.3	4.0
Total investment yield (%)	5.3	6.3

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

(3) Alternative investments

The Company continued to promote the alternative investments business, increasing its efforts to expand project reserves and establishing and issuing various debt investment plans in infrastructure classes. In doing so, the Company maintained its leading position in the insurance industry in terms of the number of alternative investment products established and the amount invested as a proportion of total investment assets. The following were the main investment projects completed for 2010.

- HECIC New Energy Wind Farm Project Debt Investment Plan

  In June 2010, the Company established the "HECIC New Energy Wind Farm Project Debt Investment Plan", involving a total investment amount of RMB 1.3 billion for a term of 7 years. The Company invested RMB 780 million in the plan.

- Wuhan Tianxingzhou Rail/Road Bridge over Yangtze River Debt Investment Plan

  In November 2010, the Company established the "Wuhan Tianxingzhou Rail/Road Bridge over Yangtze River Debt Investment Plan", involving a total investment amount of RMB 2.0 billion for a term of 10 years. The Company invested RMB 1.2 billion in the plan.

III. Main data of the consolidated financial statements

1. Key consolidated results

(in RMB million)

	31 December 2010 /Year 2010	31 December 2009 /Year 2009
Total assets	475,711	397,187
Total liabilities	394,160	321,514
Total equity	81,551	75,673
Net profit attributable to equity holders of the parent	8,557	7,356

2. Cash flow

(in RMB million)

	2010	2009
Net cash inflow from operating activities	61,618	38,474
Net cash outflow from investing activities	(70,600)	(46,677)
Net cash (outflow)/inflow from financing activities	(3,383)	20,871

IV. Segment information

1. Life insurance

The Company operates our life insurance business primarily through its 98.29% owned subsidiary CPIC Life. Detailed analysis of the results is as follows:

(in RMB million)

For 12 months ended 31 December	2010	2009
Net premiums earned	84,665	59,058
Investment income [note]	17,064	16,949
Other operating income	618	597
Total income	**102,347**	**76,604**
Net policyholders' benefits and claims	(80,351)	(55,733)
Finance costs	(343)	(381)
Interest credited to investment contracts	(1,722)	(1,870)
Other operating and administrative expenses	(14,607)	(11,765)
Total benefits, claims and expenses	**(97,023)**	**(69,749)**
Profit before tax	5,324	6,855
Income tax	(713)	(1,428)
Net profit	**4,611**	**5,427**

Notes: Investment income includes investment income and shares of losses of a jointly-controlled entity/an associate.

(1) The growth in net premiums earned was mainly driven by the growth in life insurance business of the Company, which amounted to RMB 84.665 billion, representing an increase of 43.4% as compared to the previous year.

(2) Investment income amounted to RMB 17.064 billion, about the same level of that of the last year.

(3) Net policyholders' benefits and claims amounted to RMB 80.351 billion, representing an increase of 44.2% over that of the same period in the previous year. Of these, claims incurred increased 30.0% when compared with the same period in the previous year, which was in line with the short-term business growth. The changes in long-term insurance contract liabilities recorded an increase of 59.9%, compared to the same period in the last year, mainly as a result of the growth in business and a downward shift on the interest curve for the valuation of life insurance reserves. Policyholder dividends recorded an increase of 65.6% compared to the same period in the previous year, mainly attributable to the growth in participating business and an increase in policyholder dividends.

(in RMB million)

For 12 months ended 31 December	2010	2009
Net policyholders' benefits and claims	80,351	55,733
Life insurance death and other benefits paid	17,018	16,089
Claims incurred	693	533
Changes in long-term insurance contract liabilities	59,241	37,058
Policyholder dividends	3,399	2,053

(4) Other operating and administrative expenses for life insurance business amounted to RMB 14.607 billion, representing an increase of 24.2% over that of the previous year, which was in line with the Company's business growth. The increase was mainly attributable to rapid business growth.

(5) As a result of the above reasons, the life insurance business of the Company recorded a net profit of RMB 4.611 billion for 2010.

2. Property and casualty insurance

The Company operates our property and casualty insurance business primarily through our 98.41% owned subsidiary CPIC Property. Detailed analysis of the results is as follows:

(in RMB million)

For 12 months ended 31 December	2010	2009
Net premiums earned	34,894	24,910
Investment income [note]	2,415	1,349
Other operating income	158	112
Total income	**37,467**	**26,371**
Claims incurred	(20,043)	(15,202)
Finance costs	(24)	(10)
Other operating and administrative expenses	(12,775)	(9,295)
Total benefits, claims and expenses	**(32,842)**	**(24,507)**
Profit before tax	4,625	1,864
Income tax	(1,114)	(442)
Net profit	**3,511**	**1,422**

Notes: Investment income includes investment income and shares of losses of a jointly-controlled entity/an associate.

Management Discussion and Analysis

(1) Net premiums earned by the Company amounted to RMB 34.894 billion as a result of growth in the business, representing an increase of 40.1% over that of the previous year.

(2) The Company recorded investment income of RMB 2.415 billion, representing an increase of 79.0% over that of the previous year, mainly attributable to the significant increase in interest income and dividend income from closed-end funds.

(3) Claims incurred amounted to RMB 20.043 billion, representing an increase of 31.8% over that of the last year, being lower than the growth of the business. This was mainly attributable to the continued enhancement of the Company's refinement management system and an improvement in the competitive market conditions.

(4) Other operating and administrative expenses amounted to RMB 12.775 billion, representing an increase of 37.4% over that of the last year, mainly attributable to the growth of the business.

(5) As a result of the above reasons, property and casualty insurance business recorded a net profit of RMB 3.511 billion for 2010.

3. CPIC Asset Management

The Company manages and uses its insurance funds through CPIC Asset Management, its 99.66% held subsidiary. As at 31 December 2010, the total assets of CPIC Asset Management amounted to RMB 748 million, the net assets amounted to RMB 588 million and the net profit amounted to RMB 32 million for 2010.

4. CPIC HK

The Company conducts overseas operations primarily through its wholly owned subsidiary CPIC HK. As at 31 December 2010, the total assets of CPIC HK amounted to RMB 569 million, the net assets amounted to RMB 319 million, the gross written premiums amounted to RMB 245 million and the net profit amounted to RMB 25 million for 2010.

5. Changjiang Pension

The Company acquired Changjiang Pension in 2009 and holds 51.00% of its interests. As at 31 December 2010, the total assets of Changjiang Pension amounted to RMB 870 million, the net assets amounted to RMB 818 million, the total entrusted assets under management reached RMB 26.038 billion and the net loss amounted to RMB 57 million for 2010.

V. Analysis of specific items

1. 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.

(in RMB million)

As at 31 December	2010	2009	Reasons of change
CPIC Group			
Actual solvency margin	76,673	73,583	Exercise of the over-allotment options of H shares, profit for the period, profit distribution to the shareholders and change of the fair value of investment assets
Minimum solvency margin	21,486	16,523	Business development of property and life insurance
Solvency margin ratio (%)	357	445	
Life insurance			
Actual solvency margin	36,687	25,702	Profit for the period, contribution from shareholders, profit distribution to the shareholders and change of the fair value of investment assets
Minimum solvency margin	15,222	12,361	Growth of insurance business
Solvency margin ratio (%)	241	208	
Property and casualty insurance			
Actual solvency margin	10,266	7,023	Profit for the period, contribution from shareholders, profit distribution to the shareholders and change of the fair value of investment assets
Minimum solvency margin	6,132	4,049	Growth of insurance business
Solvency margin ratio (%)	167	173	

2. Gearing Ratio

As at 31 December	2010	2009
Gearing Ratio (%)	83.1	81.2

Notes: Gearing Ratio= (total liabilities + minority interests) / total assets.

3. Commercial insurance operation by category in respect of the top five premiums from property insurance

(in RMB million)

For 12 months ended 31 December Rank	Name of commercial insurance	Premiums	Amounts Insured	Claims paid	Reserves	Underwriting profit
1	Automobile insurance	39,636	4,616,151	16,184	25,925	1,957
2	Commercial property insurance	4,132	6,442,317	1,635	3,015	(364)
3	Accident insurance	1,338	5,061,754	474	1,029	35
4	Liability insurance	1,333	4,515,467	455	1,149	(94)
5	Engineering insurance	1,321	703,513	348	1,969	(134)

There was a slight loss in respect of underwriting in the 2010 financial year, as the commercial property insurance, liability insurance and engineering insurance businesses were affected by rapid business growth and disasters such as rainstorms, resulting in accordingly increased reserve provisions.

VI. Prospects

2011 is the first year of the twelfth Five-Year Plan, and is also a key year for China to maintain stable and rapid economic development and accelerate the transformation of the mode of economic development, as well as a crucial year for the comprehensive transformation of insurance industry.

From a macroeconomic perspective, the world economy is expected to continue recovery after the crisis, though the impact of the international financial crisis continues to be felt, and the world economic structure is expected to continue to undergo profound and complex changes. The domestic economy is expected to maintain steady and rapid growth momentum, and active treasury policies and prudent monetary policies are currently being implemented. China's national policies are expected to continue to be proactive, stable as well as prudent and flexible, with a view to preventing and controlling inflation while maintaining economic growth. At the same time, China is vigorously promoting the change of the economy development mode, with a focus on accelerating strategic changes in economic structure, whereby emerging strategic industries such as energy-saving and environmental industries, modern agricultural industries and cultural industries are facing good growth opportunities. The domestic economy is expected to maintain steady and rapid growth momentum. In respect of the insurance industry, the steady and rapid growth in domestic economy will provide strong support for the insurance industry to achieve rapid growth. The property insurance market is expected to continue to increase at a healthy level despite recent slower growth. The acceleration of urbanization and the change of development mode is likely to result in new insurance needs, and regulatory policies are expected to be geared towards promoting the continuous improvement of property insurance market order. As there is a need for non-auto insurance product innovation and new sales channels including telemarketing are expanding rapidly, automobiles sales are expected to remain growing and auto insurance premiums adequacy ratio are likely to continue to remain high. Therefore, the future overall quality and underwriting profit of property and casualty insurance are likely to remain high. The previous explosive growth in life insurance is ending, however, as a result of such factors as urbanization, increased per capita income, the improved social security system, distribution system reforms and stronger insurance awareness as well as higher insurance service levels, the effective demand for insurance is expected to continue to increase. Driven by a number of positive factors, the life insurance business should continue to maintain rapid growth. Meanwhile, as interest rates rise, the profitability of life insurance companies will be further improved.

While the overall situation is optimistic, the world economy is full of unstable and uncertain factors, the impact of the international financial crisis has been far-reaching, and global competition in markets and over resources has become fiercer. The stability of the domestic macro-economy is facing a complex environment, and the pressures to control inflation and to transform the mode of economic development are still high. Various deep-rooted problems and contradictions accumulated in the course of rapid development of China's insurance industry have also gradually emerged. For example, market demand for similar products is gradually stepping into saturation, while competition means such as price wars and high-cost channels inputs are increasingly difficult to sustain because of the profitability pressure. As such, the battle for customer resources has increasingly become the competition focus among insurance companies in China.

The Company expects its gross written premiums to grow at more than 15% in 2011.

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 changes in the share capital

The table below shows the changes in our share capital as of 31 December 2010:

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	425,411,112	5.02	–	–	–	-425,411,112	-425,411,112	0	0.00
(2) State-owned enterprises shares	3,159,048,392	37.24	–	–	–	-3,159,048,392	-3,159,048,392	0	0.00
(3) Other domestic shares	136,747,727	1.61	–	–	–	-58,335,000	-58,335,000	78,412,727	0.91
held by:									
legal entities	136,747,727	1.61	–	–	–	-58,335,000	-58,335,000	78,412,727	0.91
natural persons	–	–	–	–	–	–	–	–	–
(4) Foreign shares	–	–	–	–	–	–	–	–	–
held by:									
legal persons	–	–	–	–	–	–	–	–	–
natural persons	–	–	–	–	–	–	–	–	–
Total	3,721,207,231	43.87	–	–	–	-3,642,794,504	-3,642,794,504	78,412,727	0.91
2. Shares without selling restrictions									
(1) Ordinary shares denominated in RMB	2,577,192,769	30.38	–	–	–	+3,631,094,504	+3,631,094,504	6,208,287,273	72.19
(2) Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
(3) Overseas listed foreign shares (H share)	2,184,600,000	25.75	+117,000,000	–	–	+11,700,000	+128,700,000	2,313,300,000	26.90
(4) Others	–	–	–	–	–	–	–	–	–
Total	4,761,792,769	56.13	+117,000,000	–	–	+3,642,794,504	+3,759,794,504	8,521,587,273	99.09
3. Total number of shares	8,483,000,000	100.00	+117,000,000	–	–	+117,000,000	+117,000,000	8,600,000,000	100.00

Notes: The H share over-allotment option was exercised in full in January 2010 and the total shares of the Company changed to 8,600,000,000 from 8,483,000,000.

(II) Table of changes in 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 2010:

unit: share

No.	Names 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	Fortune Investment Co., Ltd.	1,288,250,599	-1,288,250,599	0	Voluntary lock up period of three years undertaken by the shareholder	27 December 2010
2	Shenergy Group Co., Ltd.	1,228,871,576	-1,228,871,576	0	Voluntary lock up period of three years undertaken by the shareholder	27 December 2010
3	Shanghai State-Owned Assets Operation Co., Ltd.	425,411,112	-425,411,112	0	Voluntary lock up period of three years undertaken by the shareholder	27 December 2010
4	Shanghai Tobacco (Group) Corporation	423,007,660	-423,007,660	0	Voluntary lock up period of three years undertaken by the shareholder	27 December 2010
5	Baosteel Group Corporation	69,031,288	-69,031,288	0	Voluntary lock up period of three years undertaken by the shareholder	27 December 2010
6	Shanghai Tobacco Package Printing Co., Ltd.	47,267,534	-47,267,534	0	Voluntary lock up period of three years undertaken by the shareholder	27 December 2010
7	Shanghai Guoxin Investment Development Co., Ltd.	33,126,307	-33,126,307	0	Voluntary lock up period of three years undertaken by the shareholder	27 December 2010
8	Fortune Trust Co., Ltd.	18,218,170	-18,218,170	0	Voluntary lock up period of three years undertaken by the shareholder	27 December 2010
9	Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd.	4,806,905	-4,806,905	0	Voluntary lock up period of three years undertaken by the shareholder	27 December 2010

unit: share

No.	Names 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
10	Dalian Shide Group Co., Ltd.	5,000,000	-5,000,000	0	A lock up period of three years due to increase in the share capital one year prior to the offering	4 June 2010
11	Zhengzhou Yutong Group Co., Ltd.	50,000,000	-50,000,000	0	A lock up period of three years due to increase in the share capital one year prior to the offering	4 June 2010
12	Shanghai Lu'an Investment Co., Ltd. (上海潞安投資有限公司)	46,468,353	-46,468,353	0	A lock up period of three years due to increase in the share capital one year prior to the offering	4 June 2010
13	Zhongrong International Trust Co., Ltd.	3,335,000	-3,335,000	0	A lock up period of three years due to increase in the share capital one year prior to the offering	4 June 2010
14	Account No. 1 of the National Social Security Fund	78,412,727	0	78,412,727	See note	See note
	Total	3,721,207,231	-3,642,794,504	78,412,727		

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

(III) Issue and listing of securities

1. Issue of securities in the prior three years

unit: share

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

As considered by the shareholders of the Company at the 2nd extraordinary general meeting of 2009 dated 31 August 2009, and as approved by the documents Bao Jian Fa Gai No. [2009]1007 and Zheng Jian Xu Ke No. [2009]1217 issued by CIRC and CSRC, respectively, the Company was approved to issue overseas listed foreign shares, i.e. H shares, for public offering. In December 2009, the Company issued 861,300,000 H shares at the offer price of HK$28.00 per H share. In January 2010, the Company issued 128,700,000 H shares upon the exercise of the H share over-allotment option.

2. Shares held by employees

As at 31 December 2010, 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	**214,792 shareholders (including 206,562 A shareholders and 8,230 H shareholders) at the end of the reporting period**
Shares held by top ten shareholders	

Names of the shareholders	Classes of the shares	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
Fortune Investment Co., Ltd.	State-owned legal person shares	14.93	1,284,277,846	-3,972,753	–	–	A Share
Shenergy Group Co., Ltd.	State-owned legal person shares	14.25	1,225,081,938	-3,789,638	–	–	A Share
HKSCC Nominees Limited	Overseas legal person shares	13.97	1,201,233,900	+344,531,500	–	–	H Share
Parallel Investors Holdings Limited	Overseas legal person shares	9.63	828,064,102	-215,832,400	–	–	H Share
Shanghai State-Owned Assets Operation Co., Ltd.	State-owned shares	4.93	424,099,214	-1,311,898	–	–	A Share
Shanghai Haiyan Investment Management Company Limited	Social legal person shares	4.90	421,703,174	+421,703,174	–	–	A Share
Carlyle Holdings Mauritius Limited	Overseas legal person shares	3.25	279,403,498	0	–	–	H Share
Shanghai Jiushi Corporation	State-owned legal person shares	2.92	250,949,460	-382,451	–	–	A Share
Yunnan Hongta Group Co., Ltd.	State-owned legal person shares	2.03	174,339,390	-266,827	–	–	A Share
Account No. 1 of the NSSF	Social legal person shares	1.13	96,914,255	0	78,412,727	–	A Share

Shares held by top ten shareholders without selling restrictions		
Names of shareholders	**Number of shares held without selling restrictions**	**Types of shares**
Fortune Investment Co., Ltd.	1,284,277,846	A Share
Shenergy Group Co., Ltd.	1,225,081,938	A Share
HKSCC Nominees Limited	1,201,233,900	H Share
Parallel Investors Holdings Limited	828,064,102	H Share
Shanghai State-Owned Assets Operation Co., Ltd.	424,099,214	A Share
Shanghai Haiyan Investment Management Company Limited	421,703,174	A Share
Carlyle Holdings Mauritius Limited	279,403,498	H Share
Shanghai Jiushi Corporation	250,949,460	A Share
Yunnan Hongta Group Co., Ltd.	174,339,390	A 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.	

Notes:

1. *Pursuant to the Provisional Measures on the Administration of the Reduction of the State Owned Shares for Raising Social Security Funds (《減持國有股籌集社會保障資金管理暫行辦法》) issued by the State Council in 2001, certain of our shareholders subject to selling restrictions reduced their shareholding in the Company upon the overseas initial public offering by the Company as approved by the document Cai Jin Han No. [2009]138 issued by the Ministry of Finance of the PRC.*
2. *The shares held by HKSCC Nominees Limited are held on behalf of a number of its clients. 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.*

(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 2010, our substantial shareholders were:

1. Fortune Investment Co., Ltd.

Fortune Investment Co., Ltd. was established on 21 November 1994 and has a registered capital of RMB 6,869,000,000, with Mr. ZHOU Zhuping as its legal representative. Its main businesses include investment and investment management in the metallurgy industry and relevant industries, investment consulting, business consulting service (excluding brokerage) and property title brokerage. Fortune Investment Co., Ltd. is a wholly owned subsidiary of Baosteel Group Corporation.

2. Shenergy Group Co., Ltd.

Shenergy Group Co., Ltd. was established on 18 November 1996 with a registered capital of RMB 6,000,000,000. 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. Parallel Investors Holdings Limited

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

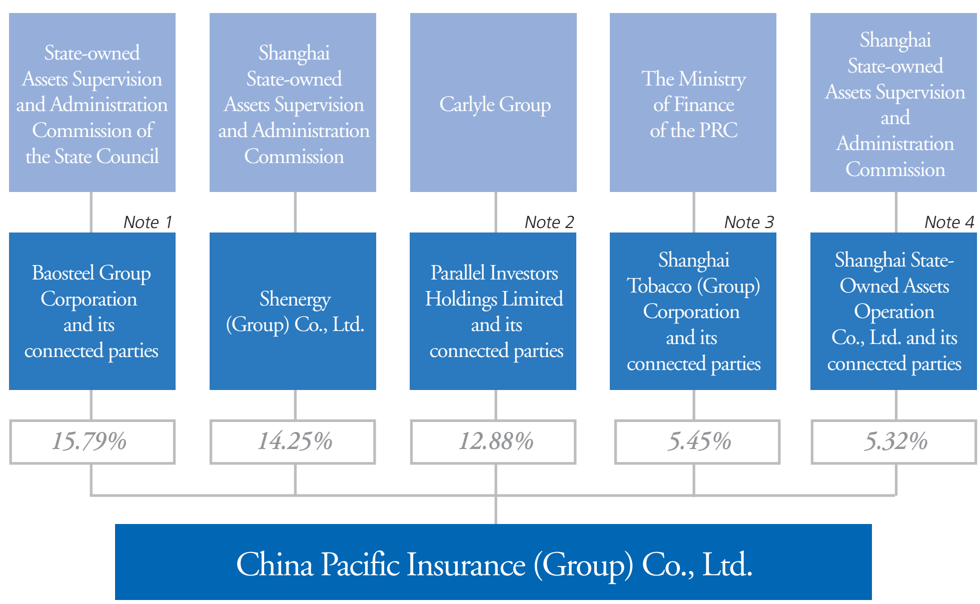
4. Shanghai State-Owned Assets Operation Co., Ltd.

Shanghai State-Owned Assets Operation Co., Ltd. was established on 24 September 1999 with a registered capital of RMB 5,000,000,000. Its legal representative is ZHU Shiyin. Its main businesses include entrepreneurial investments, capital operations, acquisition, enhancement and transfer of assets, enterprise and asset custody, bond restructuring, property title brokerage, real estate agency, financial consultancy, investment consultancy, and consulting services related to its scope of businesses, as well as the provision of guarantee related to its asset management and capital operation businesses.

5. Shanghai Haiyan Investment Management Company Limited

Shanghai Haiyan Investment Management Company Limited was established on 15 October 2009 with a registered capital of RMB 1,300,000,000. 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 2010:



Notes:

1. *Fortune Investment Co., Ltd. and Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. are entities under the control of Baosteel Group Corporation which, together with its connected parties, holds in aggregate 1,357,888,334 A Shares in our Company, representing 15.79% of the entire share capital of the Company.*
2. *Parallel Investors Holdings Limited and Carlyle Holdings Mauritius Limited are both investment entities controlled by the funds under the management of Carlyle Group and hold in aggregate 1,107,467,600 H shares in our Company, representing 12.88% of the entire share capital of the Company. In January 2011, Parallel Investors Holdings Limited sold 415,200,000 H shares of the Company, following which Parallel Investors Holdings Limited and Carlyle Holdings Mauritius Limited together held 692,267,600 H shares of the Company, representing 8.05% of the Company's total share capital.*
3. *Shanghai Haiyan Investment Management Company Limited and Shanghai Tobacco Package Printing Co., Ltd., one of its connected parties, hold in aggregate 468,828,104 A Shares in our Company, representing 5.45% of the entire share capital of the Company.*
4. *Shanghai State-Owned Assets Operation Co., Ltd. and Shanghai Guoxin Investment and Development Co., Ltd., a company under the control of the former, hold in aggregate 457,123,365 A Shares in our Company, representing 5.32% of the entire share capital of the Company.*

Section VII Directors, Supervisors, Senior Management and Employees

Directors, Supervisors, Senior Management and Employees

I. Directors, Supervisors, Senior Management and Employees

Unit: RMB thousand

Name	Position	Gender	Date of birth	Term of office	Total remuneration before tax	Whether also compensated by a shareholder company or other connected parties
GAO Guofu	Chairman and Executive Director	Male	June 1956	Since July 2010	1,653 note 3	No
HUO Lianhong	Executive Director and President	Male	April 1957	Since July 2010	1,555 note 3	No
YANG Xianghai	Vice-Chairman and Non-Executive Director	Male	February 1952	Since July 2010	See note 4	Yes
WANG Chengran	Non-Executive Director	Male	April 1959	Since July 2010	125 note 5	Yes
FENG Junyuan, Janine	Non-Executive Director	Female	March 1969	Since July 2010	See note 4	Yes
WU Jumin	Non-Executive Director	Male	April 1956	Since July 2010	125 note 5	Yes
YANG Xiangdong	Non-Executive Director	Male	January 1965	Since July 2010	See note 4	Yes
ZHOU Ciming	Non-Executive Director	Male	October 1951	Since July 2010	See note 4	Yes
ZHENG Anguo	Non-Executive Director	Male	November 1964	Since July 2010	125 note 5	Yes
XU Fei	Non-Executive Director	Female	December 1967	Since July 2010	125 note 5	Yes
XU Shanda	Independent Non-Executive Director	Male	September 1947	Since July 2010	See note 4	No
CHANG Tso Tung Stephen	Independent Non-Executive Director	Male	November 1948	Since July 2010	250	No
LI Ruoshan	Independent Non-Executive Director	Male	February 1949	Since July 2010	250	No
XIAO Wei	Independent Non-Executive Director	Male	December 1960	Since July 2010	250	No
YUEN Tin Fan	Independent Non-Executive Director	Male	October 1952	Since July 2010	250	No
ZHOU Zhuping	Chairman of the Board of Supervisors, Shareholder Representative Supervisor	Male	March 1963	Since July 2010	125 note 5	Yes
ZHANG Jianwei	Shareholder Representative Supervisor	Male	September 1954	Since July 2010	250	Yes
LIN Lichun	Shareholder Representative Supervisor	Female	August 1970	Since July 2010	250	Yes
SONG Junxiang	Employee Representative Supervisor	Male	October 1955	Since July 2010	2,883	No
HE Jihai	Employee Representative Supervisor	Male	October 1954	Since July 2010	586	No
XU Jinghui	Executive Vice-President	Male	March 1957	Since September 2010	3,603	No
GU Yue	Vice-President	Male	June 1965	Since September 2010	2,624	No
SUN Peijian	Vice-President	Male	September 1963	Since September 2010	2,681	No
NGO Tai Chuan Alan	Chief Financial Officer	Male	February 1973	Since December 2007	5,960	No
CHI Xiaolei	Chief Actuary	Female	July 1969	Since November 2007	2,671	No

unit: RMB thousand

Name	Position	Gender	Month of birth	Term of office	Total remuneration before tax	Whether also compensated by a shareholder company or other connected parties
HUANG Xueying	Chief Information Technology Officer	Female	November 1967	Since February 2008	3,687	No
CHEN Wei	Board Secretary and Joint Company Secretary	Male	April 1967	Since September 2010	1,638	No
Total	–	–	–	–	**32,916**	–

Notes:

1. *The above table listed the directors, supervisors and senior management as at 31 December 2010.*
2. *According to the resolution on the Remuneration Management System of Directors and Supervisors which was passed by the general meeting in 2009, the allowances for the existing directors and supervisors (excluding executive directors and employee representative supervisors) were RMB 250,000 (before tax) per year.*
3. *According to the policies of the relevant authorities of China, the final amounts of remunerations of the Chairman and the President are currently subject to review and approval. The remaining portion of the remuneration will be disclosed when confirmed.*
4. *Mr. YANG Xianghai, Ms. FENG Junyuan, Janine, Mr. YANG Xiangdong, Mr. ZHOU Ciming and Mr. XU Shanda did not take any allowances.*
5. *Mr. WANG Chengran, Mr. WU Jumin, Mr. ZHENG Anguo, Ms. XU Fei and Mr. ZHOU Zhuping began to take allowances since July 2010.*
6. *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.*
7. *The Resolution on Appointing a Vice President of China Pacific Insurance (Group) Co., Ltd. was considered and approved at the 3rd session of the 6th Board of Directors in October 2010, which approved the appointment of Mr. CHEN Jihua as Vice President of the Company. In January 2011, the appointment qualification of Mr. CHEN Jihua was approved by CIRC.*

II. Biographies of Directors, Supervisors and Senior Management

(I) Directors

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

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

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

Mr. WANG Chengran currently serves as Assistant to the General Manager and the Head of the Audit Department of Baosteel Group Corporation and a non-executive director of the Company. 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, the Head of the Asset Operation Department and Assistant to the General Manager of Baosteel Group Corporation and the Chairman of Fortune Investment Co., Ltd. Currently, Mr. WANG also serves as a director of China State Shipbuilding Co., Ltd. (a company listed on the SSE), Huatai Property Insurance Co., Ltd., New China Life Insurance Co., Ltd. and Xinhua Asset Management Co., Ltd.. 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 Carlyle, a non-executive director of the Company, a director of CPIC Life and a director of CPIC Property. Prior to joining Carlyle, Ms. FENG worked at Credit Suisse First Boston's New York office for almost five years, engaging in investment banking business. She has a master's degree in business administration.

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

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

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

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

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

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

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

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

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

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

(II) Supervisors

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

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

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

(III) Senior management

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

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

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

Mr. GU Yue: He is currently the Vice President, the Chief Auditor and auditing officer of the Company. He is also the Chairman of the Board of Supervisors of CPIC Asset Management, a Director of CPIC HK and the Chairman of the Board of Supervisors of Pacific-Antai. 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. Prior to joining the Company, Mr. Gu worked for the Shanghai Statistics Bureau. Mr. Gu holds an EMBA degree and is an economist.

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

Mr. CHEN Jihua: He is currently the Vice President of the Company. Prior to joining the Company, Mr. Chen served as an Excutive Director, the Vice President and the Chief Financial Officer of Aluminum Corporation of China Limited. Prior to that, he was the Chief Financial Officer of Jitong Network Communications Company Limited and the Regional (China) Financial Controller of Saudi Arabia ALJ (China) Limited. Mr. Chen holds a master's degree.

Mr. NGO Tai Chuan Alan: He is currently the Chief Financial Officer of the Company, a Director of CPIC Asset Management and CPIC (HK). Mr. Ngo worked as a Director of CPIC Life and CPIC Property. Prior to joining the Company, he served as an audit partner in the Global Financial Services Industry Unit of Deloitte Touche Tohmatsu Certified Public Accountants Ltd, and the Qualified Accountant of Ping An Insurance (Group) Company of China, Ltd. Mr. Ngo holds a bachelor's degree and is a member of the Institute of Chartered Accountants in Australia, the Institute of Certified Public Accountants of Singapore, the Hong Kong Institute of Certified Public Accountants and the Chartered Financial Analyst Institute.

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

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

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

III. Positions of Directors, Supervisors and Senior Management in Corporate Shareholders and Other Entities

(I) Positions in corporate shareholders

Name	Name of corporate shareholders	Position held	Term
YANG Xianghai	Shenergy Group Co., Ltd	Chairman	Since 2008
WANG Chengran	Baosteel Group Corporation	Assistant to General Manager	Since 2009
FENG Junyuan, Janine	The Carlyle Group	Managing Director	Since 1998
YANG Xiangdong	The Carlyle Group	Managing Director	Since 2001
ZHOU Ciming	Shenergy Group Co., Ltd	Deputy Chief Economist	Since 1998
ZHENG Anguo	Fortune Investment Co., Ltd.	General Manager	Since 2009
XU Fei	Shanghai State-owned Assets Operation Co., Ltd	Vice President	Since 2005
ZHOU Zhuping	Baosteel Group Corporation	Deputy General Manager	Since 2009
	Fortune Investment Co., Ltd.	Chairman	Since 2010
ZHANG Jianwei	Shanghai Jiushi Corporation	Deputy General Manager	Since 2002
LIN Lichun	Yunnan Hongta Group Co., Ltd.	Head of Shanghai Office	Since 2007

(II) Positions in other entities

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

IV. Remuneration of Directors, Supervisors and Senior Management

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

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

V. Changes in the Company's Directors, Supervisors and Senior Management

(I) Changes in Directors

Name	Position held	Change
HUANG Kongwei	Director of the 5th Board of Directors	Due to re-election, Mr. HUANG Kongwei no longer serves on the Company's Board of Directors
XU Hulie	Director of the 5th Board of Directors	Due to re-election, Mr. XU Hulie no longer serves on the Company's Board of Directors
WANG Chengran	Director of the 6th Board of Directors	Mr. WANG Chengran was elected to serve as a Director of the Company's 6th Board of Directors at the 2009 general meeting on 3 June 2010
WU Jumin	Director of the 6th Board of Directors	Mr. WU Jumin was elected to serve as a Director of the Company's 6th Board of Directors at the 2009 general meeting on 3 June 2010
ZHENG Anguo	Director of the 6th Board of Directors	Mr. ZHENG Anguo was elected to serve as a Director of the Company's 6th Board of Directors at the 2009 general meeting on 3 June 2010
XU Fei	Director of the 6th Board of Directors	Ms. XU Fei was elected to serve as a Director of the Company's 6th Board of Directors at the 2009 general meeting on 3 June 2010

(II) Changes in Supervisors

Name	Position held	Change
MA Guoqiang	Chairman of the 5th Board of Supervisors	Due to re-election, Mr. MA Guoqiang no longer serves as the Chairman of the Company's Board of Supervisors
YUAN Songwen	Supervisor of the 5th Board of Supervisors	Due to re-election, Mr. YUAN Songwen no longer serves as Employee Representative Supervisor of the Company
ZHOU Zhuping	Chairman of the 6th Board of Supervisors	Mr. ZHOU Zhuping was elected as the Chairman of the Company's 6th Board of Supervisors at the 2009 general meeting on 3 June 2010
HE Jihai	Supervisor of the 6th Board of Supervisors	Mr. HE Jihai was elected as an Employee Representative Supervisor of the Company's 6th Board of Supervisors at the Employee Representative Meeting on 26 May 2010

(III) Changes in Senior Management

Name	Position held	Change
SHI Jierong	Vice President	Mr. SHI Jierong no longer serves as the Company's Vice President since 3 September 2010
TANG Dasheng	Vice President	Mr. TANG Dasheng no longer serves as the Company's Vice President since 3 September 2010
CHEN Jihua	Vice President	Mr. CHEN Jihua was appointed the Company's Vice President on 28 January 2011

VI. Shareholdings of the Company's Directors, Supervisors and Senior Management

Unit: share

Names	Positions	Types of shares	Shareholding at the beginning of the year	Increase in shareholding during the year	Decrease in the shareholding during the year	Shareholding at the end of the year	Reasons for the change
GAO Guofu	Chairman and Executive Director	A share	10,200	15,500	–	25,700	Secondary market purchase
HUO Lianhong	Executive Director and President	A share	9,000	13,500	–	22,500	Secondary market purchase
SONG Junxiang	Employee Representative Supervisor	A share	6,200	11,800	–	18,000	Secondary market purchase
XU Jinghui	Executive Vice President	A share	8,000	12,000	–	20,000	Secondary market purchase
GU Yue	Vice-President	A share	7,000	11,000	–	18,000	Secondary market purchase
SUN Peijian	Vice-President	A share	7,425	9,600	–	17,025	Secondary market purchase
CHEN Wei	Board Secretary and Joint Company Secretary	A share	2,400	6,600	–	9,000	Secondary market purchase

VII. The Company's Employees

As of 31 December 2010, a total of 74,590 employees, including those from CPIC Group, CPIC Life, CPIC Property and CPIC Asset Management, signed employment contracts with the Company. Their expertise and education background are set out below:

(I) Expertise

Expertise	Number	Percentage (%)
Management	2,013	2.7
Professional	40,885	54.8
Marketing	27,510	36.9
Other	4,182	5.6
Total	74,590	100.0

(II) Education Background

Education Background	Number	Percentage (%)
Master's Degree and Above	1,529	2.1
Bachelor's Degree	25,240	33.8
Other	47,821	64.1
Total	74,590	100.0

Section VIII Corporate Governance Report

Corporate Governance Report

I. Corporate Governance

During the reporting period, the Company was in strict compliance with the Company Law, the Insurance Law, the Securities Law and other applicable laws and made continuous efforts to improve the Company's governance structure in accordance with the requirements under applicable laws and regulations issued by the regulatory authorities and based on the state of affairs at the Company. The Company has established a relatively sound corporate governance system with appropriate checks and balances by streamlining its group management structure and consolidating its internal resources. The general meeting, the Board of Directors, the Board of Supervisors and the senior management fulfilled their functions independently, exercised their rights and performed their duties respectively in accordance with the Articles of Association without breach of laws and regulations.

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

(I) Shareholders and the General Meeting

During the reporting period, the Company held the 2009 annual general meeting. The notice of general meeting and the procedures followed for convening, holding and voting at such meetings were in compliance with the Company Law, the Articles of Association and applicable regulations. The general meetings serve as an established and effective communication channel between the Company and the shareholders to consider the views and advice put forward by the shareholders, and ensure the shareholders' rights to information, participation and voting in respect of any significant issues of the Company to create a positive atmosphere for the shareholders to take part in the decision-making process of the Company and equally exercise their rights.

(II) Re-election of the Board of Directors and the Board of Supervisors

On 26 May 2010, the Company held the Employee Representative Meeting, at which the Employee Representative Supervisors of the Company's 6th Board of Supervisors were elected. On 3 June 2010, the Company held the 2009 Annual General Meeting, at which the Directors of the Company's 6th Board of Directors and the Shareholder Representative Supervisors of the Company's 6th Board of Supervisors were elected. The Company's 6th Board of Directors consists of 15 Directors, including 2 Executive Directors, namely GAO Guofu and HUO Lianhong; 8 Non-Executive Directors, namely YANG Xianghai, WANG Chengran, FENG Junyuan, Janine, WU Jumin, YANG Xiangdong, ZHOU Ciming, ZHENG Anguo and XU Fei; and 5 Independent Non-Executive Directors, namely XU Shanda, CHANG Tso Tung Stephen, LI Ruoshan, XIAO Wei and YUEN Tin Fan. The Company's 6th Board of Supervisors consists of 5 Supervisors, including 3 Shareholder Representative Supervisors, namely ZHOU Zhuping, ZHANG Jianwei and LIN Lichun; and 2 Employee Representative Supervisors, namely SONG Junxiang and HE Jihai. The Supervisors were appointed to a term of three years. On 23 July 2010, Mr. GAO Guofu and Mr. YANG Xianghai were elected the Chairman and the Vice Chairman, respectively, of the Company's 6th Board of Directors at the 1st session of the 6th Board of Directors; Mr. ZHOU Zhuping was elected as the Chairman of the Company's 6th Board of Supervisors at the 1st session of the 6th Board of Supervisors.

In December 2010, CPIC won the "Board of Directors Award 2010" presented by the SSE. Mr. Gao Guofu (centre), the chairman, received the award.

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

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

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

During the reporting period, the Board of Directors held 6 meetings. All Directors duly performed their duties and actively attended the meetings in person or by electronic communication means in order to make informed decisions to safeguard the interests of the Company and the shareholder as a whole. The attendance of each director is as follows:

Names of directors	Board meetings	Attendance in person	Attendance by proxy	Absence	Remarks
Executive Directors					
GAO Guofu	6	6	0	0	–
HUO Lianhong	6	6	0	0	–
Non-executive Directors					
YANG Xianghai	6	5	1	0	Unable to attend the 1st extraordinary meeting of the 6th Board of Directors in 2010 for business reason and ZHOU Ciming, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
WANG Chengran[note]	4	3	1	0	Unable to attend the 2nd session of the 6th Board of Directors for business reason and ZHENG Anguo, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
FENG Junyuan, Janine	6	5	1	0	Unable to attend the 2010 1st extraordinary meeting of the 6th Board of Directors for business reason and YANG Xiangdong, a Director, was appointed as her proxy to attend and vote at the meeting on her behalf.
WU Jumin[note]	4	3	1	0	Unable to attend the 2010 1st extraordinary meeting of the 6th Board of Directors for business reason and GAO Guofu, the Chairman, was appointed as his proxy to attend and vote at the meeting on his behalf.
YANG Xiangdong	6	6	0	0	–
ZHOU Ciming	6	5	1	0	Unable to attend the 12th session of the 5th Board of Directors for business reason and YANG Xianghai, the Vice Chairman, was appointed as his proxy to attend and vote at the meeting on his behalf.
ZHENG Anguo[note]	4	3	1	0	Unable to attend the 2010 1st extraordinary meeting of the 6th Board of Directors for business reason and WANG Chengran, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
XU Fei[note]	4	4	0	0	–
XU Hulie[note]	2	1	1	0	Unable to attend the 12th session of the 5th Board of Directors for business reason and HUANG Kongwei, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
HUANG Kongwei[note]	2	2	0	0	–

Names of directors	Board meetings	Attendance in person	Attendance by proxy	Absence	Remarks
Independent Non-executive Directors					
XU Shanda	6	6	0	0	–
CHANG Tso Tung Stephen	6	6	0	0	–
LI Ruoshan	6	6	0	0	–
XIAO Wei	6	5	1	0	Unable to attend the 1st extraordinary meeting of the 6th Board of Directors in 2010 for business reason and XU Shanda, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.
YUEN Tin Fan	6	5	1	0	Unable to attend the 1st extraordinary meeting of the 6th Board of Directors in 2010 for business reason and CHANG Tso Tung Stephen, a Director, was appointed as his proxy to attend and vote at the meeting on his behalf.

Notes: On 3 June 2010, Mr. WANG Chengran, Mr. WU Jumin, Mr. ZHENG Anguo and Ms. XU Fei were elected as Directors on the Company's 6th Board of Directors at the 2009 general meeting. Mr. XU Hulie and Mr. HUANG Kongwei no longer served on the Company's Board of Directors.

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

In 2010, the Strategic Committee held 5 meetings and provided comments and suggestions on such significant issues of the Company as strategic planning etc.

The primary duties of the audit committee are, among others, 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; monitor the Company's internal audit system and its implementation; and review the financial information of the Company and its disclosure.

In 2010, the Audit Committee held 8 meetings to review the Company's 2009 annual report, the 2010 interim report and quarterly reports for 2010 of the Company, and the internal control evaluation report and the internal audit plan. The attendance of each member of the Audit Committee is as follows:

Name of members	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
LI Ruoshan (Chairman)	8	8	0	0
ZHOU Ciming	8	8	0	0
CHANG Tso Tung Stephen	8	8	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 3rd meeting of the Audit Committee in 2010, a resolution on the submission of the Company's annual report to the Board of Directors for approval was passed. For specific details of the performance of their duties by the Audit Committee, please refer to "Report for Performance of Duties by the Audit Committee under the Board of Directors" set out in the "Report of the Board of Directors".

The primary duties of the nominations and remuneration committee are to provide recommendations to the Board with respect to the remuneration and performance management policy and structures for the Directors and senior management; determine the annual remuneration of the Directors and senior management; conduct examination and evaluation of the performance of duties and annual performance of the Directors and the senior management; select qualified director candidates; and examine and verify senior management candidates nominated by the President.

The nominations and remuneration committee determines the roles and capabilities by the Company required according to the Company's business, with reference and consideration to, among others, the individual's professionalism, experience in the financial industry, business acumen, commitment to the Company and (where relevant) independence. The committee makes director candidate recommendations to the Board, and is responsible for implementing the Board's related decisions and recommendations.

In 2010, the Nominations and Remuneration Committee held 4 meetings to review the remuneration packages for the Company's senior management and the nomination and appointment of a number of directors and the members of the senior management. The attendance of each member of the Nominations and Remuneration Committee is as follows:

Name of members	Committee meetings to be attended	Attendance in person	Attendance by proxy	Absence
YUEN Tin Fan (Chairman)	4	4	0	0
FENG Junyuan, Janine	4	4	0	0
ZHEN Anguo note	2	2	0	0
XU Shanda note	2	2	0	0
XIAO Wei	4	4	0	0
HUANG Kongwei note	2	2	0	0

Notes: On 23 July, 2010, the 1st session of the 6th Board of Directors meeting considered and approved the "Resolution of Composition of Professional Committee of the 6th Board of Directors Meeting", which generated the members of Special Committees of the 6th Board of Directors meeting where YUEN Tin Fan, FENG Junyuan, Janine, ZHEN Anguo, XU Shanda and XIAO Wei were appointed as members of the Nominations and Remuneration Committee under the 6th Board of Directors. HUANG Kongwei ceased to serve on the Nominations and Remuneration Committee under the 6th Board of Directors meeting.

For specific details of performance of their duties by the Nominations and Remuneration Committee, please refer to "Report for Performance of Duties by the Nominations and Remuneration Committee under the Board of Directors" set out in the "Report of the Board of Directors".

In 2010, the Risk Management Committee held 4 meetings to review the Company's risk assessment report, compliance report and solvency report and the execution of connected transactions.

(IV) 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 provisions of the Articles of Association.

In 2010, the Board of Supervisors held 5 meetings to examine and monitor the operation, financial activities and internal audit of the Company by reviewing the meeting minutes, hearing special reports, conducting on-site inspection and visiting branch offices. All Supervisors duly performed their duties on supervision with integrity to effectively safeguard the rights and interests of the shareholder, the Company and its staff. The attendance of each supervisor is as follows:

Name of Supervisor	Supervisory meetings to be attended	Attendance in person	Attendance by proxy	Absence
ZHOU Zhuping note 1	3	3	0	0
ZHANG Jianwei	5	4	1	0
LIN Lichun	5	5	0	0
SONG Junxiang	5	5	0	0
HE Jihai note 2	3	3	0	0
MA Guoqiang note 1	2	2	0	0
YUAN Songwen note 2	2	1	1	0

Notes:

1. *On 3 June, 2010, the 2009 Annual General Meeting elected Mr. ZHOU Zhuping as a member of the 6th Board of Supervisors, Mr. MA Guoqiang ceased to serve on the Board of Supervisors;*
2. *On 26 May, 2010, the Workers Congress elected Mr. HE Jihai as the employee representative Supervisor of the Company's 6th Board of Supervisors meeting, Mr. YUAN Songwen ceased to serve as employee representative supervisor.*

Furthermore, the supervisors attended the meetings held by the Board of Directors during the reporting period and supervised the performance by the directors and senior management of the Company of their duties to safeguard the Company's sustainable, stable and healthy growth.

(V) Inspections and Studies by the Director and Supervisor

In 2010, a number of the Company's Directors inspected the Yunnan branches of CPIC Life and CPIC Property while a number of supervisors inspected the Jiangsu branches of CPIC Life and CPIC Property. Through these inspection visits, the Directors and the Supervisors had a deeper understanding of the actual operation of these branches. The directors and the supervisors also conducted a study on the development of the local insurance markets and the operation, management, growth of business, internal control, compliance, risk management and other aspects of the branch operation. Base on the results of the inspections and the studies, the Company's Directors and the Supervisors made recommendations to the management in the form of a special research and study report on, among other things, how the Company shall explore business development strategy, enhance new channel and new product development, enhance team building and culture building and other aspects. The Company's management highly valued these recommendations and studied the feasibility of their implementation.

(VI) Securities Transactions by the Director and Supervisor

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

(VII) Auditors' Fee

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

(VIII) Directors' Responsibility for the Financial Statements

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

(IX) Disclosure of Information and Transparency

The Company is committed to improving the development of its information disclosure system, and established an accountability system for collection, distribution and reporting, external disclosure of information and accountability for discrepancy. After the listing of H share, according to the new disclosure requirements of domestic and overseas securities regulatory authorities, stock exchanges and industry regulators, the Company promptly amended the "Information Disclosure Management Measures of China Pacific Insurance (Group) Co., Ltd.", and after consideration and approval by the Board of Directors, it was implemented in the Company and its subsidiaries.

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

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

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

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

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

Names of independent non-executive directors	Board meetings to be attended	Attendance in person	Attendance by proxy	Absence	Remarks
XU Shanda	6	6	0	0	–
CHANG Tso Tung Stephen	6	6	0	0	–
LI Ruoshan	6	6	0	0	–
XIAO Wei	6	5	1	0	Absence from the 1st extraordinary meeting of the 6th Board of Directors in 2010 for business reason and XU Shanda, a Director, having been appointed as his proxy to attend and vote at the meeting on his behalf.
YUEN Tin Fan	6	5	1	0	Absence from the 1st extraordinary meeting of the 6th Board of Directors in 2010 for business reason and CHANG Tso Tung Stephen, a Director, having been appointed as his proxy to attend and vote at the meeting on his behalf.

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

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

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

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

III. Independence of the Company to its Controlling Shareholders in Asset, Personnel, Finance, Organization and Business

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

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

IV. The Appraisal and Incentive Programs for the Senior Management

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

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

V. Special Campaign for Corporate Governance

In accordance with the Notice on the Issues Concerning Carrying out Special Campaigns to Strengthen Corporate Governance of Listed Companies issued by CSRC and the requirements of CSRC Shanghai Bureau, the Company issued the Announcement on Further Improving the Real Estate Ownerships of the Company on 19 November 2009 and undertook to achieve a qualification rate of 100% for its property ownership by 30 June 2010. As of 30 June 2010, the Company completed the rectification of its defective titles, and achieved a qualification rate of 100%.

VI. Establishment and Improvement of the Company's Internal Control System

The Company is committed to establishing and improving sound internal control, in order to reasonably ensure that our operation and management are legal and compliant, the assets are safe and reliable, financial reporting and related information are true and complete, effect of operating efficiency is improved, development strategies and other internal control goals can be achieved, to promote 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. The Audit Committee of the Board of Directors is responsible for overseeing the implementation of internal control and self-assessment, and selecting and coordinating with the external auditor. The Operation and Management Committee of the Company is responsible for organizing and implementing various internal control activities. The Board of Supervisors of the Company is responsible for overseeing the establishment and implementation of internal control by the Board of Directors.

The Company continuously improved the mode of "three defensive lines of internal control", whose main parts are the business department, the risk and compliance department and the internal audit department, further clarified the internal management duties of each defense line, formed a coherent and well-linked internal control mechanism which emphasizes on sales control, operation control, basic management control and fund utilization control, and through the internal management information platform to realize the systematic operation of the internal control evaluation and defects rectification, to form the internal control system which comprises of the elements of the internal environment, risk assessment, control activities, information and communication, supervision etc.

The Company, based on the requirements such as the Basic Standards for Enterprise Internal Control (Cai Kuai [2008] No.7) and the Notice on Issuing Guidelines for Corporate Internal Control Measures (Cai Kuai [2010] No.11) issued by Ministry of Finance, CSRC, the National Audit Office, China Banking Regulatory Commission and CIRC and the Basic Standards for Internal Control of Insurance Companies issued by CIRC (Bao Jian Fa [2010] No. 69), and the need to improve its ability to guard against risks to further define duties of the internal control management, enriched the internal administrative staff, extensively executed the propaganda of the new standard of internal control, and formally initiated the project of the internal control system optimization to further optimize and improve the internal control system.

VII. 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 process ensure better business decision making and prudent management.

The Risk Management Committee under the Company's Board of Directors is responsible for risk management. The Risk Management Committee monitors the operational effectiveness of the risk management system, based on its thorough understanding of the significant risks faced by the Company and the risk management.

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

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

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

In 2010, the Company further improved its management system and mechanism building to enhance the management of all kinds of risks in its business operation. To Further improve its risk management system and to complete the mechanism building in risk identification, risk warning and emergency management system etc.; to comprehensively use various risk management tools, to further strengthen the overall assessment and specific monitoring of risks, to regularly report to the Risk Management Committee of the Board of the Directs on the overall assessment of the risks, and to pay close attention to the principal risks and emergencies such as solvency risk, assets and liabilities management risk, the risk of internal control not in place and overseas risk transfer etc.; to actively research the risk forecast and to pay particular attention to the industry's systematic risk and Company specific risk warning, especially on the new policy on the application of insurance funds, the risks brought by new products and new channels, and to enhance the Company's coping ability; to actively carry the risk culture forward, to organize the propaganda and special subject training of the risk management culture, to develop the risk self-check inside the system, to promote the risk management awareness and the ability of the organization at all levels and functional departments; to further enhance team building in the risk management for the entire system, to set the testing points for the career planning of the professional group in risk management, to improve the expertise of its risk management staff.

In 2010, the Company focused its attention on insurance risk, market risk, credit risk, operational risk, asset and liability mismatching risk and solvency margin adequacy compliance risk.

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

Section IX Particulars on General Meetings

Particulars on General Meetings

I. Annual General Meeting

On 3 June, 2010, the Company held the 2009 annual general meeting in Shenzhen where resolutions including the Resolution in Relation to the Board of Directors' Report on 2009 of China Pacific Insurance (Group) Co., Ltd. were considered and approved (please see the announcement published on the website of the Hong Kong Stock Exchange and the website of the Company for more details).

Section X Report of the Board of Directors

Report of the Board of Directors

1. 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.

2. Major Customers

Our top five major customers accounted for approximately 0.3% of gross written premiums during the reporting period.

3. Results and Distributions

The net profits for the year 2010 included in the audited financial statements of the parent company, prepared in accordance with the PRC GAAP and HKFRS, were RMB 3.083 billion and RMB 3.095 billion, respectively. According to the Company's Articles of Association and other applicable regulations, the Company is required to set aside 10% of the net profit in the financial statements under the PRC GAAP as the statutory surplus reserves. Taking into account the retained profits brought forward from the previous year, the retained profits of the Company at the end of 2010 included in the financial statements, prepared in accordance with the PRC GAAP and HKFRS, were RMB 5.617 billion and RMB 5.562 billion, respectively.

According to the Articles of Association, the amount of profit available for distribution to the shareholders shall be the lower of the amounts stated in the financial statements prepared under PRC GAAP and HKFRS.

Therefore, the profit distribution for 2010 is made based on the financial statements of the parent company prepared in accordance with HKFRS. The Company intends to declare a cash dividend of RMB 0.35 per share (including tax) for the year. Based on the total share capital of 8,600,000,000 shares, the amount of dividend in aggregate will be RMB 3.010 billion. The remaining retained profits (including the gain arising from the changes in fair value of financial assets at fair value through profit or loss) will be carried forward to 2011.

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

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

Dividend distributions for the past three years are as follows:

Unit: RMB million

Year of dividend distribution	Cash Dividend (including tax) (1)	Net profit attributable to the dividend distribution year note (2)	Payout ratio (%) (3)=(1)/(2)
2007	2,310	6,893	33.5
2008	2,310	1,339	172.5
2009	2,580	7,356	35.1

Notes: Net profit attributable to the dividend distribution year is presented as net profit attributable to equity holders of the parent, of which the 2009 data is prepared in accordance with the PRC GAAP by the Company after the adoption of "Standard for accounting treatment for insurance contracts" issued by the Ministry of Finance, and the 2007 & 2008 data is prepared in accordance with the PRC GAAP by the Company before the adoption.

4. Reserves

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

5. Property and Equipment

Details for property and equipment are shown in note 17 to the financial statements.

6. Financial Summary

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

7. Use of Proceeds Raised from Listing

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

8. 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 the 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.

9. Post Balance Sheet Event

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

10. 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.

11. 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.

12. Charitable and Other Donations

During the reporting period, the Company made charitable and other donations totaled approximately RMB 15.36 million.

13. Management Contract

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

14. 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 the annual report.

15. 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.

16. 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 the annual report.

17. Special Committees of the Board of Directors

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

18. Directors' and Supervisors' Interests in Material Contracts

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

19. 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.

20. Directors' and Supervisors' Interest and Short Positions in Shares

As at 31 December 2010, 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".

21. 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 2010, the following persons (excluding the directors and the supervisors of the Company) had an interest or short position in the shares or underlying shares of the Company which shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which, pursuant to Section 336 of the SFO, shall be entered in the register maintained by the Company:

Names of substantial shareholders	Capacity	Types of Shares	Number of Shares	Percentage of shareholdings in the class of shares issued (%)	Percentage of the total shares issued (%)
Carlyle Offshore Partners II, Ltd. note	Beneficial owner	H shares	1,107,467,600(L)	47.87(L)	12.88

(L) denotes long position

Notes: *Pursuant to Part XV of the SFO, Carlyle Offshore Partners II, Ltd is deemed or taken to be interested in 1,107,467,600 H shares of the Company. Among these shares, Carlyle Asia Ltd., TC Group Cayman Investment Holdings, L.P., TCG Holdings Cayman II, L.P., Carlyle CPL Partners I, L.P., Parallel Investors Holdings Limited, Carlyle Asia Partners, L.P. and Carlyle Holdings Mauritius Limited, the subsidiaries controlled, directly or indirectly, by Carlyle Offshore Partners II, Ltd., are interested in 1,107,467,600, 1,107,467,600, 1,107,467,600, 828,064,102, 828,064,102, 279,403,498 and 279,403,498 H shares of the Company, respectively. In January 2011, Parallel Investors Holdings Limited sold 415,200,000 H shares of the Company, following which Parallel Investors Holdings Limited and Carlyle Holdings Mauritius Limited together held 692,267,600 H shares of the Company, representing 8.05% of the Company's total share capital.*

Save as disclosed above, as at 31 December 2010, the Company was not aware that there was any other person (other than the directors or the President of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered in the register maintained by the Company.

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

22. 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.

23. 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.

24. The Implementation of Insider Information Management System

In 2010, the Company revised the "Information Disclosure Management Measures of China Pacific Insurance (Group) Co., Ltd." and added the chapter on Insider Information Management, setting the scope and management for insider information, with strict enforcement.

25. Appointment of the Auditors

In the reporting period, the Company continued to engage Ernst & Young Hua Ming and Ernst & Young as the auditors. In 2010, the Company paid the auditors a total fee of RMB15.43 million for annual audit service and RMB1.41 million for internal control audit service.

26. Plan for the Optimization and Improvement of the Internal Control System

Based on the requirements such as the Basic Standards for Enterprise Internal Control (Cai Kuai [2008] No.7) and the Notice on Issuing Guidelines for Corporate Internal Control Measures (Cai Kuai [2010] No.11) issued by Ministry of Finance, CSRC, the National Audit Office, China Banking Regulatory Commission and CIRC and the Basic Standards for Internal Control of Insurance Companies issued by CIRC (Bao Jian Fa [2010] No. 69), as a company listed domestically and abroad, the Company engaged professional external consulting organization to implement the internal control optimization project and to further improve the internal control system, based on which the Company developed a dynamic, effective and continuously optimizing long-term mechanism for internal control.

27. The Board's Statement in Respect of Internal Control Responsibilities

In the reporting period, the Board conducted self-appraisal regarding the internal control of the Company. The Board is of the view that the overall condition of the Company's internal controls was good and that the internal controls were basically complete, reasonable and effective. The Company has established effective control policies and measures in related areas such as condition control, risk identification and evaluation, activity control, information and communication, as well as supervision, and is reasonably able to realize its control objectives and achieve relatively effective implementation. According to relevant evaluation stipulations under the Basic Standards for Internal Control of Insurance Companies issued by CIRC, the result of the self-evaluation was that CPIC Group's internal controls were "up to standard".

28. Change in Significant Accounting Estimates

When measuring the insurance contract liabilities, the Company 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 2010, the Company used information currently available to determine the above assumptions and the impact of change in assumptions was charged into profit or loss. Such change in accounting estimates resulted in an increase in long-term life insurance contract liabilities as at 31 December 2010 by RMB 3.13 billion and a decrease in consolidated profit before tax of 2010 by RMB 3.13 billion.

29. Performance of Duties by the Board of Directors

(I) Board Meetings and Resolutions

The Board of Directors held 6 meetings in 2010 (please see the announcement published on the website of Hong Kong Stock Exchange and the Company's website for more detail).

1. On 16 April 2010, the Company held the 12th session of the 5th Board of Directors in Xiamen, at which resolutions including Resolution in Relation to the Report on China Pacific Insurance (Group) Co., Ltd.'s Board of Directors 2009 were considered and approved.

2. On 29 April 2010, the Company held the 13th session of the 5th Board of Directors through written communication and voting, at which resolutions including Resolution in Relation to 1st Quarter Report 2010 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

3. On 23 July 2010, the Company held the 1st session of the 6th Board of Directors in Shanghai, at which resolutions including Resolution in Relation to the Election of the Chairman of the Board of Directors for the 6th Board of Directors of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

4. On 27 August 2010, the Company held the 2nd session of the 6th Board of Directors in Shanghai, at which resolutions including Resolution in Relation to the Amendment of China Pacific Insurance (Group) Co., Ltd.'s Accounting System (Interim) were considered and approved.

5. On 15 October 2010, the Company held the 1st extraordinary meeting of the 6th Board of Directors in 2010 in Shanghai, at which Resolution on The Office Building Project at Central Business Square was considered and approved.

6. On 29 October 2010, the Company held the 3rd session of the 6th Board of Directors in Shanghai, at which resolutions including Resolution in Relation to 3rd Quarter Report 2010 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

(II) Implementation of the Resolutions of the General Meeting by the Board of Directors

During the reporting period, all the Company's Board members conscientiously implemented the resolutions of the general meeting 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.

(III) Report for Performance of Duties by the Audit Committee of the Board of Directors

In 2010, the Audit Committee held 8 meetings.

The Committee held two annual report discussion meetings on 1 February 2010 and 24 March 2010, respectively, at which the Company's financial statements for the year ended 31 December 2009 were considered, and thorough communication with the external auditors was maintained during the Annual Report preparation process.

The 1st meeting of the Audit Committee of the 5th Board of Directors in 2010 was held on 1 February 2010, at which the report on the re-appointment of Deloitte Touche Tohmatsu, Certified Public Accountants to conduct verification and evaluation on the company's internal control for 2009 was considered.

The 2nd meeting of the Audit Committee of the 5th Board of Directors in 2010 was held on 24 March 2010 to consider the Company's report on the evaluation of the quality of the audit service, the report on the performance of internal audit and relevant reports etc.

The 3rd meeting of the Audit Committee of the 5th Board of Directors in 2010 was held on 15 April, 2010, at which Resolution in Relation to the Change of the Accounting Policy of China Pacific Insurance (Group) Co., Ltd. on Insurance Contracts, Resolution in Relation to the Report on the Final Accounting of China Pacific Insurance (Group) Co., Ltd. for 2009, Resolution in Relation to the A Share Annual Report 2009 and the Abstract of China Pacific Insurance (Group) Co., Ltd., Resolution in Relation to the H Share Annual Report 2009, Resolution in Relation to the H Share Announcement of Audited Annual Results for the Year Ended 31 December 2009 of China Pacific Insurance (Group) Co., Ltd., Resolution in Relation to the Appointment of Ernst & Young Hua Ming and Ernst & Young as the Auditors of China Pacific Insurance (Group) Co., Ltd., Resolution in Relation to Self-Evaluation Report 2009 on the Internal Control of China Pacific Insurance (Group) Co., Ltd. were considered which would be submitted to the Board of Directors for consideration.

The 4th meeting of the Audit Committee of the 5th Board of Directors in 2010 was held on 28 April 2010, at which Resolution in Relation to the 1st Quarter Report 2010 of China Pacific Insurance (Group) Co., Ltd. was considered which would be submitted to the Board of Directors for consideration.

The 1st meeting of the Audit Committee of the 6th Board of Directors in 2010 was held on 26 August 2010, at which Resolution in Relation to the Amendment of China Pacific Insurance (Group) Co., Ltd.'s Accounting System (Interim), Resolution in Relation to the A Share Interim Report 2010 and the Abstract of China Pacific Insurance (Group) Co., Ltd., Resolution in Relation to the H Share Interim Report 2010 of China Pacific Insurance (Group) Co., Ltd., Resolution in Relation to the H Share Announcement of Audited Interim Results for the Six Months Ended 30 June 2010 of China Pacific Insurance (Group) Co., Ltd. and Resolution in Relation to the Interim Self-Evaluation Report 2010 on the Internal Control of China Pacific Insurance (Group) Co., Ltd. were considered which would be submitted to the Board of Directors for consideration.

The 2nd meeting of the Audit Committee of the 6th Board of Directors in 2010 was held on 28 October 2010, at which Resolution in Relation to the 3rd Quarter Report 2010 of China Pacific Insurance (Group) Co., Ltd. was considered which would be submitted to the Board of Directors for consideration.

The Audit Committee monitored the internal control of the Company closely and received the updates on audit issues from the internal audit department periodically to be informed in a timely manner of any significant issues operation of the Company.

The Audit Committee discussed with the external auditors and formulated an auditing schedule on the financial statements of the Company for the year in accordance with the requirements on the preparation of the annual report of the Company. It held a meeting to review the financial statements prepared by the Company and issued a written opinion thereon prior to the carrying out of the audit by the external auditors, and maintained adequate and timely communication with the external auditors. The Audit Committee held a meeting to review again the financial statements of the Company after receipt of the external auditors' preliminary audit opinions, and issued the written opinion thereon. At the 3rd meeting of the Audit Committee of the 5th Board of Directors in 2010, a resolution on submission of the annual report of the Company to the board of directors for approval was passed.

The Audit Committee reviewed the performance of the external auditors during the process of annual report auditing, made an objective evaluation to the independence and objectivity of the external auditors, and submitted an overview report of audit work carried out by the external auditors for the year 2009 to the board of directors. The Audit Committee was satisfied with the overall performance of the external auditors and resolved at the 3rd meeting of the Audit Committee of the 5th Board of Directors in 2010 to submit a resolution of the appointment of the external auditors to the board of directors for consideration.

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

In 2010, the Nominations and Remuneration Committee held 4 meetings.

The 1st meeting of the Nominations and Remuneration Committee of the 5th Board of Directors in 2010 was held on 31 March 2010, at which Resolution in Relation to the Performance Appraisal Results for the Year 2009 of China Pacific Insurance (Group) Co., Ltd., Resolution in Relation to the Performance Appraisal Plan of the Senior Management for the Year 2010 of China Pacific Insurance (Group) Co., Ltd., Resolution in Relation to the Appointment of Chief Financial Officer of China Pacific Insurance (Group) Co., Ltd., Resolution in Relation to the Appointment of Chief Information Technology Officer of China Pacific Insurance (Group) Co., Ltd., Resolution in Relation to the Appointment of Chief Actuary of China Pacific Insurance (Group) Co., Ltd. and Resolution in Relation to the remuneration management system for the Directors and Supervisors of China Pacific Insurance (Group) Co., Ltd. were considered which would be submitted to the Board of Directors for consideration.

The 2nd meeting of the Nominations and Remuneration Committee of the 5th Board of Directors in 2010 was held on 15 April 2010, at which Resolution in Relation to the Nomination of Candidates Members of the 6th Board of Directors of China Pacific Insurance (Group) Co., Ltd. was considered which would be submitted to the Board of Directors for consideration.

The 1st meeting of the Nominations and Remuneration Committee of the 6th Board of Directors in 2010 was held on 16 August 2010, and considered the selection of the senior management team of the Company, which would be submitted to the Board of Directors for consideration.

The 2nd meeting of the Nominations and Remuneration Committee of the 6th Board of Directors in 2010 was held on 28 October 2010, at which Resolution in Relation to the Appointment of the Vice President of China Pacific Insurance (Group) Co., Ltd. was considered which would be submitted to the Board of Directors for consideration.

Section XI Report of the Board of Supervisors

Report of the Board of Supervisors

I. Performance of Duties by the Board of Supervisors

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

The Board of Supervisors held 5 meetings in 2010 (please see the announcements published on the websites of Hong Kong Stock Exchange and of the Company for more detail).

1. On 16 April 2010, the 9th session of the 5th Board of Supervisors was held in Xiamen, at which resolutions including the Resolution in Relation to the Report of the Board of Supervisors 2009 of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

2. On 29 April 2010, the 10th session of the 5th Board of Supervisors was held by written communication and voting, at which Resolution in Relation to the 1st Quarter Report 2010 of China Pacific Insurance (Group) Co., Ltd. was considered and approved.

3. On 23 July 2010, the 1st session of the 6th Board of Supervisors was held in Shanghai, at which Resolution in Relation to the election of the Chairman of the Board of Supervisors of China Pacific Insurance (Group) Co., Ltd. was considered and approved.

4. On 27 August 2010, the 2nd session of the 6th Board of Supervisors was held in Shanghai, at which resolutions including Resolution in Relation to the A Share Interim Report 2010 and the Abstract of China Pacific Insurance (Group) Co., Ltd. were considered and approved.

5. On 29 October 2010, the 3rd session of the 6th Board of Supervisors was held in Shanghai, at which Resolution in Relation to the 3rd Quarter Report 2010 of China Pacific Insurance (Group) Co., Ltd. was considered and approved.

(II) Performance of Supervisory Duties through Various Means

In 2010, members of the Board of Supervisors attended all directors' meetings held in the year and gave opinions on relevant issues, considered due diligence report of directors, reviewed the performance evaluation results on the senior management and reinforced the supervision of and evaluation on the performance of duties by the Board of Directors, the directors and the senior management. The supervisors also attended the meetings held by the Operation and Management Committee with a view to getting updated with the Company's operations. The Board of Supervisors fully functioned in corporate governance by effectively supervising the relevant decision-making processes and performance of the duties by the Board of Directors and the management through various means.

(III) Performance of Duties on Financial Supervision with Focus on Key Issues

In 2010, the Board of Supervisors conscientiously performed their duties of financial supervision through due consideration of, among other things, annual final accounting plans and profit distribution plan of the Company with focus on such issues as significant income and expenses, accounting items that would have significant effect on the operational results and any other matters that would have significant effect on owners' equity.

(IV) Enhancement of Risk and Internal Control Monitoring to Facilitate the Company's Compliance

1. Enhancement of risk and internal control supervision and continuing to strengthen guidance in relation to the Company's internal audit. By regularly reviewing the report of the Auditing Officer and setting internal auditing requirements, the Board of Supervisors effectively improved internal audit standards. In 2010, the internal audit of the Company saw obvious improvements in terms of audit effectiveness evaluation, internal control evaluation and audit rating capacity and audit correction and supervision capacity.

2. Effective carrying out of inspections. In 2010, the Board of Supervisors continued to effectively combine inspection with risk management and internal control, and inspected the Jiangsu Branches of CPIC Property and CPIC Life in the second half of the year. By means of discussion, communication with branch mid-level employees and visits to business outlets, etc., the Board of Supervisors understood the business development and the building of the internal control system of branch offices. In addition, the Board of Supervisors better acknowledged the operational compliance at the local branch offices by visiting local regulators. The Board of Supervisors gave advice and recommendations in form of a specific inspection report on the issues identified in the visits and made suggestions for improvement to the Board of Directors and the management.

(V) Enhancement of its own structure and Completion of the Re-election of the Board of Supervisors

In 2010, the Board of Supervisors further enhanced its own structure. Firstly, the Board of Supervisors took the opportunity of H share listing to strictly comply with the regulatory requirements and to enhance the performance of duties of the Board of Supervisors. During supervisor meetings, supervisors discussed newly enacted laws and requirements from the regulators, and actively explored new methods to improve the performance of duties of the Board of Supervisors. Secondly, the Board of Supervisors smoothly completed the re-election of the 6th Board of Supervisors. According to the provisions of the relevant laws and regulation and the Company's Articles of Association, shareholder representative supervisors and employee representative supervisors were re-elected and the new Chairman of the Board of Supervisors was elected. Lastly, all members of the Board of Supervisors, according to regulatory requirements, participated in the supervisor qualification training and examination held by CIRC.

II. Independent Opinions of the Board of Supervisors on the Following Issues

(I) Compliant Operation of the Company

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

(II) Truthfulness of the Financial Statements

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

(III) Use of Proceeds from Listing

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

(IV) Acquisition and Disposal of Assets

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

(V) Connected Transactions

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

(VI) Review of Report on Internal Controls

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

(VII) Implementation of Resolutions Reached by the General Meeting

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

Section XII Corporate Social Responsibility

Corporate Social Responsibility

The Company attaches great importance to corporate social responsibility. With the Company's harmonious development with shareholders, clients, employees, industry, society and environment as a goal, the Company strives to achieve the organic integration between corporate social responsibility and the Company business operation.

In 2010, the Company further improved the construction of corporate social responsibility system to energetically promote the awareness of responsibility; to explore and construct communication mechanism and procedures with stakeholders; to fully understand the responsibility issue and focus; to achieve innovation in product, service, investment and business operation etc.; to actively explore the evaluation methods of corporate social responsibility; and to carry out highly effective social public interest practice.

The Group as a whole maintained good development, with a steady growth in its scale and value while the Company has been strictly in compliance with relevant laws and the regulatory requirements, used the best international practices as reference, formed a better governance structure and operating mechanism, continuously advanced the construction of overall risk management system, and basically formed the compliance culture.

The Company developed different kinds of practices based on "Customer Demand Orientation": launched a batch of innovative products which aimed at the specific customer's special requirement; vigorously strengthened the new sales channel capacity with telephone, internet marketing and cross-selling etc.; established the customer service center with 95500 telephone service as the center and the centralized customer service center with the concentration of website, SMS, fax, email etc.; launched service standards and quality standards commitment for window service; meanwhile, with continuous development of information, the Company also provided further support for customer segmentation, personalized marketing and differential services.

The Company strengthened the construction of the performance-oriented market position-salary system to promote employees' career management, and took the lead, among group companies, in setting up professional career planning testing points among the professional employees of the risk management group and information technology group. The Company also provided employees with more diversified, multi-level training, and motivated and united the employees with outstanding corporate culture.

In 2010, the inauguration ceremony of the Hope Project "Responsibility Shines the Future" of CPIC in support of education.

In December 2010, as part of the "Music Around the World" tour, the symphony orchestra sponsored by CPIC played in Shenzhen.

The Company provided all kinds of support for salespersons, including development, service allowance, training and service skills, etc., to fully safeguard their rights and interests. Meanwhile, through the underwriting support program to improve the quality management on individual sales, the Company issued measures such as the announcement of the Gold Medal Salesman and blacklists etc. to guide and regulate the business development of salespersons.

Through product innovation, business model and service, the Company worked more closely with the community and the society. The launch of "Government Cooperative Medical Insurance Business" and a variety of liability insurance, rural micro insurance, etc, provided an effective solution to deal with the social hotspots and difficulties properly.

The Company continued to provide insurance support for key projects, and paid close attention to the projects of industries such as transportation and energy etc. which were beneficial to the nation's economy and people's livelihood and social benefits. Meanwhile, the Company was actively dedicated to the World Expo and provided many insurance services such as business insurance, and emphasized on the strengthening of service quality and security to promote overall financial service capacity and levels.

In 2010, the Company donated RMB 5 million to Yushu, Qinghai Province, where a 7.1 earthquake occurred, and donated RMB 1 million to Zhouqu, Gansu Province, where a huge mud slide occurred, to help the local victims with disaster control and to rebuild their homes. In addition, activities supporting the Hope Project and the Children Welfare Projects, including "Responsibility Illuminates the Future" education aid, Children Welfare House etc., became part of the Company's ongoing charity work.

The Company advocated low carbon environmental protection and the pursuit of green environment. Environmental friendly products, such as environmental liability insurance, wildlife accident public liability insurance, etc. have been tested in selected locations. For project investment, the focus was on the fields of new energy sources, hydropower, nuclear power etc. and the Company adopted a variety of energy conservation and emission reduction measures to reduce energy consumption, and vigorously promoted the utilization of electronic channels to create paperless offices, etc., and participated in the "Earth Hour" activity launched by WWF for two consecutive years to continuously promote the environmental protection concept and strengthen the Company's green operation.

Section XIII Significant Events

Significant Events

I. Asset Disposition of Fudan-Pacific Institute of Finance

In November 2010, the Company signed the Contract on the Institute Asset Compensation with the Land Resources Reserve Center of Shanghai Pudong New Area, and by means of government land reserving, the latter took back the institute's land together with related buildings and affiliated facilities with a compensation of RMB 1.71 billion.

II. Pacific-Antai Share Transfer

On 27 December, 2010, the Company signed the Property Rights Transaction Agreement with the Joint Transferee Group led by China Construction Bank, by which the Company intended to transfer 50% of the shares of Pacific-Antai to the Joint Transferee Group with the total transfer price of RMB 950 million. Upon the completion of the transfer, the Company would no longer hold any shares of Pacific-Antai. The final completion of this transfer is subject to the approval of the relevant regulators.

III. Establishment of CPIC Investment (H.K.)

On 12 February, 2010, the Company and CPIC Asset Management established CPIC Investment (H.K.) in Hong Kong with a registered capital of HK$ 50 million where the Company held 49% of the shares and CPIC Asset Management held 51% of the shares. CPIC Investment (H.K.) would primarily engage in the management of client assets in custody and providing asset management services to professional investors. CPIC Investment (H.K.) has obtained the license issued by Hong Kong Securities and Futures Commission with permission to engage in Type 9 regulated activities (asset management).

IV. Material Litigations and Arbitrations

During the reporting period, the Company did not engage in any litigation or arbitration of significant importance.

V. Asset Acquisition

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

VI. Significant Connected Transaction during the Reporting Period

During the reporting period, there was no significant connected transaction entered into by the Company.

VII. Custody

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

VIII. Contracting

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

IX. Lease

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

X. Guarantee

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

XI. Entrusted Wealth Management

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

XII. 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.

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

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

Unit: RMB million

No.	Stock type	Stock code	Abbreviated stock name	Initial cost	Number of shares (Million shares)	Carrying amount at the end of the period	Percentage to total investment at the end of the period (%)	Profit or loss in the reporting period
1	CB	SS113001	BOCCB	1,837.95	18.30	2,008.92	89.28	170.97
2	CB	SS113002	ICBCCB	217.62	2.02	238.41	10.59	20.80
3	CB	SZ126729	Yanjing CB	2.15	0.02	2.90	0.13	0.75
Profit or loss from investment securities sold during the reporting period				N/A	N/A	N/A	N/A	213.82
Total				2,057.72	N/A	2,250.23	100.00	406.34

Notes:

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

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

Unit: RMB million

No.	Stock Codes	Abbreviated stock names	Amount of initial investment	Shareholding of the company (%)	Carrying amount at the end of the period	Profit or loss in the reporting period	Changes in shareholders' equity in the reporting period	Source of shares
1	SS601006	Daqin Railway	2,174	1.67	1,947	16	(227)	Purchase from market
2	SS601398	ICBC	1,419	0.10	1,341	12	(85)	Purchase from market
	HK01398	ICBC	155		144	8	(10)	Purchase from market
3	SS601288	ABC	1,417	0.16	1,414	8	(2)	Purchase from market
4	SS601668	CSCEC	1,363	1.06	1,085	(27)	(239)	Purchase from market
5	SS600036	CMB	1,034	0.33	871	6	(164)	Purchase from market
	HK03968	CMB	46		42	14	–	Purchase from market
6	SS601939	CCB	893	0.07	788	22	(101)	Purchase from market
	HK00939	CCB	34		35	25	2	Purchase from market
7	SS600598	Beidahuang	838	3.14	739	93	(126)	Purchase from market
8	SS600016	Minsheng Bank	683	0.45	601	(2)	(95)	Purchase from market
9	SS601628	China Life	601	0.09	448	3	(229)	Purchase from market
	HK02628	China Life	98		82	(2)	(18)	Purchase from market
10	SS600832	Oriental Pearl	523	1.61	436	(7)	(87)	Purchase from market

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

3. Shareholdings in non-listed financial institutions

Unit: RMB million

Name of institution	Amount of initial investment	Number of shares held (Million share)	Percentage of shareholding in 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	Accounting item	Source of shares
Bank of Hangzhou	1,300	100	5.98	1,238	20	(62)	Available-for-sale financial assets	Private placement

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

4. Trading of the Shares in Other Listed Companies

Unit: RMB million

Purchase/ Sell	Stock Names	Number of shares held at the beginning of the reporting period (million shares)	Number of shares purchased/sold during the reporting period (million shares)	Number of shares held at the end of the reporting period (million shares)	Amount paid	Investment returns
Purchase	N/A	N/A	4,668	N/A	47,542	N/A
Sell	N/A	N/A	3,481	N/A	N/A	2,693

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

Section XIV 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 XVII Appendix for details.

HKFRS Financial Statements

Section XV Embedded Value

Embedded Value

INDEPENDENT ACTUARIES REVIEW OPINION REPORT ON EMBEDDED VALUE

To The Directors China Pacific Insurance (Group) Company Limited

Towers Watson Management (Shenzhen) Consulting Co. Ltd, 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 2010.

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 2010, 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 2010;
- 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 2010 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 "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 2010, 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 2010 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 2010 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
25 March 2011

2010 Embedded Value 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 2010 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 2010 annual report.

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

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

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

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

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

The table below shows the Group Embedded Value of CPIC Group as at 31 December 2010, and the value of one year's sales of CPIC Life in the 12 month to 31 December 2010 at risk discount rate of 11.5%.

Unit: RMB Million

Valuation date	31 December 2010	31 December 2009
Group Adjusted Net Worth	**75,905**	**72,368**
Adjusted Net Worth of CPIC Life	**35,836**	**24,150**
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written prior to June 1999	(2,974)	(2,505)
Value of In Force Business of CPIC Life Before Cost of Solvency Margin Held for policies written since June 1999	46,964	36,476
Cost of Solvency Margin Held for CPIC Life	(9,212)	(7,516)
Value of In Force Business of CPIC Life After Cost of Solvency Margin Held	34,778	26,454
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	**34,184**	**26,003**
Group Embedded Value	**110,089**	**98,371**
Life Embedded Value	**70,613**	**50,605**
Value of One Year's Sales of CPIC Life Before Cost of Solvency Margin Held	7,565	6,218
Cost of Solvency Margin	(1,465)	(1,219)
Value of One Year's Sales of CPIC Life After Cost of Solvency Margin Held	**6,100**	**5,000**

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 2010, 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 2010:

1. Risk Discount Rate

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

2. Investment Returns

The investment returns for long term business are assumed to increase from 4.85% in 2011 to 5.2% in 2014, and remaining at 5.2% thereafter. The investment return for short term business is based on the 2010 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 2010 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 2011, 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 2009 to 31 December 2010 at risk discount rate of 11.5%.

Unit: RMB Million

No.	Item	Value	Comments
1	**Embedded Value of the life business at 31 December 2009**	**50,605**	
2	Expected Return on Embedded value	6,341	Expected returns on the 2009 embedded value of CPIC Life and the value of one year's sales of CPIC Life in 2010
3	Value of one year's sales	6,100	Value of one year's sale in respect of new business written in the 12 months prior to 31 December 2010
4	Investment Experience Variance	(1,089)	Reflects the difference between actual and assumed investment return in 2010
5	Operating Experience Variance	(354)	Reflects the difference between actual and assumed operating experience
6	Change in methodology, assumptions and models	(591)	Reflects assumption changes, together with model enhancements
7	Change in market value adjustment	(952)	Reflects the change in value of assets not valued on a market value basis
8	Capital injection	12,000	Shareholders' capital injection to CPIC Life
9	Shareholder Dividends	(1,530)	Shareholder dividends distributed to shareholders of CPIC Life
10	Others	83	
11	**Embedded Value of the life business at 31 December 2010**	**70,613**	Increased by 39.5% relative to 31 December 2009
12	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2009**	**49,204**	
13	Change in Adjusted Net Worth before payment of shareholder dividends to shareholders of CPIC Group	(4,854)	Including total amount of RMB3.029 billion from exercise of the over-allotment options of H Shares and other minor shareholders capital injection
14	Shareholder dividends	(2,580)	Dividend distributed to shareholders of CPIC Group
15	Change in market value adjustment	(515)	
16	**Adjusted net worth of businesses other than CPIC Life as at 31 December 2010**	**41,255**	
17	Minority interests relating to equity and market value adjustments	(1,779)	Minority interests on Embedded Value as at 31 December 2010
18	**Group Embedded Value as at 31 December 2010**	**110,089**	
19	**Embedded Value as at 31 December 2010 per share(RMB)**	**12.80**	

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 2010 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.

Unit: 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	**34,778**	**6,100**
Discount Rate "11%"	36,414	6,452
Discount Rate "12%"	33,237	5,770
Investment Return "+25 basis points"	38,339	6,476
Investment Return "-25 basis points"	31,225	5,727
Mortality "-10%"	34,902	6,121
Morbidity "-10%"	34,970	6,137
Lapse and Surrender Rates "-10%"	34,815	6,101
Expenses "-10%"	35,493	6,607
Participating "+5% Distribution"	33,562	5,700
Short Term Claim Ratio "-10 %"	34,837	6,182
150% Solvency Margin	30,171	5,367

Note that figures may not be additive due to rounding.

Section XVI 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 XVII Appendix

Appendix

The audited financial report dated 31 December 2010

Chairman

The Board of China Pacific Insurance (Group) Co., Ltd.

25 March, 2011

Audited Financial Statements

31 December 2010

Contents

Independent Auditors' Report

To the shareholders of China Pacific Insurance (Group) Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Pacific Insurance (Group) Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 2 to 94, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 these 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 2010, 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
25 March 2011

Consolidated Income Statement
Year Ended 31 December 2010

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

Group	Notes	2010	2009
Gross written premiums	6(a)	139,555	96,342
Less: Premiums ceded to reinsurers	6(b)	(13,422)	(9,791)
Net written premiums	6	126,133	86,551
Net change in unearned premium reserves		(6,382)	(2,424)
Net premiums earned		119,751	84,127
Investment income	7	20,657	19,316
Other operating income		919	746
Other income		21,576	20,062
Total income		141,327	104,189
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	8	(17,018)	(16,089)
Claims incurred	8	(20,829)	(15,827)
Changes in long-term life insurance contract liabilities	8	(59,241)	(37,058)
Policyholder dividends	8	(3,399)	(2,053)
Finance costs	9	(373)	(396)
Interest credited to investment contracts		(1,722)	(1,870)
Other operating and administrative expenses		(28,063)	(21,475)
Total benefits, claims and expenses		(130,645)	(94,768)
Share of (losses)/profits of:			
A jointly-controlled entity	23	(12)	82
An associate		–	3
Profit before tax	10	10,670	9,506
Income tax	14	(2,005)	(2,033)
Net profit for the year		8,665	7,473
Attributable to:			
Equity holders of the parent		8,557	7,356
Minority interests		108	117
		8,665	7,473
Basic earnings per share	15	RMB1.00	RMB0.95
Diluted earnings per share	15	RMB1.00	RMB0.95

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

Consolidated Statement of Comprehensive Income
Year Ended 31 December 2010

(All amounts expressed in RMB million unless otherwise specified)

Group	Note	2010	2009
Net profit for the year		8,665	7,473
Other comprehensive income			
Exchange differences on translation of foreign operations		(11)	(2)
Available-for-sale financial assets		(4,242)	3,115
Income tax relating to available-for-sale financial assets		1,060	(780)
Other comprehensive (loss)/income for the year	16	(3,193)	2,333
Total comprehensive income for the year		5,472	9,806
Attributable to:			
Equity holders of the parent		5,417	9,645
Minority interests		55	161
		5,472	9,806

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

Consolidated Balance Sheet
31 December 2010

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2010	31 December 2009
ASSETS			
Property and equipment	17	6,831	8,145
Investment property	18	2,366	–
Goodwill	19	149	149
Other intangible assets	20	404	376
Prepaid land lease payments	21	203	208
Investment in a jointly-controlled entity	23	440	464
Financial assets at fair value through profit or loss	24	3,604	333
Held-to-maturity financial assets	25	157,360	104,618
Available-for-sale financial assets	26	119,759	118,475
Investments classified as loans and receivables	27	22,811	22,199
Securities purchased under agreements to resell	28	2,600	115
Term deposits	29	106,772	86,371
Restricted statutory deposits		2,772	1,968
Policy loans		2,307	1,352
Interest receivable	30	9,207	6,679
Reinsurance assets	31	12,347	9,147
Deferred income tax assets	32	1,586	839
Insurance receivables	33	5,409	3,864
Other assets	34	3,824	1,762
Cash and short-term time deposits	35	14,960	30,123
Total assets		475,711	397,187

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

Consolidated Balance Sheet (continued)
31 December 2010

(All amounts expressed in RMB million unless otherwise specified)

Group	Notes	31 December 2010	31 December 2009
EQUITY AND LIABILITIES			
Equity			
Issued capital	36	8,600	8,483
Reserves	37	58,476	58,616
Retained profits	37	13,221	7,552
Equity attributable to equity holders of the parent		80,297	74,651
Minority interests		1,254	1,022
Total equity		81,551	75,673
Liabilities			
Insurance contract liabilities	38	307,186	236,152
Investment contract liabilities	39	51,272	52,090
Policyholders' deposits		82	89
Subordinated debt	40	2,338	2,263
Securities sold under agreements to repurchase	41	8,150	9,800
Deferred income tax liabilities	32	2	195
Income tax payable		1,165	272
Premium received in advance		3,549	4,269
Policyholder dividend payable		7,110	5,113
Payables to reinsurers		3,510	2,208
Other liabilities	42	9,796	9,063
Total liabilities		394,160	321,514
Total equity and liabilities		475,711	397,187

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 2010

(All amounts expressed in RMB million unless otherwise specified)

2010

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

1 *Dividends declared represent final dividend on ordinary shares declared for 2009, amounting to RMB2,580 million (RMB0.3 per share).*

2009

Group	Issued capital	Capital reserve	Surplus reserves	Foreign currency translation reserve	Available-for-sale investment revaluation reserve	Retained profits	Total	Minority interests	Total equity
	Attributable to equity holders of the parent								
		Reserves							
At 1 January 2009	7,700	38,318	1,006	(24)	(1,260)	2,898	48,638	482	49,120
Total comprehensive income	–	–	–	(2)	2,291	7,356	9,645	161	9,806
Dividends declared [1]	–	–	–	–	–	(2,310)	(2,310)	–	(2,310)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	(58)	(58)
Issue of shares	783	17,870	–	–	–	–	18,653	–	18,653
Capital injection into subsidiaries	–	–	–	–	–	–	–	12	12
Changes due to the step acquisition of a subsidiary	–	28	–	–	–	(3)	25	425	450
Appropriations to surplus reserves	–	–	389	–	–	(389)	–	–	–
At 31 December 2009	8,483	56,216	1,395	(26)	1,031	7,552	74,651	1,022	75,673

1 *Dividends declared represent final dividend on ordinary shares declared for 2008, amounting to RMB2,310 million (RMB0.30 per share).*

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

Consolidated Cash Flow Statement
Year Ended 31 December 2010

(All amounts expressed in RMB million unless otherwise specified)

Group	Note	2010	2009
OPERATING ACTIVITIES			
Cash generated from operating activities	46	62,610	38,516
Income tax paid		(992)	(42)
Net cash inflow from operating activities		61,618	38,474
INVESTING ACTIVITIES			
Purchases of property and equipment, intangible assets and other assets		(2,296)	(2,005)
Proceeds from sale of items of property and equipment, intangible assets and other assets		1,048	33
Purchases of investments, net		(83,502)	(55,623)
Acquisition of a subsidiary		–	97
Interest received		11,463	10,002
Dividends received from investments		2,687	819
Net cash outflow from investing activities		(70,600)	(46,677)
FINANCING ACTIVITIES			
Securities sold under agreements to repurchase, net		(1,650)	2,780
Capital contribution from minority shareholders of subsidiaries		225	12
Proceeds from issuance of shares		2,796	18,806
Interest paid		(162)	(229)
Dividends paid		(2,653)	(2,360)
Others		(1,939)	1,862
Net cash (outflow)/inflow from financing activities		(3,383)	20,871
Effects of exchange rate changes on cash and cash equivalents		(313)	(3)
Net (decrease)/increase in cash and cash equivalents		(12,678)	12,665
Cash and cash equivalents at beginning of year		30,238	17,573
Cash and cash equivalents at end of year		17,560	30,238
Analysis of balances of cash and cash equivalents			
Cash at banks and on hand		5,713	6,330
Time deposits with original maturity of no more than three months		8,358	23,370
Other monetary assets		889	423
Securities purchased under agreements to resell with original maturity of no more than three months		2,600	115
Cash and cash equivalents at end of year		17,560	30,238

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

Balance Sheet
31 December 2010

(All amounts expressed in RMB million unless otherwise specified)

Company	Notes	31 December 2010	31 December 2009
ASSETS			
Property and equipment	17	619	2,855
Investment property	18	2,551	187
Intangible assets		22	28
Prepaid land lease payments	21	180	184
Investments in subsidiaries	22	44,866	33,038
Investment in a jointly-controlled entity	23	400	400
Financial assets at fair value through profit or loss	24	415	32
Held-to-maturity financial assets	25	1,849	1,359
Available-for-sale financial assets	26	5,279	5,388
Investments classified as loans and receivables	27	1,199	1,199
Securities purchased under agreements to resell	28	2,600	–
Term deposits	29	8,529	6,528
Interest receivables		248	133
Deferred income tax assets		568	682
Other assets	34	1,115	931
Cash and short-term time deposits	35	5,471	21,043
Total assets		75,911	73,987
EQUITY AND LIABILITIES			
Equity			
Issued capital	36	8,600	8,483
Reserves	37	59,567	56,728
Retained profits	37	5,562	5,355
Total equity		73,729	70,566
Liabilities			
Securities sold under agreements to repurchase		–	150
Income tax payable		27	27
Due to subsidiaries		575	301
Other liabilities	42	1,580	2,943
Total liabilities		2,182	3,421
Total equity and liabilities		75,911	73,987

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

Notes to Financial Statements
31 December 2010

(All Amounts Expressed in Renminbi ("RMB") Million Unless Otherwise Specified)

1. Corporate Information

China Pacific Insurance (Group) Co., Ltd. (the "Company") was established in Shanghai, the People's Republic of China (the "PRC") in May 1991, under the original name of China Pacific Insurance Co., Ltd. Pursuant to the approval of State Council of the PRC and Circular [2001] No.239 issued by China Insurance Regulatory Commission (the "CIRC"), the Company was restructured as a joint stock limited company in October 2001 with 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.

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 12 Amendment	Deferred Tax: Recovery of Underlying Assets [5]
HKAS 24 (Revised)	Related Party Transactions [3]
HKAS 32 Amendment	Classification of Rights Issues [1]
HKFRS 1 Amendment	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters [2]
HKFRS 1 Amendment	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [4]
HKFRS 7 Amendments	Transfers of Financial Assets [4]
HKFRS 9	Financial Instruments [6]
HK (IFRIC)-Int 14 Amendments	Prepayments of a Minimum Funding Requirement [3]
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments [2]

[1] *Effective for annual periods beginning on or after 1 February 2010*
[2] *Effective for annual periods beginning on or after 1 July 2010*
[3] *Effective for annual periods beginning on or after 1 January 2011*
[4] *Effective for annual periods beginning on or after 1 July 2011*
[5] *Effective for annual periods beginning on or after 1 January 2012*
[6] *Effective for annual periods beginning on or after 1 January 2013*

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK (IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

HKAS 12 Amendment was issued in December 2010. The amendment mainly concerns the determination of deferred tax on investment property measured using the fair value model in HKAS 40 Investment Property. The amendment is expected to have no impact on the financial statements of the Group.

HKAS 24 (Revised) was issued in November 2009. The revised HKAS 24 clarifies and simplifies the definition of a related party. The revised standard also provides some relief for government-related entities to disclose details of all transactions with other government-related entities (as well as with the government itself). Currently, the revision would not have significant impact on the Group's financial statements.

HKAS 32 Amendment was issued in October 2009. The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. Currently, the amendment would not have significant impact on the Group's financial statements.

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

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

2.1 Basis of preparation (continued)

In December 2010, the HKICPA issued another amendment to HKFRS 1 to introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. It also removes the legacy fixed dates in HKFRS 1 relating to derecognition and day one gain or loss transactions. The amendment would not have significant impact on the Group's financial statements.

HKFRS 7 Amendments were issued in October 2010. The amendments require more disclosure information that enables users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Currently, the amendments would not have significant financial impact on the Group's financial statements.

HKFRS 9 was issued in November 2009. The new standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in HKAS 39. The approach in HKFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Additions only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these Additions. HKFRS 9 will be effective for annual periods beginning on or after 1 January 2013, with early adoption permitted. 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.

HK (IFRIC)-Int 14 Amendments were issued in December 2009. The amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in the future contributions is thus equal to the sum of (i) the prepayment of future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. Currently, the amendments would not have significant financial impact on the Group's financial statements.

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

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

2.1 Basis of preparation (continued)

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, currently, it is expected that these amendments would not have a significant financial impact on the Group's financial statements. Those amendments that may have a significant impact on the Group's policies are as follows:

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

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

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

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

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

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

2.2 Changes in accounting policy and disclosures

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

- HKFRS 1 *First-time Adoption of HKFRSs (Revised)*
  The revised standard corrects a potential technical problem arising from the interaction of HKFRS 1 and the revised HKFRS 3 Business Combinations and revised HKAS 27 Consolidated and Separate Financial Statements as published in March 2008. The adoption of this revised standard did not have any impact on the financial position or financial performance of the Group.

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

2.2 Changes in accounting policy and disclosures (continued)

- HKFRS 1 *First-time Adoption of HKFRSs (Amendment)*
  The standard has been amended to provide relief from full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions (Amendment)*
  The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes HK (IFRIC)-Int 8 and HK (IFRIC)-Int 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- HKFRS 3 *Business Combinations (Revised) and* HKAS 27 *Consolidated and Separate Financial Statements (Revised)*
  HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of minority interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

  HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

  The changes by HKFRS 3 (Revised) and HKAS 27 (Revised) will affect future acquisitions or loss of control of subsidiaries and transactions with minority interests. The revised standards are applied prospectively and currently had no impact on the financial position or financial performance of the Group.

- HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)*
  The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- HK(IFRIC)-Int 17 *Distribution of Non-cash Assets to Owners*
  This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

- HK Interpretation 4 Leases – *Determination of the Length of Lease Term in respect of Hong Kong Land Leases (Revised)*
  This revised interpretation expands the scope of HK Interpretation 4 to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40. The adoption of this revised interpretation did not have any impact on the financial position or financial performance of the Group.

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

2.2 Changes in accounting policy and disclosures (continued)

- HK Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*
  The purpose of this Interpretation is to provide guidance on the classification by the borrower of a term loan that contains a repayment on demand clause, with reference to the criteria for classification of liabilities as current or non-current. The adoption of this interpretation did not have any impact on the financial position or financial performance of the Group.

- *Improvements to HKFRSs (issued October 2008)*
  In October 2008, HKICPA issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at 31 December 2009, apart from the following:

  - HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* Clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a minority interest after the sale transaction. The amendment is applied prospectively and currently had no impact on the financial position or financial performance of the Group.

- *Improvements to HKFRSs (issued May 2009)*
  In May 2009, HKICPA issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have significant impact on the financial position or performance of the Group.

  - HKFRS 8 *Operating Segment Information:* Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

  - HKAS 7 *Statement of Cash Flows:* Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the cash flow statement of the contingent consideration on the business combination completed in 2010 upon cash settlement.

  - HKAS 36 *Impairment of Assets:* The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in HKFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

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

- HKFRS 2 *Share-based Payment*

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

- HKAS 1 *Presentation of Financial Statements*

- HKAS 17 *Leases*

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

2.2 Changes in accounting policy and disclosures (continued)

- HKAS 38 *Intangible Assets*
- HKAS 39 *Financial Instruments: Recognition and Measurement*
- HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*
- HK(IFRIC)-Int 16 *Hedge of a Net Investment in a Foreign Operation*

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

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 2010. 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. Basis of Preparation and Principal Accounting Policies (continued)

2.3 Summary of principal accounting policies (continued)

(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, except when it relates to items when gains or losses are recognized directly in equity, the gain or loss is then recognized net of the exchange component in equity.

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

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

(3) Subsidiaries

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

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

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

2.3 Summary of principal accounting policies (continued)

(4) Jointly-controlled entities

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

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

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

(5) Associates

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

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

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

(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.

(7) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

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

2.3 Summary of principal accounting policies (continued)

(7) Related parties (continued)

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);

(8) Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

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

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

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

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

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

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

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

2.3 Summary of principal accounting policies (continued)

(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 years.

The useful life and 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 the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

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.

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

2.3 Summary of principal accounting policies (continued)

(12) Investments and other financial assets (continued)

Available-for-sale financial assets

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

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

(13) Derivative financial instruments

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

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

(14) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business at the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations. If current market prices are not available at the balance sheet date, reference is made to 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.

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

2.3 Summary of principal accounting policies (continued)

(14) Fair value of financial instruments (continued)

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

(15) Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

Assets carried at cost

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

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

2.3 Summary of principal accounting policies (continued)

(15) Impairment of financial assets (continued)

Available-for-sale financial assets

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

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;

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

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

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

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

2.3 Summary of principal accounting policies (continued)

(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.

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

2.3 Summary of principal accounting policies (continued)

(19) Reinsurance (continued)

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

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

(20) Cash and cash equivalents

For the purpose of 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 insurance contract, while the portion with other risks should not be treated as insurance contract.

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

(22) Testing the significance of insurance risk

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

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

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

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

2.3 Summary of principal accounting policies (continued)

(22) Testing the significance of insurance risk (continued)

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

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

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

(23) Insurance contract liabilities

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

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

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

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

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

- Expected future cash inflows represent cash inflows from assuming insurance contractual obligations, including premiums and other charges.

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

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

2.3 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

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

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

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

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

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

- For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on the market interest rate which is in line with the period and risk of liability cash outflows. For insurance contracts whose future insurance benefits will be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on expected investment return rates of the portfolios backing the liabilities.

- The Group reasonably estimates insurance incident occurrence rate, surrender rate and expense rate based on actual experience and future development trends.

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

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

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

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

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

2.3 Summary of principal accounting policies (continued)

(23) Insurance contract liabilities (continued)

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

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

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

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

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

(24) Investment contract liabilities

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

(25) Financial liabilities

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

Financial liabilities at amortized cost are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized in the income statement.

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

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

2.3 Summary of principal accounting policies (continued)

(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.

(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.

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

2.3 Summary of principal accounting policies (continued)

(29) Income tax (continued)

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and a jointly-controlled entity, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

2.3 Summary of principal accounting policies (continued)

(30) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(a) Gross premiums

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

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

2.3 Summary of principal accounting policies (continued)

(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.

(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.

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

2.3 Summary of principal accounting policies (continued)

(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.

(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.

3. Significant Accounting Judgements and Estimates (continued)

3.1 Significant judgements (continued)

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

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

3.2 Estimation uncertainty

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

(1) Valuation of insurance contract liabilities

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

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

Unearned premium and related reserves

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

(a) Discount rates

For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined by reference to the 750-day moving average bond yield curve, published on the "China Bond" website. A premium is added by considering the liquidity, taxation impacts and other relevant factors. The ranges of discount rates used as at 31 December 2009 and 2010 are from 2.89% to 5.55% and from 2.61% to 5.83%, 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 2009 and 2010 are from 4.65% to 5.2% and from 4.75% to 5.2%, 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.

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)

(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 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 surrender rates and a risk adjustment is considered.

(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 above factors and is determined based on the information available as at the balance sheet date 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)

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 and liabilities to be recognized.

3. Significant Accounting Judgements and Estimates (continued)

3.3 Change in significant accounting estimates

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

As mentioned in 3.2 above and note 43(a), as at 31 December 2010, the Company 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 long-term life insurance contract liabilities as at 31 December 2010 by RMB3.13 billion and a decrease in profit before tax of 2010 by RMB3.13 billion.

The above change in significant accounting estimates has been approved by the board of directors of the Company on 25 March 2011.

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 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 2010, gross written premiums from transactions with the top five external customers amounted to 0.3% (2009: 0.5%) of the Group's total gross written premiums.

4. Segment Information (continued)

Segment income statement for the year ended 31 December 2010

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

4. Segment Information (continued)

Segment balance sheet at 31 December 2010

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

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

Other segment information for the year ended 31 December 2010

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

4. Segment Information (continued)

Segment income statement for the year ended 31 December 2009

	Life insurance	Property and casualty insurance: Mainland China	Hong Kong	Eliminations	Sub-total	Others	Eliminations	Total
Gross written premiums	61,998	34,289	196	(141)	34,344	–	–	96,342
Less: Premiums ceded to reinsurers	(2,745)	(7,157)	(30)	141	(7,046)	–	–	(9,791)
Net written premiums	59,253	27,132	166	–	27,298	–	–	86,551
Net change in unearned premium reserves	(195)	(2,222)	(7)	–	(2,229)	–	–	(2,424)
Net premiums earned	59,058	24,910	159	–	25,069	–	–	84,127
Investment income	16,945	1,349	19	–	1,368	1,003	–	19,316
Other operating income	597	112	1	–	113	302	(266)	746
Other income	17,542	1,461	20	–	1,481	1,305	(266)	20,062
Segment income	76,600	26,371	179	–	26,550	1,305	(266)	104,189
Net policyholders' benefits and claims:								
Life insurance death and other benefits paid	(16,089)	–	–	–	–	–	–	(16,089)
Claims incurred	(533)	(15,202)	(92)	–	(15,294)	–	–	(15,827)
Changes in long-term life insurance contract liabilities	(37,058)	–	–	–	–	–	–	(37,058)
Policyholder dividends	(2,053)	–	–	–	–	–	–	(2,053)
Finance costs	(381)	(10)	–	–	(10)	(5)	–	(396)
Interest credited to investment contracts	(1,870)	–	–	–	–	–	–	(1,870)
Other operating and administrative expenses	(11,765)	(9,295)	(56)	–	(9,351)	(620)	261	(21,475)
Segment benefits, claims and expenses	(69,749)	(24,507)	(148)	–	(24,655)	(625)	261	(94,768)
Segment results	6,851	1,864	31	–	1,895	680	(5)	9,421
Share of profits/(losses) of:								
A jointly-controlled entity	–	–	–	–	–	82	–	82
An associate	4	–	–	–	–	(1)	–	3
Profit before tax	6,855	1,864	31	–	1,895	761	(5)	9,506
Income tax	(1,428)	(442)	–	–	(442)	(163)	–	(2,033)
Net profit for the year	5,427	1,422	31	–	1,453	598	(5)	7,473

4. Segment Information (continued)

Segment balance sheet at 31 December 2009

	Life insurance	Property and casualty insurance: Mainland China	Hong Kong	Eliminations	Sub-total	Others	Eliminations	Total
Investment in a jointly-controlled entity	–	–	–	–	–	464	–	464
Investments in securities *	210,746	25,952	356	–	26,308	8,585	(14)	245,625
Term deposits	75,122	4,715	4	–	4,719	6,530	–	86,371
Others	23,152	14,638	124	(133)	14,629	27,266	(320)	64,727
Segment assets	309,020	45,305	484	(133)	45,656	42,845	(334)	397,187
Insurance contract liabilities	210,509	25,556	171	(84)	25,643	–	–	236,152
Investment contract liabilities	52,090	–	–	–	–	–	–	52,090
Policyholders' deposits	11	78	–	–	78	–	–	89
Subordinated debt	2,263	–	–	–	–	–	–	2,263
Securities sold under agreements to repurchase	9,600	50	–	–	50	150	–	9,800
Others	10,488	7,533	17	(49)	7,501	3,451	(320)	21,120
Segment liabilities	284,961	33,217	188	(133)	33,272	3,601	(320)	321,514

* *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 2009

	Life insurance	Property and casualty insurance: Mainland China	Hong Kong	Eliminations	Sub-total	Others	Eliminations	Total
Depreciation and amortization	411	311	3	–	314	140	–	865
Capital expenditure	1,010	460	–	–	460	1,031	–	2,501
Impairment losses charges	123	44	–	–	44	2	(5)	164
Interest income	10,335	892	19	–	911	656	–	11,902
Unrealized gains/(losses) from financial assets at fair value through profit or loss	115	26	–	–	26	(1)	–	140

5. Scope of Consolidation

Particulars of the Company's incorporated subsidiaries as at 31 December 2010 are as follows:

Name	Business scope and principal activities	Place of incorporation/ registration	Place of operations	Organization code	Registered and paid-up capital (RMB unless otherwise stated, thousand)	Percentage of equity attributable to the Company		Percentage of voting rights attributable to the Company	Notes
						Direct	Indirect		
China Pacific Property Insurance Co., Ltd. ("CPIC Property")	Property and casualty insurance	Shanghai	The PRC	73337320-X	5,461,000	98.41	–	98.41	(1)
China Pacific Life Insurance Co., Ltd. ("CPIC Life")	Life insurance	Shanghai	The PRC	73337090-6	7,600,000	98.29	–	98.29	(2)
Pacific Asset Management Co., Ltd. ("CPIC Asset Management")	Investment management	Shanghai	Shanghai	78954956-9	500,000	80.00	19.66	100.00	
China Pacific Insurance Co., (H.K.) Ltd. *	Property and casualty insurance	Hong Kong	Hong Kong	Not applicable	HK$250,000	100.00	–	100.00	
Shanghai Pacific Real Estate Co., Ltd. *	Management of properties	Shanghai	Shanghai	13370078-0	115,000	100.00	–	100.00	
Fenghua Xikou Garden Hotel *	Hotel operations	Zhejiang	Zhejiang	72639899-4	8,000	–	98.35	100.00	
Jiaxing Taibao Insurance Agency Co., Ltd. ("Taibao")*	Insurance agency	Zhejiang	Zhejiang	66289081-5	500	–	78.63	80.00	(3)
Changjiang Pension Insurance Co., Ltd. ("Changjiang Pension")	Pension fund management business	Shanghai	Shanghai	66246731-2	787,610	–	51.00	51.75	
CPIC Investment Management (H.K.) Company Limited ("CPIC Investment (H.K.)")	Investment management	Hong Kong	Hong Kong	Not applicable	HK$50,000	49.00	50.83	100.00	(4)

* *Not audited by Ernst & Young or other member firm of the Ernst & Young global network.*

(1) Capital injection in CPIC Property

On 10 November 2009, CPIC Property's 2nd extraordinary shareholders' meeting resolved to further increase CPIC Property's registered capital through issuance of 1,373,000,000 new ordinary shares with nominal value RMB1 per share to its then existing shareholders at a price of RMB1.82 per share. The Company subscribed for 1,349,636,851 shares in cash. Subsequently in February 2010, the Company subscribed for additional 6,354,746 shares abandoned by other shareholders. Upon the completion of share subscription, CPIC Property's issued capital is increased to RMB5,461 million and the Company holds 5,374,429,646 shares in CPIC Property. The Company's equity interest in CPIC Property is increased from 98.30% to 98.41%. The increase of registered capital was approved by CIRC (Baojianfagai [2010]321) on 29 March 2010. CPIC Property has obtained a revised business license.

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

5. Scope of Consolidation (continued)

(2) Capital injection in CPIC Life

On 10 May 2010, CPIC Life's annual shareholders' meeting for the year ended 31 December 2009 resolved to further increase CPIC Life's registered capital through issuance of 2,500,000,000 new ordinary shares with nominal value RMB1 per share to its then existing shareholders at a price of RMB4.8 per share. The Company subscribed for 2,457,309,492 shares in cash. Upon the completion of share subscription, CPIC Life's issued capital is increased to RMB7,600 million and the Company's equity interest in CPIC Life remains unchanged at 98.29%. The increase of registered capital was approved by CIRC (Baojianfagai [2010]769) on 30 June 2010 and CPIC Life has obtained a revised business license.

(3) Dissolution of Taibao

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

(4) Establishment of CPIC Investment (H.K.)

Pursuant to the approval from CIRC (Baojianguoji [2009]1041), the Company and CPIC Asset Management jointly established CPIC Investment (H.K.) in Hong Kong, with registered capital of HK$50 million of which 49% is held by the Company and 51% is held by CPIC Asset Management. As of 31 December 2010, the Company and CPIC Asset Management have paid up their subscription in cash.

6. Net Written Premiums

(a) Gross written premiums

	2010	2009
Long-term life insurance premiums	83,767	58,662
Short-term life insurance premiums	4,106	3,336
Property and casualty insurance premiums	51,682	34,344
	139,555	96,342

(b) Premiums ceded to reinsurers

	2010	2009
Long-term life insurance premiums ceded to reinsurers	(1,985)	(1,875)
Short-term life insurance premiums ceded to reinsurers	(1,051)	(870)
Property and casualty insurance premiums ceded to reinsurers	(10,386)	(7,046)
	(13,422)	(9,791)

(c) Net written premiums

	2010	2009
Net written premiums	126,133	86,551

7. Investment Income

	2010	2009
Interest and dividend income (a)	17,034	12,734
Realized gains (b)	4,049	6,575
Unrealized gains (c)	193	140
Charge of impairment losses on financial assets	(615)	(128)
Others	(4)	(5)
	20,657	19,316

(a) Interest and dividend income

	2010	2009
Financial assets at fair value through profit or loss		
– Fixed maturity investments	20	2
– Investment funds	16	3
	36	5
Held-to-maturity financial assets		
– Fixed maturity investments	6,035	3,731
Loans and receivables		
– Fixed maturity investments	5,248	4,756
Available-for-sale financial assets		
– Fixed maturity investments	3,008	3,413
– Investment funds	2,431	649
– Equity securities	276	180
	5,715	4,242
	17,034	12,734

(b) Realized gains

	2010	2009
Financial assets at fair value through profit or loss		
– Fixed maturity investments	214	23
– Investment funds	40	46
– Equity securities	1	3
	255	72
Available-for-sale financial assets		
– Fixed maturity investments	103	857
– Investment funds	997	1,025
– Equity securities	2,694	4,621
	3,794	6,503
	4,049	6,575

7. Investment Income (continued)

(c) Unrealized gains

	2010	2009
Financial assets at fair value through profit or loss		
– Fixed maturity investments	188	(2)
– Investment funds	5	143
– Equity securities	–	(1)
	193	140

8. Net Policyholders' Benefits and Claims

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

			2009
	Gross	Ceded	Net
Life insurance death and other benefits paid	16,176	(87)	16,089
Claims incurred			
– Short-term life insurance	917	(384)	533
– Property and casualty insurance	18,642	(3,348)	15,294
Changes in long-term life insurance contract liabilities	38,369	(1,311)	37,058
Policyholder dividends	2,053	–	2,053
	76,157	(5,130)	71,027

9. Finance Costs

	2010	2009
Current liabilities		
– Interest expense on securities sold under agreements to repurchase	160	230
– Interest expense on policyholders' deposits	–	2
– Interest expense on policyholder dividends	135	88
– Others	3	1
	298	321
Non-current liabilities		
– Interest expense on subordinated debt	75	75
	373	396

10. Profit Before Tax

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

	2010	2009
Employee benefits expense (including directors' and supervisors' emoluments) (note 11)	7,265	5,604
Auditors' remuneration	18	14
Operating lease payments in respect of land and buildings	449	375
Depreciation of property and equipment (note 17)	801	703
Amortization of other intangible assets (note 20)	176	144
Amortization of prepaid land lease payments (note 21)	5	5
Amortization of other assets	7	13
Loss/(gain) on disposal of items of property and equipment, intangible assets and other long-term assets	10	(21)
Charge/(reversal) of impairment loss on insurance receivables	83	(22)
Charge of impairment loss on financial assets (note 7)	615	128
Foreign exchange loss, net	200	14

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

	2010	2009
Salaries, allowances and other short-term benefits	6,191	4,767
Contributions to defined contribution plans (1)	998	779
Early retirement benefit obligation	15	12
Long-term incentive (2)	61	46
	7,265	5,604

(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)

	2010	2009
Fees	1,250	1,250
Other remuneration		
– Salaries, allowances and other short-term benefits	8,485	7,582
– Contributions to defined contribution plans	694	239
– Long-term incentive paid (1)	402	142
	9,581	7,963
	10,831	9,213

(1) This represents amount paid under the Group's long-term incentive plans mentioned in note 11(2). Amounts accrued for all eligible participants under the plan 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 are amounts of RMB1,250 thousand paid to independent non-executive directors for the year ended 31 December 2010 (2009: RMB1,250 thousand). There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2010.

(in RMB thousand)

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

(in RMB thousand)

					2009
	Fees	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
LI Ruoshan	250	–	–	–	250
XIAO Wei	250	–	–	–	250
YUEN Tin Fan	250	–	–	–	250
CHANG Tso Tung, Stephen	250	–	–	–	250
XU Shanda	250	–	–	–	250
	1,250	–	–	–	1,250

12. Directors' and Supervisors' Remuneration (continued)

(b) Executive directors and non-executive directors

(in RMB thousand)

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

1 *Non-executive directors since July 2010*

2 *Resigned effective in June 2010*

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

(in RMB thousand)

2009	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
Executive directors:				
GAO Guofu *	–	1,284	–	1,284
HUO Lianhong *	–	1,164	–	1,164
Non-executive directors:				
CHEN Shaochang	–	83	–	83
HUANG Kongwei	–	250	–	250
SHEN Weiming	–	83	–	83
YANG Xianghai	–	250	–	250
XU Hulie	–	104	–	104
YU Yeming	–	208	–	208
ZHOU Ciming	–	250	–	250
YANG Xiangdong	–	250	–	250
FENG Junyuan, Janine	–	250	–	250
	–	4,176	–	4,176

* *As at 31 December 2009, part of the two executive directors' remuneration was subject to regulatory approval and not included in above amounts. With relevant approval in 2010, the total remunerations for Mr. Gao Guofu and Mr. Huo Lianhong in 2009 were RMB2,163 thousand and RMB2,022 thousand, respectively.*

12. Directors' and Supervisors' Remuneration (continued)

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

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. There was no arrangement under which a director waived or agreed to waive any remuneration during 2010.

(c) Supervisors

(in RMB thousand)

2010	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
ZHOU Zhuping [1]	–	125	–	125
ZHANG Jianwei	–	250	–	250
LIN Lichun	–	250	–	250
SONG Junxiang	348	2,342	193	2,883
HE Jihai [1]	54	481	51	586
MA Guoqiang [2]	–	125	–	125
YUAN Songwen [2]	–	358	46	404
	402	3,931	290	4,623

[1] *Supervisors since July 2010*
[2] *Resigned effective in June 2010*

(in RMB thousand)

2009	Long-term incentive	Salaries, allowances and other short-term benefits	Contributions to defined contribution plans	Total
MA Guoqiang	–	250	–	250
ZHANG Jianwei	–	250	–	250
LIN Lichun	–	250	–	250
SONG Junxiang	142	2,068	154	2,364
YUAN Songwen	–	588	85	673
	142	3,406	239	3,787

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 2010.

13. Five Highest Paid Individuals

The five individuals whose remuneration were the highest in the Group include no director for the years ended 31 December 2010 and 2009.

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

	2010	2009
Nil to RMB1,000,000	–	–
RMB1,000,001 to RMB2,000,000	–	–
RMB2,000,001 to RMB3,000,000	–	–
RMB3,000,001 to RMB4,000,000	2	–
RMB4,000,001 to RMB5,000,000	2	3
RMB5,000,001 to RMB6,000,000	1	–
RMB6,000,001 to RMB7,000,000	–	1
RMB7,000,001 to RMB8,000,000	–	1
Total	5	5

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

(in RMB thousand)

	2010	2009
Salaries, allowances and other short-term benefits	17,987	25,166
Contributions to defined contribution plans	665	188
Long-term incentive paid (1)	3,314	1,188
	21,966	26,542
The number of non-director for the above remuneration	5	5

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

In 2010 and 2009, 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

	2010	2009
Current income tax	1,885	814
Deferred income tax (note 32)	120	1,219
	2,005	2,033

(b) Tax recorded in other comprehensive income

	2010	2009
Deferred income tax (note 32)	(1,060)	780

14. Income Tax (continued)

(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:

	2010	2009
Profit before tax	10,670	9,506
Tax computed at the statutory tax rate	2,668	2,377
Adjustments to income tax in respect of previous periods	(24)	(127)
Income not subject to tax	(857)	(300)
Expenses not deductible for tax	197	104
Attributable to a jointly-controlled entity and an associate	3	(21)
Others	18	–
Tax expense at the Group's effective rate	2,005	2,033

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

15. Earnings Per Share

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

	2010	2009
Consolidated net profit for the year attributable to equity holders of the parent	8,557	7,356
Weighted average number of ordinary shares in issue (million)	8,590	7,717
Basic earnings per share	RMB1.00	RMB0.95
Diluted earnings per share	RMB1.00	RMB0.95

The Company's dilutive potential ordinary shares for 2010 and 2009 are related to the H share over-allotment option. The H share over-allotment option was exercised in January 2010. The Company had no dilutive potential ordinary shares as at 31 December 2010.

16. Other Comprehensive (Loss)/Income

	2010	2009
Exchange differences on translation of foreign operations	(11)	(2)
Available-for-sale financial assets (Losses)/gains arising during the year	(1,063)	9,490
Reclassification adjustments for gains included in profit or loss	(3,794)	(6,503)
Impairment charges reclassified to the income statement	615	128
	(4,242)	3,115
Income tax relating to available-for-sale financial assets	1,060	(780)
	(3,182)	2,335
Other comprehensive (loss)/income	(3,193)	2,333

17. Property and Equipment

Group	Land and buildings	Construction in progress	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
Cost						
At 1 January 2009	4,340	2,051	534	2,039	515	9,479
Acquisition of a subsidiary	–	–	2	19	3	24
Additions	16	1,269	68	830	128	2,311
Transfers	165	(165)	–	–	–	–
Disposals	(6)	–	(39)	(124)	–	(169)
At 31 December 2009	4,515	3,155	565	2,764	646	11,645
Additions	71	1,193	170	273	210	1,917
Transfers	641	(641)	–	–	–	–
Disposals	(158)	–	(53)	(139)	(27)	(377)
Transfer to investment property (note 18)	–	(2,366)	–	–	–	(2,366)
At 31 December 2010	5,069	1,341	682	2,898	829	10,819
Accumulated depreciation and impairment						
At 1 January 2009	(935)	–	(300)	(1,368)	(280)	(2,883)
Acquisition of a subsidiary	–	–	(1)	(9)	–	(10)
Depreciation charge	(143)	–	(64)	(417)	(79)	(703)
Impairment charge	(73)	–	–	–	–	(73)
Disposals	10	–	38	121	–	169
At 31 December 2009	(1,141)	–	(327)	(1,673)	(359)	(3,500)
Depreciation charge	(156)	–	(66)	(468)	(111)	(801)
Disposals	113	–	50	131	19	313
At 31 December 2010	(1,184)	–	(343)	(2,010)	(451)	(3,988)
Net book value						
At 31 December 2009	3,374	3,155	238	1,091	287	8,145
At 31 December 2010	3,885	1,341	339	888	378	6,831

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 2009	278	1,539	9	257	53	2,136
Additions	–	780	–	172	60	1,012
Transfer from investment property (note 18)	20	–	–	–	–	20
At 31 December 2009	298	2,319	9	429	113	3,168
Additions	–	171	4	17	59	251
Transfers	124	(124)	–	–	–	
Disposals	(3)	–	–	(16)	–	(19)
Transfer to investment property (note 18)	(8)	(2,366)	–	–	–	(2,374)
At 31 December 2010	411	–	13	430	172	1,026
Accumulated depreciation and impairment						
At 1 January 2009	(69)	–	(4)	(136)	(2)	(211)
Depreciation charge	(9)	–	(1)	(74)	(12)	(96)
Impairment charge	(2)	–	–	–	–	(2)
Transfers from investment property (note 18)	(4)	–	–	–	–	(4)
At 31 December 2009	(84)	–	(5)	(210)	(14)	(313)
Depreciation charge	(9)	–	–	(77)	(27)	(113)
Disposals	2	–	–	15	–	17
Transfer to investment property (note 18)	2	–	–	–	–	2
At 31 December 2010	(89)	–	(5)	(272)	(41)	(407)
Net book value						
At 31 December 2009	214	2,319	4	219	99	2,855
At 31 December 2010	322	–	8	158	131	619

18. Investment Property

	Group	Company
Cost		
At 1 January 2009	–	270
Transfer to property and equipment	–	(20)
At 31 December 2009	–	250
Transfer from property and equipment	2,366	2,374
At 31 December 2010	2,366	2,624
Accumulated amortization		
At 1 January 2009	–	(59)
Transfer to property and equipment	–	4
Depreciation charge	–	(8)
At 31 December 2009	–	(63)
Depreciation charge	–	(8)
Transfer from property and equipment	–	(2)
At 31 December 2010	–	(73)
Carrying amount		
At 31 December 2009	–	187
At 31 December 2010	2,366	2,551

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

19. Goodwill

Group	Changjiang Pension
Cost	
At 1 January 2009	–
Acquisition of a subsidiary	149
At 31 December 2009 and 31 December 2010	149
Accumulated impairment loss	
At 1 January 2009, 31 December 2009 and 31 December 2010	–
Net book value	
At 31 December 2009	149
At 31 December 2010	149

20. Other Intangible Assets

Group	Software
Cost	
At 1 January 2009	610
Acquisition of a subsidiary	21
Additions	151
Disposal	(28)
At 31 December 2009	754
Additions	293
Disposal	(105)
At 31 December 2010	942
Accumulated amortization	
At 1 January 2009	(245)
Acquisition of a subsidiary	(12)
Amortization	(144)
Disposal	23
At 31 December 2009	(378)
Amortization	(176)
Disposal	16
At 31 December 2010	(538)
Carrying amount	
At 31 December 2009	376
At 31 December 2010	404

21. Prepaid Land Lease Payments

	Group	Company
Cost		
At 1 January 2009, 31 December 2009 and 31 December 2010	241	213
Accumulated amortization		
At 1 January 2009	(28)	(25)
Amortization	(5)	(4)
At 31 December 2009	(33)	(29)
Amortization	(5)	(4)
At 31 December 2010	(38)	(33)
Carrying amount		
At 31 December 2009	208	184
At 31 December 2010	203	180

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 2010	31 December 2009
Unlisted shares, at cost	44,866	33,038

Particulars of the Company's subsidiaries as at 31 December 2010 are set out in note 5.

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

23. Investment in a Jointly-controlled Entity

Group	31 December 2010	31 December 2009
Share of net assets	440	464

Company	31 December 2010	31 December 2009
Unlisted shares, at cost	400	400

Particulars of the jointly-controlled entity as at 31 December 2010 are as follows:

		Percentage of equity attributable to the Company		Registered and paid-up capital	
Name	Place of incorporation	Direct	Indirect	(RMB thousand)	Principal activity
Pacific-Antai Life Insurance Co., Ltd. ("Pacific Antai")	Shanghai	50.00	–	800,000	Life insurance

The following table illustrates the financial information of the Group's jointly-controlled entity:

	31 December 2010	31 December 2009
Share of the jointly-controlled entity's assets and liabilities:		
Assets	2,122	1,866
Liabilities	(1,682)	(1,402)
Net assets	440	464

	2010	2009
Share of the jointly-controlled entity's results:		
Revenue	455	377
Net profit	(12)	82

23. Investment in a Jointly-controlled Entity (continued)

Pursuant to a resolution made at the 2nd meeting of the Company's 5th term of board of directors held on 17 August 2007, the Company intended to sell its entire 50% equity interest in Pacific Antai. On 27 December 2010, the Company entered into a share transfer agreement with joint purchasers led by China Construction Bank Corporation to sell its entire 50% equity interest in Pacific Antai for a consideration of RMB950 million. Upon completion of the transaction, the Company will not have any equity interest in Pacific Antai. The share transfer is currently subject to regulatory approval.

The financial statements prepared in accordance with HKFRSs for the years ended 31 December 2010 and 2009 of the jointly-controlled entity were not audited by Ernst & Young or other member firm of the Ernst & Young global network.

24. Financial Assets at Fair Value Through Profit or Loss

All the Group's financial assets at fair value through profit or loss are held for trading and were as follows:

Group	31 December 2010	31 December 2009
Listed		
Investment funds	14	14
Debt securities		
– Government bonds	32	32
– Finance bonds	2,247	–
– Corporate bonds	17	15
	2,310	61
Unlisted		
Investment funds	238	272
Debt securities		
– Corporate bonds	1,056	–
	1,294	272
	3,604	333

Company	31 December 2010	31 December 2009
Listed		
Debt securities		
– Government bonds	32	32
– Finance bonds	104	–
	136	32
Unlisted		
Debt securities		
– Corporate bonds	279	–
	415	32

25. Held-to-maturity Financial Assets

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

Group	31 December 2010	31 December 2009
Listed		
Debt securities		
– Government bonds	3,027	3,041
– Finance bonds	62	55
– Corporate bonds	9,698	8,868
	12,787	11,964
Unlisted		
Debt securities		
– Government bonds	31,610	9,679
– Finance bonds	52,290	35,717
– Corporate bonds	60,673	47,258
	144,573	92,654
	157,360	104,618

Company	31 December 2010	31 December 2009
Listed		
Debt securities		
– Corporate bonds	959	610
Unlisted		
Debt securities		
– Finance bonds	790	649
– Corporate bonds	100	100
	890	749
	1,849	1,359

26. Available-for-sale Financial Assets

Group	31 December 2010	31 December 2009
Listed		
Equity securities	24,979	24,190
Investment funds	9,174	6,841
Debt securities		
– Government bonds	1,447	6,099
– Finance bonds	767	–
– Corporate bonds	14,095	13,111
	50,462	50,241
Unlisted		
Other equity investments	5,240	5,154
Investment funds	15,431	11,832
Debt securities		
– Government bonds	522	530
– Finance bonds	23,469	29,884
– Corporate bonds	24,635	20,834
	69,297	68,234
	119,759	118,475

Company	31 December 2010	31 December 2009
Listed		
Equity securities	1,442	654
Investment funds	420	25
Debt securities		
– Finance bonds	760	–
– Corporate bonds	102	1,727
	2,724	2,406
Unlisted		
Debt securities		
– Finance bonds	481	2,386
– Corporate bonds	2,074	596
	2,555	2,982
	5,279	5,388

27. Investments Classified as Loans and Receivables

Group	31 December 2010	31 December 2009
Debt securities		
– Finance	6,886	7,655
– Corporate	15,925	14,544
	22,811	22,199

Company	31 December 2010	31 December 2009
Debt securities		
– Finance	1,199	1,199

28. Securities Purchased Under Agreements to Resell

Group	31 December 2010	31 December 2009
Securities-bonds		
Stock exchange	–	115
Inter-bank market	2,600	–
	2,600	115

Company	31 December 2010	31 December 2009
Securities-bonds		
Inter-bank market	2,600	–

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

29. Term Deposits

Group	31 December 2010	31 December 2009
Within 1 year (including 1 year)	15,536	8,997
1 to 3 years (including 3 years)	62,260	34,160
3 to 5 years (including 5 years)	25,060	42,910
More than 5 years	3,916	304
	106,772	86,371

29. Term Deposits (continued)

Company	31 December 2010	31 December 2009
Within 1 year (including 1 year)	29	28
1 to 3 years (including 3 years)	6,500	4,000
3 to 5 years (including 5 years)	2,000	2,500
	8,529	6,528

30. Interest Receivable

Group	31 December 2010	31 December 2009
Interest receivable from deposits	5,094	3,379
Interest receivable from bonds	4,079	3,263
Interest receivable from loans	35	38
	9,208	6,680
Less: Bad debt provision	(1)	(1)
	9,207	6,679

31. Reinsurance Assets

Group	31 December 2010	31 December 2009
Reinsurers' share of insurance contracts (note 38)	12,347	9,147

32. Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, to be levied by the same tax authority and the same taxable entity.

Group	2010	2009
Net deferred income tax assets, at beginning of year	644	2,643
Recognized in profit or loss (note 14(a))	(120)	(1,219)
Recognized in other comprehensive income (note 14(b))	1,060	(780)
Net deferred income tax assets, at end of year	1,584	644

32. Deferred Income Tax Assets and Liabilities (continued)

Group	31 December 2010	31 December 2009
Insurance contract liabilities	(295)	(354)
Impairment of assets	159	97
Commissions and handling fees	185	206
Tax losses carried forward	472	658
Net fair value adjustment on available-for-sale financial assets and financial assets carried at fair value through profit or loss	645	(366)
Others	418	403
Net deferred income tax assets	1,584	644
Represented by:		
Deferred tax assets	1,586	839
Deferred tax liabilities	(2)	(195)

33. Insurance Receivables

Group	31 December 2010	31 December 2009
Insurance receivables	5,610	3,995
Provision for impairment of insurance receivables	(201)	(131)
	5,409	3,864

An aged analysis of the insurance receivables is as follows:

Group	31 December 2010	31 December 2009
Within 3 months (including 3 months)	4,216	2,923
Over 3 months and within 1 year (including 1 year)	762	627
Over 1 year	431	314
	5,409	3,864

Insurance receivables include premium receivables from policyholders or agents and receivables from reinsurers.

The credit terms for premium receivables from life insurance policyholders are 60 days. CPIC Property normally collects premium receivables from agents on a monthly or quarterly basis, and certain premiums are collected by CPIC Property in installments. According to the Group's credit policy, the credit terms for premium receivables cannot be longer than the insurance coverage period. The Group and reinsurers normally settle receivables and payables on a quarterly basis.

The Group's insurance receivables relate to a large number of counterparties, and there is no significant concentration of credit risk. Insurance receivables are non-interest-bearing.

33. Insurance Receivables (continued)

The following insurance receivables are individually determined to be impaired mainly because they are past due and were not collected before the end of the insurance coverage period. The Group does not hold any collateral or other enhancements over these balances.

Group	31 December 2010	31 December 2009
Insurance receivables that are individually determined to be impaired	55	64
Related provision for impairment	(55)	(64)
	–	–

34. Other Assets

Group	31 December 2010	31 December 2009
Receivable from securities clearance	1,820	215
Foreclosed assets *	874	878
Tax receivable other than income tax	320	–
Due from agents	58	31
Co-insurance receivable	56	21
Others	696	617
	3,824	1,762

Company	31 December 2010	31 December 2009
Foreclosed assets *	873	876
Receivable from securities clearance	198	–
Due from subsidiaries	23	3
Dividends receivable	8	8
Others	13	44
	1,115	931

* *On June 2007, the Company entered into a debt restructuring agreement with Fudan Pacific Institute of Finance (the "Institute"), pursuant to which the Company agreed to take possession of the buildings, related facilities and other assets of the Institute to settle the receivables due from the Institute.*

According to relevant regulations, in 2010, the Company entered into an assets transfer agreement with Shanghai Pudong New Area Land Reserve Centre ("上海市浦東新區土地資源儲備中心") to transfer to it the related land use right, buildings and facilities of the Institute (the "Institute-related assets"). As at 31 December 2010, the transfer of assets was not yet completed.

35. Cash and Short-term Time Deposits

Group	31 December 2010	31 December 2009
Cash at banks and on hand	5,713	6,330
Time deposits with original maturity of no more than three months	8,358	23,370
Other monetary assets	889	423
	14,960	30,123

Company	31 December 2010	31 December 2009
Cash at banks and on hand	621	421
Time deposits with original maturity of no more than three months	4,196	20,548
Other monetary assets	654	74
	5,471	21,043

The Group's balances denominated in RMB amounted to RMB11,038 million as at 31 December 2010 (31 December 2009: RMB8,438 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 earn interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and short-term time deposits approximate their fair values.

36. Issued Capital

Group and Company	31 December 2010	31 December 2009
Number of shares issued and fully paid at RMB1 each (million)	8,600	8,483

Please refer to note 1 for details of changes in issued capital.

37. Reserves and Retained Profits

The amounts of the Group's reserves and the movements therein during the year are presented in the consolidated statement of changes in equity.

(a) Capital reserve

Capital reserve mainly represents share premiums from issuance of shares and the deemed disposal of an equity interest in CPIC Life to certain foreign investors in December 2005, and the subsequent repurchase of the said interest in the same subsidiary by the Company in April 2007.

37. Reserves and Retained Profits (continued)

(b) Surplus reserves

Surplus reserves consist of the statutory surplus reserve and discretionary surplus reserve.

(i) Statutory surplus reserve ("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 SSR until the balance reaches 50% of the respective registered capital.

Subject to the approval of shareholders, 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, RMB2,493 million as at 31 December 2010 (31 December 2009: RMB1,692 million) represents the Company's share of its subsidiaries' surplus reserve fund.

(ii) Discretionary surplus reserve ("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, RMB2,484 million as at 31 December 2010 (31 December 2009: RMB1,686 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 4th meeting of the Company's 6th term of board of directors held on 25 March 2011, a final dividend of approximately RMB3,010 million (equivalent to RMB0.35 per share (including tax)) was proposed after the appropriation of statutory surplus reserve and is subject to the approval of the forthcoming annual general meeting.

37. Reserves and Retained Profits (continued)

(f) The movements in reserves and retained profits of the Company are set out below:

Company	Capital reserve	Surplus reserves	Available-for-sale investment revaluation reserve	Total	Retained profits
At 1 January 2009	37,771	702	244	38,717	4,242
Total comprehensive income for the year	–	–	(248)	(248)	3,812
Issue of shares	17,870	–	–	17,870	–
Dividends declared	–	–	–	–	(2,310)
Appropriations to surplus reserve	–	389	–	389	(389)
At 31 December 2009	55,641	1,091	(4)	56,728	5,355
At 1 January 2010	55,641	1,091	(4)	56,728	5,355
Total comprehensive income for the year	–	–	(157)	(157)	3,095
Issue of shares	2,688	–	–	2,688	–
Dividends declared	–	–	–	–	(2,580)
Appropriations to surplus reserve	–	308	–	308	(308)
At 31 December 2010	58,329	1,399	(161)	59,567	5,562

Dividends from subsidiaries amounting to RMB2,579 million were included in the Company's net profit for 2010 (2009: RMB3,329 million).

38. Insurance Contract Liabilities

	As at 31 December 2010		
Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
Long-term life insurance contracts	267,953	(4,821)	263,132
Short-term life insurance contracts			
– Unearned premiums	1,456	(280)	1,176
– Claim reserves	546	(131)	415
	2,002	(411)	1,591
Property and casualty insurance contracts			
– Unearned premiums	21,951	(3,483)	18,468
– Claim reserves	15,280	(3,632)	11,648
	37,231	(7,115)	30,116
	307,186	(12,347)	294,839
IBNR included in claim reserves	2,445	(593)	1,852

38. Insurance Contract Liabilities (continued)

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
		As at 31 December 2009	
Long-term life insurance contracts	208,810	(3,704)	205,106
Short-term life insurance contracts			
– Unearned premiums	1,229	(226)	1,003
– Claim reserves	470	(136)	334
	1,699	(362)	1,337
Property and casualty insurance contracts			
– Unearned premiums	14,634	(2,372)	12,262
– Claim reserves	11,009	(2,709)	8,300
	25,643	(5,081)	20,562
	236,152	(9,147)	227,005
IBNR included in claim reserves	1,821	(474)	1,347

(a) Long-term life insurance contract reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2009	170,459	(2,393)	168,066
Valuation premiums	58,662	(1,875)	56,787
Liabilities released for payments on benefits and claims	(16,176)	87	(16,089)
Other movements	(4,135)	477	(3,658)
At 31 December 2009	208,810	(3,704)	205,106
Valuation premiums	83,767	(1,985)	81,782
Liabilities released for payments on benefits and claims	(17,168)	150	(17,018)
Other movements	(7,456)	718	(6,738)
At 31 December 2010	267,953	(4,821)	263,132

38. Insurance Contract Liabilities (continued)

(b) Short-term life insurance contract liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2009	1,051	(243)	808
Premiums written	3,336	(870)	2,466
Premiums earned	(3,158)	887	(2,271)
At 31 December 2009	1,229	(226)	1,003
Premiums written	4,106	(1,051)	3,055
Premiums earned	(3,879)	997	(2,882)
At 31 December 2010	1,456	(280)	1,176

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2009	482	(143)	339
Claims incurred	917	(384)	533
Claims paid	(929)	391	(538)
At 31 December 2009	470	(136)	334
Claims incurred	1,146	(453)	693
Claims paid	(1,070)	458	(612)
At 31 December 2010	546	(131)	415

38. Insurance Contract Liabilities (continued)

(c) Property and casualty insurance contracts liabilities

Movements of unearned premiums

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2009	12,105	(2,071)	10,034
Premiums written	34,344	(7,046)	27,298
Premiums earned	(31,815)	6,745	(25,070)
At 31 December 2009	14,634	(2,372)	12,262
Premiums written	51,682	(10,386)	41,296
Premiums earned	(44,365)	9,275	(35,090)
At 31 December 2010	21,951	(3,483)	18,468

Movements of claim reserves

Group	Insurance contract liabilities	Reinsurers' share of insurance contract liabilities (note 31)	Net
At 1 January 2009	10,142	(2,930)	7,212
Claims incurred	18,642	(3,348)	15,294
Claims paid	(17,775)	3,569	(14,206)
At 31 December 2009	11,009	(2,709)	8,300
Claims incurred	25,047	(4,911)	20,136
Claims paid	(20,776)	3,988	(16,788)
At 31 December 2010	15,280	(3,632)	11,648

39. Investment Contract Liabilities

Group	
At 1 January 2009	50,339
Deposits received	6,328
Deposits withdrawn	(5,440)
Fees deducted	(384)
Interest credited	1,870
Others	(623)
At 31 December 2009	52,090
Deposits received	4,943
Deposits withdrawn	(7,069)
Fees deducted	(300)
Interest credited	1,722
Others	(114)
At 31 December 2010	51,272

40. Subordinated Debt

Pursuant to the "Approval of issuance of subordinated debt by China Pacific Life Insurance Company Limited" (Baojiancaikuai [2006] No.527) from CIRC, on 29 June 2006, CPIC Life issued a 10-year fixed rate subordinated debt to Agricultural Bank of China, with a face value of RMB2,000 million .

On the condition that CIRC regulations are complied with and there is regulatory approval, with at least one month advance notice, CPIC Life has the option to redeem all or part of the debt at face value before the interest payment date in the fifth year.

The simple coupon rate of the subordinated debt is fixed at 3.75% per annum, with interest payable every 5 years. If CPIC Life does not exercise the redemption option, the annual coupon rate for the last 5 years will increase by 2 percentage points to 5.75% and remain fixed. CPIC Life expects to redeem the debt in full on 29 June 2011.

In the event of liquidation, the subordinated debt ranks after insurance contract liabilities and other liabilities, but before issued capital. The subordinated debt can be included in the supplementary capital if certain provisions of solvency reporting standards issued by CIRC are satisfied.

41. Securities Sold Under Agreements to Repurchase

Group	31 December 2010	31 December 2009
Bonds		
Stock exchange	3,650	900
Inter-bank market	4,500	8,900
	8,150	9,800

As at 31 December 2010, bond investments of approximately RMB9,765 million (31 December 2009: RMB9,866 million) were pledged as securities sold under agreements to repurchase. Securities sold under agreements to repurchase are generally repurchased within 12 months from the date the securities are sold.

42. Other Liabilities

Group	31 December 2010	31 December 2009
Annuity and other insurance payables	2,669	2,079
Salary and staff welfare payable	1,457	1,414
Commission and brokerage payable	1,325	1,163
Proceeds received from disposal of the Institute-related assets	1,000	–
Tax payable other than income tax	923	348
Accrued expenses	369	279
Insurance guarantee fund	286	142
Co-insurance payable	174	48
Payables for purchase of office buildings	145	499
Provisions	119	98
Dividend payable	4	33
Payables for proceeds from shares sold by selling shareholders	–	1,882
Others	1,325	1,078
	9,796	9,063

Company	31 December 2010	31 December 2009
Proceeds received from disposal of the Institute-related assets	1,000	–
Salary and staff welfare payable	161	161
Provisions	94	94
Payables for purchase of office buildings	55	444
Payables for proceeds from shares sold by selling shareholders	–	1,882
Others	270	362
	1,580	2,943

43. Insurance Contract Liabilities and Reinsurance Assets – Assumptions and Sensitivities

(a) Long-term life insurance contracts

Key assumptions

Judgements are required in the process of determining the liabilities and making the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Life insurance contract estimates are based on current assumptions. Assumptions are made in relation to future deaths, voluntary terminations, investment returns and administration expenses. If the liabilities are not adequate, the assumptions are altered to reflect the current estimates.

The key assumptions to which the estimation of liabilities is particularly sensitive include discount rates, insurance incident occurrence rates (mainly including mortality and morbidity), surrender rates, expense assumptions and policy dividend assumptions.

43. Insurance Contract Liabilities and Reinsurance Assets – Assumptions and Sensitivities (continued)

(a) Long-term life insurance contracts (continued)

Sensitivities

The analysis below is performed to show the reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross long-term life insurance contract liabilities. The correlation of assumptions will have a significant effect in determining the ultimate liabilities; however, for the purpose of demonstrating the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

			As at 31 December 2010
	Change in assumptions	Impact on gross long-term life insurance contract liabilities	Impact of assumption change as a percentage of relevant gross long-term life insurance contract liabilities
Discount rates	+25 basis points	(9,970)	-3.72%
	-25 basis points	10,674	3.98%
Mortality and morbidity rates	+10%	811	0.30%
	-10%	(784)	-0.29%
Surrender rates	+10%	751	0.28%
	-10%	(772)	-0.29%
Expenses	+10%	1,612	0.60%
Policy dividend	+5%	2,857	1.07%

			As at 31 December 2009
	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	(7,855)	-3.76%
	-25 basis points	8,422	4.03%
Mortality and morbidity rates	+10%	638	0.31%
	-10%	(606)	-0.29%
Surrender rates	+10%	728	0.35%
	-10%	(763)	-0.37%
Expenses	+10%	1,369	0.66%
Policy dividend	+5%	1,845	0.88%

43. Insurance Contract Liabilities and Reinsurance Assets – Assumptions and Sensitivities (continued)

(a) Long-term life insurance contracts (continued)

Sensitivities (continued)

The sensitivity analysis also does not take into account the fact that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Other limitations in the above analysis include the use of hypothetical market movements to demonstrate potential risk and the assumption that interest rates move in identical fashion.

(b) Property and casualty and short-term life insurance contracts

Key assumptions

The principal assumption underlying the estimates is the Group's past claim development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as changes in internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include explicit margin, delays in settlement, etc.

Sensitivities

The property and casualty and short-term life insurance claim reserves are sensitive to the above key assumptions. The sensitivity of certain variables like legislative changes, uncertainty in the estimation process, is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim reserves are not known with certainty at the balance sheet date.

To illustrate the sensitivities of ultimate claim costs, for example, a respective percentage change in average claim costs or the number of claims alone results in a similar percentage change in claim reserves. In other words, while other assumptions remain unchanged, a 5% increase in average claim costs would increase net claim reserves for property and casualty insurance and short-term life insurance as at 31 December 2010 by RMB582 million and RMB21 million (31 December 2009: RMB415 million and RMB17 million), respectively.

43. Insurance Contract Liabilities and Reinsurance Assets – Assumptions and Sensitivities (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Claim development tables

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date.

Gross property and casualty insurance claim reserves:

				Accident year at end of	
Estimate of ultimate claim cost	**31 December 2007**	**31 December 2008**	**31 December 2009**	**31 December 2010**	**Total**
Accident year	13,249	18,631	19,144	24,635	
One year later	12,725	18,473	19,317		
Two years later	12,520	18,429			
Three years later	12,528				
Current estimate of cumulative claims	12,528	18,429	19,317	24,635	74,909
Cumulative payments to date	(12,360)	(17,854)	(17,032)	(13,020)	(60,266)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin					637
Total gross claim reserves included in the consolidated balance sheet					15,280

Net property and casualty insurance claim reserves:

				Accident year at end of	
Estimate of ultimate claim cost	**31 December 2007**	**31 December 2008**	**31 December 2009**	**31 December 2010**	**Total**
Accident year	10,459	14,036	15,280	19,768	
One year later	10,108	14,055	15,440		
Two years later	9,989	14,042			
Three years later	9,954				
Current estimate of cumulative claims	9,954	14,042	15,440	19,768	59,204
Cumulative payments to date	(9,833)	(13,691)	(13,953)	(10,607)	(48,084)
Liability in respect of prior years, unallocated loss adjustment expenses, discount and risk adjustment margin					528
Total net claim reserves included in the consolidated balance sheet					11,648

43. Insurance Contract Liabilities and Reinsurance Assets – Assumptions and Sensitivities (continued)

(b) Property and casualty and short-term life insurance contracts (continued)

Claim development tables (continued)

Gross short-term life insurance claim reserves:

				Accident year at end of	
Estimate of ultimate claim cost	**31 December 2007**	**31 December 2008**	**31 December 2009**	**31 December 2010**	**Total**
Accident year	909	1,005	1,002	1,197	
One year later	920	990	985		
Two years later	876	964			
Three years later	865				
Current estimate of cumulative claims	865	964	985	1,197	4,011
Cumulative payments to date	(864)	(951)	(926)	(737)	(3,478)
Liability in respect of prior years and risk adjustment margin					13
Total gross claim reserves included in the consolidated balance sheet					546

Net short-term life insurance claim reserves:

				Accident year at end of	
Estimate of ultimate claim cost	**31 December 2007**	**31 December 2008**	**31 December 2009**	**31 December 2010**	**Total**
Accident year	545	711	725	901	
One year later	558	692	717		
Two years later	524	677			
Three years later	519				
Current estimate of cumulative claims	519	677	717	901	2,814
Cumulative payments to date	(519)	(665)	(672)	(553)	(2,409)
Liability in respect of prior years and risk adjustment margin					10
Total net claim reserves included in the consolidated balance sheet					415

44. Risk Management

(a) Insurance risk

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

Insurance risk could occur due to any of the following factors:

Occurrence risk – the possibility that the number of insured events will differ from that expected.

Severity risk – the possibility that the cost of the events will differ from that expected.

Development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines, as well as the use of reinsurance arrangements.

The businesses of the Group mainly comprise long-term life insurance contracts, short-term life insurance contracts and property and casualty insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. For property and casualty insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

There would be no significant mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums. Insurance risk is also affected by the policyholders' rights to terminate the contract, to pay reduced premiums, to refuse to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behaviour and decisions.

The Group manages insurance risks through reinsurance to reduce the effect of potential losses to the Group. Two major types of reinsurance agreements, ceding on a quota share basis or a surplus basis, are usually used to cover insurance liability risk, with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claim provisions and are in accordance with the reinsurance contracts. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Group's placement of reinsurance is diversified such that neither it is dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract.

Currently, the Group's insurance risk does not vary significantly in relation to the locations of the risks insured by the Group whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Group's concentration of insurance risk is reflected by its major lines of business as analyzed by premium income in note 6.

44. Risk Management (continued)

(b) Financial risk

Market risk

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

The following policies and procedures are in place to mitigate the Group's exposure to market risk:

- A group market risk policy setting out the assessment and determination of what constitutes market risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group's risk management committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

- Asset allocation and portfolio limit structure, which ensures that assets back specific policyholder liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.

- Strict control over hedging activities.

(i) Currency risk

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

The Group operates principally in the PRC with only limited exposure to foreign exchange rate risk arising primarily from certain foreign currency insurance policies, bank deposits and securities denominated in United States dollar ("USD") or Hong Kong dollar ("HKD").

The following tables summarize the Group's exposure to foreign currency exchange rate risk at the balance sheet date by categorizing all financial assets and liabilities by major currencies.

	As at 31 December 2010			
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	3,604	–	–	3,604
Held-to-maturity financial assets	157,145	207	8	157,360
Available-for-sale financial assets	117,586	20	2,153	119,759
Investments classified as loans and receivables	22,811	–	–	22,811
Term deposits	106,746	26	–	106,772
Reinsurance assets	12,347	–	–	12,347
Cash and short-term time deposits	11,038	199	3,723	14,960
Others	24,360	495	167	25,022
	455,637	947	6,051	462,635
Insurance contract liabilities	307,186	–	–	307,186
Investment contract liabilities	51,272	–	–	51,272
Policyholders' deposits	82	–	–	82
Subordinated debt	2,338	–	–	2,338
Securities sold under agreements to repurchase	8,150	–	–	8,150
Others	18,275	361	6	18,642
	387,303	361	6	387,670

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(i) Currency risk (continued)

				As at 31 December 2009
	RMB	USD	HKD	Total
Financial assets at fair value through profit or loss	333	–	–	333
Held-to-maturity financial assets	104,413	192	13	104,618
Available-for-sale financial assets	116,953	120	1,402	118,475
Investments classified as loans and receivables	22,199	–	–	22,199
Term deposits	86,274	67	30	86,371
Reinsurance assets	9,147	–	–	9,147
Cash and short-term time deposits	8,438	504	21,181	30,123
Others	14,263	357	17	14,637
	362,020	1,240	22,643	385,903
Insurance contract liabilities	236,152	–	–	236,152
Investment contract liabilities	52,090	–	–	52,090
Policyholders' deposits	89	–	–	89
Subordinated debt	2,263	–	–	2,263
Securities sold under agreements to repurchase	9,800	–	–	9,800
Others	15,098	347	8	15,453
	315,492	347	8	315,847

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 2010
Currency	Changes in exchange rate	Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	231	231
USD and HKD	- 5%	(231)	(231)

			31 December 2009
Currency	Changes in exchange rate	Impact on profit before tax	Impact on equity
USD and HKD	+ 5%	1,108	1,108
USD and HKD	- 5%	(1,108)	(1,108)

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk

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

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's interest risk policy requires it to manage interest rate risk by maintaining an appropriate match of fixed and variable rate instruments. The policy also requires it to manage the maturity of interest-bearing financial assets and interest-bearing financial liabilities. Interest on floating rate instruments is repriced when benchmark interest rates change. Interest on other instruments is either fixed during its term or repriced at intervals of less than one year if the benchmark interest rates change.

The Group has no significant concentration of interest rate risk.

The tables below summarize the contractual or estimated repricing/maturity date of the Group's financial instruments. Other financial instruments not included in the following tables are interest-free and not exposed to interest rate risk.

						As at 31 December 2010
	Up to one year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
Financial assets:						
Deposits with original maturity of no more than three months	8,358	–	–	–	6,599	14,957
Financial assets at fair value through profit or loss	978	31	8	2,335	–	3,352
Securities purchased under agreements to resell	2,600	–	–	–	–	2,600
Policy loans	2,307	–	–	–	–	2,307
Term deposits	14,536	18,900	20,880	2,700	49,756	106,772
Available-for-sale financial assets	6,897	13,657	16,167	28,214	–	64,935
Held-to-maturity financial assets	5,049	13,461	6,909	131,941	–	157,360
Investments classified as loans and receivables	6,719	2,386	3,220	2,349	8,137	22,811
Restricted statutory deposits	100	2,012	–	500	160	2,772
Financial liabilities:						
Securities sold under agreements to repurchase	8,150	–	–	–	–	8,150
Investment contract liabilities	51,272	–	–	–	–	51,272
Policyholders' deposits	82	–	–	–	–	82
Subordinated debt	2,338	–	–	–	–	2,338

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

	Up to one year	1 to 3 years	3 to 5 years	Over 5 years	Floating rate	Total
						As at 31 December 2010
Financial assets:						
Deposits with original maturity of no more than three months	23,370	–	–	–	6,750	30,120
Financial assets at fair value through profit or loss	2	7	25	13	–	47
Securities purchased under agreements to resell	115	–	–	–	–	115
Policy loans	1,352	–	–	–	–	1,352
Term deposits	4,737	16,910	15,500	30	49,194	86,371
Available-for-sale financial assets	10,091	6,927	22,525	30,915	–	70,458
Held-to-maturity financial assets	4,360	5,499	9,651	85,108	–	104,618
Investments classified as loans and receivables	4,699	180	3,336	2,348	11,636	22,199
Restricted statutory deposits	388	890	560	–	130	1,968
Financial liabilities:						
Securities sold under agreements to repurchase	9,800	–	–	–	–	9,800
Investment contract liabilities	52,090	–	–	–	–	52,090
Policyholders' deposits	89	–	–	–	–	89
Subordinated debt	–	2,263	–	–	–	2,263

Interest rates on floating rate bonds/liabilities are re-priced when the People's Bank of China adjusts the benchmark interest rates.

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

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.

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 2010	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	(5)	(897)
-50 basis points	5	932

	31 December 2009	
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	(1)	(768)
-50 basis points	1	804

The above impact on equity represents adjustments to profit before tax and changes in fair value of available-for-sale financial assets.

44. Risk Management (continued)

(b) Financial risk (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivities (continued)

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 2010
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	320	320
-50 basis points	(320)	(320)

		31 December 2009
	Impact on profit before tax	Impact on equity
Change in RMB interest rate		
+50 basis points	338	338
-50 basis points	(338)	(338)

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

(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 5-day market price value-at-risk ("VAR") technique to estimate its risk exposure for listed equity securities and equity investment funds. The Group adopts 5 days as the holding period on the assumption that not all the investments can be sold in one day. Moreover, the VAR calculation is made based on normal market condition and a 95% confidence level impact on equity for listed equity securities and equity investments funds with 5-day reasonable market fluctuation and with 95% confidence level.

As at 31 December 2010, the estimated impact on equity for listed equity securities and equity investment funds, using the VAR technique and the assumptions above in the normal market is RMB2,098 million (31 December 2009: RMB2,473 million).

44. Risk Management (continued)

(b) Financial risk (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument (debt instrument) or reinsurance asset will cause a financial loss to the other party by failing to discharge an obligation.

The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in bonds, reinsurance arrangements with reinsurers, premium receivables, securities purchased under agreements to resell and policy loans.

Majority of the Group's financial assets are bond investments which include government bonds, finance bonds and corporate bonds. The finance bonds have high domestic credit rating and the corporate bonds are guaranteed mainly by financial institutions with high domestic credit rating. Hence, the related credit risk should be regarded as relatively low.

For securities purchased under agreements to resell and policy loans, there is security pledge and the maturity period is less than one year. Hence, the related credit risk should not have significant impact on the Group's financial statements.

The Group mitigates credit risk by utilizing credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counterparty exposure limits.

The table below shows the maximum exposure to credit risk for the assets subject to credit risk. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancements.

	31 December 2010	31 December 2009
Financial assets at fair value through profit or loss	3,352	47
Held-to-maturity financial assets	157,360	104,618
Available-for-sale financial assets	64,935	70,458
Investments classified as loans and receivables	22,811	22,199
Term deposits	106,772	86,371
Reinsurance assets	12,347	9,147
Insurance receivables	5,409	3,864
Cash and short-term time deposits	14,957	30,120
Others	19,613	10,773
Total credit risk exposure	407,556	337,597

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

44. Risk Management (continued)

(b) Financial risk (continued)

Liquidity risk

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

The Group is exposed to liquidity risk on insurance policies that permit surrenders, withdrawals or other forms of early termination. The Group seeks to manage its liquidity risk by matching, to the extent possible, the duration of its investment assets with the duration of its insurance policies and ensuring that the Group is able to meet its payment obligations and fund its lending and investment operations on a timely basis.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk:

- Implementing group liquidity risk policy by setting out the assessment and determination of what constitutes liquidity risk for the Group. Compliance with the policy is monitored and exposures and breaches are reported to the Group's risk management committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Setting out guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure that sufficient funding is available to meet insurance and investment contract obligations.

- Setting up contingency funding plans which specify the minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The tables below summarize the maturity profiles of the financial liabilities of the Group based on remaining undiscounted contractual obligations and insurance contract liabilities of the Group based on the estimated timing of the net cash outflows. Repayments which are subject to notices are treated as if notices were to be given immediately.

				As at 31 December 2010
	Up to one year*	1 to 5 years	Over 5 years	Total
Insurance contract liabilities	42,578	32,750	231,858	307,186
Investment contract liabilities	1,474	1,187	48,611	51,272
Policyholders' deposits	82	–	–	82
Subordinated debt	2,375	–	–	2,375
Securities sold under agreements to repurchase	8,168	–	–	8,168
Others	18,078	523	35	18,636
Total	72,755	34,460	280,504	387,719

44. Risk Management (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	As at 31 December 2009			
	Up to one year*	1 to 5 years	Over 5 years	Total
Insurance contract liabilities	33,704	14,904	187,544	236,152
Investment contract liabilities	1,109	1,571	49,410	52,090
Policyholders' deposits	89	–	–	89
Subordinated debt	–	2,375	–	2,375
Securities sold under agreements to repurchase	9,811	–	–	9,811
Others	14,821	595	31	15,447
Total	59,534	19,445	236,985	315,964

* *Either due up to one year or payable on demand.*

The table below summarizes the expected utilisation or settlement of assets and liabilities.

	As at 31 December 2010		
	Current	Non-current	Total
Assets			
Financial assets at fair value through profit or loss	3,604	–	3,604
Held-to-maturity financial assets	2,872	154,488	157,360
Available-for-sale financial assets	53,438	66,321	119,759
Investments classified as loans and receivables	180	22,631	22,811
Term deposits	863	105,909	106,772
Cash and short-term time deposits	14,960	–	14,960
Others	29,789	20,656	50,445
Total assets	105,706	370,005	475,711
Liabilities			
Insurance contract liabilities	30,354	276,832	307,186
Investment contract liabilities	–	51,272	51,272
Policyholders' deposits	71	11	82
Subordinated debt	2,338	–	2,338
Securities sold under agreements to repurchase	8,150	–	8,150
Others	24,598	534	25,132
Total liabilities	65,511	328,649	394,160

44. Risk Management (continued)

(b) Financial risk (continued)

Liquidity risk (continued)

	As at 31 December 2009		
	Current	Non-current	Total
Assets			
Financial assets at fair value through profit or loss	333	–	333
Held-to-maturity financial assets	1,718	102,900	104,618
Available-for-sale financial assets	49,753	68,722	118,475
Investments classified as loans and receivables	4,038	18,161	22,199
Term deposits	8,959	77,412	86,371
Cash and short-term time deposits	30,123	–	30,123
Others	14,345	20,723	35,068
Total assets	109,269	287,918	397,187
Liabilities			
Insurance contract liabilities	33,704	202,448	236,152
Investment contract liabilities	1,109	50,981	52,090
Policyholders' deposits	89	–	89
Subordinated debt	–	2,263	2,263
Securities sold under agreements to repurchase	9,800	–	9,800
Others	20,574	546	21,120
Total liabilities	65,276	256,238	321,514

(c) Operational risk

Operational risk is the risk of loss arising from inadequate or failure on business processes, human error, information system failure, etc. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Group is exposed to many types of operational risks in the conduct of its business, from inadequate or failure to obtain proper authorizations or supporting documentation to comply with operational and informational security procedures that prevent frauds or errors by employees.

The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes, including the use of compliance check and internal audit.

44. Risk Management (continued)

(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 an Asset-Liability Management Committee to make significant decisions on asset-liability management. The committee has an asset-liability working group which analyzes the extent of assets and liabilities matching.

(e) Capital management risks

CIRC monitors capital management risks mainly through a set of solvency regulatory rules to ensure insurance companies can maintain sufficient solvency margins. Further objectives are set by the Group to maintain a strong credit rating and healthy solvency margin capital ratios in order to support its business objectives and maximize shareholders' value.

The Group manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. The Group has stepped up efforts to maintain a platform for sustained financing in order to meet solvency margin needs arising from future expansion in business activities. The Group continuously and proactively adjusts the business mix, optimizes the asset allocation, improves the asset quality and enhances the operating efficiency so as to underscore the role of profitability in relation to solvency margin.

In practice, the Group manages its capital requirements mainly through monitoring the solvency margins of the Group and its major insurance subsidiaries. The solvency margins are computed based on the relevant regulations issued by CIRC; actual solvency margins are the excess of admitted assets over admitted liabilities as determined under the regulations.

The table below summarizes the minimum and actual solvency margins of the Group and its major insurance subsidiaries of the Group determined according to CIRC's solvency rules.

Group	31 December 2010	31 December 2009
Actual solvency margin	76,673	73,583
Minimum solvency margin	21,486	16,523
Surplus	55,187	57,060
Solvency margin ratio	357%	445%

CPIC Property	31 December 2010	31 December 2009
Actual solvency margin	10,266	7,023
Minimum solvency margin	6,132	4,049
Surplus	4,134	2,974
Solvency margin ratio	167%	173%

44. Risk Management (continued)

(e) Capital management risks (continued)

CPIC Life	31 December 2010	31 December 2009
Actual solvency margin	36,687	25,702
Minimum solvency margin	15,222	12,361
Surplus	21,465	13,341
Solvency margin ratio	241%	208%

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

45. Fair Value of Financial Assets and Liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments. When an active market exists, such as an authorized securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market, fair value is determined using valuation techniques (note 3.2(2)).

The Group's financial assets mainly include cash and short-term time deposits, financial assets at fair value through profit or loss, securities purchased under agreements to resell, policy loans, term deposits, available-for-sale financial assets, held-to-maturity financial assets, investments classified as loans and receivables, statutory deposits, etc.

The Group's financial liabilities mainly include securities sold under agreements to repurchase, policyholders' deposits, investment contract liabilities, subordinated debt, etc.

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 2010	
	Carrying amounts	Estimated fair values
Financial assets:		
Held-to-maturity financial assets	157,360	154,812
Investments classified as loans and receivables	22,811	22,434
Financial liabilities:		
Subordinated debt	2,338	2,329

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

Fair value of financial assets and liabilities not carried at fair value (continued)

	As at 31 December 2009	
	Carrying amounts	**Estimated fair values**
Financial assets:		
Held-to-maturity financial assets	104,618	103,794
Investments classified as loans and receivables	22,199	22,174
Financial liabilities:		
Subordinated debt	2,263	2,271

As permitted by HKFRS 7, the Group has not disclosed fair values for certain investment contract liabilities with discretionary participation features ("DPF") because fair values or fair value ranges for the DPF cannot be reliably estimated. There is no active market for these instruments which will be settled with policyholders in the normal course of business.

Carrying amounts of other financial assets and financial liabilities approximate their fair values.

Determination of fair value and fair value hierarchy

The Group establishes a framework that includes a hierarchy used to classify the inputs used in measuring fair value for financial assets. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The levels of the fair value hierarchy are as follows:

(a) Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities ("Level 1");

(b) Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) ("Level 2"); and

(c) Fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs) ("Level 3").

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

Determination of fair value and fair value hierarchy (continued)

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

				As at 31 December 2010
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit or loss				
– Investment funds	252	–	–	252
– Debt securities	2,295	1,057	–	3,352
	2,547	1,057	–	3,604
Available-for-sale financial assets				
– Equity securities	24,979	–	–	24,979
– Investment funds	24,605	–	–	24,605
– Other equity investments	–	–	5,240	5,240
– Debt securities	16,308	48,627	–	64,935
	65,892	48,627	5,240	119,759
Total	68,439	49,684	5,240	123,363

				As at 31 December 2009
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit or loss				
– Investment funds	286	–	–	286
– Debt securities	47	–	–	47
	333	–	–	333
Available-for-sale financial assets				
– Equity securities	24,190	–	–	24,190
– Investment funds	18,673	–	–	18,673
– Debt securities	19,210	51,248	–	70,458
	62,073	51,248	–	113,321
Total	62,406	51,248	–	113,654

There have been no transfers between Level 1 and Level 2 of the fair value hierarchy in 2010 and 2009.

Reconciliation of movements in Level 3 financial instruments:

					2010
	Beginning of year	**Purchases**	**Transfer from cost model to Level 3**	**Changes in fair value**	**End of year**
Available-for-sale financial assets – Other equity investments	–	148	5,154	(62)	5,240

46. Notes to Consolidated Cash Flow Statement

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

	2010	2009
Profit before tax	10,670	9,506
Investment income	(20,657)	(19,316)
Foreign currency losses, net	200	14
Finance costs	238	306
Charge of impairment losses on insurance receivables and other assets, net	74	36
Depreciation of property and equipment	801	703
Amortization of other intangible assets	176	144
Amortization of prepaid land lease payments	5	5
Amortization of other assets	7	13
Loss/(gain) on disposal of items of property and equipment, intangible assets and other long-term assets, net	10	(21)
Accrual of provision for lawsuits	21	–
Share of losses/(profits) of a jointly-controlled entity and an associate	12	(85)
	(8,443)	(8,695)
Increase in reinsurance assets	(3,200)	(1,367)
(Increase)/decrease in insurance receivables	(1,615)	461
(Increase)/decrease in other assets	(951)	102
Change in insurance contract liabilities, net	72,255	41,933
Increase in other operating liabilities	4,564	6,082
Cash generated from operating activities	62,610	38,516

47. Related Party Transactions

The Group had the following material transactions with related parties:

(a) Sale of insurance contracts

	2010	2009
Equity holders who individually own more than 5% of equity interests of the Company	73	52

The Group's above related party transactions were entered into based on normal commercial terms during the normal course of insurance business.

(b) Claims paid

	2010	2009
Equity holders who individually own more than 5% of equity interests of the Company	–	2

47. Related Party Transactions (continued)

(c) Asset management income

	2010	2009
Pacific Antai	–	2

(d) Compensation of key management personnel

	2010	2009
Salaries, allowances and other short-term benefits	38	41
Long-term incentive paid [1]	3	2
Total compensation of key management personnel	41	43

(1) This represents amount paid under the Group's long-term incentive plans mentioned in note 11(2). Amounts accrued for all eligible participants under the plan 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.

48. Commitments

(a) Capital commitments

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

	31 December 2010	31 December 2009
Contracted, but not provided for [1], [2], [3]	2,436	1,722
Authorized, but not contracted for [4]	4,300	461
	6,736	2,183

(1) In March 2008, the Company's shareholders' general meeting approved to establish IT Backup Center and Customer Support Center in Chengdu High-tech Zone. The expected total investment amounts to RMB1,000 million. Due to the earthquake in Sichuan, the plan was delayed. As at 31 December 2010, the cumulative amount paid by the Company was RMB2 million, and RMB998 million was disclosed as capital commitments.

(2) In November 2010, CPIC Life entered into a share subscription agreement with Bank of Tianjin Co. Ltd. to subscribe for 100 million RMB ordinary shares. The total investment amounts to RMB520 million. As at 31 December 2010, the cumulative amount paid by CPIC Life was RMB78 million, and RMB442 million was disclosed as capital commitments.

(3) In November 2010, CPIC Life entered into "Subscription Agreement regarding Taiping Asset – South-to-North Water Diversion Project Debt Investment Scheme" with Taiping Asset Management Co., Ltd. The total investment amounts to RMB225 million. As at 31 December 2010, the cumulative amount paid by CPIC Life was RMB45 million, and RMB180 million was disclosed as capital commitments.

(4) Pursuant to the resolution of CPLIC's 3rd term of board of directors' 6th extraordinary meeting in 2010 and approval from CIRC (Baojianzijin(2010)1520), CPIC Life resolved to purchase the entire 100% equity interest in and receivables from City Island Development Limited ("City Island") held by Hawkwind Investment Limited, at a consideration amounting to approximately RMB4.3 billion (the "acquisition of City Island"). City Island, through its subsidiaries, owns the Centre, a property located in Shanghai. As at 31 December 2010, the total investment amount was disclosed as capital commitments which were authorized, but not contracted for. In March 2011, CPIC Life completed the acquisition of City Island.

48. Commitments (continued)

(b) Operating lease commitments

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

	31 December 2010	31 December 2009
Within 1 year (including 1 year)	352	309
1 to 2 years (including 2 years)	249	218
2 to 3 years (including 3 years)	163	144
More than 3 years	529	504
	1,293	1,175

49. Contingent Liabilities

Owing to the nature of 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. 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 2010, the Group was the defendant in certain pending litigation and disputes. Provisions have been made for the possible loss and the Group would only be contingently liable for any claim that is in excess of what had been provided.

50. Post Balance Sheet Events

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

51. Comparative Figures

Certain comparative figures have been reclassified to conform to current year's presentation.

52. Approval of the Financial Statements

These financial statements have been approved and authorized for issue by the Company's directors on 25 March 2011.

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