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)*
(**Stock Code: 02601**)

## Announcement of Audited Annual Results

## For the year ended 31 December 2011

### Chairman Statement

In 2011, the Group realized gross written premiums of RMB154.958 billion, representing a YOY increase of 11.0% and a market share of 10.8%[1]. The value of one year's sales of life insurance amounted to RMB6.714 billion, representing a YOY increase of 10.1%. Profits in property and casualty insurance amounted to RMB3.224 billion, representing a YOY increase of 46.5%. Net profit attributable to equity holders of the parent company of the Group amounted to RMB8.313 billion. Earnings per share was RMB0.97.

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

**I. The Group maintained a healthy growth by providing customer demand-oriented**

[1]Based on the original gross written premiums of insurance companies in 2011 published by CIRC

**products and services**

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

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

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

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

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

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

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

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

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

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

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

**CPIC Property enhanced customer experience**. We have developed a publicly transparent, efficient and standardized claim handling system and launched a "3G Claim Management System", the first of its kind in the industry, to provide online assessment service to quicken claim handling. CPIC Property improved its underwriting and claims information management system to provide an automated service whereby customers can check the details of all types of their policies and monitor the progress of claims. CPIC Property introduced a star-grading on-site assessment management service, the first of its kind in the industry, and has established 12 star-grade customer service offices. CPIC Property has also established a customer service system to centralize the management of customer complaints. Major indicators of our service quality, in particular the number of complaints received per RMB 100 million premium generated, outperformed our peers. According to the customer satisfaction survey conducted by the China Association for Quality, a third party entity, the customer satisfaction of CPIC Property has improved continually for eight consecutive years.

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

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

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

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

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

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

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

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

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

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

**Awards of the Company**

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

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

- CPIC Life was awarded “Best Value Growth of the Year” in the 2011 Insurance Companies of the Year in China organized by the China Insurance Marketing Journal;
- 12 CPIC Life insurance products were nominated for “the 6th Chinese Insurance Culture and Innovative Award Series”, of which, the “Hongxin” (鴻鑫) Series Products and “Insurance with Bonus (Wealth)” (紅利發兩全保險) were both named as the “Best-selling Insurance Products of the Year” and the “Golden Life Insurance Scheme” (金享人生保障計劃) was named as the “Most Innovative Product of the Year”. The “Insurance with Bonus (Achievement)” (紅利達兩全保險) was named as the “Product with the Highest Market Potential of the Year”;
- In 2011, CPIC Property was honored as “Insurance Company (PRC Property and Casualty Insurance Companies) of the Year” in the 5th CBN Financial Value Rankings;
- The 3G Claim Management System of CPIC Property was awarded “2011 Best Service Award of the Year in Insurance Industry” by Money Weekly. CPIC Property was the only property and casualty insurance company to receive the award.

## Management Discussion and Analysis

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

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

**I. Key operational indicators**

**Unit: in RMB million**

| For 12 months ended 31 December/as at 31 December | 2011 | 2010 | YoY changes (%) |
|---|---|---|---|

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

注：

1、Based on the original gross written premiums of life insurance companies in 2011 published by CIRC.

2、Based on the total written premiums of life insurance companies published by CIRC.

3、Number of customers refers to the number of insurers and policyholders who hold at least one insurance policy as at the end of the year which remains valid and has an insurance coverage period of not less than 365 days. In the event that the insurer and policyholder is the same person, the person shall be deemed as one customer.

## II. Life insurance business

### (I) Business analysis

Affected by various factors, such as the changes in macroeconomic environment and new regulations in respect of bancassurance, the growth of the life insurance market significantly slowed down. Compared to a growth of 28.9% in 2010, in 2011, the total written premiums of life insurance industry in China recorded a YOY increase of 5.1%. The Group exerted its efforts in carrying out a customer demand-oriented strategic transformation and focused on the sales channel and regular premium businesses and achieved remarkable improvement. The business structure of the Company was optimized and the quality of business was improved gradually. In 2011, the gross written premiums of the Company amounted to RMB93.203 billion, representing an increase of 6.1% over the same period of the previous year. Premiums from new policies amounted to RMB46.936 billion. The standard premiums from new policies amounted to RMB18.767 billion[2], representing an increase of 6.0% over the same period of the previous year, which was 6.4 pt higher than the increment of the industry.

1. Analysis by channels

**Unit: in RMB million**

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

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

(1) Sales channel

In 2011, the Company recorded premiums from new polices through the sales channel

[2] Data from insurance industry statistics disclosed by CIRC.

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

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

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

(2) Bancassurance

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

(3) Direct sales

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

(4) New channels

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

2. Analysis by insurance category

**Unit: in RMB million**

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

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

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

3. Persistency ratio of customers

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

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

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

4. Gross written premiums from top ten geographical areas

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

**Unit: RMB million**

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

## (II) Financial Analysis

**Unit: RMB million**

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

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

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

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

**Unit: RMB million**

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

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

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

## III. Property and Casualty Insurance Business

### (1) Business Analysis

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

1. Analysis by insurance category

**Unit: RMB million**

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

(1) Automobile insurance

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

(2) Non-automobile insurance

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

**Details of top five products**

**Unit: RMB million**

**For 12 months ended 31 December 2011**

| Rank | Name of commercial insurance | Premiums | Amounts Insured | Claims paid | Reserves | Underwriting profit |
|---|---|---|---|---|---|---|
| 1 | Automobile insurance | 47,409 | 5,639,163 | 22,349 | 32,992 | 2,672 |
| 2 | Commercial property insurance | 4,878 | 7,817,900 | 1,939 | 3,708 | 173 |
| 3 | Liability insurance | 1,961 | 4,381,845 | 768 | 1,614 | 39 |
| 4 | Accident insurance | 1,507 | 23,506,723 | 525 | 1,170 | 161 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 5 | Cargo insurance | 1,503 | 3,266,302 | 665 | 851 | 21 |

Note: Premiums do not include inward premiums.

2. Analysis by channels

Unit: RMB million

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

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

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

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

3. Gross written premiums from top ten geographical areas

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

Unit: RMB million

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

(2) Financial analysis

Unit: RMB million

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

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

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

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

**Other operating and administrative expenses**. Other operating and administrative expenses amounted to RMB16.150 billion in 2011, representing an increase of 26.4%

over that of the last year, mainly attributable to the investment in the establishment of new business channels and the increase in labor cost resulting from inflation.

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

## IV. Asset Management Business

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

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

### (I) Investment portfolio

**Unit: RMB million**

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

| | 31 December 2011 | 31 December 2010 | YoY changes (%) |
|---|---|---|---|
| Held-to-maturity financial assets | 202,536 | 157,360 | 28.7 |
| Investment in a jointly-controlled entity | - | 440 | (100.0) |
| Loan and other investments[note 3] | 199,495 | 154,588 | 29.0 |

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

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

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

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

### (II) Investment income

In 2011, the Company recorded total investment income of RMB17.252 billion, representing a decrease of 17.5% over that of the previous year. Total investment yield was 3.7%, representing a decrease of 1.6pt over that of the previous year. Net investment income amounted to RMB21.380 billion, representing an increase of 26.1% over that of the previous year. This was mainly due to the increase in interest rates and total investment in fixed income assets. Net investment yield was 4.7%, representing an increase of 0.4 pt over that of the previous year.

**Unit: RMB million**

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

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

## V. Others

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

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

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

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

## VI. Analysis of specific items

### (I) Key consolidated results

**Unit: RMB million**

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

### (II) Liquidity analysis

1. Cash flow

**Unit: RMB million**

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

2. Gearing ratio

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

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

3. Liquidity analysis

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

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

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

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

**(III) Solvency**

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

**Unit: RMB million**

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

| | 31 December 2011 | 31 December 2010 | Reason of Change |
|---|---|---|---|
| Actual solvency margin | 17,644 | 10,266 | Profit for the period, contributions from shareholders, profit distribution to the shareholders and change of the fair value of investment assets |
| Minimum solvency margin | 7,568 | 6,132 | Growth of insurance business |
| Solvency margin ratio (%) | 233 | 167 | |

## VII. Prospects

### (I) Market outlook

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

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

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

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

**(II) Operation plans**

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

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

- Adhere to its operating strategies that conforms to economic cycle to maintain a stable and rapid business growth
- Innovate and optimize its sales and claims handling procedures to enhance customer experience and service quality
- Continue the optimization of its internal risk control system to mitigate systematic risks
- Accelerate the implementation of strategic transformation initiatives to strive for new achievements in its strategic transformation
- Effectively optimize resources allocation so as to enhance its profitability

## Operating Results

The Company announces the audited consolidated annual results of the Company and its subsidiaries for the year ended 31 December 2011 (the"Reporting Period") together with the comparative figures for the previous year:

Consolidated Income Statement
Year ended 31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Gross written premiums | 1(a) | 154,958 | 139,555 |
| Less: Premiums ceded to reinsurers | 1(b) | (13,384) | (13,422) |
| Net written premiums | 1 | 141,574 | 126,133 |
| Net change in unearned premium reserves | | (4,336) | (6,382) |
| **Net premiums earned** | | 137,238 | 119,751 |
| Investment income | 2 | 16,392 | 20,657 |
| Other operating income | | 1,887 | 919 |
| **Other income** | | 18,279 | 21,576 |
| **Total income** | | 155,517 | 141,327 |
| Net policyholders' benefits and claims: | | | |
| Life insurance death and other benefits paid | 3 | (21,508) | (17,018) |
| Claims incurred | 3 | (28,010) | (20,829) |
| Changes in long-term life insurance contract liabilities | 3 | (56,063) | (59,241) |
| Policyholder dividends | 3 | (3,807) | (3,399) |
| Finance costs | | (848) | (373) |
| Interest credited to investment contracts | | (2,257) | (1,722) |
| Other operating and administrative expenses | | (33,120) | (28,063) |
| **Total benefits, claims and expenses** | | (145,613) | (130,645) |
| Gain from disposal of a jointly-controlled entity | | 479 | - |
| Share of profit/(loss) of a jointly-controlled entity | | 16 | (12) |
| **Profit before tax** | | 10,399 | 10,670 |
| Income tax | 4 | (2,006) | (2,005) |
| **Net profit for the year** | | 8,393 | 8,665 |
| Attributable to: | | | |
| Equity holders of the parent | | 8,313 | 8,557 |
| Minority interests | | 80 | 108 |
| | | 8,393 | 8,665 |
| Basic earnings per share | 5 | RMB0.97 | RMB1.00 |
| Diluted earnings per share | 5 | RMB0.97 | RMB1.00 |

Consolidated Statement Of Comprehensive Income
Year ended 31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

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

Consolidated Balance Sheet
As at 31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

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

Consolidated Balance Sheet (continued)
As at 31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

| | Notes | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Issued capital | | 8,600 | 8,600 |
| Reserves | 6 | 50,203 | 58,476 |
| Retained profits | 6 | 17,993 | 13,221 |
| Equity attributable to equity holders of the parent | | 76,796 | 80,297 |
| Minority interests | | 1,259 | 1,254 |
| **Total equity** | | 78,055 | 81,551 |
| **Liabilities** | | | |
| Insurance contract liabilities | 7 | 374,931 | 307,186 |
| Investment contract liabilities | 8 | 47,182 | 51,272 |
| Policyholders' deposits | | 80 | 82 |
| Subordinated debt | | 8,000 | 2,338 |
| Securities sold under agreements to repurchase | | 32,105 | 8,150 |
| Deferred income tax liabilities | | 960 | 2 |
| Income tax payable | | 624 | 1,165 |
| Premium received in advance | | 4,711 | 3,549 |
| Policyholder dividend payable | | 9,132 | 7,110 |
| Payables to reinsurers | | 3,235 | 3,510 |
| Other liabilities | | 11,597 | 9,796 |
| **Total liabilities** | | 492,557 | 394,160 |
| **Total equity and liabilities** | | 570,612 | 475,711 |

# Consolidated Statement of Changes in Equity
## Year ended 31 December 2011

(All amounts expressed in RMB million unless otherwise specified)

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

[1] Dividends declared represent final dividend on ordinary shares declared for 2010, amounting to RMB3,010 million (RMB0.35 per share).

## Consolidated Statement of Changes in Equity (continued)

### Year ended 31 December 2010

### (All amounts expressed in RMB million unless otherwise specified)

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to equity holders of the parent | | | | | | | | |
| | | Reserves | | | | | | | |
| | Issued capital | Capital reserve | Surplus reserves | Foreign currency translation reserve | Available-for-sale investment revaluation reserve | Retained profits | Total | Minority interests | Total equity |
| At 1 January 2010 | 8,483 | 56,216 | 1,395 | (26) | 1,031 | 7,552 | 74,651 | 1,022 | 75,673 |
| Total comprehensive income | - | - | - | (11) | (3,129) | 8,557 | 5,417 | 55 | 5,472 |
| 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 (RMB0.30 per share).

Consolidated Cash Flow Statement
Year ended 31 December 2011
(All amounts expressed in RMB million unless otherwise specified)

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

Notes
(All amounts expressed in RMB million unless otherwise specified)

## 1. NET WRITTEN PREMIUMS

### (a) Gross written premiums

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

### (b) Premiums ceded to reinsurers

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

### (c) Net written premiums

| | 2011 | 2010 |
|---|---|---|
| Net written premiums | 141,574 | 126,133 |

## 2. INVESTMENT INCOME

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

## 2. INVESTMENT INCOME (continued)

### (a) Interest and dividend income

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

### (b) Realized (losses)/gains

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

### (c) Unrealized (losses)/gains

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

## 3. NET POLICYHOLDERS' BENEFITS AND CLAIMS

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

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

## 4. INCOME TAX

### (a) Income tax

| | **2011** | **2010** |
|---|---|---|
| Current income tax | 2,417 | 1,885 |
| Deferred income tax | (411) | 120 |
| | 2,006 | 2,005 |

### (b) Tax recorded in other comprehensive income

| | **2011** | **2010** |
|---|---|---|
| Deferred income tax | (2,966) | (1,060) |

4. 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:

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

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

5. EARNINGS PER SHARE

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

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

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

6. RESERVES AND RETAINED PROFITS

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

(a) Capital reserve

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

(b) Surplus reserves

Surplus reserves consist of the statutory surplus reserve and 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, RMB3,181 million as at 31 December 2011 (31 December 2010: RMB2,493 million) represents the Company's share of its subsidiaries' surplus reserve fund.

(ii) Discretionary surplus reserve ("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.

6. RESERVES AND RETAINED PROFITS (continued)

(c) General reserve

In accordance with the relevant regulations, general reserve should be set aside to cover catastrophic losses as incurred by companies operating in the insurance business. The Company's insurance subsidiaries in the PRC would need to make appropriations for such reserve based on their respective year end net profit determined in accordance with PRC GAAP, and based on the applicable PRC financial regulations, in the annual financial statements. Such reserve is not available for profit distribution or transfer to capital.

Of the Group's retained profits, RMB3,168 million as at 31 December 2011 (31 December 2010: RMB2,484 million) represents the Company's share of its subsidiaries' general reserve.

(d) Other reserves

The investment revaluation reserve records the fair value changes of available-for-sale financial assets. The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the subsidiaries incorporated outside the PRC.

6. RESERVES AND RETAINED PROFITS (continued)

(e) Distributable profits

According to the Articles of Association of the Company, the amount of retained profits available for distribution of the Company should be the lower of the amount determined under PRC GAAP and the amount determined under HKFRSs. Pursuant to the resolution of the 8th meeting of the Company's 6th term of board of directors held on 23 March 2012, a final dividend of approximately RMB3,010 million (equivalent to RMB0.35 per share (including tax)) was proposed after the appropriation of statutory surplus reserve and is subject to the approval of the forthcoming annual general meeting.

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

| **Company** | Capital reserve | Surplus reserves | Available-for-sale investment revaluation reserve | Total | Retained profits |
|---|---|---|---|---|---|
| At 1 January 2010 | 55,641 | 1,091 | (4) | 56,728 | 5,355 |
| Total comprehensive income for the year | - | - | (157) | (157) | 3,095 |
| Issue of shares | 2,688 | - | - | 2,688 | - |
| Dividends declared | - | - | - | - | (2,580) |
| Appropriations to surplus reserves | - | 308 | - | 308 | (308) |
| At 31 December 2010 | 58,329 | 1,399 | (161) | 59,567 | 5,562 |
| At 1 January 2011 | 58,329 | 1,399 | (161) | 59,567 | 5,562 |
| Total comprehensive income for the year | - | - | (402) | (402) | 5,359 |
| Dividends declared | - | - | - | - | (3,010) |
| Appropriations to surplus reserves | - | 531 | | 531 | (531) |
| At 31 December 2011 | 58,329 | 1,930 | (563) | 59,696 | 7,380 |

Dividends from subsidiaries amounting to RMB4,006 million were included in the Company's net profit for 2011 (2010: RMB2,579 million).

## 7. INSURANCE CONTRACT LIABILITIES

| | As at 31 December 2011 | | |
|---|---|---|---|
| | Insurance contract liabilities | Reinsurers' share of insurance contract liabilities | Net |
| Long-term life insurance contracts | 325,558 | (5,180) | 320,378 |
| Short-term life insurance contracts | | | |
| - Unearned premiums | 1,621 | (285) | 1,336 |
| - Claim reserves | 631 | (144) | 487 |
| | 2,252 | (429) | 1,823 |
| Property and casualty insurance contracts | | | |
| - Unearned premiums | 26,556 | (3,916) | 22,640 |
| - Claim reserves | 20,565 | (4,593) | 15,972 |
| | 47,121 | (8,509) | 38,612 |
| | 374,931 | (14,118) | 360,813 |
| Incurred but not reported claim reserves | 3,237 | (746) | 2,491 |

| | As at 31 December 2010 | | |
|---|---|---|---|
| | Insurance contract liabilities | Reinsurers' share of insurance contract liabilities | Net |
| Long-term life insurance contracts | 267,953 | (4,821) | 263,132 |
| Short-term life insurance contracts | | | |
| - Unearned premiums | 1,456 | (280) | 1,176 |
| - Claim reserves | 546 | (131) | 415 |
| | 2,002 | (411) | 1,591 |
| Property and casualty insurance contracts | | | |
| - Unearned premiums | 21,951 | (3,483) | 18,468 |
| - Claim reserves | 15,280 | (3,632) | 11,648 |
| | 37,231 | (7,115) | 30,116 |
| | 307,186 | (12,347) | 294,839 |
| Incurred but not reported claim reserves | 2,445 | (593) | 1,852 |

7. INSURANCE CONTRACT LIABILITIES (continued)

## (a) Long-term life insurance contract reserves

| | Insurance contract liabilities | Reinsurers' share of insurance contract liabilities | Net |
|---|---|---|---|
| At 1 January 2010 | 208,810 | (3,704) | 205,106 |
| Valuation premiums | 83,767 | (1,985) | 81,782 |
| Liabilities released for payments on benefits and claims | (17,168) | 150 | (17,018) |
| Other movements | (7,456) | 718 | (6,738) |
| At 31 December 2010 | 267,953 | (4,821) | 263,132 |
| Valuation premiums | 88,590 | (1,483) | 87,107 |
| Liabilities released for payments on benefits and claims | (21,729) | 221 | (21,508) |
| Other movements | (9,256) | 903 | (8,353) |
| At 31 December 2011 | 325,558 | (5,180) | 320,378 |

## (b) Short-term life insurance contract liabilities

### Movements of unearned premiums

| | Insurance contract liabilities | Reinsurers' share of insurance contract liabilities | Net |
|---|---|---|---|
| At 1 January 2010 | 1,229 | (226) | 1,003 |
| Premiums written | 4,106 | (1,051) | 3,055 |
| Premiums earned | (3,879) | 997 | (2,882) |
| At 31 December 2010 | 1,456 | (280) | 1,176 |
| Premiums written | 4,613 | (1,066) | 3,547 |
| Premiums earned | (4,448) | 1,061 | (3,387) |
| At 31 December 2011 | 1,621 | (285) | 1,336 |

### Movements of claim reserves

| | Insurance contract liabilities | Reinsurers' share of insurance contract liabilities | Net |
|---|---|---|---|
| At 1 January 2010 | 470 | (136) | 334 |
| Claims incurred | 1,146 | (453) | 693 |
| Claims paid | (1,070) | 458 | (612) |
| At 31 December 2010 | 546 | (131) | 415 |
| Claims incurred | 1,374 | (728) | 646 |
| Claims paid | (1,289) | 715 | (574) |
| At 31 December 2011 | 631 | (144) | 487 |

## 7. INSURANCE CONTRACT LIABILITIES (continued)

### (c) Property and casualty insurance contracts liabilities

Movements of unearned premiums

| | Insurance contract liabilities | Reinsurers' share of insurance contract liabilities | Net |
|---|---|---|---|
| At 1 January 2010 | 14,634 | (2,372) | 12,262 |
| Premiums written | 51,682 | (10,386) | 41,296 |
| Premiums earned | (44,365) | 9,275 | (35,090) |
| At 31 December 2010 | 21,951 | (3,483) | 18,468 |
| Premiums written | 61,755 | (10,835) | 50,920 |
| Premiums earned | (57,150) | 10,402 | (46,748) |
| At 31 December 2011 | 26,556 | (3,916) | 22,640 |

Movements of claim reserves

| | Insurance contract liabilities | Reinsurers' share of insurance contract liabilities | Net |
|---|---|---|---|
| At 1 January 2010 | 11,009 | (2,709) | 8,300 |
| Claims incurred | 25,047 | (4,911) | 20,136 |
| Claims paid | (20,776) | 3,988 | (16,788) |
| At 31 December 2010 | 15,280 | (3,632) | 11,648 |
| Claims incurred | 33,310 | (5,946) | 27,364 |
| Claims paid | (28,025) | 4,985 | (23,040) |
| At 31 December 2011 | 20,565 | (4,593) | 15,972 |

## 8. INVESTMENT CONTRACT LIABILITIES

| | |
|---|---|
| At 1 January 2010 | 52,090 |
| Deposits received | 4,943 |
| Deposits withdrawn | (7,069) |
| Fees deducted | (300) |
| Interest credited | 1,722 |
| Others | (114) |
| At 31 December 2010 | 51,272 |
| Deposits received | 3,366 |
| Deposits withdrawn | (9,335) |
| Fees deducted | (295) |
| Interest credited | 2,257 |
| Others | (83) |
| At 31 December 2011 | 47,182 |

9. CHANGE IN MAJOR SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES

(a) Business combination not under common control during this year

Pursuant to the resolution of CPIC Life'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. CPIC Life completed the acquisition on 17 March 2011. All considerations were paid in cash.

(b) Subsidiaries no longer included in the scope of consolidation

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

(c) Subsidiaries established and included in the scope of consolidation

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

(d) Disposal of a jointly-controlled entity during this year

Pursuant to a resolution made at the 2nd meeting of the Company's 5th term of board of directors held on 17 August 2007, the Company intended to sell its entire 50% equity interest in Pacific-Antai Life Insurance Co., Ltd. ("Pacific Antai"). On 27 December 2010, the Company entered into a share transfer agreement with joint purchasers led by China Construction Bank Corporation to sell its entire 50% equity interest in Pacific Antai for a consideration of RMB950 million. The share transfer was approved by CIRC (Baojianfagai [2011] 425) on 31 March 2011. The risks and rewards associated with the ownership of the equity interest in Pacific Antai have been transferred and the Company recognized a net gain of RMB479 million in 2011.

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

## Embedded Value

### 1、Summary of Embedded Value and Value of One Year's Sales

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

**Unit: RMB Million**

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

Note that figures may not be additive due to rounding

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

**2、Analysis of Change in Embedded Value**

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

**Unit: RMB Million**

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

| | | |
|---|---|---|
| 17 | Group Embedded Value as at 31 December 2011 | **113,564** |
| 18 | Embedded Value as at 31 December 2011 per share(RMB) | **13.21** |

Note that figures may not be additive due to rounding.

## Compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

The Board is of the view that the Company has complied with the provisions and most of the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange during the year ended 31 December 2011.

## Purchase, Redemption or Sale of the Company's Listed Securities

During the year ended 31 December 2011, neither the Company nor its subsidiaries purchased, sold or redeemed any listed shares of the Company.

## Proposed Final Dividend

On 23 March 2012, the Board recommended a final dividend of RMB0.35 per share (including tax) for the year ended 31 December 2011, amounting to approximately RMB3.010 billion in aggregate. The proposed final dividend is subject to the approval of shareholders at the 2011 Annual General Meeting ("AGM"). If approved, it is expected that the payment of the final dividend will be made on or before Friday, 29 June 2012 to the shareholders whose names appear on the H Share Register of Members on Wednesday, 22 May 2012.

## Withholding of Dividend Income Tax

According to the New Income Tax Law and its Implementation Rules enacted in 2008 and relevant regulations, the Company is required to withhold 10% of corporate income tax when it distributes the 2011 final dividend to non-resident enterprise shareholders whose names appear on the H Share Register of Members on Wednesday, 22 May 2012.

The Circular on the Questions Concerning Tax on the Profits Earned by Enterprises with Foreign Investment, Foreign Enterprises and Individual Foreigners from the Transfer of Stocks (Stock Rights) and on Dividend Income (Guo Shui Fa [1993] No. 045) was repealed in 2011, and therefore individual holders of H shares who hold the Company's H shares and whose names appear on the register of members of H shares of the Company can no longer be exempted from PRC individual income tax. Upon the confirmation of the Company after having making consultation with the relevant tax authorities, and pursuant to the applicable provisions of the Individual Income Tax Law of the People's Republic of China and its implementation regulations, the individual resident shareholders outside the PRC shall pay individual income tax upon their receipt of distribution of dividends and bonus in respect of the shares issued by domestic non-foreign investment enterprises in Hong Kong, which shall be withheld by obligors on behalf of such individual shareholders by law. Those individual resident shareholders may, however, enjoy relevant preferential treatments in accordance with the provisions of applicable tax agreements signed between the countries where they belong to by virtue of residential identification and the PRC as well as the tax arrangements made between the Mainland China and Hong Kong (Macau).

Pursuant to the aforesaid tax regulations and the Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Fa [2011] No. 348), the Company shall generally be obligated to withhold individual income tax at the tax rate of 10% when it distributes the 2011 final dividend to individual holders of H shares appeared on the Company's register of members of H shares on Wednesday, 22 May 2012. However, unless otherwise stated in the tax regulations and relevant tax agreements, the Company will withhold individual income tax based on their dividend at the relevant tax rate and in accordance with the procedures.

The Company will withhold the enterprise income tax as well as the individual income tax as required by law for H Share shareholders whose names appeared on the Company's register of members of H shares on Wednesday, 22 May 2012.

All investors are requested to read this announcement carefully. Shareholders are recommended to consult their taxation advisors regarding their holding and disposing of H shares of the Company for the PRC, Hong Kong and other tax effects involved.

## Eligibility for Proposed Final Dividend and Closure of H Share Register of Members

The H Share Register of Members of the Company will be closed from Thursday, 17 May 2012 to Tuesday, 22 May 2012 (both days inclusive), during which period no transfer of H shares will be registered. In order to be eligible for the final dividend, H Share shareholders should ensure that all transfer documents, accompanied with the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Wednesday, 16 May 2012.

The Company will announce details on the payment of the final dividend for the year 2011 to A Share shareholders on the Shanghai Stock Exchange.

## Eligibility for Attending the Annual General Meeting and Closure of H Share Register of Members

The 2011 Annual General Meeting will be held on Friday, 11 May 2012. The H Share Register of Members of the Company will be closed for the purpose of determining H Share shareholders' entitlement to attend the AGM, from Wednesday, 11 April 2012 to Friday, 11 May 2012 (both days inclusive), during which no transfer of H Shares will be registered. In order to attend the AGM, H Share shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:30 p.m. on Tuesday, 10 April 2012.

The Company will announce details on A Share shareholders' eligibility for attending the AGM on the Shanghai Stock Exchange.

## Review of Accounts

The audit committee of the Company has reviewed the principal accounting policies of the Group and the audited financial statements for the year ended 31 December 2011 in the presence of internal and external auditors.

## Publication of Results on the Websites of the Hong Kong Stock Exchange and the Company

The annual report of the Company for the year ended 31 December 2011 will be dispatched to shareholders in due course and will be published on the website of the Hong Kong Stock Exchange（www.hkexnews.hk）and the Company’s website（www.cpic.com.cn）.

## Definitions

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| “The Company” 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 subsidiary of CPIC Group |
| “CIRC” | China Insurance Regulatory Commission |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “RMB” | Renminbi |

By Order of the Board

**China Pacific Insurance (Group) Co., Ltd.**

**Gao Guofu**

*Chairman*

Hong Kong, 26 March 2012

*As of the date of this announcement, the executive Directors of the Company are Mr. GAO Guofu and Mr. HUO Lianhong; the non-executive Directors of the Company are Mr. YANG Xianghai, Mr. WANG Chengran, Ms. FENG Junyuan, Mr. WU Jumin, Mr. YANG Xiangdong, Mr. ZHOU Ciming , Mr. ZHENG Anguo and Ms. XU Fei; and the independent non-executive Directors of the Company are Mr. XU Shanda, Mr. CHANG Tso Tung Stephen, Mr. LI Ruoshan, Mr. XIAO Wei and Mr. YUEN Tin Fan.*