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Sunshine Insurance Group Company Limited

陽光保險集團股份有限公司

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

(Stock Code: 6963)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

The Board of Directors of Sunshine Insurance Group Company Limited (the “**Company**”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended December 31, 2022, together with the comparative figures for the corresponding period in 2021, which should be read in conjunction with the following Management Discussion and Analysis. Unless otherwise stated, the currencies listed in this announcement are RMB.

CHAIRMAN’S STATEMENT

Dear shareholders,

On December 9, 2022, Sunshine Insurance was successfully listed on the Hong Kong Stock Exchange thanks to the trust of new and existing shareholders and all walks of life. Insurance is built on trust. The management of the Company is deeply grateful for the trust of our shareholders and will further drive the value creation for the Company to live up to that trust and reward our shareholders and the society.

2022 was an extraordinary year. In the face of the severe international environmental wind and the numerous unexpected factors in the country, the CPC led the people of all nationalities in China to rise to form a strong team and work hard and maintain the general economic and social stability. The 20th CPC National Congress was held triumphantly, drawing up a grand blueprint for building a socialist modern country in all respects and on all fronts advancing the great rejuvenation of the Chinese nation through a Chinese path to modernization. Against the backdrop of both opportunities and challenges, the Company responded to the times and the trend, continuously focusing on its main business of insurance and value development, taking reform and innovation as the driving force for development, adhering to the principle of combining growth with pragmatism and successfully achieving all its business targets.

During the year, we adhered to the development concept of “sound and fast, sound outbalances fast” and achieved a steady growth in overall business performance, which helped to further enhance our value creation capability. The total revenue of the Company for the year amounted to RMB128.58 billion, an increase of 7.2% year on year. Embedded value amounted to RMB101.27 billion, an increase of 8.0% compared with the end of last year. Net profit attributable to equity owners of the parent was RMB4.88 billion. Sunshine Life’s first-year regular premiums (“FYRPs”) were RMB14.75 billion, an increase of 9.3% year on year, while the value of one year’s new business amounted to RMB3.02 billion, achieving a positive growth year on year. Sunshine P&C made a profit on underwriting with a premium income of RMB40.38 billion.

During the year, we continued to enrich and improve our product and service systems based on the “Matrix Partner” strategic plan, and further promoted our customer strategy, realizing a rapid growth in the number of active customers. We actively explored the “Matrix” plan for individuals and families, and built a multi-level and differentiated ecological service system covering the whole life cycle of families around the core systems of health, retirement, children’s education and wealth management of our customers. We firmly implemented the “Partnership” action for enterprises and organizations. To that end, we were committed to becoming a trusted partner in enterprise risk management by providing a systematic and integrated package of risk solutions to our customers, and by promoting the transformation from a mere provider of financial compensation insurance to a risk management service provider. As of the end of 2022, the Group had approximately 32.88 million active customers.

During the year, we took core capacity building as the driving force, with the core competencies of our major subsidiaries more consolidated, the distribution channel continuously optimized and the exploration of model innovation accelerated. Sunshine Life adhered to the business model of diversified and synergistic development of channels, laying a good foundation for “multiple-lines progress”. The agent channel built a comprehensive and diversified product and service ecosystem with a differentiated team management model and business model, first-year regular premiums of the channel increased by 6.7% year on year, and productivity per capita increased by 13.9% year on year, with the number of MDRT achievers increasing by 31.4% year on year. While the bancassurance channel focuses on the development strategy of value-oriented products, value-oriented outlets and value-oriented teams, the Company has established a professional distribution coordination team with strong network operation capability, customer service capability and productivity per capita. The profitability of Sunshine P&C was rapidly improved, with the loss ratio and expense ratio dropping by 1.6 and 3.6 percentage points respectively year on year. The use of the intelligent life table for automobile insurance (車險智能生命表) improved and the risk identification and product pricing capacity of non-automobile insurance was steadily enhanced. Moreover, the management of risk reduction was beginning to bear fruit.

During the year, we comprehensively promoted digital transformation and technological innovation, and promoted the online, intelligent and value enhancement of business. Focusing on process optimisation and data and model application, the Company continued to improve its five core capabilities of digital customer insight, digital marketing, digital product innovation, digital risk control and digital operation, and comprehensively promoted the digital transformation of the Company. Sunshine Life promoted the application of digital technology in sales support, customer service and risk prevention to empower business and operational efficiency improvement. By relying on big data and artificial intelligence, Sunshine P&C will continue to optimise customer experience and empower business development, improve operation efficiency and enhance risk prevention ability.

During the year, we stayed true to our original aspiration to contribute the warmth and power of sunshine to society in serving the real economy, securing people's livelihood, promoting common prosperity and advancing a green China. In 2022, we provided risk coverage of RMB44.5 trillion for the real economy, approximately RMB60 trillion for green insurance coverage, RMB82.2 billion for the "Belt and Road" Initiative project and over RMB170 billion for small and medium-sized enterprises. Also, we assisted small and medium-sized enterprises in financing RMB14.5 billion. As of the end of 2022, the balance of sustainable investment exceeded RMB40.0 billion and the cumulative investment in public charities has exceeded RMB596 million.

The year 2023 marked the beginning of embarking on a new journey towards the implementation of the guiding principles of the 20th CPC National Congress and the construction of a Chinese path to modernization. Staying true to its main business and responsibilities, Sunshine will well position itself in serving the great Chinese path to modernization by accelerating the Company's development with high quality and high-value growth, taking the initiative to serve the general economic and social landscape and giving full play to the insurance protection. All these efforts will help the Company move faster towards a customer-driven high-value insurance group.

Things must be done with consistency, and there must be regularity in governance. No matter how times develop or how the years change, common sense and principles will not change. Focus and determination have been the key assets of our development over the past 18 years, while our long valued Sunshine culture has been our "company treasure" in rooting and managing the Company. Facing the changes of the times, we will respond to the "changes" with "constancy" by standing fast to our main business of insurance, firmly adhering to the culture of Sunshine, defending customer rights and unswervingly promoting the construction of both basic and core capabilities, guarding the bottom line of compliance, and strengthening value development.

We are customer-oriented and deeply rooted in our mission so that other businesses will flourish. The value of a company comes down to its customers. To this end, we commit ourselves to being a customer-driven high-value insurance group by focusing all our efforts on "customer-oriented" core competencies. We implemented our "Matrix Partner" strategic plan to realize our business pursuit of being a professional and leading provider of family insurance protection services and a trustworthy enterprise risk management partner.

Built on value, we will resolve all problems. The report to the 20th CPC National Congress takes the “effective quality improvement and reasonable quantity growth” as the internal requirement of high-quality economic development. We will take this as the fundamental guideline for the Company’s development, uphold the concept of value development and practice the development ideology of “moving forward in a good way”. We will focus more on the value of new business, performing agents, capital efficiency and ROE of life insurance, and the core operating indicators of combined ratio, cash flow, reserve adequacy and ROE of property and casualty insurance business, so as to further improve the Company’s overall operating capability.

We will seek innovations while reinforcing our foundation. Basic and core competencies are the fundamental drivers of long-term sustainable value development, and we have formulated a clearly-defined development strategy around basic and core competencies. Focusing on the project themed “One Body, Two Wings (一身兩翼)” and “One Extension, One High (一延一高)”, we will consolidate the base of individual agents channel for life insurance and develop a new business of “Blue Ocean of Value (價值藍海)”, extend the value space for a single customer and the high-value customer base. Property and casualty insurance is focusing on the “Last Mile (最後一公里)” target of the life table for automobile insurance (車險生命表工程) project and the breakthrough of the non-automobile revitalization project, for building a stable source of profit from automobile insurance and establishing the relative advantages of non-automobile insurance and improving risk reduction services.

We are committed to becoming a technology-driven and ecologically sound company. Adhering to the strategy-driven and target-driven technology strategy, we will steadfastly promote the digital transformation of the Company. That means taking the “Luobupo Project (羅布泊計劃)” as the starting point. This will drive us to achieve key breakthroughs while moving forward and fully releasing the vitality and capability of our technology team. Meanwhile, in response to customers’ greater health needs in the post-pandemic era, the Company will continue to integrate internal and external resources, enrich the ecosystem around the main business such as medical and health care, create an integrated service ecosystem and provide customers with a diversified value-added service system.

In the ever-changing current of the times, if a company is likened to a ship, serving the Chinese path to modernization will be the “Guiding Light (指明燈)” that leads the way. We will anchor our orientation and establish coordinates in serving the Chinese path to modernization, with the Sunshine culture as the rudder to ensure that the ship is on course. Taking the construction of basic and core capabilities as the oar and the technological innovation and ecological conservation as the sail, that will provide us with even stronger power to push the “Sunshine” ship to travel steadily and further. All these efforts will make greater contributions to the Chinese path to modernization.

Sunshine Insurance Group Company Limited
陽光保險集團股份有限公司
ZHANG Weigong
Chairman of the Board

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

<i>(in RMB million)</i>	<i>Notes</i>	2022	2021
Gross written premiums	4(a)	108,740	101,759
Less: Premiums ceded to reinsurers	4(b)	<u>(3,844)</u>	<u>(3,404)</u>
Net written premiums	4(c)	104,896	98,355
Net change in unearned premium reserves		<u>310</u>	<u>(1,073)</u>
Net premiums earned		<u>105,206</u>	<u>97,282</u>
Investment income	5	19,188	17,096
Share of profits and losses of associates and joint ventures		864	2,319
Other income		<u>3,320</u>	<u>3,272</u>
Total revenues		<u>128,578</u>	<u>119,969</u>
Net policyholders' benefits and claims:			
Life insurance death and other benefits paid	6	(32,121)	(12,447)
Claims incurred	6	(26,143)	(26,630)
Changes in long-term life insurance contract liabilities	6	(29,167)	(38,604)
Policyholder dividends	6	(2,440)	(2,144)
Interest credited to investment contracts		(3,832)	(3,470)
Commission and brokerage expenses		(11,198)	(11,752)
Finance costs		(1,148)	(1,341)
Other operating and administrative expenses		<u>(17,317)</u>	<u>(17,856)</u>
Total benefits, claims and expenses		<u>(123,366)</u>	<u>(114,244)</u>
Profit before tax		5,212	5,725
Income tax	7	<u>(197)</u>	<u>295</u>
Net profit		<u>5,015</u>	<u>6,020</u>
Attributable to:			
Equity owners of the parent		4,881	5,883
Non-controlling interests		134	137
Earnings per share attributable to ordinary equity holders of the parent:			
– Basic	8	<u>RMB0.47</u>	<u>RMB0.57</u>
– Diluted	8	<u>RMB0.47</u>	<u>RMB0.57</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

<i>(in RMB million)</i>	2022	2021
Net profit	<u>5,015</u>	<u>6,020</u>
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Net fair value change on available-for-sale financial assets	(12,276)	335
Amount transferred to net profit from other comprehensive income	3,980	(2,790)
Share of other comprehensive income of associates and joint ventures	33	(77)
Exchange differences on translating foreign operations	458	(319)
Income tax effect	<u>1,594</u>	<u>843</u>
Other comprehensive income for the year, net of tax	<u>(6,211)</u>	<u>(2,008)</u>
Total comprehensive income for the year, net of tax	<u>(1,196)</u>	<u>4,012</u>
Attributable to:		
Equity owners of the parent	(1,331)	3,875
Non-controlling interests	<u>135</u>	<u>137</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

<i>(in RMB million)</i>	<i>Notes</i>	31 December 2022	31 December 2021
ASSETS			
Property and equipment		18,938	18,306
Right-of-use assets		3,051	3,298
Investment properties		9,085	9,372
Investments in associates and joint ventures		16,136	28,795
Held-to-maturity financial assets		114,704	84,093
Investments classified as loans and receivables		35,288	31,191
Term deposits		22,383	22,401
Statutory deposits		5,418	5,418
Available-for-sale financial assets		169,469	159,501
Financial assets at fair value through profit or loss		20,455	12,161
Securities purchased under agreements to resell		7,375	18,618
Policy loans		11,077	10,464
Interest receivables		3,786	3,128
Premium receivables	<i>10</i>	14,825	15,489
Reinsurance assets		3,918	3,391
Policyholder account assets in respect of investment contracts		297	322
Deferred tax assets	<i>13</i>	2,501	864
Other assets		9,197	8,147
Cash and short-term time deposits		17,454	6,664
Total assets		<u>485,357</u>	<u>441,623</u>

<i>(in RMB million)</i>	<i>Notes</i>	31 December 2022	31 December 2021
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities		268,386	238,976
Investment contract liabilities		93,892	86,239
Policyholder dividend payable		5,834	4,150
Lease liabilities		782	922
Bonds payable	<i>11</i>	12,125	12,923
Financial liabilities at fair value through profit or loss		4,546	2,432
Securities sold under agreements to repurchase	<i>12</i>	17,419	12,106
Insurance payables		2,722	2,601
Income tax payables		209	181
Premiums received in advance		3,854	4,515
Deferred tax liabilities	<i>13</i>	61	192
Other liabilities		13,508	17,170
Total liabilities		423,338	382,407
Equity			
Share capital	<i>14</i>	11,502	10,351
Reserves		29,306	29,646
Retained profits		19,933	18,011
Attributable to equity owners of the parent		60,741	58,008
Non-controlling interests		1,278	1,208
Total equity		62,019	59,216
Total liabilities and equity		485,357	441,623

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to equity owners of the parent												Total equity
	Reserves											Non-controlling interests	
	Share capital	Capital reserves	Surplus reserves	General risk reserves	Agriculture catastrophic loss reserves	Nuclear catastrophic loss reserves	Available-for-sale financial assets revaluation reserves	Foreign currency translation reserves	Other reserves	Retained profits	Total		
(in RMB million)													
As at 1 January 2022	10,351	21,278	1,068	4,417	57	8	3,149	(346)	15	18,011	58,008	1,208	59,216
Net profit	-	-	-	-	-	-	-	-	-	4,881	4,881	134	5,015
Other comprehensive income	-	-	-	-	-	-	(6,702)	457	33	-	(6,212)	1	(6,211)
Total comprehensive income	-	-	-	-	-	-	(6,702)	457	33	4,881	(1,331)	135	(1,196)
Dividend declared	-	-	-	-	-	-	-	-	-	(1,553)	(1,553)	-	(1,553)
Issue of shares	1,151	4,555	-	-	-	-	-	-	-	-	5,706	-	5,706
Capital injection to subsidiaries	-	-	-	-	-	-	-	-	-	-	-	2	2
Appropriation to surplus reserves	-	-	256	-	-	-	-	-	-	(256)	-	-	-
Appropriation to general risk reserves	-	-	-	1,146	-	-	-	-	-	(1,146)	-	-	-
Appropriation to nuclear catastrophic loss reserves	-	-	-	-	-	4	-	-	-	(4)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(72)	(72)
Others	-	(89)	-	-	-	-	-	-	-	-	(89)	5	(84)
As at 31 December 2022	11,502	25,744	1,324	5,563	57	12	(3,553)	111	48	19,933	60,741	1,278	62,019

Attributable to equity owners of the parent

	Reserves											Non-controlling interests	Total equity
	Share capital	Capital reserves	Surplus reserves	General risk reserves	Agriculture catastrophic loss reserves	Nuclear catastrophic loss reserves	Available-for-sale financial assets revaluation reserves	Foreign currency translation reserves	Other reserves	Retained profits	Total		
<i>(in RMB million)</i>													
As at 1 January 2021	10,351	21,710	763	3,439	57	4	4,761	(27)	92	14,646	55,796	1,151	56,947
Net profit	-	-	-	-	-	-	-	-	-	5,883	5,883	137	6,020
Other comprehensive income	-	-	-	-	-	-	(1,612)	(319)	(77)	-	(2,008)	-	(2,008)
Total comprehensive income	-	-	-	-	-	-	(1,612)	(319)	(77)	5,883	3,875	137	4,012
Dividend declared	-	-	-	-	-	-	-	-	-	(1,242)	(1,242)	-	(1,242)
Appropriation to surplus reserves	-	-	305	-	-	-	-	-	-	(305)	-	-	-
Appropriation to general risk reserves	-	-	-	978	-	-	-	-	-	(978)	-	-	-
Appropriation to nuclear catastrophic loss reserves	-	-	-	-	-	4	-	-	-	(4)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(80)	(80)
Others	-	(432)	-	-	-	-	-	-	-	11	(421)	-	(421)
As at 31 December 2021	<u>10,351</u>	<u>21,278</u>	<u>1,068</u>	<u>4,417</u>	<u>57</u>	<u>8</u>	<u>3,149</u>	<u>(346)</u>	<u>15</u>	<u>18,011</u>	<u>58,008</u>	<u>1,208</u>	<u>59,216</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

<i>(in RMB million)</i>	2022	2021
Net cash inflows from operating activities	<u>26,229</u>	<u>44,573</u>
Cash flows from investing activities		
Purchases of property and equipment, intangible assets and other assets	(1,435)	(1,698)
Disposals of property and equipment, intangible assets and other assets	66	56
Purchases of investments	(278,384)	(201,074)
Disposals of investments	237,944	185,934
Interest received	12,819	12,269
Dividends received	882	950
Increase in policy loans, net	(613)	(1,175)
Others	(34)	52
Net cash outflows from investing activities	<u>(28,755)</u>	<u>(4,686)</u>
Cash flows from financing activities		
Proceeds from issue of shares	5,772	–
Increase/(decrease) in securities sold under agreements to repurchase, net	5,313	(19,919)
Proceeds from issuance of asset-backed securities	–	2,750
Repayment of asset-backed securities	(4,950)	(2,750)
Proceeds from bonds issued	–	10,000
Repayment of bonds	(1,000)	(13,570)
Interest paid	(980)	(839)
Dividends paid	(1,708)	(1,513)
Payment of principal portion of lease liabilities	(448)	(471)
Others	(96)	(51)
Net cash inflows/(outflows) from financing activities	<u>1,903</u>	<u>(26,363)</u>
Effects of foreign exchange rate changes	<u>170</u>	<u>(64)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(453)</u>	<u>13,460</u>
Cash and cash equivalents at the beginning of the year	<u>25,282</u>	<u>11,822</u>
Cash and cash equivalents at the end of the year	<u><u>24,829</u></u>	<u><u>25,282</u></u>
Analysis of balances of cash and cash equivalents		
Cash at banks and on hand	17,454	6,664
Securities purchased under agreements to resell	7,375	18,618

1 CORPORATE INFORMATION

Sunshine Insurance Group Company Limited (the “Company”) was established on 27 June 2007 in Shenzhen, the People’s Republic of China (the “PRC”) under the name of Sunshine Insurance Holdings Co., Ltd., according to the approval by the former China Insurance Regulatory Commission (the “CIRC”). On 23 January 2008, the Company officially changed its name to Sunshine Insurance Group Company Limited.

The business scope of the Company includes investing in insurance enterprises, supervising and managing various domestic and overseas businesses of subsidiaries, investment business permitted by national laws and regulations, as well as insurance business and other businesses approved by China Banking and Insurance Regulatory Commission (the “CBIRC”).

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are property and casualty insurance business, life insurance business, as well as asset management.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”), also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the applicable disclosure requirements of the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities, which have been measured at fair value, and insurance contract liabilities, which have been measured based on actuarial methods. They are presented in Renminbi (“RMB”) and all values are rounded to the nearest million except when otherwise indicated.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not adopted the following new and revised IFRSs, that have been issued but are not yet effective, in the consolidated financial statements.

Standards/Amendments	Content
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current²</i>
Amendments to IAS 1	<i>Disclosure of Accounting Policies¹</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates¹</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction¹</i>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback²</i>
IFRS 9	<i>Financial Instruments¹</i>
IFRS 17	<i>Insurance Contracts¹</i>

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2024

Except for IFRS 17 and IFRS 9, the adoption of the above standards and amendments will have no material impact on the Group’s result of operations and financial position.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, the Group adopts the temporary exemption permitted in Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (“IFRS 4 Amendment”) to apply IAS 39 rather than IFRS 9, until the effective date of IFRS 17.

Classification and measurement

IFRS 9 requires that the Group classifies debt instruments based on the combined effect of application of business models (hold to collect contractual cash flows, hold to collect contractual cash flows and sell financial assets or other business models) and contractual cash flow characteristics (solely payments of principal and interest on the principal amount outstanding or not). Debt instruments not giving rise to cash flows that are solely payments of principal and interest on the principal amount outstanding would be measured at fair value through profit or loss. Other debt instruments giving rise to cash flows that are solely payments of principal and interest on the principal amount outstanding would be measured at amortised cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss, based on their respective business models. Equity instruments would generally be measured at fair value through profit or loss unless the Group elects to measure at FVOCI for certain equity investments not held for trading. This will result in unrealised gains and losses on equity instruments currently classified as available-for-sale financial assets being recorded in profit or loss going forward.

Impairment

IFRS 9 replaces the “incurred loss” model with the “expected credit loss” model which is designed to include forward-looking information.

Hedge accounting

The Group does not apply the hedge accounting currently, so the Group expects that the new hedge accounting model under IFRS 9 will have no impact on the Group’s consolidated financial statements.

IFRS 17 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are as follows:

- The fulfilment cash flows including the expected present value of future cash flows and explicit risk adjustment, remeasured every reporting period;
- A contractual service margin (“CSM”) represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the coverage period;
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining coverage period;
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income (“OCI”), determined by accounting policy choices for portfolios of insurance contracts (“OCI Choice”);
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components), are not presented in the statement of comprehensive income, but are recognised directly in the statement of financial position;
- Insurance service results are presented separately from the insurance finance income or expense;
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

In June 2020, the IASB issued the amendments to IFRS 17 which include a deferral of the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023. Insurers qualifying for the deferral of IFRS 9 can apply both IFRS 17 and IFRS 9 for the first time to annual reporting periods beginning on or after 1 January 2023.

In December 2021, the IASB further amended IFRS 17 to add a transition option for a “classification overlay” to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17.

The Group will apply IFRS 9 and IFRS 17 from annual reporting periods beginning on 1 January 2023. Application of IFRS 9 and IFRS 17 may impact the Group’s financial performance and financial position in the following aspects:

- Revenue from long-term life insurance contracts will decrease significantly, because insurance revenue will be recognised over the coverage periods based on provision of services and non-distinct investment components (i.e. the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances, regardless of whether an insured event occurs) in insurance contracts will be excluded from profit or loss under IFRS 17, i.e. the collection of an investment component is not revenue and its repayment is not an expense; The impact of application of IFRS 17 on the revenue from property and casualty and short-term life insurance contracts is much less, due to the absence of investment components in most of those contracts and the coverage periods are short.

- While the implementation of IFRS 17 will not change the ultimate profitability of insurance contracts, it will have major impacts on how and when profit (or losses) of insurance contracts are recognised, as well as the Group’s total equity. Such changes are mainly due to various changes introduced by IFRS 17:
 - (a) the effect of changes in fulfilment cash flows that relate to future services will be added to or deducted from the remaining CSM, while under the Group’s current accounting policies, the residual margin will be locked at inception and amortised over the insurance coverage period using amortisation factors;
 - (b) under the general model of IFRS 17, the effect of changes in financial assumptions (i.e., discount rates) will be reported in either profit or loss or OCI, determined by OCI Choice made by the Group, while under the Group’s current accounting policies, changes in assumptions are recognised immediately in profit or loss;
 - (c) under IFRS 17, the discount rate will be based on observable current market prices (if any) reflecting the characteristics of the insurance contracts, while under the Group’s current accounting policies, the discount rate for non-participating life insurance contracts is determined based on a base rate curve at the end of each reporting period;
 - (d) IFRS 17 requires a retrospective approach for estimating the CSM on the transition date. However, if full retrospective application is impracticable for a group of insurance contracts, the Group shall apply one of the two alternative approaches (modified retrospective approach or fair value approach) instead;
- On the initial application date of IFRS 9 and IFRS 17, the Group redetermined the classifications for most of its financial assets under IFRS 9. Applying IFRS 9 and IFRS 17 at the same time provides an opportunity for the Group to optimise the accounting match between insurance contract liabilities and related financial assets;
- Under IFRS 9, a large portion of the Group’s equity investments currently classified as available-for-sale will be reclassified to financial assets at fair value through profit or loss, unless the Group elects to designate as FVOCI (i.e., any gain/loss other than dividend would not be recognised in profit or loss). Unquoted equity investments which are currently measured at cost shall also be measured at fair value under IFRS 9. Certain debt investments will be reclassified to financial assets at fair value through profit or loss because their contractual cash flows are not solely payments of principal and interest. The more assets are classified at fair value through profit or loss, the more the profit or loss will be impacted by the volatility of the capital market. However, if such investments are held as underlying items for insurance contracts with direct participation features under IFRS 17, the volatility of profit or loss resulting from the volatile investment income will be wholly or partially mitigated by the offsetting effect of insurance finance income or expenses recognised for such insurance contracts.
- The new impairment model under IFRS 9 requires the recognition of impairment provisions based on expected credit loss rather than only incurred credit losses as is the case under the Group’s current accounting policies, which applies to the debt investments measured as amortised cost and FVOCI. The adoption of “expected credit loss” model would increase impairment provision for the debt investments measured as amortised cost and FVOCI.

3 SEGMENT INFORMATION

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

The Group's operating segments are as follows:

- (i) The life insurance segment offers a wide range of life insurance products mainly by Sunshine Life.
- (ii) The property and casualty insurance segment offers a wide range of property and casualty insurance products mainly by Sunshine P&C and Sunshine Surety.
- (iii) Other businesses segment mainly provides corporation management and assets management services.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions with regard to resources allocation and performance assessment. Segment performance is assessed based on indicators such as net profit.

Transfer prices between operating segments are based on the amount stated in the contracts signed by both sides.

The segment analysis as at 31 December 2022 and for the year then ended is as follows:

<i>(in RMB million)</i>	Life insurance	Property and casualty insurance			Other business and elimination	Total
		Sunshine P&C	Sunshine Surety	Subtotal		
Gross written premiums	68,295	40,409	36	40,445	–	108,740
Less: Premiums ceded to reinsurers	(1,787)	(2,057)	–	(2,057)	–	(3,844)
Net written premiums	66,508	38,352	36	38,388	–	104,896
Net change in unearned premium reserves	211	89	10	99	–	310
Net premiums earned	66,719	38,441	46	38,487	–	105,206
Investment income	18,056	1,940	27	1,967	(835)	19,188
Share of profits and losses of associates and joint ventures	1,065	187	–	187	(388)	864
Other income	901	159	11	170	2,249	3,320
Total revenues	86,741	40,727	84	40,811	1,026	128,578

<i>(in RMB million)</i>	Life insurance	Property and casualty insurance			Other business and elimination	Total
		Sunshine P&C	Sunshine Surety	Subtotal		
Net policyholders' benefits and claims:						
Life insurance death and other benefits paid	(32,121)	-	-	-	-	(32,121)
Claims incurred	(1,101)	(24,987)	(25)	(25,012)	(30)	(26,143)
Changes in long-term life insurance contract liabilities	(29,167)	-	-	-	-	(29,167)
Policyholder dividends	(2,440)	-	-	-	-	(2,440)
Interest credited to investment contracts	(3,832)	-	-	-	-	(3,832)
Commission and brokerage expenses	(7,040)	(4,334)	(23)	(4,357)	199	(11,198)
Finance costs	(814)	(316)	(1)	(317)	(17)	(1,148)
Other operating and administrative expenses	(5,395)	(9,293)	(104)	(9,397)	(2,525)	(17,317)
Total benefits, claims and expenses	(81,910)	(38,930)	(153)	(39,083)	(2,373)	(123,366)
Profit before tax	4,831	1,797	(69)	1,728	(1,347)	5,212
Income tax	105	(195)	-	(195)	(107)	(197)
Net profit	4,936	1,602	(69)	1,533	(1,454)	5,015
Segment assets	397,190	64,621	1,894	66,515	21,652	485,357
Segment liabilities	361,749	53,660	358	54,018	7,571	423,338

Other segment information for the year ended 31 December 2022:

<i>(in RMB million)</i>	Life insurance	Property and casualty insurance			Other business and elimination	Total
		Sunshine P&C	Sunshine Surety	Subtotal		
Depreciation and amortisation	500	392	8	400	761	1,661
Capital expenditure	169	160	-	160	1,072	1,401
Impairment loss charges	3,918	302	-	302	(452)	3,768
Interest income	9,844	852	27	879	189	10,912

The segment analysis as at 31 December 2021 and for the year then ended is as follows:

(in RMB million)	Life insurance	Property and casualty insurance			Other business and elimination	Total
		Sunshine P&C	Sunshine Surety	Subtotal		
Gross written premiums	60,826	40,919	14	40,933	–	101,759
Less: Premiums ceded to reinsurers	(1,295)	(2,109)	–	(2,109)	–	(3,404)
Net written premiums	59,531	38,810	14	38,824	–	98,355
Net change in unearned premium reserves	44	(1,053)	39	(1,014)	(103)	(1,073)
Net premiums earned	<u>59,575</u>	<u>37,757</u>	<u>53</u>	<u>37,810</u>	<u>(103)</u>	<u>97,282</u>
Investment income	12,670	2,312	38	2,350	2,076	17,096
Share of profits and losses of associates and joint ventures	2,322	171	–	171	(174)	2,319
Other income	1,027	177	21	198	2,047	3,272
Total revenues	<u>75,594</u>	<u>40,417</u>	<u>112</u>	<u>40,529</u>	<u>3,846</u>	<u>119,969</u>
Net policyholders' benefits and claims:						
Life insurance death and other benefits paid	(12,447)	–	–	–	–	(12,447)
Claims incurred	(1,111)	(25,148)	(168)	(25,316)	(203)	(26,630)
Changes in long-term life insurance contract liabilities	(38,604)	–	–	–	–	(38,604)
Policyholder dividends	(2,144)	–	–	–	–	(2,144)
Interest credited to investment contracts	(3,470)	–	–	–	–	(3,470)
Commission and brokerage expenses	(6,739)	(5,242)	(1)	(5,243)	230	(11,752)
Finance costs	(1,074)	(196)	(1)	(197)	(70)	(1,341)
Other operating and administrative expenses	(6,028)	(9,514)	(114)	(9,628)	(2,200)	(17,856)
Total benefits, claims and expenses	<u>(71,617)</u>	<u>(40,100)</u>	<u>(284)</u>	<u>(40,384)</u>	<u>(2,243)</u>	<u>(114,244)</u>
Profit before tax	3,977	317	(172)	145	1,603	5,725
Income tax	553	135	–	135	(393)	295
Net profit	<u>4,530</u>	<u>452</u>	<u>(172)</u>	<u>280</u>	<u>1,210</u>	<u>6,020</u>
Segment assets	<u>361,263</u>	<u>64,578</u>	<u>2,282</u>	<u>66,860</u>	<u>13,500</u>	<u>441,623</u>
Segment liabilities	<u>324,330</u>	<u>53,052</u>	<u>676</u>	<u>53,728</u>	<u>4,349</u>	<u>382,407</u>

Other segment information for the year ended 31 December 2021:

<i>(in RMB million)</i>	Life insurance	Property and casualty insurance			Other business and elimination	Total
		Sunshine P&C	Sunshine Surety	Subtotal		
Depreciation and amortisation	515	402	12	414	786	1,715
Capital expenditure	270	119	1	120	1,886	2,276
Impairment loss charges	1,495	393	–	393	(632)	1,256
Interest income	<u>8,514</u>	<u>739</u>	<u>35</u>	<u>774</u>	<u>433</u>	<u>9,721</u>

4 GROSS AND NET WRITTEN PREMIUMS

<i>(in RMB million)</i>	2022	2021
(a) Gross written premiums		
Property and casualty insurance premiums	40,445	40,933
Short-term life insurance premiums	2,758	1,810
Long-term life insurance premiums	65,537	59,016
Total	<u>108,740</u>	<u>101,759</u>
(b) Premiums ceded to reinsurers		
Property and casualty insurance premiums ceded to reinsurers	(2,057)	(2,109)
Short-term life insurance premiums ceded to reinsurers	(1,001)	(270)
Long-term life insurance premiums ceded to reinsurers	(786)	(1,025)
Total	<u>(3,844)</u>	<u>(3,404)</u>
(c) Net written premiums	<u>104,896</u>	<u>98,355</u>

5 INVESTMENT INCOME

<i>(in RMB million)</i>	2022	2021
Interest and dividend income (a)	15,067	13,665
Realised gains (b)	6,734	5,826
Unrealised gains/(losses) (c)	618	(2,172)
Operating lease income from investment properties	305	421
Charge of impairment losses on financial assets, net	<u>(3,536)</u>	<u>(644)</u>
Total	<u>19,188</u>	<u>17,096</u>

(a) Interest and dividend income

<i>(in RMB million)</i>	2022	2021
Debt investments	9,161	8,610
Equity investments	4,054	3,174
Bank deposits	1,226	1,334
Policy loans	494	460
Securities purchased under agreements to resell	<u>132</u>	<u>87</u>
Total	<u>15,067</u>	<u>13,665</u>

(b) Realised gains

<i>(in RMB million)</i>	2022	2021
Debt investments	2,503	186
Equity investments	<u>4,231</u>	<u>5,640</u>
Total	<u>6,734</u>	<u>5,826</u>

(c) Unrealised gains/(losses)

<i>(in RMB million)</i>	2022	2021
Debt investments	167	139
Equity investments	461	(2,269)
Financial liabilities at fair value through profit or loss	<u>(10)</u>	<u>(42)</u>
Total	<u>618</u>	<u>(2,172)</u>

6 NET POLICYHOLDERS' BENEFITS AND CLAIMS

<i>(in RMB million)</i>	2022		
	Gross	Ceded	Net
Life insurance death and other benefits paid	32,767	(646)	32,121
Claims incurred	28,158	(2,015)	26,143
Short-term life insurance	1,822	(721)	1,101
Property and casualty insurance	26,336	(1,294)	25,042
Changes in long-term life insurance contract liabilities	29,091	76	29,167
Policyholder dividends	2,440	–	2,440
Total	92,456	(2,585)	89,871

<i>(in RMB million)</i>	2021		
	Gross	Ceded	Net
Life insurance death and other benefits paid	13,059	(612)	12,447
Claims incurred	28,164	(1,534)	26,630
Short-term life insurance	1,380	(270)	1,110
Property and casualty insurance	26,784	(1,264)	25,520
Changes in long-term life insurance contract liabilities	38,674	(70)	38,604
Policyholder dividends	2,144	–	2,144
Total	82,041	(2,216)	79,825

7 INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relates to the same tax authority.

(a) Income tax:

<i>(in RMB million)</i>	2022	2021
Current income tax	371	146
Deferred income tax	(174)	(441)
Total	197	(295)

- (b) The reconciliation between the Group's effective tax rate and the statutory tax rate of 25% in the PRC is as follows:

<i>(in RMB million)</i>	2022	2021
Profit before income tax	5,212	5,725
Tax computed at the statutory tax rate	1,303	1,431
Non-taxable income	(1,625)	(1,906)
Expenses not deductible for tax purposes	42	52
Tax losses utilised from previous periods	(1)	(308)
Effect of unrecognised deferred tax assets	593	571
Adjustments in respect of current tax of previous periods	(13)	(19)
Others	(102)	(116)
Income tax at the effective tax rate	<u>197</u>	<u>(295)</u>

8 EARNINGS PER SHARE

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

	2022	2021
Consolidated net profit attributable to equity owners of the parent (in RMB million)	4,881	5,883
Weighted average number of ordinary shares in issue (in million shares)	10,421	10,351
Basic earnings per share	RMB0.47	RMB0.57
Diluted earnings per share	<u>RMB0.47</u>	<u>RMB0.57</u>

9 DIVIDENDS

<i>(in RMB million)</i>	2022	2021
Dividends recognised as distributions during the year:		
2021 final dividend – RMB0.15 per ordinary share	1,553	–
2020 final dividend – RMB0.12 per ordinary share	<u>–</u>	<u>1,242</u>

10 PREMIUMS RECEIVABLE

<i>(in RMB million)</i>	31 December 2022	31 December 2021
Premium receivables	16,285	16,946
Less: Provision for impairment of premium receivables	<u>(1,460)</u>	<u>(1,457)</u>
Premium receivables, net	<u>14,825</u>	<u>15,489</u>
Property and casualty insurance	13,146	14,288
Life insurance	<u>1,679</u>	<u>1,201</u>
Premium receivables, net	<u>14,825</u>	<u>15,489</u>

An aging analysis of premium receivables is as follows:

<i>(in RMB million)</i>	31 December 2022	31 December 2021
Within 3 months	14,550	15,427
Over 3 months but within 1 year	505	274
Over 1 year	<u>1,230</u>	<u>1,245</u>
	16,285	16,946
Less: Provision for impairment of premium receivables	<u>(1,460)</u>	<u>(1,457)</u>
Premium receivables, net	<u>14,825</u>	<u>15,489</u>

11 BONDS PAYABLE

The information of the Group's major bonds payable is as follows:

Issuer	Issue date	Maturity	Early Redemption option	Interest rate	31 December 2022	31 December 2021
<i>(in RMB million)</i>						
Sunshine P&C	2012/7/13	15 years	End of the tenth year	5.22%-7.22%	-	1,000
Sunshine P&C	2021/12/7	10 years	End of the fifth year	4.5%-5.5%	4,998	4,999
Sunshine Life	2016/4/20	10 years	None	4.5%	2,088	1,909
Sunshine Life	2021/3/30	10 years	End of the fifth year	4.4%-5.4%	<u>5,039</u>	<u>5,015</u>
Total					<u>12,125</u>	<u>12,923</u>

12 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

<i>(in RMB million)</i>	31 December 2022	31 December 2021
Bonds		
Inter-bank market	16,596	11,669
Stock exchange	823	437
Total	<u>17,419</u>	<u>12,106</u>

As at 31 December 2022, bonds with par value of RMB20,173 million (31 December 2021: RMB13,984 million) was pledged as collateral for financial assets sold under agreements to repurchase resulting from repurchase transactions entered into by the Group in the interbank market.

For debt repurchase transactions through the stock exchange, the Group is required to deposit certain exchange-traded bonds into a collateral pool with fair value converted at a standard rate pursuant to the stock exchange's regulation which should be no less than the balance of the related repurchase transaction. As at 31 December 2022, the par value of securities deposited in the collateral pool was RMB1,558 million (31 December 2021: RMB19,915 million). The collateral is restricted from trading during the period of the repurchase transaction.

13 DEFERRED TAX ASSETS AND LIABILITIES

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

<i>(in RMB million)</i>	2022	2021
Net deferred income tax assets/(liabilities), at beginning of year	672	(612)
Recognised in profit or loss	174	441
Recognised in other comprehensive income	1,594	843
Net deferred income tax assets/(liabilities), at end of year	<u>2,440</u>	<u>672</u>
	31 December 2022	31 December 2021
Insurance contract liabilities	218	230
Impairment of assets	1,538	724
Salaries and welfare payable	264	286
Net fair value adjustment on available-for-sale financial assets and financial assets at fair value through profit or loss	727	(876)
Others	(307)	308
Net deferred income tax assets/(liabilities)	<u>2,440</u>	<u>672</u>
Represented by:		
Deferred tax assets	2,501	864
Deferred tax liabilities	(61)	(192)

14 SHARE CAPITAL

	31 December 2022	31 December 2021
Numbers of shares issued and fully paid at RMB1 each (million)	<u>11,502</u>	<u>10,351</u>

In December 2022, the Company conducted a global offering of overseas listed foreign shares (“H shares”). The Company’s H shares have been listed on the Hong Kong Stock Exchange since 9 December 2022. Upon the issuance of H shares, the share capital was increased to RMB11,502 million (before the exercise of H share over-allotment option).

15 SUBSEQUENT EVENTS

(1) Over-allotment option

Huatai Financial Holdings (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG Hong Kong Branch and CCB International Capital Limited for themselves and on behalf of the International Purchasers did not exercise the over-allotment option and the over-allotment option lapsed on 4 January 2023. Accordingly, no H Shares were or will be issued under the over-allotment option.

(2) Profit distribution

On 29 March 2023, the Board of Directors of the Company approved the Resolution of the Profit Distribution Plan for 2022, and declared a final cash dividend of 2022 with a total distribution of RMB2,070 million in the amount of RMB0.18 (tax inclusive) per share. The foregoing profit distribution plan is subject to the approval by the Annual General Meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS OVERVIEW

Dedicated to value creation, we are a fast-growing, privately owned insurance group in the PRC that provides comprehensive solutions focusing on professional risk protection and diverse service offerings to our customers.

We carry out our life and health insurance business mainly through Sunshine Life, offering products covering life insurance, health insurance and accident insurance. We carry out our property and casualty insurance business mainly through Sunshine P&C, offering property and casualty insurance products covering automobile insurance, accident and short-term health insurance, guarantee insurance, liability insurance, agriculture insurance and commercial property insurance. We primarily manage our insurance funds through Sunshine AMC.

(I) Results of operations

Sunshine Insurance focuses on insurance as its core business, and strives to create value and maintain a comprehensive and balanced insurance business. Through continuous innovation, Sunshine Insurance provides new momentum for business development. The Company continuously promotes customer strategy, continues to explore “Matrix Plan” for individual customers and their families and “Partnership Action” for enterprises and organizations, builds a full life cycle and multi-service system covering families, and provides systematic risk solutions for system integration for institutional customers.

In 2022, the Company’s overall operating performance grew steadily, and its ability to create value has been continuously enhanced, maintaining sound growth momentum. The Group achieved the total revenue of RMB128.58 billion, representing a year-on-year increase of 7.2%, among which the gross written premiums (GWPs) were RMB108.74 billion, representing a year-on-year increase of 6.9%. The Group’s net profit attributable to shareholders of the parent company was RMB4.88 billion, representing a year-on-year decrease of 17.0%. The Group’s embedded value was RMB101.27 billion, up 8.0% from the end of last year. The value of one year’s new business of Sunshine Life was RMB3.02 billion, representing a year-on-year increase of 0.1%. The combined ratio of Sunshine P&C was 99.9%. The Group’s total investment yield was 5.0%, representing a year-on-year decrease of 0.4 percentage points. At the end of 2022, the Group had approximately 32.88 million active customers⁽¹⁾.

- ***The business of life insurance was sound, with premiums of the insurance business continuing to grow, and the value of new business maintained a steady growth.***
 - The life insurance gross written premiums were RMB68.30 billion, representing a year-on-year increase of 12.3%;
 - The first-year regular premiums (“FYRPs”) were RMB14.75 billion, representing a year-on-year increase of 9.3%;
 - The value of one year’s new business was RMB3.02 billion, representing a year-on-year increase of 0.1%.

Note (1): The active customers refer to the applicants and insureds who hold at least one valid insurance policy at the point of time of the statistics, excluding complimentary insurance. In the event that the applicants and insureds are the same person, they shall be deemed as one customer. The number of customers of subsidiaries does not add up to the total number of customers of the group because of the de-duplication process for customers who purchase multiple products.

- ***The profitability of property and casualty insurance business⁽¹⁾ was enhanced, and the business structure was optimized.***
 - Net profit was RMB1,602 million and underwriting profit was RMB42 million, and the combined ratio was 99.9%. Of which, underwriting profit of automobile insurance amounted to RMB632 million, with a combined ratio of 97.4%; the combined ratio of non-automobile insurance was 104.1%, mainly due to the increase in guarantee insurance costs as a result of macroeconomic and market changes. The combined ratio of non-guarantee insurance of non-automobile insurance was 99.7%, achieving overall profitability.
 - The original premium income (OPI) was RMB40,376 million, and the quality and structure of the business were continuously optimized. For one thing, the Company actively controlled the scale of credit and guarantee insurance business and tightened risk exposure, resulting in a year-on-year decrease of 21.4% in the scale of guarantee insurance; for another thing, we continued to improve customer management and maintained steady growth in major value business. The proportion of non-guarantee insurance business increased by 3.9 percentage points. Among them, the growth rate of private passenger vehicle premiums was 7.5%, the growth rate of new energy vehicle premiums was 97.1%, the growth rate of agricultural insurance premiums was 61.7% and the growth rate of policy-supported health insurance premiums was 112.0%.
- ***We firmly practiced the concept of long-term value investment, and focused on asset and liability management, achieving a sound and steady investment performance.***
 - The total investment income reached RMB20.13 billion, representing a year-on-year increase of 5.4%; the total investment yield was 5.0%, representing a year-on-year decrease of 0.4 percentage points.
 - We continuously improved our comprehensive investment management ability and customer service level of multi-asset, multi-strategy and multi-customer, with third-party assets under management of RMB414.98 billion, representing a year-on-year increase of 21.4%.
- ***We promoted digital transformation and technological innovation, and promote online and intelligent business and corporate value enhancement.***
 - Focusing on process optimisation and data and model application, we continued to improve the five core capabilities of digital customer insight, digital marketing, digital product innovation, digital risk control and digital operation, and comprehensively promoted the Company's digital transformation.

Note (1): property and casualty insurance business refers to the business of Sunshine P&C.

- We highlighted technological innovation, focused on RPA robotic process automation, effectively supported risk selection and pricing, operational cost control and differentiated customer services, and won 14 external technological innovation awards.
- We strengthened technological support, strengthened the construction of a big data platform, built distributed, micro-service and cloud-native architecture, promoted the online and intelligent business of the Company, and obtained 13 new patents during the year.
- ***We served the real economy, fulfilled social responsibilities, and practiced sustainable development.***
 - We improved the well-being of the people and served the real economy. We promoted rural revitalization and steadily expanded the coverage of agricultural product insurance related to the national economy and people’s livelihood and national food security; we deeply served the real economy and provided a total of RMB44.5 trillion of risk protection for the real economy in 2022; we provided services to jointly build the “Belt and Road” Initiative, and provided risk protection of RMB82.2 billion for “Belt and Road” projects; and we provided more than RMB170.0 billion of risk protection for 12 thousand micro, small and medium-sized enterprises and helped micro and small enterprises obtain financing worth RMB14.5 billion.
 - We fulfilled our social responsibilities and devoted ourselves to public welfare. We gave full play to the advantages of financial technology and medical resources, and actively organized and participated in various public welfare activities in the fields of education, helping the elderly and poverty alleviation. By the end of 2022, Sunshine Insurance has invested more than RMB596 million in various public welfare and charitable undertakings; over 28,000 teachers and students benefited from 71 schools established in 24 provinces across the country. A total of 16,372 rural doctors were trained to benefit nearly 11 million villagers. We sincerely care for our employees and their families, and parent-supporting subsidies were granted to a total of 33,200 employees.
 - We promoted green development and achieved harmonious coexistence. In 2022, we had provided nearly RMB60 trillion in green insurance protection to 16.35 million enterprises and individuals, and more than RMB4 billion in compensation support. We built a sustainable investment framework and incorporate environmental, social and governance factors into investment decisions. As of the end of 2022, the balance of sustainable investment exceeded RMB40.0 billion. We promote low-carbon office, energy conservation and consumption reduction, and resource recycling, continuously improve the utilisation rate of electronic insurance policies and online services, and implement the concept of “carbon peaking and carbon neutrality”.

(II) Major indicators

Unit: RMB in millions

Indicators	31 December 2022/January- December 2022	31 December 2021/January- December 2021	Increase/ decrease
GWPs	108,740	101,759	6.9%
Net profit	5,015	6,020	-16.7%
Net profit attributable to equity owners of the parent	4,881	5,883	-17.0%
Total assets	485,357	441,623	9.9%
Total liabilities	423,338	382,407	10.7%
Total equity	62,019	59,216	4.7%
Equity attributable to owners of the parent	60,741	58,008	4.7%
Earnings per share (RMB/share) ⁽¹⁾	0.47	0.57	-17.5%
Net assets per share (RMB) ⁽¹⁾	5.28	5.60	-5.7%

Note (1): Fill in with data attributable to the owners of the Company. Earnings per share and percentage of increase or decrease in net asset value per share are calculated based on rounded data.

Unit: RMB in millions

Indicators	31 December 2022/January- December 2022	31 December 2021/January- December 2021	Increase/ decrease
Embedded value of the Group	101,273	93,776	8.0%
Value of one year's new business of Sunshine Life	3,018	3,015	0.1%
Comprehensive solvency ratio (%)⁽¹⁾			
– The Group	198	223	-25pt
– Sunshine Life	156	189	-33pt
– Sunshine P&C	224	267	-43pt

Note (1): The comprehensive solvency ratio as of 31 December 2022 is calculated in accordance with the Regulatory Rules on the Solvency of Insurance Companies (II) (《保險公司償付能力監管規則(II)》) (“C-ROSS Phase II Rules”) issued by the CBIRC. The comprehensive solvency ratio as of 31 December 2021 is calculated in accordance with the Regulatory Rules on the Solvency of Insurance Companies (No. 1-17) (《保險公司償付能力監管規則(1-17號)》) (“C-ROSS Phase I Rules”) issued by the former CIRC.

Indicators (%)	31 December 2022/January- December 2022	31 December 2021/January- December 2021	Increase/ decrease
The Group			
Weighted average return on equity ⁽¹⁾	8.6	10.3	-1.7 pt
Net investment yield ⁽²⁾	4.1	4.6	-0.5 pt
Total investment yield ⁽³⁾	5.0	5.4	-0.4 pt
Life Insurance			
Total investment yield ⁽³⁾	5.4	5.1	0.3 pt
Commission and brokerage ratio ⁽⁴⁾	10.3	11.1	-0.8 pt
Property and Casualty Insurance⁽⁵⁾			
Loss ratio ⁽⁶⁾	65.0	66.6	-1.6 pt
Expense ratio ⁽⁷⁾	34.9	38.5	-3.6 pt
Combined ratio ⁽⁸⁾	99.9	105.1	-5.2 pt
Total investment yield ⁽³⁾	<u>4.8</u>	<u>5.9</u>	<u>-1.1 pt</u>

Note (1): Weighted average return on equity equals net profits for the period attributable to equity owners of the parent divided by the weighted average total net assets attributable to equity owners of the parent.

Note (2): Net investment yield equals net investment income less interest expense relating to securities sold under agreements to repurchase for the period, divided by average investment assets (excluding securities sold under agreements to repurchase) as of the beginning and end of the period. Net investment income consists of interest revenue from fixed-income financial assets, dividend income from equity financial assets, operating lease income from investment properties, share of profits and losses of associates and joint ventures, interest revenue from securities purchased under agreements to resell and interest revenue from demand deposits. Investment assets refer to cash and short-term deposits, financial assets at fair value through profit or loss, securities purchased under agreements to resell, term deposits, available-for-sale financial assets, held-to-maturity financial assets, investments classified as loans and receivables, policy loans, investments in associates and joint ventures, statutory deposits and investment properties.

Note (3): Total investment yield equals total investment income less interest expense relating to securities sold under agreements to repurchase for the period, divided by average investment assets (excluding securities sold under agreements to repurchase) as of the beginning and end of the period. Total investment income equals the sum of net investment income, realized gains and gains and losses from fair value changes, less impairment losses on investment assets.

Note (4): Commission and brokerage ratio equals commission and brokerage expenses in a period divided by GWPs for the period.

Note (5): Financial ratios of property and casualty insurance refer to those financial ratios of Sunshine P&C.

Note (6): Loss ratio represents the ratio of loss incurred and loss adjustment expenses, net of reinsurance covered, to net premiums earned.

Note (7): Expense ratio represents the ratio of operating expenses (including commission and brokerage expenses), net of reinsurance commission income, to net premiums earned.

Note (8): Combined ratio equals the sum of the loss ratio and the expense ratio.

Explanation on discrepancies between domestic and overseas accounting standards

There were no discrepancies between the Group's consolidated net profit for the year 2022 or consolidated equity as at 31 December 2022 as presented in the financial statements prepared in accordance with the PRC GAAP and those prepared in accordance with IFRS.

II. ANALYSIS OF ANNUAL RESULTS

Life Insurance

(I) Business analysis

In 2022 when the global economic environment was turbulent, the domestic market environment and customer demand were changing, and industry transformation entered a deep-water zone, Sunshine Life continuously pursued sustainable value growth and actively explored new ideas for development. Based on the deep understanding of the market environment and changes in customer needs, we began to implement the “Matrix Plan” to build our customer-oriented core competency. Driven by our insight into customer needs, we worked on sales force transformation and upgrading, product system improvement, service system construction, and digital innovation to ensure sustainable high-quality and sound development. The GWPs were RMB68.30 billion in 2022, a year-on-year increase of 12.3%; the value of one year's new business was RMB3.02 billion, a year-on-year increase of 0.1%.

1. Operational channels

Sunshine Life adhered to the business model of diversified and synergistic development of sales channels. On the premise of maintaining the advantages of the current bancassurance channel, it accelerated the reform and transformation of the individual insurance agent channel, and actively cultivated new channels with the potential to further consolidate the Company's good foundation of "multiple-lines progress".

Unit: RMB in millions

For the year ended December 31	2022	2021	YOY growth
Individual insurance agent channel	15,806	15,089	4.8%
First-year premiums	3,553	3,330	6.7%
Including: long-term insurance (more than one year)	3,154	2,889	9.2%
– Including: regular premium	2,933	2,749	6.7%
– Including: single premium	221	140	57.9%
Including: short-term insurance (one year or below)	399	441	-9.5%
Renewal premiums	<u>12,253</u>	<u>11,759</u>	<u>4.2%</u>
Bancassurance channel	45,296	39,050	16.0%
First-year premiums	28,359	27,855	1.8%
Including: long-term insurance (more than one year)	28,359	27,855	1.8%
– Including: regular premium	11,311	9,847	14.9%
– Including: single premium	17,048	18,008	-5.3%
Including: short-term insurance (one year or below)	–	–	–
Renewal premiums	<u>16,937</u>	<u>11,195</u>	<u>51.3%</u>
Other channels⁽¹⁾	<u>7,193</u>	<u>6,687</u>	<u>7.6%</u>
GWPs	68,295	60,826	12.3%
First-year premiums	34,867	33,588	3.8%
Including: long-term insurance (more than one year)	32,117	31,804	1.0%
– Including: regular premium	14,745	13,485	9.3%
– Including: single premium	17,372	18,319	-5.2%
Including: short-term insurance (one year or below)	2,750	1,784	54.1%
Renewal premiums	<u>33,428</u>	<u>27,238</u>	<u>22.7%</u>

Note (1): Other channels include the group insurance channel, integrated channel, online sales channel, and insurance agencies and insurance brokers channel.

(1) Individual insurance agent channel

Through its individual insurance agent channel, Sunshine Life adhered to high-quality transformation and development, implemented differentiated management and different operation strategies for different levels of agent groups, and enhanced the team's capability to sell products and services to various customer groups, and strived to build agent teams pertinent to specific customer groups. In 2022, the GWPs from the individual insurance agent channel amounted to RMB15.81 billion, a year-on-year growth of 4.8%, of which FYRPs amounted to RMB2.93 billion, a year-on-year growth of 6.7%. The productivity per capita⁽¹⁾ amounted to approximately RMB14,000, a year-on-year growth of 13.9%. The number of insurance agent meeting the MDRT standard achieved a year-on-year increase of 31.4%.

The agent channel adhered to the agent team structure optimization, promoted more resources to attract and nurture the high-performance agents, implemented customer management projects of new agents, enhanced customer management ability of new agents, and realized the healthy development and transformation of the team. The new agents' productivity per capita amounted to approximately RMB11,000 in 2022, a year-on-year increase of 13.1%.

Meanwhile, Sunshine Life has implemented breakthrough projects in central cities and provincial capitals since 2020. In the tier-1 and tier-2 cities, Sunshine Life has made every effort to build an elite sales team of over a thousand agents that can serve medium and high-net-worth customers. In 2022, agents in this team with tertiary education and above exceeded 80%, with productivity per capita amounting to approximately RMB30,000, which is 2.1 times that of the whole individual insurance agent team.

For the year ended December 31	2022	2021	YOY growth
Average number of agents per month ⁽²⁾	62,990	81,113	-22.3%
Average ratio of active agents per month ⁽³⁾	16.4%	16.8%	-0.4pt
Productivity per capita (RMB)	13,940	12,235	13.9%

Note (1): Productivity per capita refers to the ratio of average monthly first-year regular standard premiums to average monthly active labour. First-year regular standard premiums=FYRPs with a term of more than one year × a conversion coefficient. The conversion coefficient for regular premiums with a term of more than one year and less than ten years can be calculated using years of payment divided by 10, and the conversion coefficient for regular premiums with a term of more than ten years is 1.0.

Note (2): Average number of agents per month refers to the sum of the averages of the number of agents at the beginning and at the end of the month of a year divided by 12.

Note (3): Average ratio of active agents per month refers to the ratio of the average number of active agents per month to the average number of agents per month. The average number of active agents per month refers to the sum of the number of active agents for each month in a year divided by 12; active agent refers to the agent who has standard premiums no less than RMB1,000 in that month.

(2) Bancassurance channel

The bancassurance channel of Sunshine Life adhered to value development as the core. Through measures such as strategic map layout, refined institutional management and differentiated management, Sunshine Life built the development strategy of products, outlets and teams, and actively reduced single premium placement and vigorously developed regular premium value-oriented business, with single premiums to FYRPs ratio being optimised year by year. In 2022, the GWPs from the bancassurance channel amounted to RMB45.30 billion, a year-on-year growth of 16.0%, of which FYRPs amounted to RMB11.31 billion, a year-on-year growth of 14.9%; the average productivity of branches and outlets⁽¹⁾ amounted to approximately RMB66,000, a year-on-year growth of 24.7%.

At the same time, we have been deeply cultivating the team's basic competencies, and established a professional distribution coordination team with outlet management capabilities and customer service capabilities in bank channels such as state-owned, joint-stock and local commercial banks. In 2022, the productivity per capita of the team⁽²⁾ amounted to approximately RMB120,000, representing a year-on-year increase of 15.7%, maintaining its leading position in the industry.

(3) Other channels

Sunshine Life actively explored the marketing model to reach institutional customers, integrated the internal high-quality group customer resources, and continuously expanded the external group customers. Through insights and study of the needs of customers in key industries, Sunshine Life deeply cooperated with group customers in response to the pain points of different types of enterprises, provided medical, pension, health and other series of insurance products and services for their employees and family members, through which further increased the number of individual customers and sought new breakthroughs.

In addition, Sunshine Life accelerated the pace of development, optimized the management structure and explored innovative development models for group insurance channel, integrated channel, online sales channel, insurance agencies and insurance brokers channel, and improved the capability of value development so as to meet the needs of customers in different scenarios.

In 2022, the GWPs from other channels amounted to RMB7.19 billion, a year-on-year increase of 7.6%.

Note (1): The average productivity of branches and outlets refers to the ratio of the average monthly first-year regular standard premiums in the reporting period to the number of active branches and outlets average monthly; the number of active branches and outlets refers to the number of branches and outlets whose average monthly first-year regular standard premiums are more than RMB0 for the year.

Note (2): The productivity per capita of the team refers to the ratio of average monthly first-year regular standard premiums in the reporting period to average monthly active labour; the active labour of the bancassurance channel refers to the labour whose first-year regular standard premiums in the current month are greater than RMB0.

2. *Customer Management*

Upholding the customer-centric business philosophy, Sunshine Life implemented the “Matrix Plan” around the whole life cycle of customers’ families, and continuously improved the “insurance + service” construction of product and ecological service system. As of the end of 2022, Sunshine Life had 14.95 million active customers. Meanwhile, through in-depth insights into customer needs, certain breakthroughs were achieved in the operation of mid-to-high-end customers. The number of customers with in-force policies of first-year standard premiums of RMB150,000 and above increased by 28.3%, and the number of customers with in-force policies of first-year standard premiums of RMB50,000 and above increased by 18.5%.

In terms of insurance product system, we provided a full range of coverage for family members at different stages, including healthcare, life insurance, accident, education and elderly-care. We launched the “Sunshine Insurance i Family (陽光保i家)” series of family critical illness insurance products to meet the healthcare demands of each family member of customers; launched the “Sunshine Life Longevity (陽光壽)” and other functional products to meet the increasing caring needs of elderly customers in the context of aging; launched the “Sunshine Life Baby (陽光貝)” children’s education fund products to meet the long-term education reserve needs of the new generation of family members; launched the “Union (Relief Edition) (融和 (安心版))” for customer families that needed long-term medical insurance with adjustable rates to meet the long-term medical guarantee needs of customers.

In terms of service system, we built the “Zhen•Cheng (臻•橙)” customer service brands, including the two brands of “Sunshine Sincere Desire (陽光•橙意)” and “Sunshine Legacy (陽光•臻傳)”. Focusing on the four core needs of family customers in healthcare, elderly care planning, child education, wealth management, etc., we strived to build a multilayered “insurance + service” service ecosystem covering the entire life cycle of customers’ families, specifically including: establishing a comprehensive “medical, medicine, health and elderly care” service system and building a comprehensive and multilayered health and elderly care service system where institutions offering services for the elderly play a principal role, integrate health regimen caring, elderly vacationing residents, and residential caring, and providing comprehensive solutions for children’s education and education fund for customers; establishing the “Sunshine•Legacy Family Office” to provide services such as human capital, financial capital, intellectual capital and organizational capital for high-net-worth customers; launching the industry-leading serial service brands of “Legacy-Insurance Benefit Trust” to meet the needs of high-net-worth customers for asset security, appreciation and inheritance, and to ensure the direct linkage between capital and quality life services.

3. Product Operation

(1) Analysis by business type

Unit: RMB in millions

For the year ended 31 December	2022	2021	YOY growth
Life insurance	56,589	49,744	13.8%
– Traditional	36,232	26,761	35.4%
– Participating	20,148	22,771	-11.5%
– Universal	209	212	-1.4%
Accident insurance	711	932	-23.7%
Health insurance	10,995	10,150	8.3%
GWPs	68,295	60,826	12.3%

(2) Information on the top five products

For the year ended 31 December

Unit: RMB in millions

Ranking	Name	Type	2022 GWPs	Major sales channel
1	Sunshine Life Insurance Zhen Xin Bei Zhi Whole Life (陽光人壽臻鑫倍致終身壽險)	–Traditional life insurance	20,424	Bancassurance channel
2	Sunshine Life Insurance Jin Wen Ying Endowment (Participating) (陽光人壽金穩盈兩全保險 (分紅型))	–Participating life insurance	8,706	Bancassurance channel
3	Sunshine Life Insurance Jin Man Ying (Exclusive Version)Endowment (Participating) (陽光人壽金滿盈 (尊享版) 兩全保險 (分紅型))	–Participating life insurance	7,521	Bancassurance channel
4	Sunshine Life Insurance Zhen Ai Bei Zhi Whole Life (陽光人壽臻愛倍致終身壽險)	–Traditional life insurance	5,701	Bancassurance channel
5	Sunshine Life Insurance Sunshine Rise B Whole Life (陽光人壽陽光升B款終身壽險)	–Traditional life insurance	2,323	Individual insurance agent channel

4. *Premium persistency ratio*

For the year ended December 31	2022	2021	YOY
13-month premium persistency ratio (%) ⁽¹⁾	90.5	87.0	3.5pt
25-month premium persistency ratio (%) ⁽²⁾	<u>78.5</u>	<u>76.7</u>	<u>1.8pt</u>

The persistency ratio increased thanks to the continuous optimization of business quality of Sunshine Life. The 13-month persistency ratio for 2022 was 90.5%, a year-on-year increase of 3.5 percentage points while the 25-month persistency ratio for 2022 was 78.5%, increased by 1.8 percentage points year on year.

Note (1): The 13-month premium persistency ratio: the denominator is the premiums from long-term regular insurance policies which entered into force 13 months prior to the given year, while the nominator is the premiums from such polices which have remained in force in the given year.

Note (2): The 25-month premium persistency ratio: the denominator is the premiums from long-term regular insurance policies which entered into force 25 months prior to the given year, while the nominator is the premiums from such polices which have remained in force in the given year.

5. Premiums in the top ten regions

Unit: RMB in millions

For the year ended December 31	2022	2021	YOY growth
Zhejiang	4,219	2,478	70.3%
Guangdong	3,982	3,255	22.3%
Hubei	3,842	3,828	0.4%
Shandong	3,387	3,039	11.5%
Chongqing	3,380	3,178	6.4%
Hebei	3,056	4,251	-28.1%
Shenzhen	2,912	1,857	56.8%
Henan	2,798	2,515	11.3%
Beijing	2,783	2,231	24.7%
Fujian	2,518	1,895	32.9%
Subtotal	32,877	28,527	15.2%
Subtotals of other regions	35,418	32,299	9.7%
GWPs	68,295	60,826	12.3%

6. Digital Innovation

Sunshine Life focuses on customer insights, precision marketing, intelligent customer service, risk management and other application scenarios through scientific and technological innovation, and actively promotes projects such as robots and big data to realize technology empowerment business and operational efficiency enhancement.

(1) Sales Support

Investing in a sales robot that is oriented to customer needs. Using the big data platform and artificial intelligence algorithm and based on accurate customer profile, we fast iterated sales strategies and empowered agents to identify customer needs and provide “products+services” guarantee planning for customers and their families throughout their entire life cycle.

Building a management robot that empowers frontline managers. Using big data models, independently developed dendrogram components and other cutting-edge technologies for closed-loop management across the whole operational process, clarified the path of business operation, provides multi-dimensional and all-round diagnosis report on the operation, quickly and precisely identifies key problems and offers reference solutions. We transformed the business management mode from “experience + feeling” to “science + reason” and improved the management efficiency.

(2) Customer Services

We use our intelligent service platform “My Home Sunshine” APP to have customers get 7x24-hour full, accurate, fast and precise service experience, get online services of claim settlement and preservation available anytime and anywhere and get effective connection with the Company. As of the end of 2022, the total number of registered users of “My Home Sunshine” APP reached approximately 4.02 million, and this APP served approximately 60.74 million person-times throughout the year.

The service robots provide self-service for customers and business teams, explore service pain points, promote the optimisation of service processes and tools, and form a virtuous cycle of improving customer service experience.

(3) Risk Prevention

We effectively made identification pertinent to objects, methods and disposal mechanisms, set more than 260 monitoring indicators, and establish risk monitoring and early warning platform “Sky Eye System (天眼系統)” by applying big data and machine learning technologies, and considering the characteristics and trends of industry reports and complaints, public opinion events, and major risk cases. We form the dynamic processing process to effectively prevent operational risks through the pre-risk management identifying the risk of sales behavior of sales personnel and the risk of non-compliance of key positions personnel.

Catering to various protection needs of our customers, health trends and industry regulations, we focused on health big data, promoted the health big data project and provided diversified insurance products to meet different needs for personal health. We developed prediction models for death risk, hospitalization risk, and critical illness risk to accurately price long-term insurance products, improve the capability to make accurate pricing and prevent the two core risks beforehand, which benefits our value development, and we gained one national patent for invention.

(II) Financial Analysis

The following table sets forth the summary of Statements of Profit or Loss for our life insurance segment for the periods indicated:

Unit: RMB in millions, except for percentages

For the year ended December 31	2022	2021	Changes
Net premiums earned	66,719	59,575	12.0%
Investment income	18,056	12,670	42.5%
Share of profits and losses of associates and joint ventures	1,065	2,322	-54.1%
Other income	901	1,027	-12.3%
Total revenues	86,741	75,594	14.7%
Net policyholders' benefits and claims:	64,829	54,306	19.4%
Interest credited to investment contracts	3,832	3,470	10.4%
Commission and brokerage expenses	7,040	6,739	4.5%
Finance costs	814	1,074	-24.2%
Other operating and administrative expenses	5,395	6,028	-10.5%
Total benefits, claims and expenses	81,910	71,617	14.4%
Profit before tax	4,831	3,977	21.5%
Income Tax	105	553	-81.0%
Net profit	4,936	4,530	9.0%

Net premiums earned

Net premiums earned from the life insurance segment increased by 12.0% from RMB59,575 million in 2021 to RMB66,719 million in 2022, mainly because we have made constant efforts in implementing the multichannel strategy for the sales channels, and have achieved fast growth in bancassurance channel.

Investment income

Our investment income from the life insurance segment increased by 42.5% to RMB18,056 million in 2022 from RMB12,670 million in 2021, primarily due to: (i) an increase in our interest and dividend income as a result of an increase in our investment assets; (ii) increases in realized gains and unrealized gains.

Share of profits and losses of associates and joint ventures

Share of profits and losses of associates and joint ventures from the life insurance segment decreased by 54.1% to RMB1,065 million in 2022 from RMB2,322 million in 2021, primarily due to the disposal of certain associates.

Other income

Other income from the life insurance segment decreased by 12.3% to RMB901 million in 2022 from RMB1,027 million in 2021, primarily due to the decrease in the income from investment contracts.

Net policyholders' benefits and claims

Net policyholders' benefits and claims from the life insurance segment increased by 19.4% to RMB64,829 million in 2022 from RMB54,306 million in 2021, primarily due to growth of life insurance business.

Interest credited to investment contracts

Interest credited to investment contracts from the life insurance segment increased by 10.4% to RMB3,832 million in 2022 from RMB3,470 million in 2021, primarily due to the increase in investment contract liabilities.

Commission and brokerage expenses

Commission and brokerage expenses from the life insurance segment increased by 4.5% to RMB7,040 million in 2022 from RMB6,739 million in 2021, primarily due to the increase in premium.

Finance costs

Finance costs from the life insurance segment decreased by 24.2% to RMB814 million in 2022 from RMB1,074 million in 2021, primarily due to decreases in interest on securities sold under agreements to repurchase, bonds payable and asset-backed securities.

Other operating and administrative expenses

Other operating and administrative expenses from the life insurance segment decreased by 10.5% to RMB5,395 million in 2022 from RMB6,028 million in 2021, primarily due to a decrease in impairment loss on other assets and change in foreign exchange gain or loss.

Net profit

As a result of the foregoing, our net profit from the life insurance segment increased by 9.0% to RMB4,936 million in 2022 from RMB4,530 million in 2021.

Property and Casualty Insurance

We provide property and casualty insurance products and services mainly through Sunshine P&C. In 2022, Sunshine P&C's GWPs accounted for 99.9% of our GWPs generated from property and casualty insurance business. Unless otherwise specified, this section shall only describe the business of Sunshine P&C.

(I) Business analysis

In 2022, Sunshine P&C adhered to the development concept of prioritizing profitability while pursuing growth, which improved its profitability, optimized its business structure and consolidated a solid foundation for high-quality development. It achieved an underwriting profit of RMB42 million, a combined ratio of 99.9%, a loss ratio of 65.0%, and an expense ratio of 34.9%. The annual OPI was RMB40.38 billion, representing a year-on-year decrease of 0.4 percentage points.

Unit: RMB in millions

For the year ended December 31	2022	2021	YOY
Original premium income	40,376	40,531	-0.4%
Premiums ceded to us	33	388	-91.5%
Gross written premiums	<u>40,409</u>	<u>40,919</u>	<u>-1.2%</u>

Unit: RMB in millions

Original premium income for the year ended December 31	2022	2021	YOY
Automobile insurance	24,630	23,176	6.3%
Non-automobile insurance	15,746	17,355	-9.3%
Guarantee insurance	5,816	7,397	-21.4%
Accident and short-term health insurance	4,775	5,047	-5.4%
Liability insurance	2,262	2,055	10.1%
Commercial property insurance	1,047	905	15.7%
Others ⁽¹⁾	1,846	1,951	-5.4%
Total	<u>40,376</u>	<u>40,531</u>	<u>-0.4%</u>

Note (1): Others mainly include agricultural insurance, engineering insurance, cargo insurance, special risk insurance, hull insurance, homeowner insurance and credit insurance.

All types for the year ended 31 December	2022 (%)	2021 (%)	YOY
Expense ratio ⁽¹⁾	34.9	38.5	-3.6pt
Loss ratio ⁽²⁾	65.0	66.6	-1.6pt
Combined ratio ⁽³⁾	<u>99.9</u>	<u>105.1</u>	<u>-5.2pt</u>

Note (1): Expense ratio refers to the ratio of operating expenses (including commission and brokerage expenses), net of reinsurance commission income, to net premiums earned.

Note (2): Loss ratio refers to the ratio of loss incurred and loss adjustment expenses, net of reinsurance covered, to net premiums earned.

Note (3): Combined ratio refers to the sum of the loss ratio and the expense ratio.

1. Business by insurance type

Unit: RMB in millions

Insurance name	Original premium income	Insured amount	Claims	Reserves	Underwriting profit	Combined ratio
Automobile insurance	24,630	17,778,799	16,534	17,607	632	97.4%
Non-automobile insurance	15,746	2,175,457,147	8,919	19,658	-590	104.1%
Guarantee insurance	5,816	338,361	4,153	11,411	-613	109.3%
Accident and short-term health insurance	4,775	53,994,875	1,916	2,782	360	91.6%
Liability insurance	2,262	2,113,858,001	920	2,383	-63	103.5%
Commercial property insurance	1,047	2,873,501	556	1,263	-90	120.1%
Others	1,846	4,392,409	1,374	1,819	-184	112.7%

(1) Automobile insurance

In 2022, Sunshine P&C's OPI from automobile insurance was RMB24.63 billion, representing a year-on-year increase of 6.3%. The combined ratio of automobile insurance was 97.4%, with an underwriting profit of RMB632 million. Through continuously promoting the implementation of the project of "intelligent life table for automobile insurance (車險智能生命表)", Sunshine P&C deeply integrated automobile insurance operation and actuarial technique, continued to pursue a more precise way of pricing and a more scientific way of resource allocation, and further consolidated the foundation for the sustainable and healthy development of automobile insurance.

At the same time, we focused on continuously improving the management of individual customers and actively broadened the strategic business segments. The growth rate of private passenger vehicle premiums was 7.5% with the proportion in auto insurance business increased by 0.7 percentage points and the growth rate of new energy vehicle premiums was 97.1% with the proportion in auto insurance business increased by 3.3 percentage points. In the future, we will continue to deepen the construction and implementation of the intelligent life table for automobile insurance project, further improve product pricing and scientific resource allocation capabilities, and build the core competitiveness of Sunshine's automobile insurance.

(2) Non-automobile insurance

In 2022, Sunshine P&C's OPI of non-automobile insurance was RMB15.75 billion, representing a year-on-year decrease of 9.3%, and the combined ratio of non-automobile insurance was 104.1%. In 2022, Sunshine P&C strove to enhance its capabilities in relation to non-automobile risk identification and pricing, established the framework system of life table for non-automobile insurance, set detailed rules for evaluating and adjusting the cost of risk for different products, industries and regions, and proactively adjusted business structure at the same time. In the future, Sunshine P&C will continue to improve its capabilities in relation to non-automobile risk identification and product pricing, improve the level of risk management services, and further optimize its business structure and quality, and continuously consolidate the foundation for sustainable and healthy development of non-automobile insurance.

Guarantee insurance

In 2022, Sunshine P&C's OPI of guarantee insurance was RMB5.82 billion, representing a year-on-year decrease of 21.4%. The combined ratio was 109.3%. On the one hand, based on the judgment of the macro situation, the Company has taken the initiative to optimize its business structure, tighten the access criteria and scale down its business; on the other hand, owing to changes of market environments, customers' business activities and repayment ability were greatly affected, and the loss ratio showed a significant increase. In the future, Sunshine P&C will maintain a prudent development strategy, continue to optimize its business structure and customers' structure, further improve its risk control capability and enhance operational stability.

Accident and short-term health insurance

In 2022, Sunshine P&C's OPI of accident and short-term health insurance was RMB4.78 billion in 2022, representing a year-on-year decrease of 5.4 percentage points; the combined ratio was 91.6%. Based on the advantages of Sunshine Insurance Group in the medical field, Sunshine P&C actively participated in social security supplementary insurance programs in China, increased efforts on developing the business of policy-supported insurance, such as critical illness insurance, and large-amount of supplementary medical insurance for urban employees, and achieved breakthroughs in areas such as long-term care insurance and outpatient chronic disease insurance, with the growth rate of 112.0% in policy-supported health insurance premiums. In the future, the Company will gradually build a professional solution of "insurance institution+ health management+ technology empowerment" to establish Sunshine's comparative advantages and characteristics in the field of policy-supported health insurance.

Liability insurance

In 2022, Sunshine P&C's OPI of liability insurance was RMB2.26 billion, representing a year-on-year increase of 10.1%. The combined ratio was 103.5%, representing a year-on-year decrease of 0.6 percentage points. Sunshine P&C actively participated in social governance, production safety and public services, supported the development of real economy and green economy, and provided insurance protection for new citizens. In the future, the Company will further increase its efforts to serve the modernization of national governance and give full play to the role of liability insurance in resolving conflicts and disputes, while continuously improving its capabilities in relation to risk identification and product pricing to achieve "sound and fast" development of liability insurance.

Commercial property insurance

In 2022, the OPI from commercial property insurance of Sunshine P&C was RMB1.05 billion, representing a year-on-year increase of 15.7%; The combined ratio was 120.1%, representing a year-on-year decrease of 20.6 percentage points through continuous improvement of risk identification and pricing capabilities and strict control of business quality. Sunshine P&C supports the development of real economy and serves the Belt and Road. In addition, Sunshine P&C continued to innovate product models and optimize a series of “Boss Relieved” insurance products to assist the development of small, medium and micro-sized enterprises, help smooth operation of the economy and help small, medium and micro-sized enterprises tide over difficult times. In the future, the Company will continue to provide risk protection and risk reduction services for real economy enterprises, and actively play the role of shock absorbers for the real economy and social stabilizers. At the same time, we will further enhance our risk identification and product pricing capabilities, optimize our business structure and quality, and effectively decrease cost.

2. *Customer Management*

Sunshine P&C adheres to the core value of “all for customers”, continues to deepen the research on customer needs, and is committed to establishing a convenient customer service system, actively providing warm, caring, professional and trustworthy service products, and practicing the service motto of “making our services the reason for customers to choose Sunshine P&C”. As of the end of 2022, Sunshine P&C had 18.72 million active customers.

In terms of individual customers, we continued to deepen the research on individual customers, accelerated the innovation of personal non-automobile insurance products, strengthened customer retention, extended the insurance and service coverage, and achieved rapid improvement in individual customer retention and conversion. The renewal rate of private passenger vehicle insurance customers was 63.7%, representing a year-on-year increase of 4.4 percentage points. The proportion of non-automobile insurance products purchased by individual auto insurance customers reached 47.0%, representing a year-on-year increase of 4.1 percentage points.

In terms of institutional customers, we have steadily promoted the implementation of the “Partner Initiative”, established a nationwide risk management network under the direct leadership of the headquarters and branches, respectively, launched the Sunshine Sky Eye risk map platform. We focused on key business development areas in the form of “insurance + technology + service”, increased risk management services on the basis of the single risk transfer of traditional insurance products, improved risk identification and product pricing capabilities, and helped enterprises achieve risk reduction and value enhancement. In 2022, we provided technology-based disaster mitigation and professional risk consulting services to more than 4,300 important corporate customers.

3. Premiums in the top ten regions

Unit: RMB in millions

Original premium income for the year ended December 31	2022	2021	YOY
Shandong	4,833	4,709	2.6%
Henan	3,751	3,633	3.2%
Zhejiang	3,245	3,509	-7.5%
Hebei	2,845	2,617	8.7%
Guangdong	2,091	2,095	-0.2%
Sichuan	1,876	1,765	6.3%
Jiangsu	1,815	1,834	-1.0%
Anhui	1,456	1,586	-8.2%
Hubei	1,398	1,094	27.8%
Beijing	1,325	1,443	-8.2%
Subtotal	24,635	24,285	1.4%
Subtotal in other regions	15,741	16,246	-3.1%
Total	40,376	40,531	-0.4%

4. Digital transformation

Relying on big data and artificial intelligence technology, Sunshine P&C made breakthroughs in key projects, supported by the reform of model and mechanism, continued to promote digital transformation, continuously optimized customer experience, empowered business development, improved operational efficiency and enhanced risk prevention, driving the high-quality development of the Company.

(1) Customer service

Relying on the sunshine online platform (Auto•Life APP, mini program, official website, Wecom account), we optimized the customer service process and provided customers with one-stop convenient services, serving over 120 million customers in total, with a service satisfaction rate of 94%. At the same time, we actively promoted the online and intelligent counter services to further improve customer experience and operational efficiency.

(2) Business operations

We promoted the reshaping of basic capabilities, launched the new generation core business system for non-automobile insurance, and greatly improved the stability, security, scalability and configuration of the system. The Company deeply explored the innovation of business scenarios, created the “Automobile Insurance Robot”, organically combined big data algorithms with expert experiences, and actively explored the intelligent pricing and allocation fee of automobile insurance and automatic business operation diagnosis. Based on customer insights and content mining, we built the “Internet and Telephone Sales Robot” to support dynamic monitoring, analysis and auxiliary sales.

(3) Risk prevention

Relying on the Sunshine Sky Eye risk map platform, we presents the national natural disaster risk distribution and policy risk distribution, empowers underwriting pricing, risk screening and customer risk management, and provides customers with more than 250 thousand weather disasters, typhoon paths, and waterlogging point data and other early warning information. At the same time, based on the automobile insurance anti-fraud model, we reduced the accumulated insurance claim costs exceeding RMB63 million in 2022.

(II) Financial Analysis

Since we carry out substantially all of our property and casualty insurance business through Sunshine P&C, the following discussion on the segment operating performance of our property and casualty insurance business is mainly a discussion on the respective performance of Sunshine P&C during the periods indicated.

Sunshine P&C

Unit: RMB in millions

For the year ended December 31	2022	2021	Changes
Net premiums earned	38,441	37,757	1.8%
Investment income	1,940	2,312	-16.1%
Share of profits and losses of associates and joint ventures	187	171	9.4%
Other income	159	177	-10.2%
Total revenues	40,727	40,417	0.8%
Net policyholders' benefits and claims:	24,987	25,148	-0.6%
Commission and brokerage expenses	4,334	5,242	-17.3%
Finance costs	316	196	61.2%
Other operating and administrative expenses	9,293	9,514	-2.3%
Total benefits, claims and expenses	38,930	40,100	-2.9%
Profit before tax	1,797	317	466.9%
Income Tax	-195	135	-244.4%
Net profit	1,602	452	254.4%

Net premiums earned

Net premiums earned of Sunshine P&C increased by 1.8% to RMB38,441 million in 2022 from RMB37,757 million in 2021, primarily due to the combined effect of GWPs and net change in unearned premium reserves.

Investment income

Investment income of Sunshine P&C decreased by 16.1% to RMB1,940 million in 2022 from RMB2,312 million in 2021, primarily due to the decrease in realized gains.

Share of profits and losses of associates and joint ventures

Share of profits and losses of associates and joint ventures of Sunshine P&C increased by 9.4% to RMB187 million in 2022 from RMB171 million in 2021, primarily due to an increase in the profits of certain associates.

Other income

Other income of Sunshine P&C decreased by 10.2% to RMB159 million in 2022 from RMB177 million in 2021, primarily due to a decrease in commission income from withholding vehicle and vessel tax.

Net policyholders' benefits and claims

Net policyholders' benefits and claims of Sunshine P&C remained stable at RMB25,148 million and RMB24,987 million in 2021 and 2022, respectively.

Commission and brokerage expenses

Commission and brokerage expenses of Sunshine P&C decreased by 17.3% to RMB4,334 million in 2022 from RMB5,242 million in 2021, primarily due to a decrease in GWPs from Sunshine P&C, and lower commission and brokerage ratios in relation to accident and short-term health insurance, resulting from the implementation of laws and regulations relating to the Internet insurance business.

Finance costs

Finance costs of Sunshine P&C increased by 61.2% to RMB316 million in 2022 from RMB196 million in 2021, primarily due to an increase in the interest on bonds payable.

Other operating and administrative expenses

Other operating and administrative expenses of Sunshine P&C decreased by 2.3% to RMB9,293 million in 2022 from RMB9,514 million in 2021, primarily due to a decrease in business promotion and consulting expenses.

Net profit

As a result of the foregoing, net profit of Sunshine P&C increased by 254.4% to RMB1,602 million in 2022 from RMB452 million in 2021.

Asset Management

The Group has always focused on its own investment capacity building. Adhering to the core principle of asset and liability management, as well as philosophy of long-term and value investment, the Group has built up sound institutional system of asset management. With the full-range investment qualifications and diversified investment capability, the Group has developed the core competitiveness with distinct characteristics of Sunshine during many years of practice in investment. This has not only achieved long-term, stable and sustainable performance and returns for insurance funds, but also played an important synergistic role in enhancing our insurance business and value development.

(I) Our Group's investment assets

In 2022, due to the impact of overseas interest-rate hikes and geopolitical conflicts, as well as weakened domestic economic growth, the equity market in China declined significantly, and the investment yields of long-term bond and high-quality non-standard debt assets were decreasing on average. The Group always maintains strategic determination, strictly follows the principle of asset liability management and persists in medium and long-term strategic asset allocation. Whilst focusing on stable investment return, the Group makes dynamic tactical asset allocation adjustments based on market changes. Firstly, we seized the time windows of market opportunities to increase the allocation of long-term government bonds and policy bank bonds. Therefore, the Group further extended the asset duration, and hence reduced the duration gap and reinvestment risk. Secondly, we actively increased the investment in high-quality alternative assets to strengthen the cost-return matching on the premise of well-controlled credit risk exposure. Last but not least, the Group maintained a reasonable equity positions with balanced allocation of value stocks and growth stocks, aiming to reduce portfolio volatility and balance risk and return. As of December 31, 2022, our Group's total investment assets reached RMB428.84 billion, representing a year-on-year increase of 10.3%, and total investment income reached RMB20.13 billion, representing a year-on-year increase of 5.4%.

1. *Investment portfolio*

Unit: RMB in millions

	December 31, 2022		Change in	Change in
	Amount	Percentage	percentage from	amount from
			the end of the	the end of the
			previous year	previous year
Fixed-income financial assets	289,207	67.4%	2.3pt	14.2%
Term deposits	22,383	5.2%	-0.6pt	-0.1%
Bonds	183,167	42.7%	0.7pt	12.1%
Policy loans	11,077	2.6%	-0.1pt	5.9%
Wealth management products ⁽¹⁾	50,208	11.7%	0.3pt	13.0%
Other debt investments ⁽²⁾	22,372	5.2%	2.0pt	78.3%
Equity financial assets	89,587	20.9%	2.3pt	24.4%
Stocks	52,972	12.4%	3.7pt	56.5%
Equity funds	6,093	1.4%	-1.4pt	-43.2%
Wealth management products ⁽¹⁾	24,203	5.6%	0.4pt	18.6%
Other equity investments ⁽³⁾	6,319	1.5%	-0.4pt	-10.1%
Investments in associates and joint ventures	16,136	3.8%	-3.6pt	-44.0%
Investment properties	9,085	2.1%	-0.3pt	-3.1%
Cash and cash equivalents and others⁽⁴⁾	24,829	5.8%	-0.7pt	-1.8%
Investment assets (total)	<u>428,844</u>	<u>100.0%</u>	<u>-</u>	<u>10.3%</u>

Notes:

- (1) Wealth management products mainly include trust schemes from trust companies, products from insurance asset management companies, wealth management products from commercial banks and private equity funds.
- (2) Other debt investments mainly include statutory deposits, bond funds and money market funds.
- (3) Other equity investments include unlisted equities, preferred shares and equity perpetual bonds.
- (4) Cash and cash equivalents and others mainly include cash deposits and securities purchased under agreements to resell.

(1) By investment category

Bonds investment. The Group performed in-depth research into interest rate trend, and increased long-term government bonds investment in order to stabilize portfolio yields and improve asset and liability duration matching. As of December 31, 2022, bond investments accounted for 42.7% of the total investment assets, an increase of 0.7 percentage points from the end of the previous year; among them, government bonds accounted for 59.0% of the bond investments. The Group has attached great importance to credit risk management, strictly controlled risk exposures by sector(s) and by counterparty(ies), etc., and carefully selected targets to ensure the risk was manageable. Overall, the issuers of the Group's bond investments are of strong financial strength, hence, the credit risk of bond portfolio is well managed. 98.3% of domestic bonds (excluding government bonds and policy bank bonds) held by us received a credit rating of AA+ or above by external rating agencies, of which 95.2% received a credit rating of AAA or above; 100% of overseas bonds held by us were investment-grade bonds with a credit rating of BBB or above by external rating agencies, of which 93.6% received a credit rating of A or above.

Fixed-income wealth management products. Fixed-income wealth management products held by the Group include fixed-income insurance asset management portfolio products and debt investment schemes issued by insurance asset management companies, and fixed-income collective investment trust schemes issued by trust companies. As of December 31, 2022, the fixed-income wealth management products held by the Group amounted to RMB50.21 billion, accounting for 11.7% of the Group's total investment assets. 95.0% of the debt investment schemes and trust schemes we held received credit ratings of AAA. In terms of industry distribution, the underlying projects are spread across sectors including infrastructure, non-banking financial services, real property, public services and manufacturing. For the risk management of fixed-income wealth management products, the Group mainly focuses on three aspects: asset allocation, product selection and investment portfolio management. In addition, we continually monitor and strictly manage the credit risk throughout the full life cycle of the investment, including fund raising, investment, management and exiting, and establish an overall and individual risk alert framework covering all investment fields, varieties and instruments to ensure that the risks of investment assets in the entire process are thoroughly assessed and controlled.

Equity financial assets. Equity financial assets held by the Group include stocks, equity funds, equity wealth management products and other equity investments. As of December 31, 2022, the Group's investment in equity financial assets amounted to RMB89.59 billion, accounting for 20.9% of the total investment assets, an increase of 2.3 percentage points from the end of the previous year, of which the investment in stocks and equity funds accounted for 13.8% of the total investment assets. When selecting listed shares, we prefer value stocks with high dividend yield and high-quality growth stocks with sustainable performance, basing our decisions on in-depth industry researches as well as the government industrial policy guidance.

(2) By investment purpose

Unit: RMB in millions

	December 31, 2022		Change in percentage from the end of the previous year	Change in amount from the end of the previous year
	Amount	Percentage		
Financial assets at fair value through profit or loss	20,455	4.8%	1.7pt	68.2%
Available-for-sales financial assets	169,469	39.5%	-1.5pt	6.2%
Held-to-maturity investments	114,704	26.7%	5.1pt	36.4%
Investments in associates and joint ventures	16,136	3.8%	-3.6pt	-44.0%
Loans and others ⁽¹⁾	108,080	25.2%	-1.7pt	3.8%
Investment assets (total)	428,844	100.0%	-	10.3%

Note (1): Loans and others mainly include cash and bank balances, term deposits, securities purchased under agreements to resell, policy loans, statutory deposits, investments classified as loans and receivables, and investment properties.

2. Investment income

Unit: RMB in millions

	December 31, 2022	December 31, 2021	Changes
Net investment income ⁽¹⁾	16,314	16,458	-0.9%
Realized gains ⁽²⁾	6,734	5,826	15.6%
Unrealized gains or losses	618	-2,172	-128.5%
Impairment loss on investment assets	-3,536	-1,016	248.1%
Total investment income⁽³⁾	20,130	19,096	5.4%
Net investment yield (%)⁽⁴⁾	4.1	4.6	-0.5pt
Total investment yield (%)⁽⁵⁾	5.0	5.4	-0.4pt

Notes:

- (1) Net investment income consists of interest revenue from fixed-income financial assets, dividend income from equity financial assets, share of profits and losses of associates and joint ventures, operating lease income from investment properties, interest revenue from securities purchased under agreements to resell and interest revenue from demand deposits.
- (2) Realized gains include realized capital gains from securities investments.
- (3) Total investment income refers to the sum of net investment income, realized gains and unrealized gains or losses, less impairment loss on investment assets.
- (4) Net investment yield equals net investment income less interest expense relating to securities sold under agreements to repurchase for the period, divided by average investment assets (excluding securities sold under agreements to repurchase) as of the beginning and end of the period. Investment assets refer to cash and short-term deposits, financial assets at fair value through profit or loss, securities purchased under agreements to resell, term deposits, available-for-sale financial assets, held-to-maturity financial assets, investments classified as loans and receivables, policy loans, investments in associates and joint ventures, statutory deposits and investment properties.
- (5) Total investment yield equals total investment income less interest expense relating to securities sold under agreements to repurchase for the period, divided by average investment assets (excluding securities sold under agreements to repurchase) as of the beginning and end of the period.

In 2022, we achieved a net investment income of RMB16.31 billion, down 0.9% year on year, the net investment yield was 4.1%, down 0.5 percentage points year on year. We achieved a total investment income of RMB20.13 billion for the year, an increase of RMB1.03 billion or 5.4% from 2021; the total investment yield was 5.0%, down 0.4 percentage points year on year, primarily due to the capital market fluctuations, declining market interest rates and increased provision for impairment.

(II) Third-party assets managed

Sunshine AMC, with a professional investment team and the investment philosophy of “value-oriented, long-term pursuit”, has accumulated profound experience in long-term asset management, and developed multiple lines of business in asset management and investment. It has full-spectrum investment capabilities and qualifications for credit risk management, stock investment, use of derivatives, debt investment schemes, equity investment schemes, qualified domestic institutional investors (境內資金境外投資受託人), portfolio products issuance, etc. Sunshine AMC stands out in fields such as diversified asset allocation, professional asset management and market-oriented product innovation which has been widely recognized by many institutional investors and corporate customers, and has built up Sunshine’s unique brand influence.

Sunshine AMC is responsible for entrusted management of investment assets of insurance funds within the Group, and is also vigorously developing third-party asset management business, providing professional asset management, investment consultancy and other services for other investors, and helping customers achieve robust asset appreciation through insurance asset management products or customized special accounts. As of December 31, 2022, Sunshine AMC achieved the assets under management (“AUM”) amounted to RMB756.96 billion, representing an increase of 15.8% from the end of 2021, among which our third-party AUM amounted to RMB414.98 billion, representing an increase of 21.4% from the end of 2021.

Unit: RMB in millions

	December 31, 2022	December 31, 2021	Changes
Assets under management entrusted to Sunshine AMC	756,955	653,621	15.8%
including: AUM entrusted by Group	341,979	311,913	9.6%
including: AUM entrusted by third party	<u>414,976</u>	<u>341,708</u>	<u>21.4%</u>

Sunshine AMC actively grasps the trend of the asset management industry and the customer needs, adheres to the development strategy of marketization, professionalism and standardization, continuously polishes its investment research capability, and improves customer service level. It meets various market demands through a multi-asset and multi-strategy product system, and promotes the sound development of the third-party business. In 2022, the portfolio insurance asset management products managed by Sunshine AMC operated steadily, with the fixed-income, equity and hybrid products all maintaining growth, and two of equity products received the “2022 China Insurance Investment Golden Bull Award (中國保險業投資金牛獎)”. In addition, Sunshine AMC continued to support the development of the real economy through its debt business. On the premise of holding the risk bottom line, it continuously supported national infrastructure construction, actively participated in industrial upgrading in line with national policies, and effectively invested funds in various high-quality enterprises, with priority to fields such as infrastructure, transportation and environmental protection. One of the debt investment schemes managed by Sunshine AMC won 2022 Ark Prize for Innovative Insurance Asset Management Products organized by Securities Times as an active practice of insurance funds in support of the green development.

III. ANALYSIS ON SPECIAL ITEMS

(I) Liquidity Analysis

1. Gearing Ratio

	31 December 2022	31 December 2021
Gearing Ratio	<u>87.2%</u>	<u>86.6%</u>

Note: gearing ratio = total liabilities/total assets

2. *Statement of Cash Flows*

Unit: RMB million

For the year ended December 31	2022	2021	Increase/ decrease
Net cash inflows from operating activities	26,229	44,573	-41.2%
Net cash outflows from investing activities	-28,755	-4,686	513.6%
Net cash inflows/(outflows) from financing activities	<u>1,903</u>	<u>-26,363</u>	<u>-107.2%</u>

3. *Liquidity Analysis*

The Company manages the liquidity of the Group Company and its subsidiaries from the Group level. As a holding company, the Group Company mainly conducts business operations through its subsidiaries, and its cash flow is mainly derived from dividends and other investment income of its operating subsidiaries.

The Company's major sources of capital include premium income, investment income, and cash inflows from the sale or maturity of investment assets, etc. The demand for working capital mainly includes the surrenders, withdrawals or other forms of early termination of insurance contracts, the reimbursement or payment of insurance, dividends paid to shareholders, and cash payments for daily expenses.

The Company's cash and bank deposits provide the Company with liquid resources to meet its cash disbursement needs. As of the end of the Reporting Period, the Company had cash and cash equivalents of RMB24.83 billion and term deposits of RMB22.38 billion. In the case of interest loss, most of the Company's term bank deposits are available. In addition, the Company's investment portfolio also provides the Company with liquidity resources to meet unforeseen cash disbursement needs. As of the end of the Reporting Period, the book value of the Company's fixed-income financial assets investment was RMB289.21 billion and the book value of equity financial assets investment was RMB89.59 billion.

The Company believes that it has sufficient working capital to meet its current working capital needs.

(II) Solvency

The Group and each of its insurance subsidiaries have implemented the Regulatory Rules on the Solvency of Insurance Companies (II) (《保險公司償付能力監管規則(II)》) (“C-ROSS Phase II Rules”) from 2022, and the solvency data as at December 31, 2022 has reflected the impact of the changes in C-ROSS Phase II Rules. The solvency data as at December 31, 2021 is still calculated in accordance with the Regulatory Rules on the Solvency of Insurance Companies (No. 1-17) (《保險公司償付能力監管規則 (1-17號) 》) (“C-ROSS Phase I Rules”) issued by the CIRC.

As of 31 December, 2022, the comprehensive solvency ratio and the core solvency ratio of the Group and each of its insurance subsidiaries had met the regulatory requirements.

The table below sets forth the solvency data of the Group and its main insurance subsidiaries as at the dates indicated:

Unit: RMB in millions

	31 December 2022	31 December 2021	Increase/ Decrease
The Group			
Core capital	69,751	81,669	-14.6%
Actual capital	95,311	92,683	2.8%
Minimum capital	48,081	41,557	15.7%
Core solvency ratio (%)	145	197	-52 pt
Comprehensive solvency ratio (%)	198	223	-25 pt
Sunshine Life			
Core capital	43,133	60,040	-28.2%
Actual capital	62,540	65,056	-3.9%
Minimum capital	40,038	34,335	16.6%
Core solvency ratio (%)	108	175	-67pt
Comprehensive solvency ratio (%)	156	189	-33pt
Sunshine P&C			
Core capital	10,837	12,769	-15.1%
Actual capital	16,990	18,767	-9.5%
Minimum capital	7,590	7,036	7.9%
Core solvency ratio (%)	143	181	-38pt
Comprehensive solvency ratio (%)	224	267	-43pt

Note: (1) Core solvency ratio = core capital / minimum capital; comprehensive solvency ratio = actual capital / minimum capital.

(2) The minimum regulatory requirements for core solvency ratio and comprehensive solvency ratio are 50% and 100% respectively.

(III) Asset Charge

Some subsidiaries of the Group sold and repurchased securities in the market due to liquidity management needs. During the transactions, the securities held by subsidiaries of the Company will be used as collateral for transaction. As at December 31, 2022, the charge information of the relevant securities is set out in Note 12 to the consolidated financial statements of this announcement.

(IV) Bank Borrowings

The aggregate balance of bank borrowings of the Group as at December 31, 2022 were RMB320 million, excluding the bonds issued by some subsidiaries of the Group and the securities sold under repurchase agreements of its investment business. The bonds payable by the Group are set out in Note 11 to the consolidated financial statements of this announcement.

(V) Risk of Exchange Rate Fluctuations

The vast majority of the Group's assets and liabilities are denominated in Renminbi ("RMB"), but some of its assets and liabilities are denominated in Hong Kong dollars, US dollars and other foreign currencies. The fluctuations of the value of RMB relative to such currencies expose us to foreign exchange risk. We controlled the adverse impact of exchange rate fluctuations by strengthening the management of asset-liability matching of different currencies and controlling foreign exchange positions. As of December 31, 2022, the book value of foreign exchange financial assets and financial liabilities held by the Group amounted to RMB21.24 billion and RMB2.61 billion, respectively.

(VI) Contingent Liabilities

Given the nature of insurance business, in the ordinary course of its business, the Group is involved in various estimates, contingencies and legal proceedings, including as plaintiff and defendant in litigation and as applicant and respondent in arbitration. The adverse effects of the above disputes mainly include insurance policies and other claims. The Group has made provision for possible losses, including provisions for claims such as insurance policies, when management has consulted counsel (if any) and is able to make a reasonable estimate of the outcome of the above litigation. No provision shall be made for audits, contingencies or legal proceedings where the outcome cannot be reasonably predicted and management considers that the likelihood of failure is low. As at December 31, 2022, with respect to the above pending litigation, the management believes that the obligations arising from the final ruling will not have a material adverse impact on the financial position and operating results of the Group.

IV. MAJOR EVENTS

(I) Connected Transactions

1. *Continuing Connected Transactions*

Provision of Investment Management Services by Sunshine AMC to the Group

Principal terms

On November 21, 2022, the Group entered into an entrusted investment management services framework agreement with Sunshine AMC (the “**Entrusted Investment Management Services Framework Agreement**”), which is effective from the Listing Date to December 31, 2024. Pursuant to the Entrusted Investment Management Services Framework Agreement, the Group entrusted Sunshine AMC to manage part of our investment assets. Sunshine AMC shall manage the entrusted assets in accordance with the Entrusted Investment Management Services Framework Agreement, specific entrusted investment management services agreements, relevant laws, regulations, regulatory requirements as well as the investment guidelines formulated by the Group, and the Group shall pay investment management fees, consulting service fees and other service fees to Sunshine AMC.

Pursuant to the Entrusted Investment Management Services Framework Agreement, Sunshine AMC shall provide investment management and investment advisory services to the Group in connection with traditional financial products (such as stocks, funds and bonds traded in the secondary markets) and alternative investments (such as direct equity investments, real estate investments and investments in private equity funds).

Connected persons

Sunshine AMC is our non-wholly owned subsidiary and pursuant to Rule 14A.16(1) of the Hong Kong Listing Rules, a connected subsidiary of the Company, and therefore constitutes a connected person of the Company. As a result, the transactions under the Entrusted Investment Management Services Framework Agreement constitute our continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

Reasons for the Transactions

Sunshine AMC has been providing investment management services to the Group since April 2013. Sunshine AMC offers investment management services that are highly recognized by the market and possesses the experience and expertise in asset management with sound investment management skills. Given that Sunshine AMC has a profound understanding of the Group’s business, it is in the best interests of the Group and its Shareholders as a whole to continue such transaction to leverage Sunshine AMC’s advantage to promote the Group’s investment business development and to provide better investment returns for our Shareholders.

Pricing policy

For traditional financial products, the Group will pay investment management fees (including base management fee and performance-based management fee) and other relevant service fees to Sunshine AMC. The base management fee is calculated by multiplying the net asset value of the entrusted assets by the fixed management fee rate (0.4% per annum for equity assets and 0.1% per annum for fixed-income assets) and shall be paid monthly, whereas the performance-based management fee equals to 10% or 15% of the return exceeding the performance benchmarks for each type of assets and is normally determined at the year end. Sunshine AMC may subscribe financial products managed by itself with the entrusted assets of the Group, for which Sunshine AMC will charge service fee with reference to the above-mentioned fee rates.

For alternative investments, the Group will pay consulting service fees (including base service fee and performance-based service fee) to Sunshine AMC. The base service fee is calculated by multiplying the investment principal of each project by the base fee rate of each type of project as agreed under specific transaction agreements, with the highest fee rate not exceeding 1% per annum of the investment principal; whereas the performance-based service fee is charged based on the actual contribution of consulting services provided by Sunshine AMC, which in principle shall not exceed 20% of the net return from our alternative investment portfolio under which Sunshine AMC provides services and is normally determined at the year end. The Group shall only pay such performance-based service fees to Sunshine AMC when the return rate of the alternative investment portfolio is higher than the benchmark return rate as agreed between the Group and Sunshine AMC.

The pricing of the investment management services is determined by both parties after arm's-length negotiations with reference to the Group's business needs for such investment management services. The fee rates charged by Sunshine AMC under the Entrusted Investment Management Services Framework Agreement are no less favorable to the Group compared to the fee rates typically charged by Sunshine AMC against its other Independent Third Parties customers for similar business, as well as the fee rates paid by the Group to Independent Third Parties asset managers for similar business.

Annual Caps and Transaction Amounts

For the three years ended December 31, 2024, the annual caps of the fees for investment management services to be paid by the Group to Sunshine AMC are expected to be as follows:

	<i>(RMB million)</i>		
For the year ended December 31	2022	2023	2024
Fees cap for investment management services expected to be paid by the Group to Sunshine AMC	<u>946</u>	<u>1,111</u>	<u>1,258</u>

For the year ended December 31, 2022, the fees for investment management services paid by the Group to Sunshine AMC was RMB821 million actually in aggregate.

Confirmation from independent non-executive directors and auditor of the Company

In respect of the above continuing connected transactions, the Company confirms that it has complied with the requirements of Chapter 14A of the Listing Rules as amended from time to time. The independent non-executive directors of the Company have reviewed and confirmed that the continuing connected transactions as set out above have been and will continue to be conducted in the ordinary and usual course of business of the Company under agreements relating to the continuing connected transactions, be entered into on ordinary commercial terms (as defined in the Listing Rules), and are fair and reasonable; and are conducted on the terms of the relevant transaction agreements and are in the interests of the Company and the Shareholders as a whole, and the proposed annual caps for such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board of Directors of the Company has received a confirmation letter from the Company's auditor in respect of the continuing connected transactions as set out above, and based on the work performed by it, the auditor drew the following conclusions on the disclosed continuing connected transactions (among others):

- a. nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors.
- b. for transactions involving the provision of goods or services by the Company, nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.
- c. nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- d. with respect to the aggregate amount of each of the continuing connected transactions set out in the attached table, nothing has come to the auditor's attention that causes the auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

2. *Confirmation for Related Party Transactions*

Save for the connected transactions and continuing connected transactions disclosed in this announcement, there are no related party transactions that constitute connected transactions or continuing connected transactions that are required to be announced or approved by independent shareholders under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of the connected transactions and continuing connected transactions of the Company.

(II) Material Contracts and Their Implementation

Investment is one of the core business activities of the Company. The Company mainly adopts the model of entrusted investment management. Sunshine AMC as the manager within the Sunshine Insurance are entrusted to manage most of the investment assets. The Company also cooperates with professional investment management institutions such as fund companies as external managers to complete the diversified pattern of entrusted investment management. The Company sets different investment strategies and performance benchmarks through different account liability attributes and risk-return characteristics of broad asset class to enhance the stability of returns while reasonably diversifying investment risks. Under the entrusted investment management contracts entered into with Sunshine AMC, the Company guides and supervises investment managers' investment behaviors through investment guidelines, dynamic tracking, performance evaluation and other measures, and adopts targeted risk management measures according to the characteristics of different investment assets.

During the Reporting Period, except as otherwise disclosed in this announcement, there were no other material contractual matters required to be disclosed by the Company.

(III) Performance of Commitments

The Company complies with the undertakings made in the Prospectus. On March 16, 2023, the Board considered and approved the proposed conversion of not less than 600,000,000 domestic unlisted shares and not more than 3,000,000,000 domestic unlisted shares of the Company into H Shares of the Company. Subject to obtaining all relevant approvals and filings (including approvals from the regulatory authorities of the insurance industry, filings with the CSRC and approvals from the Hong Kong Stock Exchange) and compliance with all applicable laws, rules and regulations, such Domestic Shares will be converted into H Shares and we will apply to the Hong Kong Stock Exchange for the listing of, and permission to deal in, such H Shares on the Main Board. According to the Articles of Association, the conversion and listing shall be approved by a special resolution at the general meeting of the Company. In case where the aforementioned approval from shareholders' meeting is not obtained, the Company will re-convene a shareholders' meeting every three months thereafter to seek relevant approval from its shareholders.

(IV) Material Litigation and Arbitration

During the Reporting Period, the Company had no material litigation or arbitration.

(V) Major Acquisition and Investment

During the Reporting Period, the Company had no major acquisition or investment.

(VI) Use of Proceeds

The shares of the Company were listed and traded on the Main Board of the Hong Kong Stock Exchange on December 9, 2022 with gross proceeds of approximately HK\$6,705 million from the IPO. As of the date of this announcement, the Company has used approximately HK\$247 million out of the proceeds from the IPO to pay underwriting commissions and estimated expenses payable by us in relation to the IPO. The unused proceeds will be used by the Company to strengthen our capital base to support the ongoing growth of our business as committed in Prospectus.

V. PROSPECTS

(I) Market Environment

In the long run, as one of the most important growth engines in the global insurance market, China's insurance density and insurance penetration are lower than those of the global average, and the overall coverage and protection degree are still at a low level, with great room for improvement. Driven by the overall economic improvement, residents' wealth accumulation, aging population and other factors, China's insurance market still has great potential for growth.

At present, China's development has entered a period where strategic opportunities and risks and challenges coexist, and where uncertain factors are increasing. In 2022, the domestic economy was facing greater downward pressure, the development of the insurance industry was under pressure, and the transformation had entered a critical period due to the impact of international geopolitical conflicts, repeated epidemics and weak domestic demand. As the 20th National Congress of CPC was successfully held, an all-round layout of Chinese path to modernization had been implemented, and high-quality development has become our main task. Looking forward to 2023, as the epidemic enters a new stage, domestic demand is activated, the economy recovers and confidence is boosted, the fundamentals is obviously enjoying a positive trend, and the in-depth reform and transformation of the insurance industry is expected to usher in an upward turning point.

(II) Development Outlook

Our mission is still to "bring more sunshine to people". We are dedicated to "becoming the leading professional insurance service provider for families, as well as the trusted risk management partner for enterprises". We have been focusing on the core business of insurance and the value-based business development in the bancassurance channel, reinforced technology empowerment and combination of medical treatment and endowment, and continuously enhanced the ability to create value, so as to maintain steady and sustainable business development. We implemented the development requirements of "striving for quality and seeking further progress based on quality". We solidly promoted the "Matrix" plan and the "Partnership" action. In terms of life insurance, we will steadily improve the agency force base, optimize the team structure, continue to maintain the advantages of bancassurance, and at the same time explore a new "blue ocean of value"; based on the needs of customers in the whole life cycle, we realized the matching of differentiated products and services, and built the empowerment and support capabilities of data technology in the fields of marketing, service, risk control and operation. In terms of property insurance, based on the improvement of risk identification and product pricing capabilities, we will continue to deepen the construction of automobile insurance and non-automobile insurance life tables, deeply understand customer needs, do a good job in risk reduction management, strengthen technological innovation empowerment, and accelerate the cultivation of core competitiveness. In terms of investment sector, we will adhere to the long-term investment strategy and the principle of asset-liability matching, systematically plan asset allocation strategies for major categories, and build a portfolio that matches the demand for liabilities and can deliver long-term stable returns.

EMBEDDED VALUE

I. BACKGROUND

In order to provide investors with an additional tool to understand the Company's economic value and business results, we have prepared the results of embedded value and value of new business in accordance with the "CAA Standards of Actuarial Practice: Appraisal of Embedded Value" issued by the China Association of Actuaries in November 2016 ("CAA [2016] No. 36") (hereafter referred to as "Appraisal of Embedded Value" standards). We have engaged Towers Watson Management Consulting (Shenzhen) Co. Ltd. Beijing Branch to review the reasonableness of the valuation methodology, the valuation assumptions as well as the valuation results of embedded value and value of new business of the Company as of December 31, 2022.

The embedded value is an actuarial estimation of the economic value of an insurance company based on a set of assumptions for future. It does not include any value attributed by future new business sales. The embedded value of the Group is defined as the sum of:

- The adjusted net worth of Sunshine Insurance Group; and
- Sunshine Insurance Group's share in Sunshine Life's value of in-force business after cost of capital.

The adjusted net worth of Sunshine Insurance Group is defined as the Group's net asset value based on the China Accounting Standards, inclusive of net-of-tax adjustments of the book value of certain assets to market value, together with net-of-tax adjustments for differences between policy liabilities under China Accounting Standards and policy liabilities under "Appraisal of Embedded Value" standards.

Sunshine Life's value of in-force business and value of one year's new business is defined as the present value of projected after-tax distributable interest emerging in the future from the existing business as at the valuation date, and from the sales in the 12 months to the valuation date. The distributable interest is determined based on policy liabilities and required capital valued under "Appraisal of Embedded Value" standards.

Sunshine Life uses the traditional deterministic discounted cash flow methodology for determining its value of in-force business and value of one year's new business. This methodology makes implicit allowance for the cost of investment guarantees and policyholder options, asset and liability mismatch risk, credit risk, the risk of operating experience fluctuation, and for the economic cost of capital through the use of risk discount rates.

There are uncertainties in the assumptions applied when calculating the embedded value and the value of one year's new business, and the results may change significantly as the key assumptions change. The actual experience in the future may be different from the assumptions shown in this report, thus investors should use it carefully when making any investment decisions.

Please note that the values in some of the tables in this report may not be additive due to rounding.

II. KEY ASSUMPTIONS

This section summarizes the key assumptions used in determining the value of embedded value and value of one year's new business as of December 31, 2022. These assumptions have been made on a going concern basis under the current economic and regulatory environment, and based on the Company's own experience in recent years, expectation of current and future experience, and the overall knowledge of the Chinese insurance market.

1. Risk Discount Rate

The risk discount rate used to calculate the value of in-force business and the value of new business of Sunshine Life is 11%.

2. Investment Returns

Investment return assumptions of Sunshine Life's major business accounts are set as 5.0%, and that of Bancassurance Participating Single Premium account and Bancassurance Universal Life Single Premium account are set as 5.7%, which will remain unchanged in subsequent years.

3. Mortality

Mortality assumptions have been developed based on the China Life Insurance Mortality Table (2010-2013), considering Sunshine Life's past mortality experience, expectation of current and future experience, and the overall knowledge of the Chinese insurance market.

4. Morbidity

Morbidity assumptions have been developed based on China Life Insurance Critical Illness Table (2020) or Sunshine Life's pricing tables, considering Sunshine Life's past morbidity experience, expectation of current and future experience, and the overall knowledge of the Chinese insurance market. The trend of long-term morbidity deterioration has been taken into consideration.

5. *Lapse and Surrender Rates*

Lapse and surrender rates have been developed based on Sunshine Life's past lapse and surrender experience, expectation of current and future experience, and the overall knowledge of the Chinese insurance market. The assumptions are set separately based on the differences of product type, premium payment mode and distribution channel.

6. *Expenses*

Expense assumptions are classified into two categories: the acquisition expense assumption and the maintenance expense assumption. Both are set based on unit cost, reflecting the expense analysis results and best estimates of future expenses. Inflation rate assumption of 3% per annum has also been applied.

7. *Commission and Handling Fees*

The assumed level of commission and commission override, as well as handling fees, have been set consistently with the actual level being paid.

8. *Policyholder Dividends*

Policyholder dividends have been derived in accordance with Participating account's historical operational experience, expected future returns and policyholders' reasonable expectations, and ensured that no less than 70% of distributable earnings arising from Participating business are paid to policyholders.

9. *Tax Rate*

Corporate tax rate is assumed to be 25%. The tax exemption assumption relating to investment return is based on the allocation of tax-exempted assets at present and expected in the future.

III. RESULTS OF EMBEDDED VALUE AND VALUE OF NEW BUSINESS

The tables below show the embedded value of Sunshine Insurance Group, the embedded value and value of one year's new business of Sunshine Life as of December 31, 2022 (in RMB million):

1. *Embedded value*

Valuation Date	December 31, 2022	December 31, 2021
The adjusted net worth of Sunshine Insurance Group	70,807	65,861
The adjusted net worth of Sunshine Life	45,447	44,841
Sunshine Life's value of in-force business before cost of capital	38,164	33,769
Cost of capital	(7,697)	(5,855)
Sunshine Life's value of in-force business after cost of capital	30,466	27,914
Embedded value of Sunshine Insurance Group	101,273	93,776
Embedded value of Sunshine Life	<u>75,913</u>	<u>72,755</u>

2. *Value of one year's new business*

Valuation Date	December 31, 2022	December 31, 2021
Sunshine Life's value of one year's new business before cost of capital	5,265	5,218
Cost of capital	(2,247)	(2,204)
Sunshine Life's value of one year's new business after cost of capital	<u>3,018</u>	<u>3,015</u>

3. *Value of one year's new business from main channels*

Valuation Date	December 31, 2022	December 31, 2021
Total of Sunshine Life	3,018	3,015
Of which: Individual insurance agent channel	1,152	1,433
Bancassurance channel	<u>1,797</u>	<u>1,497</u>

IV. ANALYSIS OF EMBEDDED VALUE MOVEMENT

The table below shows the change in the embedded value of Sunshine Insurance Group from December 31, 2021 to December 31, 2022 (in RMB million):

Items	Amount
1. Embedded value of Sunshine Life at beginning of period	72,755
2. Impact of new business	3,018
3. Expected return	5,318
4. Investment experience variance	(4,295)
5. Other experience variance	98
6. Methodology, Model and Assumptions change	283
7. Diversification effects	756
8. Capital injection/shareholder dividend	(2,018)
9. Others	(1)
10. Embedded value of Sunshine Life at end of period	<u>75,913</u>
11. Adjusted net worth of the Group's other business at end of period	26,639
12. Adjustment for minority shareholders' interest	(1,279)
13. Embedded value of Sunshine Insurance Group at end of period	<u>101,273</u>

Notes:

Items of change are explained below:

Item 2. Reflects the value of new business in the relevant period.

Item 3. Expected return earned on adjusted net worth, value of in-force business and value of new business in the relevant period.

Item 4. Reflects the difference between actual and expected investment returns in the relevant period.

Item 5. Reflects the difference between actual operating experience in the relevant period and the assumptions at beginning of period.

Item 6. Reflects changes of methodology, model and assumptions between valuation dates.

Item 7. Reflects changes in diversification benefits on cost of capital from new business and different business mix.

Item 8. Capital injection for Sunshine Life and dividend to shareholders.

Item 9. Other miscellaneous items.

Item 12. Relevant adjustment for minority shareholders' interest of the Group.

V. SENSITIVITY TESTS

We have conducted sensitivity tests on the value of in-force business and value of one year's new business of Sunshine Life as of December 31, 2022 under alternative assumptions. In each of these tests, only the assumption referred to is changed, while all other assumptions remain unchanged. The table below shows the results of sensitivity tests (in RMB million):

Scenario	Sunshine Life's value of in-force business after cost of capital	Sunshine Life's value of one year's new business after cost of capital
Base Scenario	30,466	3,018
Risk discount rate increased by 50 base points	29,088	2,771
Risk discount rate decreased by 50 base points	31,963	3,287
Investment returns increased by 50 base points	38,328	4,557
Investment returns decreased by 50 base points	22,565	1,472
Mortality increased by 10% (i.e. 110% of Base)	30,089	2,967
Mortality decreased by 10% (i.e. 90% of Base)	30,850	3,071
Morbidity increased by 10% (i.e. 110% of Base)	29,653	2,981
Morbidity decreased by 10% (i.e. 90% of Base)	31,291	3,055
Lapse and surrender rates increased by 10% (110% of Base)	30,120	2,918
Lapse and surrender rates decreased by 10% (i.e. 90% of Base)	30,817	3,121
Expenses assumptions increased by 10% (i.e. 110% of Base)	<u>30,104</u>	<u>2,696</u>

INDEPENDENT ACTUARIAL REVIEW OPINION ON EMBEDDED VALUE

**To: Sunshine Insurance Group Company Limited
Board of Directors**

Towers Watson Management Consulting (Shenzhen) Co. Ltd Beijing Branch (“Willis Towers Watson” or “we”) has been engaged by Sunshine Insurance Group Company Limited (“Sunshine Insurance Group”) to review the embedded value information of Sunshine Insurance Group as of December 31, 2022.

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

Scope of work

Our scope of work comprised:

- A review of the methodology used to develop the embedded value of Sunshine Insurance Group and the value of one year’s sales of Sunshine Life Insurance Corporation Limited (“Sunshine Life”) as of 31 December 2022, in the light of the requirements of the “CAA Standards of Actuarial Practice: Appraisal of Embedded Value” issued by the China Association of Actuaries (“CAA”) in November 2016;
- A review of the economic and operating assumptions used to develop the embedded value of Sunshine Insurance Group and the value of one year’s sales of Sunshine Life as of December 31, 2022;
- A review of the results of Sunshine Insurance Group and Sunshine Life’s calculation of the embedded value of Sunshine Insurance Group, the value of one year’s sales of Sunshine Life, the results of the analysis of movement of embedded value of Sunshine Insurance Group from December 31, 2021 to December 31, 2022, and the sensitivity results of the value of in-force business and value of one year’s sales of Sunshine Life.

Opinion

As a result of our review of the embedded value of Sunshine Insurance Group and the value of one year's sales of Sunshine Life as of December 31, 2022 prepared by Sunshine Insurance Group, we have concluded that:

- The methodology used is consistent with a traditional deterministic discounted cash flow approach, and is consistent with the requirements of the "CAA Standards of Actuarial Practice: Appraisal of Embedded Value" issued by the CAA;
- The operating assumptions have been set with appropriate regard to past, current and expected future experience;
- The economic assumptions have been set with regard to current market information.

We have performed reasonableness checks and analysis of the embedded value of Sunshine Insurance Group and value of one year's sales of Sunshine Life as of December 31, 2022, and we have concluded that these results have been determined in a manner consistent with the methodology and assumptions described in the Embedded Value Section of Sunshine Insurance Group's 2022 annual report and that the aggregate results are reasonable in this context.

We confirm that the results shown in the Embedded Value section of Sunshine Insurance Group's 2022 annual report are consistent with those reviewed by Willis Towers Watson.

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

For and on behalf of
Willis Towers Watson
Lingde Hong *FSA, CCA*

March 29, 2023

OTHER MATTERS

I. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

From the Listing Date to the date of this announcement, the Company or any of its subsidiaries had not purchased, sold or redeemed any of its listed securities.

II. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The H shares of the Company have been listed on the Main Board of the Hong Kong Stock Exchange since December 9, 2022. The Corporate Governance Code has been applicable to the Company since the Listing Date and the Company has adopted the Corporate Governance Code as the basis of corporate governance practices since the Listing Date. From the Listing Date to the date of this announcement, save as disclosed in code provision C.2.1, the Company has complied with other all applicable code provisions and, where applicable, adopted the recommended best practices as set out in the Corporate Governance Code.

During the Reporting Period, Mr. ZHANG Weigong served as the chairman of the Board and chief executive officer of the Company. Mr. ZHANG Weigong, our founder, has extensive experience in the insurance industry and is responsible for the business strategies and overall management. While this will constitute a deviation from code provision C.2.1 of Appendix 14 to the Hong Kong Listing Rules, the Board considers that this structure will not impair the balance of power and responsibilities between the Board and the management of the Company. The Board considers that vesting the roles of chairman of the Board and chief executive officer in Mr. ZHANG Weigong is beneficial to the business prospects and operational efficiency of the Company. The balance of power and responsibilities is ensured by the operation of the Board and the senior management, which comprises experienced and high-caliber individuals. The Board currently comprises five executive Directors (including Mr. ZHANG Weigong), two non-executive Directors and five independent non-executive Directors and therefore has a high level of independence. The overall strategies and other key business policies of the Group are made collectively by the Board after thorough discussion to ensure the comprehensiveness and reasonableness of decision-making. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

III. SECURITIES TRANSACTIONS

From the Listing Date to the end of the Reporting Period, in respect of dealings in securities by Directors and Supervisors, the Company had adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules. Upon specific enquiries by the Company, all Directors and Supervisors confirmed that they had complied with the standards set out in the Model Code from the Listing Date to the end of the Reporting Period.

IV. REVIEW OF ANNUAL RESULTS

The consolidated financial statements of the Group for the year ended December 31, 2022 have been audited by Ernst & Young Hua Ming LLP and Ernst & Young. The audit committee of the Board of the Company has also reviewed the audited annual results of the Group for the year ended December 31, 2022. The figures in respect of the Group's results for the year ended December 31, 2022 as set out in this annual results announcement have been agreed by the Company's auditor, Ernst & Young, in line with the figures set out in the Group's audited consolidated financial statements for the year ended December 31, 2022.

V. PROPOSED FINAL DIVIDEND

The Board recommends the payment of a final dividend for the year ended December 31, 2022 of RMB0.18 per share (tax inclusive), totaling approximately RMB2.07 billion (the “**2022 Final Dividend**”). The 2022 Final Dividend is subject to the approval of shareholders of the Company at the 2022 Annual General Meeting, and is expected to be paid to the shareholders on Friday, July 28, 2023, and will be denominated and declared in Renminbi, while the dividend for H shares will be paid in Hong Kong dollars, which shall be calculated at the average central parity rate of Hong Kong dollars against Renminbi in the interbank foreign exchange market for the last five business days up to and including the date of the 2022 Annual General Meeting published by China Foreign Exchange Trade System as authorised by the PBOC.

The above profit distribution scheme will not result in a lower indicator of the Company's relevant solvency adequacy ratio than the regulatory requirements.

The notice of the 2022 Annual General Meeting will announce the date of the 2022 Annual General Meeting of the Company and the relevant arrangements of closure of register of members, and the arrangements of closure of register of members for the final dividend.

VI. SUBSEQUENT EVENTS

(1) Over-allotment option

Huatai Financial Holdings (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited, UBS AG Hong Kong Branch and CCB International Capital Limited for themselves and on behalf of the international underwriters did not exercise the over-allotment option and the over-allotment option lapsed on January 4, 2023. Accordingly, no H Shares were or will be issued under the over-allotment option.

(2) Profit distribution

On March 29, 2023, the Board of Directors of the Company approved the Resolution of the Profit Distribution Plan for 2022, and declared a final cash dividend of 2022 with a total distribution of RMB2,070 million in the amount of RMB0.18 (tax inclusive) per share. The foregoing profit distribution plan is subject to the approval by the annual general meeting. Please refer to “Other Matters V” for details.

VII. PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the year ended December 31, 2022 will be dispatched to the shareholders of the Company and published on the Company’s website (www.sinosig.com) and the HKEXnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) in due course.

DEFINITIONS

“Articles of Association”	the articles of association of Sunshine Insurance Group Company Limited
“Board” or “Board of Directors”	the board of Directors of our Company
“Board of Supervisors”	the board of Supervisors of our Company
“CBIRC”	China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), a regulatory authority formed via the merger of CBRC and CIRC according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018, and, if the context requires, includes its predecessors, namely CBRC and CIRC
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“China” or “PRC”	the People’s Republic of China, for the purpose of this announcement and for geographical reference only and except where the context requires, references in this announcement to “China” or “PRC” do not include Hong Kong, Macau and Taiwan
“CIRC”	China Insurance Regulatory Commission (中國保險監督管理委員會), which was merged with the CBRC to form the CBIRC according to the Notice of the State Council regarding the Establishment of Organizations (國務院關於機構設置的通知) (Guo Fa [2018] No. 6) issued by the State Council on March 24, 2018

“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Sunshine Insurance Group Company Limited (陽光保險集團股份有限公司), a joint stock company established on June 27, 2007 under the laws of the PRC with limited liability, and if the context requires, includes its predecessors prior to the incorporation of the Company
“Director(s)”	the director(s) of our Company
“Domestic Shares”	ordinary shares in the share capital of our Company with nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC natural persons or entities established under PRC laws
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares in the share capital of our Company with nominal value of RMB1.00 each, which have been listed and traded on the Hong Kong Stock Exchange with effect from December 9, 2022
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Independent Third Party(ies)”	person(s) or company(ies) which to the best of our Directors’ knowledge, information and belief having made all reasonable enquiries, are not connected persons of the Company
“Listing”	listing of our H Shares on the Main Board
“Listing Date”	the date of December 9, 2022, on which dealings in our H Shares first commence on the Stock Exchange
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange, which is independent from and operated in parallel with the GEM of the Stock Exchange
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Prospectus”	the prospectus of the Company dated November 30, 2022 issued in connection with the Global Offering and the Listing
“province”	all provincial-level administrative regions of the PRC, including provinces, autonomous regions, municipalities directly under the Central Government and special administrative regions of the PRC
“Reporting Period”	for the year ended December 31, 2022
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Share(s)
“subsidiary(ies)”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“Sunshine AMC”	Sunshine Asset Management Corporation Limited (陽光資產管理股份有限公司), a joint stock company established on December 4, 2012 under the laws of the PRC with limited liability, in which the Company directly and indirectly held approximately 80% equity interest as of the date of this announcement
“Sunshine Life”	Sunshine Life Insurance Corporation Limited (陽光人壽保險股份有限公司), a joint stock company established on December 17, 2007 under the laws of the PRC with limited liability, in which the Company held 99.9999% equity interest as of the date of this announcement
“Sunshine P&C”	Sunshine Property and Casualty Insurance Company Limited (陽光財產保險股份有限公司), a joint stock company established on July 28, 2005 under the laws of the PRC with limited liability, in which the Company held approximately 100% equity interest as of the date of this announcement

“Sunshine Surety”	Sunshine Surety Insurance Company Limited (陽光信用保證保險股份有限公司), formerly known as Sunshine Yurong Credit and Guarantee Insurance Company Limited (陽光渝融信用保證保險股份有限公司), a joint stock company established on January 11, 2016 under the laws of the PRC with limited liability, in which the Company held approximately 87.33% equity interest as of the date of this announcement
“Supervisor(s)”	the member(s) of our Board of Supervisor(s)
“US\$” or “US dollars”	US dollars, the lawful currency of the United States

By order of the Board
Sunshine Insurance Group Company Limited
陽光保險集團股份有限公司
DONG Yingqiu
Joint Company Secretary

Hong Kong, 29 March 2023

As at the date of this announcement, the board of directors of the Company comprises Mr. ZHANG Weigong, Mr. ZHAO Zongren, Mr. LI Ke, Mr. PENG Jihai and Mr. WANG Yongwen as executive Directors, Mr. WANG Jingwei and Mr. YUAN Mouzhen as non-executive Directors, Mr. MA Guangyuan, Mr. LIU Zhanqing, Mr. WANG Jianxin, Mr. GAO Bin and Ms. JIA Ning as independent non-executive Directors.